



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, MO 64106

February 28, 2011

Report Number: A-07-10-00336

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 Managerial 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

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](mailto:Jenenne.Tambke@oig.hhs.gov). Please refer to report number A-07-10-00336 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 MANAGERIAL PENSION PLAN AT  
WISCONSIN PHYSICIANS SERVICE  
INSURANCE CORPORATION FOR THE  
PERIOD OF JANUARY 1, 1989,  
TO JANUARY 1, 2008**



Daniel R. Levinson  
Inspector General

February 2011  
A-07-10-00336

# *Office of Inspector General*

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and 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 Managerial 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 \$303,867 and, as a result, recognize \$1,554,060 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 \$13,423,455; however, we determined that the Medicare segment pension assets were \$11,078,559 as of January 1, 2008. As a result, WPS overstated the Medicare segment pension assets by \$2,344,896 as of January 1, 2008.

## **RECOMMENDATION**

We recommend that WPS decrease the Medicare segment pension assets as of January 1, 2008, by \$2,344,896 and recognize \$11,078,559 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 Medicare segment terminated vested employees, and added that, subsequent to the issuance of our draft report, it had provided us with additional documentation to identify those employees. With these requested revisions in mind, WPS agreed that the Medicare segment assets as of January 1, 2008, should be \$11,078,559.

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 Medicare segment terminated vested employees 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)<sup>1</sup> 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 Managerial 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

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<sup>1</sup> 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 \$303,867 as of January 1, 1989, and recommended that WPS recognize \$1,554,060 as the actuarial value of Medicare segment pension assets and, as a result, recognize \$1,702,125<sup>2</sup> as the market value of 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.

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<sup>2</sup> 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 \$1,702,125 (as reflected in the initial entry of the Appendix).

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.<sup>3</sup>
- 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.

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<sup>3</sup> 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 \$13,423,455; however, we determined that the Medicare segment pension assets were \$11,078,559 as of January 1, 2008. As a result, WPS overstated the Medicare segment pension assets by \$2,344,896 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.

<b>Table 1: Summary of Audit Adjustments</b>			
	<b>Per Audit</b>	<b>Per WPS</b>	<b>Difference</b>
<b>Prior Audit Recommendation</b>	\$1,702,125	\$1,702,125	\$0
<b>Update of Medicare Segment Assets</b>			
Contributions and Prepayment Credits	3,132,266	4,490,526	(1,358,260)
Benefit Payments	(2,324,963)	(2,295,512)	(29,451)
Net Transfers	66,093	529,665	(463,572)
Earnings, Net Expenses	8,141,832	8,635,445	(493,613)
<b>Under/(Over)statement of Medicare Pension Segment Assets</b>			<b>(\$2,344,896)</b>

### PRIOR AUDIT RECOMMENDATION

WPS properly implemented the prior audit recommendation (A-05-92-00048) which recommended that WPS recognize \$1,554,060 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 \$1,702,125 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.

### **Contributions and Prepayment Credits Overstated**

WPS overstated contributions and prepayment credits by \$1,358,260 for the Medicare segment because it allocated contributions to the Medicare segment in excess of the assignable pension costs. As a result, WPS overstated the Medicare segment pension assets by \$1,358,260.

The audited contributions and prepayment credits are based on the assignable pension costs. In compliance with the CAS, we applied prepayment credits first to current-year assignable pension costs because the credits were available at the beginning of the year, and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions as needed to assigned pension costs as of the date of deposit.

A comparison of WPS's and our calculations of contributions and prepayment credits appears in Table 2.

	<b>Per Audit</b>	<b>Per WPS</b>	<b>Difference</b>
2003	351,093	1,005,768	(654,675)
2004	496,381	715,760	(219,379)
2005	698,604	789,146	(90,542)
2006	782,280	896,541	(114,261)
2007	803,908	1,083,311	(279,403)
<b>Total</b>	<b>3,132,266</b>	<b>4,490,526</b>	<b>(1,358,260)</b>

### **Benefit Payments Understated**

WPS understated benefit payments by \$29,451 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 overstated by \$29,451.

