



October 29, 2010

Report Number: A-07-10-00335

Ms. Jared A. Adair
Senior Vice President, Medicare Division
Wisconsin Physicians Service Insurance Corporation
P. O. Box 8190
Madison, WI 53708

Dear Ms. Adair:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of the Pension Segmentation Requirements for the Employees' Pension Plan at Wisconsin Physicians Service Insurance Corporation for the Period of January 1, 1989, to January 1, 2008*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-10-00335 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE PENSION
SEGMENTATION REQUIREMENTS FOR
THE EMPLOYEES' PENSION PLAN AT
WISCONSIN PHYSICIANS SERVICE
INSURANCE CORPORATION FOR THE
PERIOD OF JANUARY 1, 1989,
TO JANUARY 1, 2008**



Daniel R. Levinson
Inspector General

October 2010
A-07-10-00335

Office of Inspector General

<http://oig.hhs.gov>

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The designation of financial or management practices as questionable, a
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any other conclusions and recommendations in this report represent the
findings and opinions of OAS. Authorized officials of the HHS operating
divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Wisconsin Physicians Service Insurance Corporation (WPS) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). In addition, WPS also administered Medicare operations under a Medicare administrative contractors (MAC) contract with CMS.

During the audit period, WPS maintained four separate defined benefit pension plans. This report will address the pension assets for the Employees' Pension Plan only.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413.

Prior Pension Audit Report

We performed a prior pension audit at WPS (A-05-92-00048, issued October 1992), which brought the actuarial value of Medicare segment pension assets to December 31, 1989. The prior audit recommended that WPS increase its actuarial value of Medicare segment pension assets by \$159,452 and, as a result, recognize \$2,184,560 as the Medicare segment pension assets as of January 1, 1989.

Although our prior audit recommended an asset adjustment as of January 1, 1989, that audit reported assets as of December 31, 1989. Therefore, we used December 31, 1989, as the starting date of this current audit period. However, because the prior audit tied its recommended asset adjustment to January 1, 1989, for purposes of this report we are specifying January 1, 1989, in our objective and findings.

OBJECTIVE

Our objective was to determine whether WPS complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- implementing the prior audit recommendation and

- updating the Medicare segment's pension assets from January 1, 1989, to January 1, 2008.

SUMMARY OF FINDING

WPS properly implemented the prior audit recommendation; however, WPS did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 1989, to January 1, 2008. WPS identified Medicare segment pension assets of \$15,146,474; however, we determined that the Medicare segment pension assets were \$15,081,424 as of January 1, 2008. As a result, WPS overstated the Medicare segment pension assets by \$65,050 as of January 1, 2008.

RECOMMENDATION

We recommend that WPS decrease the Medicare segment pension assets as of January 1, 2008, by \$65,050 and recognize \$15,081,424 as the Medicare segment's pension assets.

AUDITEE COMMENTS

In written comments on our draft report, WPS said that the Medicare segment assets specified in our draft report excluded some additional benefit payments, and added that, subsequent to the issuance of our draft report, it had provided us with additional documentation to identify those payments. With these requested revisions in mind, WPS agreed that the Medicare segment assets as of January 1, 2008, should be \$15,081,424.

WPS's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing WPS's comments, we revised Medicare segment assets based upon the additional documentation regarding benefit payments that WPS had provided to us after we had issued our draft report. We incorporated this adjustment into this final report and revised the relevant findings and recommendation accordingly.

We maintain that our findings and recommendation, as modified, are valid.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FAR	Federal Acquisition Regulation
MAC	Medicare administrative contractor
WAV	weighted average value
WPS	Wisconsin Physicians Service Insurance Corporation

INTRODUCTION

BACKGROUND

Wisconsin Physicians Service Insurance Corporation and Medicare

Wisconsin Physicians Service Insurance Corporation (WPS) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). With the award to WPS of the CMS A/B Medicare administrative contractors (MAC)¹ Jurisdiction 5 contract, WPS acquired Mutual of Omaha's Medicare Part A business segment in November 2007.

