

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF  
PENSION COSTS CLAIMED FOR  
MEDICARE REIMBURSEMENT BY BLUE  
CROSS AND BLUE SHIELD  
OF MICHIGAN**



**JUNE GIBBS BROWN  
Inspector General**

**NOVEMBER 1996  
CIN: A-07-96-01178**



Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

CIN: A-07-96-01178

November 8, 1996

Mr. J. Michael Clyne  
Manager, Customer Audit Services  
Blue Cross and Blue Shield of Michigan  
600 Lafayette East #1014  
Detroit, Michigan 48226

Dear Mr. Clyne:

This report provides you with the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross and Blue Shield of Michigan*. The purpose of our review was to determine the allowability of pension costs claimed for 1986 through 1994.

During this period, the allowable Medicare pension costs were \$4,775,314. However, Blue Cross and Blue Shield of Michigan (Michigan) claimed pension costs of \$5,406,562 for Medicare reimbursement. As a result, Michigan claimed \$631,248 in pension costs that were not allowable. The over claim occurred primarily because Michigan did not base the claims on separately computed pension costs for the Medicare segment. We recommend Michigan revise its claims to eliminate the unallowable pension costs.

Michigan disagreed with our separate calculation of the Medicare segment's pension costs for 1986 through 1988. Additionally, Michigan believes that they are not subject to an adjustment disallowing claimed pension costs for this period. Michigan's response is included in its entirety as Appendix D.

## INTRODUCTION

### BACKGROUND

Michigan administered Medicare Parts A and B operations under cost reimbursement contracts until the contractual relationship was terminated in 1994. Contractors were to follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR) and their Medicare contracts.

Medicare reimburses its portion of contractors' annual pension costs. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413, and (2) funded as specified by part 31 of the FAR. The CAS deals with stability between contract periods and requires consistent measurement and assignment of pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal cost and (2) the amortization of the unfunded actuarial liability. The FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

Additionally, the Health Care Financing Administration (HCFA) incorporated specific segmentation language into Medicare contracts. The contracts provide for either an allocation or separate calculation of pension costs. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The separate calculation method must be used if there is a material difference between the two methods.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

We made our examination in accordance with generally accepted government auditing standards. Our objective was to determine the allowability of pension costs claimed for Fiscal Years (FYs) 1986 through 1994. Achieving the objective did not require a review of Michigan's internal control structure.

We computed (1) CAS pension costs for the total company and Medicare segment and (2) the extent to which Michigan funded costs with contributions to the pension trust funds. The HCFA Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Michigan's historical practices. Appendix A contains the details on the pension costs and contributions.

Michigan has two defined benefit pension plans, the Union plan and the Regular plan. For presentation purposes, this report combines the costs of both plans. Appendices B and C separately detail the pension costs of the Union and Regular plan.

We performed site work during September 1995 at Michigan's corporate offices in Detroit, Michigan. We performed subsequent audit work in our OIG, OAS Jefferson City, Missouri field office.

This review was done in conjunction with our audit of Michigan's pension plan termination (CIN: A-07-95-01176). The information obtained and reviewed during that audit was also used in performing this review.

## FINDING AND RECOMMENDATIONS

For FYs 1986 through 1994, Michigan both over and under claimed pension costs resulting in \$631,248 in pension costs that were not allowable for Medicare reimbursement. The over claims occurred because Michigan did not base its claims on separately computed CAS pension costs for the Medicare segment, while the under claims occurred primarily because of erroneous adjustments and budget constraints. Michigan should make adjustments to its Final Administrative Cost Proposals (FACPs) as summarized in the following table and discussed in the subsequent paragraphs.

<u>Fiscal Year</u>	<u>Costs Claimed</u> (A)	<u>Allowable CAS Costs</u> (B)	<u>Over Claim</u> (A)-(B)	<u>Under Claim</u> (A)-(B)
1986	\$1,629,278	\$1,583,675	\$ 45,603	
1987	1,553,907	1,344,164	209,743	
1988	1,487,014	501,084	985,930	
1989	784,192	264,613	519,579	
1990	37,967	34,782	3,185	
1991	(5,172)	0		(5,172)
1992	(80,624)	0	(80,624)	
1993	0	333,985	(333,985)	
1994	<u>0</u>	<u>713,011</u>	<u>      </u>	<u>(713,011)</u>
Total	<u>\$5,406,562</u>	<u>\$4,775,314</u>	<u>\$1,764,040</u>	<u>\$1,132,792</u>
Net Over Claim				\$631,248

For FYs 1986 through 1990, Michigan claimed pension costs of \$1,764,040 that were not allowable for Medicare reimbursement. The costs claimed exceeded the funded portion of CAS computed costs. Michigan based its claim on an allocation of total company contributions plus a prior period amortization adjustment rather than separately computed CAS pension costs for the Medicare segment.

