

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**HIGHMARK MEDICARE SERVICES, INC.,
DID NOT CLAIM SOME ALLOWABLE
NONQUALIFIED DEFINED-BENEFIT PLAN
PENSION COSTS FOR FISCAL YEARS
2003 THROUGH 2009**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Patrick J. Cogley
Regional Inspector General**

April 2014
A-07-13-00430

Office of Inspector General

<https://oig.hhs.gov/>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC

at <https://oig.hhs.gov>

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.

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

Highmark Medicare Services, Inc., did not claim allowable nonqualified defined-benefit plan pension costs of approximately \$9,000 for Medicare reimbursement for fiscal years 2003 through 2009.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their nonqualified defined-benefit plan (NQDBP) pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

The objective of this review was to determine whether the NQDBP pension costs claimed by Highmark Medicare Services, Inc. (Highmark), for Medicare reimbursement for fiscal years (FYs) 2003 through 2009 were allowable and correctly claimed.

BACKGROUND

During our audit period, Highmark was a wholly owned subsidiary of Highmark, Inc., whose home office was in Camp Hill, Pennsylvania. Highmark administered Medicare Parts A and B operations under cost reimbursement contracts with CMS until the Medicare segment was sold to Diversified Services Options, Inc. (DSO), effective January 1, 2012.

During the period January 1, 2003, through January 1, 2006, Highmark maintained two Medicare segments: a Medicare Part A segment and a Medicare Part B segment. On January 1, 2006, Highmark consolidated the Medicare Parts A and B segments into a single Medicare segment.

With the implementation of Medicare contracting reform, Highmark continued to perform Medicare work after being awarded the Medicare administrative contractor (MAC) (Jurisdiction 12) contract on October 24, 2007. While performing its MAC work, Highmark also functioned as a Medicare Part A fiscal intermediary and Part B carrier, with those contracts terminating in July 2008 and December 2008, respectively. Highmark continued to work as the Jurisdiction 12 MAC until January 1, 2012, when Highmark, Inc., sold its wholly owned subsidiary, Highmark, to DSO.

Highmark sponsors the Highmark Executive Retirement Restoration Plan (HERRP), whose primary purpose is to provide deferred compensation to a select group of management or highly compensated employees. The HERRP is an NQDBP designed to restore pension accruals that were not provided through the qualified defined-benefit pension plan as a result of elective

deferrals of compensation or the statutory limits imposed by the Internal Revenue Code sections 401(a)(17) and 415.

This report will address the NQDBP pension costs claimed by Highmark under the provisions of its Medicare carrier contracts. We will address the NQDBP pension costs claimed by Highmark under the provisions of its MAC contract in a separate review.

WHAT WE FOUND

Highmark claimed NQDBP pension costs of \$479,656 for Medicare reimbursement for FYs 2003 through 2009; however, we determined that the allowable CAS-based NQDBP pension costs during this period were \$488,491. The difference, \$8,835, represented allowable NQDBP pension costs that Highmark did not claim on its Final Administrative Cost Proposals (FACPs) for FYs 2003 through 2009. Highmark did not claim these allowable NQDBP pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

WHAT WE RECOMMEND

We recommend that Highmark revise its FACPs for FYs 2003 through 2009 to claim additional NQDBP pension costs of \$8,835.

AUDITEE COMMENTS

In written comments on our draft report, Highmark concurred with our recommendation.

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Review	1
Objective	1
Background	1
Highmark Medicare Services, Inc.	1
Medicare Reimbursement of Pension Costs	2
How We Conducted This Review.....	2
FINDING	2
Claimed Pension Costs	3
Allowable Pension Costs Not Claimed.....	3
RECOMMENDATION	4
AUDITEE COMMENTS.....	4
APPENDIXES	
A: Audit Scope and Methodology	5
B: Federal Requirements Related to Reimbursement of Pension Costs	7
C: Allowable Nonqualified Defined-Benefit Plan Pension Costs for Highmark Medicare Services, Inc., for Fiscal Years 2003 Through 2009	8
D: Auditee Comments	16

INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their nonqualified defined-benefit plan (NQDBP) pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

OBJECTIVE

Our objective was to determine whether the NQDBP pension costs claimed by Highmark Medicare Services, Inc. (Highmark), for Medicare reimbursement for fiscal years (FYs) 2003 through 2009 were allowable and correctly claimed.