### **Net Transfers Into the Medicare Segment Overstated**

WPS overstated net transfers in of the Medicare segment by \$463,572 primarily because of differences in identification of the Medicare segment participants. This overstatement of the net transfer adjustment resulted in an overstatement of the Medicare segment assets by \$463,572.

A comparison of WPS's and our calculations of net transfers into the Medicare segment appears in Table 3.

	<b>Per WPS</b>	<b>Per Audit</b>	<b>Difference</b>
2002	0	(123,049)	123,049
2005	(123,077)	31,339	(154,416)
2006	427,664	(46,784)	474,448
2007	225,078	204,587	20,491
<b>Total</b>	<b>529,665</b>	<b>66,093</b>	<b>463,572</b>

### **Earnings, Net Expenses Overstated**

WPS overstated investment earnings, less administrative expenses, by \$493,613 for the Medicare segment because it used incorrect contribution, prepayment credit, 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 \$2,344,896 and recognize \$11,078,559 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 identification of Medicare segment terminated vested employees 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 terminated vested employees. 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 terminated vested employees. WPS agrees that after the revisions the Medicare segment pension assets as of January 1, 2008, should be \$11,078,559.

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 the Medicare segment terminated vested employees 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 MANAGERIAL PENSION PLAN ASSETS  
FOR THE PERIOD JANUARY 1, 1989, TO JANUARY 1, 2008**

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 1989	<u>1/</u> \$20,674,607	\$18,972,482	\$1,702,125
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	5,021,628	4,608,201	413,427
Benefit Payments	(324,360)	(272,139)	(52,221)
Expenses	0	0	0
Assets December 31, 1989	\$25,371,875	\$23,308,544	\$2,063,331
Prepayment Credits	<u>2/</u> 0	0	0
Contributions	0	0	0
Earnings	<u>3/</u> 593,975	545,671	48,304
Benefit Payments	<u>4/</u> (352,670)	(295,987)	(56,683)
Expenses	<u>5/</u> (18,164)	(16,687)	(1,477)
Assets January 1, 1991	\$25,595,016	\$23,541,541	\$2,053,475
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	7,727,303	7,107,345	619,958
Benefit Payments	(430,200)	(352,948)	(77,252)
Expenses	0	0	0
Assets January 1, 1992	\$32,892,119	\$30,295,938	\$2,596,181
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	3,693,674	3,402,132	291,542
Benefit Payments	(511,105)	(423,150)	(87,955)
Expenses	0	0	0
Assets January 1, 1993	\$36,074,688	\$33,274,920	\$2,799,768
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	5,488,947	5,062,948	425,999
Benefit Payments	(547,766)	(452,825)	(94,941)
Expenses	0	0	0
Assets January 1, 1994	\$41,015,869	\$37,885,043	\$3,130,826
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	(1,217,925)	(1,124,958)	(92,967)
Benefit Payments	(685,995)	(588,528)	(97,467)
Expenses	0	0	0
Assets January 1, 1995	\$39,111,949	\$36,171,557	\$2,940,392

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 1995	\$39,111,949	\$36,171,557	\$2,940,392
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	11,632,855	10,758,310	874,545
Benefit Payments	(1,366,026)	(1,246,473)	(119,553)
Expenses	0	0	
Assets January 1, 1996	\$49,378,778	\$45,683,394	\$3,695,384
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	7,287,115	6,740,872	546,243
Benefit Payments	(1,785,404)	(1,663,674)	(121,730)
Expenses	0	0	
Assets January 1, 1997	\$54,880,489	\$50,760,592	\$4,119,897
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	13,139,106	12,148,890	990,216
Benefit Payments	(2,039,464)	(1,918,000)	(121,464)
Expenses	0	0	0
Assets January 1, 1998	\$65,980,131	\$60,991,482	\$4,988,649
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	13,037,477	12,049,273	988,204
Benefit Payments	(2,023,908)	(1,895,421)	(128,487)
Expenses	(393,091)	(363,296)	(29,795)
Assets January 1, 1999	\$76,600,609	\$70,782,038	\$5,818,571
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	14,133,877	13,057,290	1,076,587
Benefit Payments	(2,073,089)	(1,947,480)	(125,609)
Expenses	(473,169)	(437,127)	(36,042)
Assets January 1, 2000	\$88,188,228	\$81,454,721	\$6,733,507