During the audit period, WPS had four defined benefit pension plans. The Employees' Pension Plan and the Managerial Pension Plan were ongoing pension plans that we reviewed in the prior audit discussed below. On August 1, 1998, WPS established two additional defined benefit pension plans: the Represented Employees' Retirement Income Plan and the Managerial Retirement Program for Michigan, Illinois, and Minnesota Employees of WPS. Effective December 31, 2007, WPS merged the Represented Employees' Retirement Income Plan and the Managerial Retirement Program for Michigan, Illinois, and Minnesota Employees of WPS and renamed the plan WPS Managerial Retirement Program for Selected Locations. This report will address the pension assets for the Employees' Pension Plan only.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts.

Federal Requirements

CAS 412 addresses the determination and measurement of pension cost components. It also addresses the assignment of pension costs to appropriate accounting periods.

CAS 413 addresses the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. The Medicare contracts define a segment and specify the methodology for

¹ Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to Medicare administrative contractors (MAC) between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims. For purposes of this report, the term "Medicare contractor" means the fiscal intermediary, carrier, or Medicare administrative contractor, whichever is applicable.

the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, CAS, and the Medicare contracts.

Prior Pension Audit Report

We performed a prior pension audit at WPS (A-05-92-00048, issued October 1992), which brought the Medicare segment's actuarial value of assets to December 31, 1989. The prior audit found that WPS understated the actuarial value of the Medicare segment's pension assets by \$159,452 as of January 1, 1989, and recommended that WPS increase its actuarial value of Medicare segment pension assets by \$159,452 and, as a result, recognize \$2,184,560² as the Medicare segment pension assets as of January 1, 1989.

Although our prior audit recommended an asset adjustment as of January 1, 1989, that audit reported assets as of December 31, 1989. Therefore, we used December 31, 1989, as the starting date of this current audit period. However, because the prior audit tied its recommended asset adjustment to January 1, 1989, for purposes of this report we are specifying January 1, 1989, in our objective and findings.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

Our objective was to determine whether WPS complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- implementing the prior audit recommendation and
- updating the Medicare segment's pension assets from January 1, 1989, to January 1, 2008.

Scope

We reviewed WPS's implementation of the prior audit recommendation identification of its Medicare segment, and its update of Medicare segment assets from December 31, 1989, to January 1, 2008. For the reasons stated above, we did not audit assets between January 1, 1989 (the date associated with the prior audit's recommendation), and December 31, 1989.

Achieving our objective did not require us to review WPS's overall internal control structure. We reviewed controls relating to the identification of the Medicare segment and the update of the segment's assets to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

² Although our prior report used the actuarial value of assets, our current audit used the market value of assets. The corresponding market value of assets as of January 1, 1989, was \$2,346,452 (as reflected in the initial entry of Appendix A).

We performed fieldwork at WPS's office in Madison, Wisconsin, during July 2009.

Methodology

To accomplish our objective, we did the following:

- We reviewed the applicable portions of the FAR, CAS, and the Medicare contracts.
- We reviewed the annual actuarial valuation reports prepared by WPS's actuarial consulting firms, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segment assets.
- We obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service (IRS) Forms 5500 used in calculating the Medicare segment assets.
- We interviewed WPS staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed WPS's accounting records to verify the segment identification and benefit payments made to the Medicare segment.
- We reviewed the prior pension audit performed at WPS (A-05-92-00048) to determine the beginning value of assets and the actuarial value of assets from January 1, 1989, to December, 31, 1989.³
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment pension assets (at market value) from December 31, 1989, to January 1, 2008.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of WPS's pension costs claimed for Medicare reimbursement, to be issued in a subsequent report, and used the information obtained during that audit in this review.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

³ We made this determination as a necessary preliminary step to the calculation of the market value of assets but, as mentioned earlier, we did not audit the assets from January 1, 1989, to December 31, 1989.