BACKGROUND

Highmark Medicare Services, Inc.

During our audit period, Highmark was a wholly owned subsidiary of Highmark, Inc., whose home office was in Camp Hill, Pennsylvania. Highmark administered Medicare Parts A and B operations under cost reimbursement contracts with CMS until the Medicare segment was sold to Diversified Services Options, Inc. (DSO), effective January 1, 2012.

During the period January 1, 2003, through January 1, 2006, Highmark maintained two Medicare segments: a Medicare Part A segment and a Medicare Part B segment. On January 1, 2006, Highmark consolidated the Medicare Parts A and B segments into a single Medicare segment.

With the implementation of Medicare contracting reform,¹ Highmark continued to perform Medicare work after being awarded the MAC (Jurisdiction 12) contract on October 24, 2007.² While performing its MAC work, Highmark also functioned as a Medicare Part A fiscal intermediary and Part B carrier, with those contracts terminating in July 2008 and December 2008, respectively. Highmark continued to work as the Jurisdiction 12 MAC until January 1, 2012, when Highmark, Inc., sold its wholly owned subsidiary, Highmark, to DSO.

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 (MACs) 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 MAC, whichever is applicable.

² Medicare Parts A and B Jurisdiction 12 consists of the States of Delaware, Maryland, New Jersey, and Pennsylvania, and the District of Columbia.

Highmark sponsors the Highmark Executive Retirement Restoration Plan (HERRP), whose primary purpose is to provide deferred compensation to a select group of management or highly compensated employees. The HERRP is an NQDBP designed to restore pension accruals that were not provided through the qualified defined-benefit pension plan as a result of elective deferrals of compensation or the statutory limits imposed by the Internal Revenue Code sections 401(a)(17) and 415.

This report will address the NQDBP pension costs claimed by Highmark under the provisions of its Medicare carrier contracts. We will address the NQDBP pension costs claimed by Highmark under the provisions of its MAC contract in a separate review.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors' annual NQDBP pension costs, which are funded by contributions that these contractors make to their pension plans. 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.

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$479,656 of NQDBP pension costs claimed by Highmark for Medicare reimbursement on its Final Administrative Cost Proposals (FACPs) for FYs 2003 through 2009.

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 finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDING

Highmark claimed NQDBP pension costs of \$479,656 for Medicare reimbursement for FYs 2003 through 2009; however, we determined that the allowable CAS-based NQDBP pension costs during this period were \$488,491. The difference, \$8,835, represented allowable NQDBP pension costs that Highmark did not claim on its FACPs for FYs 2003 through 2009. Highmark

did not claim these allowable NQDBP pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

CLAIMED PENSION COSTS

Highmark claimed NQDBP pension costs of \$479,656 for Medicare reimbursement on its FACP's for FYs 2003 through 2009. We calculated the allowable NQDBP pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with the FAR and the CAS. For details on the Federal requirements, see Appendix B.

ALLOWABLE PENSION COSTS NOT CLAIMED

We determined that the allowable CAS-based NQDBP pension costs for FYs 2003 through 2009 were \$488,491. Thus, Highmark did not claim \$8,835 of allowable NQDBP pension costs on its FACP's for FYs 2003 through 2009. This underclaim occurred primarily because Highmark based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

The table below shows the differences between the allowable CAS-based NQDBP pension costs and the pension costs that Highmark claimed on its FACP's and that were reflected in its accounting documents. Appendix C contains additional details on allowable NQDBP pension costs.

Table: Comparison of Allowable NQDBP Pension Costs and Claimed Pension Costs

Medicare NQDBP Pension Costs			
Fiscal Year	Allowable Per Audit	Claimed by Highmark	Difference
2003	\$42,036	\$49,619	(\$7,583)
2004	41,931	66,024	(24,093)
2005	121,431	131,058	(9,627)
2006	67,613	91,457	(23,844)
2007	86,493	43,531	42,962
2008	117,355	87,245	30,110
2009	11,632	10,722	910
Total	\$488,491	\$479,656	(\$8,835)

Because Highmark did not calculate its NQDBP pension costs in accordance with Federal regulations and the Medicare contract's requirements, Highmark did not claim \$8,835 of allowable NQDBP pension costs during the period of FYs 2003 through 2009.