For FYs 1991 through 1994, Michigan did not claim \$1,132,792 for pension costs which were allowable for Medicare reimbursement because of erroneous adjustments and budget constraints as follows:

Through a series of erroneous adjustments Michigan recorded negative pension costs for FYs 1991 and 1992. The negative costs flowed through to the FACP's and reduced other fringe benefit costs. No CAS pension costs were allowable during this period.

Due to budget constraints, Michigan did not claim any pension costs for Medicare reimbursement for FYs 1993 and 1994. During this period, the total company contributions exceeded the total company CAS pension costs. As such, Michigan could have claimed pension costs equal to the CAS computed pension cost.

For FYs 1986 through 1994, Michigan claimed pension costs of \$5,406,562 for Medicare reimbursement. However, the allowable CAS pension costs were \$4,725,314. As a result, Michigan claimed pension costs of \$631,248 that were in excess of the allowable CAS pension costs.

### **Recommendation**

We recommend that Michigan:

- Revise its FACP's for Fiscal Years 1986 through 1994 to eliminate \$631,248 of pension costs in excess of the allowable CAS pension costs.

### **Auditee Response**

Michigan's comments are summarized in the following paragraphs and presented in detail on Appendix D.

While Michigan did not dispute our calculation of allowable CAS pension costs for FYs 1989 through 1994, they did not agree with our use of separately calculated costs for the segment for FYs 1986 through 1988. Michigan cited Appendix B of their Medicare contract which stated that if Michigan complied or made a good faith effort to comply with Appendix B's Medicare pension accounting provision, HCFA would not seek an adjustment of pension costs allocated to prior Medicare contracts, on the grounds that pension cost for a segment were not calculated separately.

Michigan also believed that they were not subject to an adjustment disallowing claimed pension costs for FYs 1986 through 1988. Michigan asserted, that the effective date of Appendix B of their Medicare contract was October 1, 1988. Accordingly, since their Medicare operations for FYs 1986 through 1988 were conducted under "prior Medicare contracts", they were not subject to adjustment. Michigan suggested removing the pension cost over claims for FYs 1986 through 1988 (\$1,241,276) from the 1986 through 1994 audit period. Doing so changes the audit result from a net over claim of \$631,248 to a net under claim of \$610,028 in allowable pension cost due Michigan.

**OIG Comments**

We agree with Michigan's assertion that, per Appendix B of the Medicare contracts, pension costs claimed under prior contracts cannot be adjusted on the ground that they were not separately calculated. However, we do not agree with Michigan's assertion regarding the effective date of Appendix B.

Appendix B, containing segmentation provisions, was incorporated into Michigan's Medicare contracts through amendment to their existing contracts effective October 1, 1987. The Medicare contracts state:

*"Beginning with the pension plan year starting in fiscal year 1988, the contractor shall separately calculate pension costs for a Medicare segment, ..., when such calculation will materially affect the amount of pension costs allocated to the segment."*

In their response to HCFA's Pension Cost Questionnaire, Michigan concluded that "...our defined pension plans would require a separate valuation." Additionally, in their update of Medicare segment assets, Michigan's consulting actuary developed the Medicare segment's pension contribution separately beginning with plan year 1986.

In calculating the allowable Medicare pension costs for FYs 1986 through 1994 we used separately computed pension costs for the Medicare segment beginning with plan year 1986, based on Michigan's historical practices. Additionally, the Medicare segment's separately calculated costs for plan years 1986 through 1990 were set forth in our prior audit report titled "Review of Unfunded Pension Costs of Blue Cross and Blue Shield of Michigan" (CIN: A-07-92-00579). Michigan did not dispute the segment's audited pension costs in their response to that report.