FINDINGS AND RECOMMENDATION

WPS properly implemented the prior audit recommendation; however, WPS did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 1989, to January 1, 2008. WPS identified Medicare segment pension assets of \$15,146,474; however, we determined that the Medicare segment pension assets were \$ 15,081,424 as of January 1, 2008. As a result, WPS overstated the Medicare segment pension assets by \$65,050 as of January 1, 2008.

Appendix A presents details on the Medicare segment's pension assets from January 1, 1989, to January 1, 2008, as determined during our audit. Table 1 summarizes the audit adjustment required to update Medicare segment pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments			
	Per Audit	Per WPS	Difference
Prior Audit Recommendation	\$2,973,794	\$2,973,794	\$0
Update of Medicare Segment Assets			
Employee Contributions	1,020,121	1,017,055	3,066
Benefit Payments	2,621,437	2,720,872	99,435
Net Transfers	(104,335)	(35,487)	(68,848)
Earnings Net Expenses	13,813,281	13,911,984	(98,703)
Under/(Over)statement of Medicare Pension Segment Assets			(\$65,050)

PRIOR AUDIT RECOMMENDATION

WPS properly implemented the prior audit recommendation (A-05-92-00048) which recommended that WPS recognize \$2,184,560 as the Medicare segment actuarial value of pension assets as of January 1, 1989. The corresponding market value of assets for the Medicare segment was \$2,346,452 as of January 1, 1989.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

WPS did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 1989.

Federal Requirements

The Medicare contracts identify a Medicare segment as:

... any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars are charged to the Medicare agreement/contract, and these salary dollars represent 40% or more of the total salary dollars charged to the Medicare agreement/contract.

Furthermore, the Medicare contracts state that "... the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7)." CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. The CAS requires expenses to be allocated among the segments in proportion to the investment earnings. In addition, CAS 413.50(c)(8) requires an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

For plan years beginning on or before March 30, 1995, the CAS requires investment income and expenses to be allocated among segments in proportion to the beginning-of-year asset value. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's weighted average value (WAV) of assets to total company WAV of assets.

Furthermore, CAS 412.50(a)(4) requires that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Employee Contributions Understated

WPS understated employee contributions by \$3,066 for the Medicare segment primarily because of differences in the identification of the Medicare segment participants. Therefore, WPS understated the Medicare segment pension assets by \$3,066.

Benefit Payments Overstated

WPS overstated benefit payments by \$99,435 because of differences in the identification of the Medicare segment participants. In addition, WPS did not base the Medicare segment benefit payment on the actual payments made to Medicare segment participants. As a result, the Medicare segment pension assets were understated by \$99,435.

A comparison of WPS's and our calculations of benefit payments from the Medicare segment appears in Table 2.

	Per Audit	Per WPS	Difference
1990	\$4,126	\$4,126	\$0
1991	4,126	4,126	0
1992	15,662	14,052	(1,610)
1993	20,903	20,706	(197)
1994	34,013	31,508	(2,505)
1995	79,757	59,778	(19,979)
1996	94,988	75,788	(19,200)
1997	227,199	190,727	(36,472)
1998	143,530	143,657	127
1999	151,408	139,405	(12,003)
2000	192,793	180,049	(12,744)
2001	219,800	217,416	(2,384)
2002	228,743	230,271	1,528
2003	199,341	241,102	41,761
2004	251,140	285,964	34,824
2005	246,732	306,721	59,989
2006	251,441	318,196	66,755
2007	255,735	257,280	1,545
Total	\$2,621,437	\$2,720,872	\$99,435

Net Transfers Understated

WPS understated net transfers out of the Medicare segment by \$68,848 primarily because of differences in identification of the Medicare segment participants. This understatement of the net transfer adjustment resulted in an overstatement of the Medicare segment assets by \$68,848.