RECOMMENDATION

We recommend that Highmark revise its FACP's for FYs 2003 through 2009 to claim additional NQDBP pension costs of \$8,835.

AUDITEE COMMENTS

In written comments on our draft report, Highmark concurred with our recommendation. Specifically, Highmark agreed that there were allowable costs of \$8,835 not claimed on its FACP's for FYs 2003 through 2009.

Highmark's comments are included in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$479,656 of NQDBP pension costs that Highmark claimed for Medicare reimbursement on its FACPs for FYs 2003 through 2009.

Achieving our objective did not require that we review Highmark's overall internal control structure. We reviewed the internal controls related to the NQDBP pension costs claimed for Medicare reimbursement to ensure that these costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed our fieldwork at Highmark in Camp Hill, Pennsylvania, in September 2012.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and the Medicare contracts applicable to this audit;
- reviewed information provided by Highmark to identify the amount of NQDBP pension costs claimed for Medicare reimbursement for FYs 2003 through 2009;
- used information that Highmark's actuarial consulting firm provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined Highmark's accounting records, pension plan documents, and annual actuarial valuation reports;
- determined the extent to which Highmark funded CAS-based NQDBP pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the allocable NQDBP pension costs based on the CAS (the calculations were based on separately computed CAS-based NQDBP pension costs for the Medicare segment and the Other segment); and
- reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with the following audits and used the information obtained during these audits:

- *Highmark Medicare Services, Inc., Overstated Its Nonqualified Defined-Benefit Plan Medicare Segment Pension Assets and Overstated the Medicare Segment Excess Pension Liabilities as of January 1, 2012 (A-07-13-00429)* and

- *Highmark Medicare Services, Inc., Understated Its Allocable Nonqualified Defined-Benefit Plan Pension Costs for Calendar Years 2008 Through 2011 (A-07-13-00431).*

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 finding and conclusions based on our audit objectives.

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 412.50(c)(3)), state that the cost of an NQDBP shall be assigned to cost accounting periods in the same manner as qualified plans under the following conditions:

- the contractor, in disclosing or establishing cost accounting practices, elects to have a plan so accounted for;
- the plan is funded through the use of a funding agency; and
- the right to a pension benefit is nonforfeitable and is communicated to the participants.

Federal regulations (CAS 413) (as amended) address 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.

MEDICARE CONTRACTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

**APPENDIX C: ALLOWABLE NONQUALIFIED DEFINED-BENEFIT PLAN PENSION COSTS FOR
HIGHMARK MEDICARE SERVICES, INC., FOR FISCAL YEARS 2003 THROUGH 2009**

Date	Description		Total Company	Other Segment	Medicare Part A Segment	Medicare Part B Segment	Total Medicare
January 1, 2002	Allocable Pension Costs	<u>1/</u>		\$3,023,528	\$0	\$0	
2003	Contributions	<u>2/</u>	\$5,124,928	\$5,124,928	\$0	\$0	
	Discount for Interest	<u>3/</u>	(\$137,794)	(\$137,794)	\$0	\$0	
January 1, 2003	Present Value Contributions	<u>4/</u>	\$4,987,134	\$4,987,134	\$0	\$0	
	Prepayment Credit Applied	<u>5/</u>	\$3,098,761	\$3,098,761	\$0	\$0	
	Present Value of Funding	<u>6/</u>	\$8,085,895	\$8,085,895	\$0	\$0	
January 1, 2003	CAS Funding Target	<u>7/</u>	\$4,783,875	\$4,783,875	\$0	\$0	
	Percentage Funded	<u>8/</u>		100.00%	0.00%	0.00%	
	Funded Pension Cost	<u>9/</u>		\$4,783,875	\$0	\$0	
	Allowable Interest	<u>10/</u>		\$46,560	\$0	\$0	
	Allocable Pension Cost			\$4,830,435	\$0	\$0	
2003	FY Allocable Pension Costs	<u>11/</u>		\$4,378,708	\$0	\$0	
	Medicare Part A LOB* Percentage	<u>12/</u>		0.33%	99.50%	n/a	
	Medicare Part B LOB* Percentage	<u>13/</u>		0.63%	n/a	100.00%	
2003	Medicare Part A Allowable FY Pension Cost	<u>14/</u>		\$14,450	\$0		\$14,450
2003	Medicare Part B Allowable FY Pension Cost	<u>15/</u>		\$27,586		\$0	\$27,586
2003	Total Allowable FY Pension Cost	<u>16/</u>		\$42,036	\$0	\$0	\$42,036