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2000	\$88,188,228	\$81,454,721	\$6,733,507
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	(1,114,209)	(1,028,927)	(85,282)
Benefit Payments	(2,108,134)	(1,979,638)	(128,496)
Expenses	(516,034)	(476,537)	(39,497)
Assets January 1, 2001	\$84,449,851	\$77,969,619	\$6,480,232
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	(7,868,457)	(7,262,397)	(606,060)
Benefit Payments	(2,190,380)	(2,070,542)	(119,838)
Expenses	(486,821)	(449,324)	(37,497)
Assets January 1, 2002	\$73,904,193	\$68,187,356	\$5,716,837
Prepayment Credits	0	0	0
Contributions	0	0	0
Earnings	(5,225,521)	(4,820,303)	(405,218)
Benefit Payments	(2,277,830)	(2,129,475)	(148,355)
Expenses	(556,175)	(513,046)	(43,129)
Transfer	6/	123,049	(123,049)
Assets January 1, 2003	\$65,844,667	\$60,847,581	\$4,997,086
Prepayment Credits	0	0	0
Contributions	7/ 9,590,306	9,239,213	351,093
Earnings	10,991,510	10,169,110	822,400
Benefit Payments	(2,398,300)	(2,257,798)	(140,502)
Expenses	(463,202)	(428,545)	(34,657)
Assets January 1, 2004	\$83,564,981	\$77,569,561	\$5,995,420
Prepayment Credits	0	(426,427)	426,427
Contributions	6,944,000	6,874,046	69,954
Earnings	9,351,968	8,643,979	707,989
Benefit Payments	(2,475,407)	(2,322,166)	(153,241)
Expenses	(574,690)	(531,183)	(43,507)
Assets January 1, 2005	\$96,810,852	\$89,807,810	\$7,003,042

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2005	\$96,810,852	\$89,807,810	\$7,003,042
Prepayment Credits	0	(583,023)	583,023
Contributions	8,618,000	8,502,419	115,581
Earnings	7,011,082	6,474,240	536,842
Benefit Payments	(2,700,099)	(2,522,167)	(177,932)
Expenses	(620,505)	(572,993)	(47,512)
Transfers		(31,339)	31,339
Assets January 1, 2006	\$109,119,330	\$101,074,947	\$8,044,383
Prepayment Credits	0	(581,683)	581,683
Contributions	12,327,000	12,126,403	200,597
Earnings	12,340,862	11,421,275	919,587
Benefit Payments	(2,808,340)	(2,630,350)	(177,990)
Expenses	0	0	0
Transfers	0	46,784	(46,784)
Assets January 1, 2007	\$130,978,852	\$121,457,376	\$9,521,476
Prepayment Credits	0	(755,632)	755,632
Contributions	14,600,000	14,551,724	48,276
Earnings	10,925,208	10,129,152	796,056
Benefit Payments	(3,080,592)	(2,833,124)	(247,468)
Expenses	0	0	0
Transfers	0	(204,587)	204,587
Assets January 1, 2008	\$153,423,468	\$142,344,909	\$11,078,559
Per WPS	8/ \$153,423,468	\$140,000,013	\$13,423,455
Asset Variance	9/ \$0	\$2,344,896	(\$2,344,896)

#### **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/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current year contributions in order to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 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. In addition, we identified one participant in 2002 who was transferred out of the Medicare segment. 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.
- 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

February 11, 2011

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

Dear Mr. Cogley:

This letter is in response to Report Number A-07-10-00336, the Draft Audit Report Review of the Pension Segmentation Requirements for the Managerial 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 terminated vested employees. Subsequent to the issuance of the draft report, WPS provided the OIG with additional documentation in order to identify the Medicare segment terminated vested employees. WPS agrees that after the revisions the Medicare segment pension assets as of January 1, 2008, should be \$11,078,559.

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

Sincerely,

/ Jared A. Adair /

Jared A. Adair  
Senior Vice President  
Medicare



Wisconsin Physicians Service Insurance Corporation serving as a CMS Medicare contractor  
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