

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED
FOR MEDICARE REIMBURSEMENT BY
TRAVELERS INSURANCE COMPANY**



**JUNE GIBBS BROWN
Inspector General**

**JUNE 1998
A-07-97-01214**



Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106
CIN: A-07-97-01214

JUN 18 1998

Ms. Marissa Crean
Deputy General Auditor
Travelers Property Casualty Corp.
One Tower Square, Floor 11MS
Hartford, Connecticut 06183

Dear Ms. Crean:

This report provides you with the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Pension Costs Claimed for Medicare Reimbursement by Travelers Insurance Company*. The purpose of our review was to determine the allowability of pension costs claimed for 1991 through 1995.

We determined that Travelers Insurance Company (Travelers) under claimed allowable Medicare pension costs for 1991 through 1995. During this period, the allowable Medicare pension costs were \$2,089,883. However, Travelers claimed pension costs of \$597,662 for Medicare reimbursement. As a result, Travelers did not claim \$1,492,221 of allowable pension costs. The under claim occurred primarily because Travelers did not base its claims on separately computed pension costs for the Medicare segment. We recommend Travelers revise its Final Administrative Cost Proposals (FACPs) to reflect the additional allowable pension costs.

Travelers concurred with our finding but requested an alternative resolution to our recommendation which involved offsets to recommended adjustments in audits of administrative costs and segment closing. The Travelers response is included in its entirety as Appendix C.

INTRODUCTION

BACKGROUND

Travelers administered Medicare Part A, Part B, and Railroad Retirement operations under cost reimbursement contracts until its Medicare segment closed in 1994. Medicare Contractors

must follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR) and their Medicare contracts.

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

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

Travelers and MetLife formed the MetraHealth joint venture, by contributing their medical businesses (including Travelers' Medicare operations) to MetraHealth on January 3, 1995. Consequently, Travelers' Medicare segment employees were terminated and the Medicare segment was closed effective December 31, 1994. The majority of Travelers' former Medicare segment employees began working for MetraHealth on January 3, 1995. However, former Travelers employees who were employed by MetraHealth continued to accrue benefits under the Travelers Pension Plan through January 30, 1996.

OBJECTIVES, SCOPE AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards. Our objective was to determine the allowability of pension costs claimed for Fiscal Years (FYs) 1991 through 1995. Achieving the objective did not require a review of Travelers' internal control structure.

In performing the review, we used information provided by Coopers and Lybrand, Travelers' consulting actuary. The information included liabilities, normal costs, contributions, and earnings. We reviewed Travelers' accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, we computed (1) CAS pension costs for the total company and Medicare segment and (2) the extent to which Travelers funded costs with contributions to the pension trust fund.

The HCFA Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Travelers' historical practices. Appendix A contains the details on the pension costs and contributions.

Travelers has two defined benefit pension plans. One is a qualified (funded) plan, and the other is a non-qualified (unfunded) plan. Travelers claimed Medicare reimbursement for a portion of the pension costs from both plans on its FACPs. For presentation purposes, this report combines the pension costs for the qualified and non-qualified pension plans. The annual pension costs for both plans are shown separately on Appendix A.

This review was done in conjunction with our audit of the Medicare segment closing at Travelers (CIN: A-07-97-01213). The information obtained and reviewed during that audit was also used in performing this review.

Site work at Travelers' corporate offices in Hartford, Connecticut was performed during May and October 1997. We performed subsequent audit work in our OIG, OAS Jefferson City, Missouri field office.

FINDING AND RECOMMENDATION

For FYs 1991 through 1995, Travelers did not claim \$1,492,221 for pension costs for its qualified and non-qualified pension plans which were allowable for Medicare reimbursement. The under claim occurred primarily because Travelers did not base its claim on separately computed CAS pension costs for the Medicare segment. Travelers should revise its FACPs to reflect the additional CAS pension costs which were allowable for reimbursement.

For years 1991 through 1995, Travelers claimed pension costs of its qualified and non-qualified pension plans for Medicare reimbursement on FACPs. Travelers based its claims on an allocation of the total company pension costs for both plans. Travelers assigned a portion of the total company pension costs to Medicare direct and indirect operations using cost center and line of business information.

We calculated the allowable CAS pension costs for the Medicare segment and for indirect Medicare operations. The calculations for the qualified pension plan were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. For the non-qualified pension plan we allocated total company costs to Medicare based on the ratio of Medicare salaries to total company salaries, similar to Travelers' methodology. See Appendix A for details.