Michigan also asserted that since they made a good faith effort to comply with Appendix B they were not subject to an adjustment disallowing pension costs for years prior to implementation of Appendix B. We disagree. In accordance with the Medicare contract, an allocation of total company CAS pension costs is acceptable for FYs 1986 and 1987. However, the pension costs Michigan claimed for Medicare reimbursement for FYs 1986 and 1987 exceeded Medicare's share of the total company CAS costs.

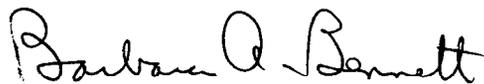
We calculated what the allowable Medicare pension costs would have been under an allocation method. We allocated the total company CAS pension costs for FYs 1986 and 1987 using the ratio of Medicare salaries to total salaries. We found that the allowable Medicare pension costs under an allocation method were \$574,162 less than the amounts claimed for FYs 1986 and 1987. In brief, if we had used an allocation, rather than separately computing the Medicare segment's pension costs, Michigan's over claim would have increased by \$318,816 for FYs 1986 and 1987.

**INSTRUCTIONS FOR AUDITEE RESPONSE**

Final determination as to action to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemption in the Act which the Department chooses to exercise. (see 45 CFR Part 5.)

Sincerely,



Barbara A. Bennett  
Regional Inspector General for  
Audit Services

Enclosure

HHS Action Official:

Mr. Chester Stroyny  
Regional Administrator  
Region V  
105 West Adams Street, 17th Floor  
Chicago, Illinois 60603

BLUE CROSS AND BLUE SHIELD OF MICHIGAN  
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STATEMENT OF ALLOWABLE CAS PENSION COSTS  
*UNION & REGULAR PLANS*  
*FOR FISCAL YEARS 1986 THROUGH 1994*

<u>Plan Year</u>	<u>Description</u>		<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1986	Plan Year Contributions	<u>1/</u>	\$ 6,229,046	\$ 5,208,884	\$1,020,162
	Discount for Interest	<u>2/</u>	<u>(434,585)</u>	<u>(363,411)</u>	<u>(71,174)</u>
	Present Value of Contributions	<u>3/</u>	5,794,461	4,845,473	948,988
	Prepayment Credit		<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	<u>4/</u>	5,794,461	4,845,473	948,988
	Normal Cost	<u>5/</u>	11,175,100	10,107,416	1,067,684
	Amortization Payment	<u>6/</u>	<u>774,500</u>	<u>575,167</u>	<u>199,333</u>
	CAS Pension Costs	<u>7/</u>	11,949,600	10,682,583	1,267,017
	Funded CAS Pension Costs	<u>8/</u>	5,786,900	4,839,151	947,749
	Allowable Interest	<u>9/</u>	<u>217,000</u>	<u>181,460</u>	<u>35,540</u>
	Allocable Pension Cost	<u>10/</u>	6,003,900	5,020,611	983,289
	Fiscal Year Pension Cost	<u>11/</u>	9,000,975	8,028,402	972,573
	Medicare LOB Percentage	<u>12/</u>		<u>6.37%</u>	<u>80.49%</u>
	Medicare Pension Cost	<u>13/</u>	1,294,233	511,409	782,824
	Medicare Amortization Adjustment	<u>14/</u>	<u>289,442</u>		
	Medicare Allowable Pension Cost	<u>15/</u>	<u>\$ 1,583,675</u>		

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1987	Plan Year Contributions	\$3,080,750	\$2,651,880	\$ 428,870
	Discount for Interest	<u>(111,352)</u>	<u>(95,851)</u>	<u>(15,501)</u>
	Present Value of Contributions	2,969,398	2,556,029	413,369
	Prepayment Credit	<u>16/ 8,128</u>	<u>6,796</u>	<u>1,332</u>
	Present Value of Funding	2,977,526	2,562,825	414,701
	Normal Cost	6,293,850	5,753,733	540,117
	Amortization Payment	<u>(650,801)</u>	<u>(600,504)</u>	<u>(50,297)</u>
	CAS Pension Costs	5,643,049	5,153,229	489,820
	Funded CAS Pension Costs	2,977,526	2,562,825	414,701
	Allowable Interest	<u>102,352</u>	<u>88,097</u>	<u>14,255</u>
	Allocable Pension Cost	3,079,878	2,650,922	428,956
	Fiscal Year Pension Cost	6,042,864	5,090,919	951,945
	Medicare LOB Percentage		<u>5.40%</u>	<u>82.99%</u>
	Medicare Pension Cost	1,064,929	274,910	790,019
	Medicare Amortization Adjustment	<u>279,235</u>		
	Medicare Allowable Pension Cost	<u>\$1,344,164</u>		