Date	Description	Total Company	Other Segment	Medicare Part A Segment	Medicare Part B Segment	Total Medicare
2004	Contributions	\$4,028,739	\$4,028,739	\$0	\$0	
	Discount for Interest	(\$107,584)	(\$107,584)	\$0	\$0	
January 1, 2004	Present Value Contributions	\$3,921,155	\$3,921,155	\$0	\$0	
	Prepayment Credit Applied	\$3,566,182	\$3,566,182	\$0	\$0	
	Present Value of Funding	\$7,487,337	\$7,487,337	\$0	\$0	
January 1, 2004	CAS Funding Target	\$3,710,497	\$3,710,497	\$0	\$0	
	Percentage Funded		100.00%	0.00%	0.00%	
	Funded Pension Cost		\$3,710,497	\$0	\$0	
	Allowable Interest		\$3,960	\$0	\$0	
	Allocable Pension Cost		\$3,714,457	\$0	\$0	
2004	FY Allocable Pension Costs		\$3,993,452	\$0	\$0	
	Medicare Part A LOB* Percentage		0.37%	100.00%	n/a	
	Medicare Part B LOB* Percentage		0.68%	n/a	100.00%	
2004	Medicare Part A Allowable FY Pension Cost		\$14,776	\$0	n/a	\$14,776
2004	Medicare Part B Allowable FY Pension Cost		\$27,155	n/a	\$0	\$27,155
2004	Total Allowable FY Pension Cost		\$41,931	\$0	\$0	\$41,931

Date	Description		Total Company	Other Segment	Medicare Segment	Gateway Segment	Total Medicare
2005	Contributions	17/	\$5,088,303	\$5,056,560	\$15,630	\$16,113	
	Discount for Interest		(\$134,950)	(\$134,108)	(\$415)	(\$427)	
January 1, 2005	Present Value Contributions		\$4,953,353	\$4,922,452	\$15,215	\$15,686	
	Prepayment Credit Applied		\$4,078,987	\$3,882,892	\$96,558	\$99,537	
	Present Value of Funding		\$9,032,340	\$8,805,344	\$111,773	\$115,223	
January 1, 2005	CAS Funding Target		\$4,721,760	\$4,494,764	\$111,773	\$115,223	
	Percentage Funded			100.00%	100.00%	100.00%	
	Funded Pension Cost			\$4,494,764	\$111,773	\$115,223	
	Allowable Interest			\$16,670	\$415	\$427	
	Allocable Pension Cost			\$4,511,434	\$112,188	\$115,650	
2005	FY Allocable Pension Costs	18/		\$4,312,190	\$84,141	n/a	
	Medicare Part A LOB* Percentage			0.32%	39.30%	n/a	
	Medicare Part B LOB* Percentage			0.56%	59.92%	n/a	
2005	Medicare Part A Allowable FY Pension Cost			\$13,799	\$33,067	n/a	\$46,866
2005	Medicare Part B Allowable FY Pension Cost			\$24,148	\$50,417	n/a	\$74,565
2005	Total Allowable FY Pension Cost			\$37,947	\$83,484	n/a	\$121,431