Earnings, Net Expenses Overstated

WPS overstated investment earnings, less administrative expenses, by \$98,703 for the Medicare segment because it used incorrect employee contribution, benefit payment, and net transfer amounts (all discussed above) to develop the Medicare segment pension asset base. In our audited update, we allocated earnings and expenses based on the applicable CAS requirements.

RECOMMENDATION

We recommend that WPS decrease the Medicare segment pension assets as of January 1, 2008, by \$65,050 and recognize \$15,081,424 as the Medicare segment's pension assets.

AUDITEE COMMENTS

In written comments on our draft report, WPS agreed with our findings after requesting that revisions be made to the benefit payments that had been conveyed in our draft report.

Specifically, WPS stated:

The Medicare segment assets as of January 1, 2008 that were reported in the draft report excluded some additional Medicare segment benefit payments. Subsequent to the issuance of the draft report, WPS provided the OIG [Office of Inspector General] with additional documentation in order to identify the Medicare segment benefit payments. WPS agrees that after revision of the benefit payments the Medicare segment pension assets as of January 1, 2008 should be \$15,081,424.

WPS's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing WPS's comments, we revised Medicare segment assets based upon the additional documentation regarding benefit payments that WPS had provided to us after we had issued our draft report. We incorporated this adjustment into this final report and revised the relevant findings and recommendation accordingly.

We maintain that our findings and recommendation, as modified, are valid.

APPENDIXES

**APPENDIX A: WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION
STATEMENT OF MARKET VALUE OF EMPLOYEES' PENSION PLAN ASSETS
FOR THE PERIOD JANUARY 1, 1989, TO JANUARY 1, 2008**

Description		Total Company	"Other" Segment	Medicare Segment
Assets January 1, 1989	1/	\$9,138,278	\$6,791,826	\$2,346,452
Contributions		0	0	0
Employee Contributions		236,863	186,812	50,051
Earnings		2,264,335	1,682,918	581,417
Benefit Payments		(125,574)	(121,448)	(4,126)
Expenses		0	0	0
Assets December 31, 1989		\$11,513,902	\$8,540,108	\$2,973,794
Contributions		0	0	0
Employee Contributions	2/	260,978	198,779	62,199
Earnings	3/	254,881	189,051	65,830
Benefit Payments	4/	(121,163)	(117,037)	(4,126)
Expenses	5/	(7,795)	(5,782)	(2,013)
Assets January 1, 1991		\$11,900,803	\$8,805,119	\$3,095,684
Contributions		0	0	0
Employee Contributions		314,889	245,098	69,791
Earnings		3,637,574	2,691,354	946,220
Benefit Payments		(143,853)	(139,727)	(4,126)
Expenses		0	0	0
Assets January 1, 1992		\$15,709,413	\$11,601,844	\$4,107,569
Contributions		0	0	0
Employee Contributions		268,910	221,115	47,795
Earnings		1,780,667	1,315,073	465,594
Benefit Payments		(205,427)	(189,765)	(15,662)
Expenses		0	0	0
Assets January 1, 1993		\$17,553,563	\$12,948,267	\$4,605,296
Contributions		0	0	0
Employee Contributions		299,846	240,885	58,961
Earnings		2,759,081	2,035,217	723,864
Benefit Payments		(235,778)	(214,875)	(20,903)
Expenses		0	0	0
Assets January 1, 1994		\$20,376,712	\$15,009,494	\$5,367,218
Contributions		0	0	0
Employee Contributions		305,897	253,565	52,332
Earnings		(660,547)	(486,559)	(173,988)
Benefit Payments		(329,787)	(295,774)	(34,013)
Expenses		0	0	0
Assets January 1, 1995		\$19,692,275	\$14,480,726	\$5,211,549