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1988	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	13,938,022	12,767,621	1,170,401
	Amortization Payment	<u>(1,173,574)</u>	<u>(1,043,185)</u>	<u>(130,389)</u>
	CAS Pension Costs	12,764,448	11,724,436	1,040,012
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	1,539,939	1,325,461	214,478
	Medicare LOB Percentage		<u>2.74%</u>	<u>88.83%</u>
	Medicare Pension Cost	226,839	36,318	190,521
	Medicare Amortization Adjustment	<u>274,245</u>		
	Medicare Allowable Pension Cost	<u>\$ 501,084</u>		

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1989	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	9,230,022	8,496,883	733,139
	Amortization Payment	<u>(1,601,784)</u>	<u>(1,491,414)</u>	<u>(110,370)</u>
	CAS Pension Costs	7,628,238	7,005,469	622,769
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>5.03%</u>	<u>87.84%</u>
	Medicare Pension Cost	0	0	0
	Medicare Amortization Adjustment	<u>264,613</u>		
	Medicare Allowable Pension Cost	<u>\$ 264,613</u>		

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1990	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	8,374,828	7,666,293	708,535
	Amortization Payment	<u>(2,178,007)</u>	<u>(2,121,517)</u>	<u>(56,490)</u>
	CAS Pension Costs	6,196,821	5,544,776	652,045
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>4.26%</u>	<u>84.55%</u>
	Medicare Pension Cost	0	0	0
	Medicare Amortization Adjustment	<u>34,782</u>		
	Medicare Allowable Pension Cost	<u>\$ 34,782</u>		

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1991	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	9,252,782	8,530,961	721,821
	Amortization Payment	<u>(2,209,881)</u>	<u>(2,074,162)</u>	<u>(135,719)</u>
	CAS Pension Costs	7,042,901	6,456,799	586,102
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>4.09%</u>	<u>84.61%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1992	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	10,568,673	9,749,301	819,372
	Amortization Payment	<u>(1,578,605)</u>	<u>(1,491,864)</u>	<u>(86,741)</u>
	CAS Pension Costs	8,990,068	8,257,437	732,631
	Funded CAS Pensio	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>3.48%</u>	<u>86.71%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1993	Plan Year Contributions	\$ 8,697,867	\$ 8,431,393	\$ 266,474
	Discount for Interest	<u>(644,286)</u>	<u>(624,547)</u>	<u>(19,739)</u>
	Present Value of Contributions	8,053,581	7,806,846	246,735
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	8,053,581	7,806,846	246,735
	Normal Cost	11,687,440	10,787,510	899,930
	Amortization Payment	<u>(1,999,663)</u>	<u>(1,836,218)</u>	<u>(163,445)</u>
	CAS Pension Costs	9,687,777	8,951,292	736,485
	Funded CAS Pension Costs	6,164,212	5,917,477	246,735
	Allowable Interest	<u>349,307</u>	<u>335,325</u>	<u>13,982</u>
	Allocable Pension Cost	6,513,519	6,252,802	260,717
	Fiscal Year Pension Cost	4,885,139	4,689,601	195,538
	Medicare LOB Percentage		<u>3.37%</u>	<u>89.98%</u>
	Medicare Pension Cost	<u>\$ 333,985</u>	<u>\$ 158,040</u>	<u>\$175,945</u>

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FOR FISCAL YEARS 1986 THROUGH 1994

<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1994	Plan Year Contributions	\$ 18,322,635	\$ 17,717,089	\$ 605,546
	Discount for Interest	<u>(1,357,232)</u>	<u>(1,312,377)</u>	<u>(44,855)</u>
	Present Value of Contributions	16,965,403	16,404,712	560,691
	Prepayment Credit	<u>2,040,518</u>	<u>2,040,518</u>	<u>0</u>
	Present Value of Funding	19,005,921	18,445,230	560,691
	Normal Cost	11,806,095	10,889,414	916,681
	Amortization Payment	<u>(4,366,674)</u>	<u>(4,010,684)</u>	<u>(355,990)</u>
	CAS Pension Costs	7,439,421	6,878,730	560,691
	Funded CAS Pension Costs	7,439,421	6,878,730	560,691
	Allowable Interest	<u>421,570</u>	<u>389,884</u>	<u>31,686</u>
	Allocable Pension Cost	7,860,991	7,268,614	592,377
	Fiscal Year Pension Cost	7,524,124	7,014,662	509,462
	Medicare LOB Percentage		<u>3.27%</u>	<u>94.93%</u>
	Medicare Pension Cost	<u>\$ 713,011</u>	<u>\$ 229,379</u>	<u>\$483,632</u>