Date	Description	Total Company	Other Segment	Medicare Segment	Gateway Segment	Total Medicare
2006	Contributions	\$6,045,299	\$6,027,241	\$0	\$18,058	
	Discount for Interest	(\$159,226)	(\$158,750)	\$0	(\$476)	
January 1, 2006	Present Value Contributions	\$5,886,073	\$5,868,491	\$0	\$17,582	
	Prepayment Credit Applied	\$4,655,426	\$4,569,519	\$0	\$85,907	
	Present Value of Funding	\$10,541,499	\$10,438,010	\$0	\$103,489	
January 1, 2006	CAS Funding Target	\$5,608,239	\$5,504,750	\$0	\$103,489	
	Percentage Funded		100.00%	0.00%	100.00%	
	Funded Pension Cost		\$5,504,750	\$0	\$103,489	
	Allowable Interest		\$25,299	\$0	\$476	
	Allocable Pension Cost		\$5,530,049	\$0	\$103,965	
2006	FY Allocable Pension Costs		\$5,275,395	\$28,047	n/a	
	Medicare Part A LOB* Percentage		0.31%	40.77%	n/a	
	Medicare Part B LOB* Percentage		0.44%	59.23%	n/a	
2006	Medicare Part A Allowable FY Pension Cost		\$16,354	\$11,435	n/a	\$27,789
2006	Medicare Part B Allowable FY Pension Cost		\$23,212	\$16,612	n/a	\$39,824
2006	Total Allowable FY Pension Cost		\$39,566	\$28,047	n/a	\$67,613

Date	Description	Total Company	Other Segment	Medicare Segment	Gateway Segment	Total Medicare
2007	Contributions	\$6,239,907	\$6,226,144	\$5,478	\$8,285	
	Discount for Interest	(\$164,353)	(\$163,991)	(\$144)	(\$218)	
January 1, 2007	Present Value Contributions	\$6,075,554	\$6,062,153	\$5,334	\$8,067	
	Prepayment Credit Applied	\$5,327,920	\$5,170,061	\$62,822	\$95,037	
	Present Value of Funding	\$11,403,474	\$11,232,214	\$68,156	\$103,104	
January 1, 2007	CAS Funding Target	\$5,780,181	\$5,608,921	\$68,156	\$103,104	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$5,608,921	\$68,156	\$103,104	
	Allowable Interest		\$11,872	\$144	\$218	
	Allocable Pension Cost		\$5,620,793	\$68,300	\$103,322	
2007	FY Allocable Pension Costs		\$5,598,107	\$51,225	n/a	
	Medicare Part A LOB* Percentage		0.27%	43.16%	n/a	
	Medicare Part B LOB* Percentage		0.36%	56.84%	n/a	
2007	Medicare Part A Allowable FY Pension Cost		\$15,115	\$22,109	n/a	\$37,224
2007	Medicare Part B Allowable FY Pension Cost		\$20,153	\$29,116	n/a	\$49,269
2007	Total Allowable FY Pension Cost		\$35,268	\$51,225	n/a	\$86,493

Date	Description	Total Company	Other Segment	Medicare Segment	Gateway Segment	Total Medicare
2008	Contributions	\$7,709,587	\$7,657,934	\$22,102	\$29,551	
	Discount for Interest	(\$206,826)	(\$205,440)	(\$593)	(\$793)	
January 1, 2008	Present Value Contributions	\$7,502,761	\$7,452,494	\$21,509	\$28,758	
	Prepayment Credit Applied	\$6,073,156	\$5,803,136	\$115,541	\$154,479	
	Present Value of Funding	\$13,575,917	\$13,255,630	\$137,050	\$183,237	
January 1, 2008	CAS Funding Target	\$7,203,749	\$6,883,462	\$137,050	\$183,237	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$6,883,462	\$137,050	\$183,237	
	Allowable Interest		\$29,781	\$593	\$793	
	Allocable Pension Cost		\$6,913,243	\$137,643	\$184,030	
2008	FY Allocable Pension Costs		\$6,590,131	\$120,307	n/a	
	Medicare Part A LOB* Percentage		0.24%	26.10%	n/a	
	Medicare Part B LOB* Percentage		0.27%	43.51%	n/a	
2008	Medicare Part A Allowable FY Pension Cost		\$15,816	\$31,400	n/a	\$47,216
2008	Medicare Part B Allowable FY Pension Cost		\$17,793	\$52,346	n/a	\$70,139
2008	Total Allowable FY Pension Cost		\$33,609	\$83,746	n/a	\$117,355

Date	Description	Total Company	Other Segment	Medicare Segment	Gateway Segment	Total Medicare
2009	FY Allocable Pension Costs	19/	\$1,728,311	\$34,411	n/a	
	Medicare LOB* Percentage	20/	0.19%	24.26%	n/a	
2009	Medicare Part B Allowable FY Pension Cost		\$3,284	\$8,348	n/a	\$11,632

* Line of Business.