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 1995	\$19,692,275	\$14,480,726	\$5,211,549
Contributions	0	0	0
Employee Contributions	369,067	309,888	59,179
Earnings	5,950,296	4,375,554	1,574,742
Benefit Payments	(496,891)	(417,134)	(79,757)
Expenses	(124,604)	(91,628)	(32,976)
Assets January 1, 1996	\$25,390,143	\$18,657,406	\$6,732,737
Contributions	0	0	0
Employee Contributions	374,792	320,764	54,028
Earnings	4,029,188	2,961,904	1,067,284
Benefit Payments	(475,130)	(380,142)	(94,988)
Expenses	(157,611)	(115,862)	(41,749)
Assets January 1, 1997	\$29,161,382	\$21,444,070	\$7,717,312
Contributions	0	0	0
Employee Contributions	338,616	287,609	51,007
Earnings	6,892,265	5,060,983	1,831,282
Benefit Payments	(1,234,300)	(1,007,101)	(227,199)
Expenses	0	0	0
Assets January 1, 1998	\$35,157,963	\$25,785,561	\$9,372,402
Contributions	0	0	0
Employee Contributions	318,814	257,709	61,105
Earnings	7,012,373	5,138,184	1,874,189
Benefit Payments	(808,491)	(664,961)	(143,530)
Expenses	(218,931)	(160,418)	(58,513)
Assets January 1, 1999	\$41,461,728	\$30,356,075	\$11,105,653
Contributions	0	0	0
Employee Contributions	298,970	231,329	67,641
Earnings	7,706,562	5,635,479	2,071,083
Benefit Payments	(885,209)	(733,801)	(151,408)
Expenses	(243,636)	(178,161)	(65,475)
Assets January 1, 2000	\$48,338,415	\$35,310,921	\$13,027,494
Contributions	0	0	0
Employee Contributions	271,834	217,981	53,853
Earnings	(594,398)	(433,943)	(160,455)
Benefit Payments	(944,097)	(751,304)	(192,793)
Expenses	(304,093)	(222,004)	(82,089)
Assets January 1, 2001	\$46,767,661	\$34,121,651	\$12,646,010

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2001	\$46,767,661	\$34,121,651	\$12,646,010
Contributions	0	0	0
Employee Contributions	218,606	179,541	39,065
Earnings	(4,348,901)	(3,171,094)	(1,177,807)
Benefit Payments	(1,033,731)	(813,931)	(219,800)
Expenses	(283,063)	(206,401)	(76,662)
Assets January 1, 2002	\$41,320,572	\$30,109,766	\$11,210,806
Contributions	0	0	0
Employee Contributions	319,749	265,708	54,041
Earnings	(2,932,025)	(2,135,257)	(796,768)
Benefit Payments	(1,094,514)	(865,771)	(228,743)
Expenses	(319,322)	(232,547)	(86,775)
Assets January 1, 2003	\$37,294,460	\$27,141,899	\$10,152,561
Contributions	0	0	0
Employee Contributions	322,786	267,669	55,117
Earnings	5,872,865	4,267,708	1,605,157
Benefit Payments	(1,148,041)	(948,700)	(199,341)
Expenses	(281,346)	(204,449)	(76,897)
Assets January 1, 2004	\$42,060,724	\$30,524,127	\$11,536,597
Contributions	0	0	0
Employee Contributions	360,442	299,499	60,943
Earnings	4,520,567	3,277,723	1,242,844
Benefit Payments	(1,250,119)	(998,979)	(251,140)
Expenses	(308,990)	(224,039)	(84,951)
Assets January 1, 2005	\$45,382,624	\$32,878,331	\$12,504,293
Contributions	<u>6/</u> 1,845,000	1,845,000	0
Employee Contributions	397,975	345,640	52,335
Earnings	3,273,379	2,382,564	890,815
Benefit Payments	(1,335,864)	(1,089,132)	(246,732)
Expenses	(322,849)	(234,989)	(87,860)
Transfers	<u>7/</u> 0	93,735	(93,735)
Assets January 1, 2006	\$49,240,265	\$36,221,149	\$13,019,116
Contributions	2,165,000	2,165,000	0
Employee Contributions	445,477	393,992	51,485
Earnings	5,662,834	4,188,941	1,473,893
Benefit Payments	(1,593,242)	(1,341,801)	(251,441)
Expenses	(363,046)	(268,554)	(94,492)
Transfers	0	344,895	(344,895)
Assets January 1, 2007	\$55,557,288	\$41,703,622	\$13,853,666