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FOOTNOTES

- 1/ Michigan did not make contributions to its pension plan for years 1988 through 1992. However, they did make contributions to the pension plan for years 1986, 1987, 1993, and 1994. We assigned contributions to the Medicare segment based on a ratio of the Medicare segment's CAS funding target to the total company CAS funding target. The amount shown for the "other segment" represents the difference between the total company and the Medicare segment.
- 2/ We subtracted interest that was included in the contributions deposited after January 1 of each year to discount the contributions back to their value at the beginning of the year. For purposes of this appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rates, and the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 4/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that was available to cover the CAS funding target measured at January 1 of each year.
- 5/ We obtained the normal cost for the total company from Michigan's actuarial value reports. We obtained normal cost for the Medicare segment from data files provided by Michigan's actuary.
- 6/ We based the amortization payment on a CAS amortization schedule developed from information obtained from Michigan's valuation reports and IRS Form 5500 reports. The amortization payment was negative for years in which pension assets exceeded actuarial liabilities, thereby creating a negative unfunded actuarial liability.
- 7/ The CAS pension costs represents the sum of the amortization payment and the normal cost. We separately calculated CAS pension costs for years 1986 through 1994.
- 8/ The CAS pension cost must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(i). Only the funded CAS pension costs are eligible for Medicare reimbursement.

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- 9/ We assumed interest on the funded CAS pension cost accrues in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of each quarter.
- 10/ The allocable CAS pension costs are the amount of pension costs which may be allocated for contract cost purposes, on a plan year basis.
- 11/ We converted CAS pension costs allocable to the plan year to a fiscal year basis (October 1 through September 30). Costs charged to the Medicare contract should consist of the Medicare segment's pension costs plus an allocable portion of the other segment's pension costs attributable to indirect Medicare operations.
- 12/ We calculated allowable pension costs for Medicare and other segments based on the Medicare line of business (LOB) percentage of the segment. We obtained the percentages from documents provided by Michigan.
- 13/ The Medicare pension costs are the amounts of CAS pension costs which may be claimed for Medicare reimbursement for the segment and indirect Medicare operations.
- 14/ The Medicare amortization adjustment represents an amortization of a prior period's over funded pension costs.
- 15/ The Medicare allowable pension cost is sum of the Medicare pension cost and the Medicare amortization adjustment.
- 16/ We applied the prepayment credits toward the funding of the CAS pension costs. The prepayment credit represents the premature funding from the previous year(s). Prepayment credit may be carried forward, with interest, to fund future CAS pension costs. The prepayment credits are reimbursable for the plan year in which they are absorbed.