ENDNOTES

1/ The allocable NQDBP pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the 2002 calendar year (CY) allocable pension cost from our prior Highmark NQDBP review (A-07-06-00202), issued January 20, 2006.

2/ We obtained Total Company contribution amounts and dates of deposit from Highmark's actuarial valuation reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-13-00429). The amounts shown for the Other segment represent the difference between the Total Company, the Medicare segments, and the Gateway segment. The Gateway segment does not perform Medicare operations.

- 3/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.
- 4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 5/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 6/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in 4 equal installments deposited within 30 days after the end of the quarter.
- 11/ We converted the allocable pension cost to an FY basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.
- 12/ We calculated the Medicare Part A line of business (LOB) percentages based on information provided by Highmark.
- 13/ We calculated the Medicare Part B LOB percentages based on information provided by Highmark.
- 14/ We computed the Medicare Part A allowable pension cost as an FY pension cost multiplied by the Medicare Part A LOB percentage. In accordance with CAS 412 and 413, the total Medicare Part A allowable pension costs charged to the Medicare contract consisted of the Highmark Medicare segment's direct pension costs plus Other segment pension costs attributable to indirect Highmark Medicare operations.
- 15/ We computed the Medicare Part B allowable pension cost as an FY pension cost multiplied by the Medicare Part B LOB percentage. In accordance with CAS 412 and 413, the total Medicare Part B allowable pension costs charged to the Medicare contract consisted of the Highmark Medicare segment's direct pension costs plus Other segment pension costs attributable to indirect Highmark Medicare operations.
- 16/ We computed the total allowable FY Medicare pension cost as the sum of the Medicare Part A pension cost and the Medicare Part B pension cost.
- 17/ The Gateway Pension Plan merged with the Highmark Pension Plan effective December 31, 2004. Therefore, the amounts shown for the Other segment represent the difference between the Total Company, the Medicare segments, and the Gateway segment. The Gateway segment does not perform Medicare operations.
- 18/ Highmark combined its Medicare Part A and Part B segments on January 1, 2006. Therefore, we calculated the FY Medicare segment pension costs as 1/4 of the prior year's Medicare Part A and Part B costs plus 3/4 of the combined segment's current year's costs.

19/ The 2009 FY allocable pension cost is calculated for the period October 2008 through December 2008. Highmark's Title XVIII contract transitioned to the MAC contract in December 2008.

20/ The Medicare Part B LOB percentage is calculated for the period October 2008 through December 2008. The Medicare Part B business transitioned to the Jurisdiction 12 MAC contract effective December 2008. The MAC allocable pension costs are calculated in a separate allocable pension cost report (A-07-13-00431).

APPENDIX D: AUDITEE COMMENTS



April 11, 2014

Mr. Patrick Cogley
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
Department of Health and Human Services
601 East 12th Street, Room 0429
Kansas City, MO 64106

Subject: OIG Report Number A-07-13-00430

Dear Mr. Cogley:

Thank you for affording Highmark Inc. ("Highmark") this opportunity to comment on the U.S. Department of Health and Human Services, Office of Inspector General ("OIG"), draft report entitled *Highmark Medicare Services, Inc., Did Not Claim Some Allowable Nonqualified Defined-Benefit Plan Pension Costs for Fiscal Years 2003 Through 2009*.

After careful review of both the draft report and additional detailed supplemental information, Highmark agrees that there were allowable costs of \$8,835 not claimed on the FACP reports for fiscal years 2003 through 2009.

While we concur with the overall recommendations in this report, Highmark's detailed examination of the individual data elements identified various minor transpositions, CAS application and other differences that Highmark does not contest because the net impact of these items is immaterial to the overall pension and nonqualified pension audit findings.

Thank you again for affording Highmark the opportunity to comment on this report. Please do not hesitate to contact me if you have any questions regarding this response.

Sincerely,

A handwritten signature in cursive script that reads "Janine K. Colinear".

Janine K. Colinear
Chief Accounting Officer

Corporate Offices:

Camp Hill PA 17089
Fifth Avenue Place • 120 Fifth Avenue • Pittsburgh PA 15222-3099
www.highmark.com

HDP 001-03.02