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2007	\$55,557,288	\$41,703,622	\$13,853,666
Contributions	2,700,000	2,700,000	0
Employee Contributions	470,550	401,306	69,244
Earnings	4,872,348	3,687,415	1,184,933
Benefit Payments	(1,645,992)	(1,390,257)	(255,735)
Expenses	(431,664)	(326,685)	(104,979)
Transfers	0	(334,295)	334,295
Assets January 1, 2008	\$61,522,530	\$46,441,106	\$15,081,424
Per WPS	8/ \$61,522,530	\$46,376,056	\$15,146,474
Asset Variance	9/ \$0	\$65,050	(\$65,050)



FOOTNOTES

- 1/ We determined the Medicare segment pension assets from January 1, 1989, to December 31, 1989, based upon the prior pension audit of Wisconsin Physicians Service Insurance Corporation (WPS) (A-05-92-00048). The prior pension audit used actuarial value of assets in the report. We determined that WPS implemented the recommendation; therefore, we used the corresponding market value of assets. The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segments. All pension assets in this appendix are shown at market value.
- 2/ We obtained Total Company employee contributions from the actuarial valuation reports. The Medicare segment employee contributions were actual contributions made by the Medicare segment employees.
- 3/ We obtained investment earnings from actuarial valuation reports. We allocated investment earnings based on the market value of Medicare assets at the beginning of the plan year after adjustments for prepayment credits and participant transfers. For years starting with 1996, we allocated investment earnings based on the ratio of the segment's weighted average value (WAV) of assets to total company WAV of assets as required by the Cost Accounting Standards (CAS).
- 4/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by WPS.
- 5/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.
- 6/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Forms 5500. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the "Other" segment until needed to fund pension costs in the future.
- 7/ We identified participant transfers between segments starting in calendar year 2005 by comparing valuation data files provided by WPS. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS. Furthermore, the CAS requires an adjustment to be made for transfers only if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities. WPS determined that prior to 2005, participant transfers did not materially affect the segment's ratio; therefore, WPS did not perform transfer adjustments. We replicated WPS's methodology.
- 8/ We obtained total asset amounts as of January 1, 2008, from the actuarial valuation report prepared by WPS's actuarial consulting firms.
- 9/ The asset variance represents the difference between our calculation of Medicare segment pension assets and WPS's calculation of the Medicare segment pension assets.

APPENDIX B: AUDITEE COMMENTS



Medicare

October 5, 2010

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
HHS, Office of Audit Services
601 East 12th Street, Room 429
Kansas City, MO 64106

Dear Mr. Cogley:

This letter is in response to Report Number A-07-10-00335, the Draft Audit Report Review of Pension Segmentation Requirements for the Employees' Pension Plan at Wisconsin Physicians Service Insurance Corporation for the period of January 1, 1989, to January 1, 2008.

The Medicare segment assets as of January 1, 2008 that were reported in the draft report excluded some additional Medicare segment benefit payments. Subsequent to the issuance of the draft report, WPS provided the OIG with additional documentation in order to identify the Medicare segment benefit payments. WPS agrees that after the revision of the benefit payments the Medicare segment pension assets as of January 1, 2008 should be \$15,081,424.

Thank you for the opportunity to comment, please contact me at (608) 301-2639 or e-mail me at Jared.Adair@wpsic.com if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Jared A. Adair", is written over a printed name and title. The signature is fluid and cursive in style.

Jared A. Adair
Senior Vice President, Medicare



Wisconsin Physicians Service Insurance Corporation serving as a CMS contractor
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