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1986	Plan Year Contributions	\$ 6,229,046	\$ 5,208,884	\$ 1,020,162
	Discount for Interest	<u>(434,585)</u>	<u>(363,411)</u>	<u>(71,174)</u>
	Present Value of Contributions	5,794,461	4,845,473	948,988
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	5,794,461	4,845,473	948,988
	Normal Cost	3,888,300	3,346,655	541,645
	Amortization Payment	<u>1,898,600</u>	<u>1,492,496</u>	<u>406,104</u>
	CAS Pension Costs	5,786,900	4,839,151	947,749
	Funded CAS Pension Costs	5,786,900	4,839,151	947,749
	Allowable Interest	<u>217,000</u>	<u>181,460</u>	<u>35,540</u>
	Allocable Pension Cost	6,003,900	5,020,611	983,289
	Fiscal Year Pension Cost	4,099,824	3,602,173	497,651
	Medicare LOB Percentage		<u>6.37%</u>	<u>80.49%</u>
	Medicare Pension Cost	<u>\$ 630,017</u>	<u>\$ 229,458</u>	<u>\$ 400,559</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1987	Plan Year Contributions	\$ 3,080,750	\$ 2,651,880	\$ 428,870
	Discount for Interest	<u>(111,352)</u>	<u>(95,851)</u>	<u>(15,501)</u>
	Present Value of Contributions	2,969,398	2,556,029	413,369
	Prepayment Credit	<u>8,128</u>	<u>6,796</u>	<u>1,332</u>
	Present Value of Funding	2,977,526	2,562,825	414,701
	Normal Cost	2,261,200	2,003,304	257,896
	Amortization Payment	<u>779,578</u>	<u>614,168</u>	<u>165,410</u>
	CAS Pension Costs	3,040,778	2,617,472	423,306
	Funded CAS Pension Costs	2,977,526	2,562,825	414,701
	Allowable Interest	<u>102,352</u>	<u>88,097</u>	<u>14,255</u>
	Allocable Pension Cost	3,079,878	2,650,922	428,956
	Fiscal Year Pension Cost	6,042,864	5,090,919	951,945
	Medicare LOB Percentage		<u>5.40%</u>	<u>82.99%</u>
	Medicare Pension Cost	<u>\$ 1,064,929</u>	<u>\$ 274,910</u>	<u>\$ 790,019</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1988	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	4,985,536	4,423,337	562,199
	Amortization Payment	<u>1,698,257</u>	<u>1,345,886</u>	<u>352,371</u>
	CAS Pension Costs	6,683,793	5,769,223	914,570
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	1,539,939	1,325,461	214,478
	Medicare LOB Percentage		<u>2.74%</u>	<u>88.83%</u>
	Medicare Pension Cost	<u>\$ 226,839</u>	<u>\$ 36,318</u>	<u>\$ 190,521</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1989	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	3,267,889	2,942,344	325,545
	Amortization Payment	<u>1,019,213</u>	<u>804,301</u>	<u>214,912</u>
	CAS Pension Costs	4,287,102	3,746,645	540,457
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>5.03%</u>	<u>87.84%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1990	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	2,752,968	2,443,884	309,084
	Amortization Payment	<u>645,661</u>	<u>428,360</u>	<u>217,301</u>
	CAS Pension Costs	3,398,629	2,872,244	526,385
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>4.26%</u>	<u>84.55%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1991	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	2,769,102	2,480,168	288,934
	Amortization Payment	<u>135,964</u>	<u>(20,146)</u>	<u>156,110</u>
	CAS Pension Costs	2,905,066	2,460,022	445,044
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>4.09%</u>	<u>84.61%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1992	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	3,071,258	2,770,485	300,773
	Amortization Payment	<u>105,564</u>	<u>(60,991)</u>	<u>166,555</u>
	CAS Pension Costs	3,176,822	2,709,494	467,328
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>3.48%</u>	<u>86.71%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1993	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	3,466,292	3,135,538	330,754
	Amortization Payment	<u>57,273</u>	<u>(101,723)</u>	<u>158,996</u>
	CAS Pension Costs	3,523,565	3,033,815	489,750
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>3.37%</u>	<u>89.98%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1994	Plan Year Contributions	\$ 5,083,443	\$ 4,619,565	\$ 463,878
	Discount for Interest	<u>(376,551)</u>	<u>(342,190)</u>	<u>(34,361)</u>
	Present Value of Contributions	4,706,892	4,277,375	429,517
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	4,706,892	4,277,375	429,517
	Normal Cost	3,460,908	3,140,136	320,772
	Amortization Payment	<u>(421,182)</u>	<u>(529,927)</u>	<u>(108,745)</u>
	CAS Pension Costs	3,039,726	2,610,209	429,517
	Funded CAS Pension Costs	3,039,726	2,610,209	429,517
	Allowable Interest	<u>172,252</u>	<u>147,913</u>	<u>24,339</u>
	Allocable Pension Cost	3,211,978	2,758,122	453,856
	Fiscal Year Pension Cost	2,408,984	2,068,592	340,392
	Medicare LOB Percentage		<u>3.27%</u>	<u>94.93%</u>
	Medicare Pension Cost	<u>\$ 390,777</u>	<u>\$ 67,643</u>	<u>\$ 323,134</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1986	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	7,286,800	6,760,761	526,039
	Amortization Payment	<u>(1,124,100)</u>	<u>(917,329)</u>	<u>(206,771)</u>
	CAS Pension Costs	6,162,700	5,843,432	319,268
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	4,901,151	4,426,229	474,922
	Medicare LOB Percentage		<u>6.37%</u>	<u>80.49%</u>
	Medicare Pension Cost	<u>\$ 664,216</u>	<u>\$ 281,951</u>	<u>\$382,265</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1987	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	4,032,650	3,750,429	282,221
	Amortization Payment	<u>(1,430,379)</u>	<u>(1,214,672)</u>	<u>(215,707)</u>
	CAS Pension Costs	2,602,271	2,535,757	66,514
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>5.40%</u>	<u>82.99%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1988	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	8,952,486	8,344,284	608,202
	Amortization Payment	<u>(2,871,831)</u>	<u>(2,389,071)</u>	<u>(482,760)</u>
	CAS Pension Costs	6,080,655	5,955,213	125,442
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>2.74%</u>	<u>88.83%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1989	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	5,962,133	5,554,539	407,594
	Amortization Payment	<u>(2,620,997)</u>	<u>(2,295,715)</u>	<u>(325,282)</u>
	CAS Pension Costs	3,341,136	3,258,824	82,312
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>5.03%</u>	<u>87.84%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1990	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	5,621,860	5,222,409	399,451
	Amortization Payment	<u>(2,823,668)</u>	<u>(2,549,877)</u>	<u>(273,791)</u>
	CAS Pension Costs	2,798,192	2,672,532	125,660
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>4.26%</u>	<u>84.55%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1991	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	6,483,680	6,050,793	432,887
	Amortization Payment	<u>(2,345,845)</u>	<u>(2,054,016)</u>	<u>(291,829)</u>
	CAS Pension Costs	4,137,835	3,996,777	141,058
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>4.09%</u>	<u>84.61%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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**STATEMENT OF ALLOWABLE CAS PENSION COSTS  
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FOR FISCAL YEARS 1986 THROUGH 1994**

<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1992	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	0	0	0
	Normal Cost	7,497,415	6,978,816	518,599
	Amortization Payment	<u>(1,684,169)</u>	<u>(1,430,873)</u>	<u>(253,296)</u>
	CAS Pension Costs	5,813,246	5,547,943	265,303
	Funded CAS Pension Costs	0	0	0
	Allowable Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost	0	0	0
	Fiscal Year Pension Cost	0	0	0
	Medicare LOB Percentage		<u>3.48%</u>	<u>86.71%</u>
	Medicare Pension Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

*BLUE CROSS AND BLUE SHIELD OF MICHIGAN  
DETROIT, MICHIGAN  
CIN: A-07-95-01178*

**STATEMENT OF ALLOWABLE CAS PENSION COSTS  
REGULAR PLAN  
FOR FISCAL YEARS 1986 THROUGH 1994**

<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1993	Plan Year Contributions	\$8,697,867	\$8,431,393	\$ 266,474
	Discount for Interest	<u>(644,286)</u>	<u>(624,547)</u>	<u>(19,739)</u>
	Present Value of Contributions	8,053,581	7,806,846	246,735
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value of Funding	8,053,581	7,806,846	246,735
	Normal Cost	8,221,148	7,651,972	569,176
	Amortization Payment	<u>(2,056,936)</u>	<u>(1,734,495)</u>	<u>(322,441)</u>
	CAS Pension Costs	6,164,212	5,917,477	246,735
	Funded CAS Pension Costs	6,164,212	5,917,477	246,735
	Allowable Interest	<u>349,307</u>	<u>335,325</u>	<u>13,982</u>
	Allocable Pension Cost	6,513,519	6,252,802	260,717
	Fiscal Year Pension Cost	4,885,139	4,689,601	195,538
	Medicare LOB Percentage		<u>3.37%</u>	<u>89.98%</u>
	Medicare Pension Cost	<u>\$ 333,985</u>	<u>\$ 158,040</u>	<u>\$ 175,945</u>

**BLUE CROSS AND BLUE SHIELD OF MICHIGAN  
DETROIT, MICHIGAN  
CIN: A-07-95-01178**

**STATEMENT OF ALLOWABLE CAS PENSION COSTS  
REGULAR PLAN  
FOR FISCAL YEARS 1986 THROUGH 1994**

<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1994	Plan Year Contributions	\$13,239,192	\$13,097,524	\$ 141,668
	Discount for Interest	<u>(980,681)</u>	<u>(970,187)</u>	<u>(10,494)</u>
	Present Value of Contributions	12,258,511	12,127,337	131,174
	Prepayment Credit	<u>2,040,518</u>	<u>2,040,518</u>	<u>0</u>
	Present Value of Funding	14,299,029	14,167,855	131,174
	Normal Cost	8,345,187	7,749,278	595,909
	Amortization Payment	<u>(3,945,492)</u>	<u>(3,480,757)</u>	<u>(464,735)</u>
	CAS Pension Costs	4,399,695	4,268,521	131,174
	Funded CAS Pension Costs	4,399,695	4,268,521	131,174
	Allowable Interest	<u>249,318</u>	<u>241,971</u>	<u>7,347</u>
	Allocable Pension Cost	4,649,013	4,510,492	138,521
	Fiscal Year Pension Cost	5,115,140	4,946,070	169,070
	Medicare LOB Percentage		<u>3.27%</u>	<u>94.93%</u>
	Medicare Pension Cost	<u>\$ 322,234</u>	<u>\$ 161,736</u>	<u>\$ 160,498</u>



Mark R. Bartlett, CPA, CPCU  
Vice President and Controller

600 Lafayette East  
Detroit, Michigan 48226-2998

May 7, 1996

Barbara A. Bennett  
Regional Inspector General for  
Audit Services  
Office of Inspector General  
Office of Audit Services  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

Re: CIN: A-07-96-01178

Dear Ms. Bennett:

Blue Cross Blue Shield of Michigan (BCBSM) respectfully submits this response to your request for comments on the HHS Office of Inspector General for Audit Services (OIG) draft audit report no. A-07-96-01178, entitled Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross and Blue Shield of Michigan (Draft Audit Report). BCBSM's response is being submitted for the purpose of facilitating the settlement of cost issues relating to our Medicare contracts and is not to be construed as an admission of liability upon any particular claim or figure. BCBSM's attached comments are based on a preliminary review of the Draft Audit Report; BCBSM reserves the right to submit additional information and to contest any findings, recommendations or claims set forth in or relating to the Draft Audit Report.

Please contact me at 313-225-7860 if you have any questions or if we otherwise may be of assistance.

Sincerely,

A handwritten signature in black ink that reads "Mark R. Bartlett". The signature is written in a cursive, somewhat stylized script.

Mark R. Bartlett

BCBSM COMMENTS ON DRAFT PENSION COST AUDIT REPORT

OIG's Draft Audit Report concludes that, for FY86 through FY90, BCBSM claimed pension costs of \$1,764,040 that were not allowable for Medicare reimbursement because the claimed costs exceeded the funded portion of CAS computed costs. OIG offset this amount, described as an "over claim," with \$1,132,792 of allowable pension costs found to have been under-claimed by BCBSM, and concluded that, in sum, BCBSM had made a net over-claim of \$631,248.

OIG's Draft Audit Report noted that the over-claim occurred because:

Michigan based its claims on an allocation of total company contributions plus a prior period amortization adjustment rather than separately computed CAS pension costs for the Medicare segment.

Draft Audit Report at 3 (emphasis added). However, BCBSM's Medicare Part A and Part B contracts, effective October 1, 1988 (FY89), contain an Appendix B which, at ¶ XVI.A, provides in essence that if BCBSM complies or makes a good faith effort to comply with Appendix B's Medicare pension accounting provisions, HCFA will not seek an adjustment of pension costs allocated to prior Medicare contracts, on the ground that pension costs for a segment were not calculated separately. BCBSM's Medicare operations during the FY86-FY88 period were conducted under "prior contracts," i.e., contracts awarded prior to the FY89 contracts. Because BCBSM complied (and, in any event, made a good faith effort to comply) with the FY89 Appendix B, ¶ XVI pension segment accounting provisions, no adjustment should be made on the ground that pension costs for a segment were not calculated separately for periods prior to the FY89 contracts. Accordingly, BCBSM is not subject to an adjustment disallowing the \$1,241,276 of FY86-FY88 claimed pension cost.

In sum, removing the FY86-FY88 period from the FY86-94 adjustment period covered by OIG's audit, changes the audit result from a net over-claim of \$631,248, to a net under-claim of \$610,028 in allowable pension cost due BCBSM.