We compared the allowable CAS pension costs for both the qualified and non-qualified plans to the pension costs claimed on Travelers FACPs and found:

<u>Fiscal Year</u>	<u>Allowable CAS Costs</u> (A)	<u>Costs Claimed</u> (B)	<u>Under (Over) Claim</u> (A)-(B)
1991	\$1,163,563	(\$144,892)	\$1,308,455
1992	\$460,098	\$241,675	\$218,423
1993	\$119,628	\$179,106	(\$59,478)
1994	\$260,863	\$121,252	\$139,611
1995	\$85,731	\$200,521	(\$114,790)
Total	<u>\$2,089,883</u>	<u>\$597,662</u>	<u>\$1,492,221</u>

Travelers erroneously recorded negative pension costs for FY 1991. The negative costs flowed through to the FACPs and reduced other fringe benefit costs. Travelers acknowledged the error, but could not determine how it occurred.

For FYs 1991 through 1995, Travelers claimed pension costs of \$597,662 for Medicare reimbursement. However, the allowable CAS pension costs were \$2,089,883. As a result, Travelers could have claimed \$1,492,221 in additional CAS pension costs.

Recommendation

We recommend that Travelers:

Revise its FACPs for Fiscal Years 1991 through 1995 to claim additional allowable CAS pension costs of \$1,492,221.

Auditee Response

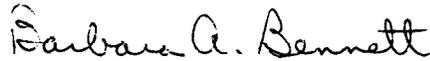
Travelers concurred with our finding but requested an alternative resolution to our recommendation which involved offsets to recommended adjustments in audits of administrative costs and segment closing. The Travelers response is included in its entirety as Appendix C.

INSTRUCTIONS FOR AUDITEE RESPONSE

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

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

Sincerely,



Barbara A. Bennett
Regional Inspector General for
Audit Services, Region VII

Enclosure
HHS Action Official:
Ms. Judy Berek
Acting Regional Administrator, Region I
Health Care Financing Administration
John F. Kennedy Federal Building, Room 2325
Boston, Massachusetts 02203-0003

TRAVELERS INSURANCE COMPANY
CIN: A-07-98-01214STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR THE QUALIFIED PENSION PLAN
FOR FISCAL YEARS 1991 THROUGH 1995

<u>Plan Year</u>	<u>Description</u>		<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1990	Plan Year Contributions	<u>1/</u>	\$1,147,234	\$1,075,019	\$72,215
	Discount for Interest	<u>2/</u>	<u>(\$7,936)</u>	<u>(\$7,436)</u>	<u>(\$500)</u>
	Present Value of Contributions	<u>3/</u>	\$1,139,298	\$1,067,583	\$71,715
	Prepayment Credit	<u>4/</u>	<u>\$18,813,495</u>	<u>\$18,308,582</u>	<u>\$504,913</u>
	Present Value of Funding	<u>5/</u>	\$19,952,793	\$19,376,165	\$576,628
	Normal Cost	<u>6/</u>	\$35,115,029	\$34,238,035	\$876,994
	Amortization Payment	<u>7/</u>			<u>\$352,901</u>
	CAS Pension Costs	<u>8/</u>	\$19,538,477	\$18,308,582	\$1,229,895
	Funded CAS Pension Costs	<u>9/</u>	\$18,885,210	\$18,308,582	\$576,628
	Allowable Interest	<u>10/</u>	<u>\$131,544</u>	<u>\$127,524</u>	<u>\$4,020</u>
	Allocable Pension Costs	<u>11/</u>	<u>\$19,016,754</u>	<u>\$18,436,106</u>	<u>\$580,648</u>

TRAVELERS INSURANCE COMPANY
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STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR THE QUALIFIED PENSION PLAN
FOR FISCAL YEARS 1991 THROUGH 1995

<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1991	Plan Year Contributions	\$27,180,000	\$26,414,813	\$765,187
	Discount for Interest	<u>(\$1,803,312)</u>	<u>(\$1,752,544)</u>	<u>(\$50,768)</u>
	Present Value of Contributions	\$25,376,688	\$24,662,269	\$714,419
	Prepayment Credit	—	<u>\$3,323,160</u>	<u>\$0</u>
	Present Value of Funding	\$28,699,848	\$27,985,429	\$714,419
	Normal Cost	\$40,598,675	\$39,814,579	\$784,096
	Amortization Payment	<u>(\$5,426,499)</u>	<u>(\$5,356,822)</u>	<u>(\$69,677)</u>
	CAS Pension Costs	\$35,172,176	\$34,457,757	\$714,419
	Funded CAS Pension Costs	\$28,699,848	\$27,985,429	\$714,419
	Allowable Interest	<u>\$1,727,970</u>	<u>\$1,684,956</u>	<u>\$43,014</u>
	Allocable Pension Costs	\$30,427,818	\$29,670,385	\$757,433
	Fiscal Year Pension Costs	<u>12/</u> \$27,575,052	\$26,861,815	\$713,237
	Medicare LOB Percentage	<u>13/</u>	<u>0.4756%</u>	<u>100.000%</u>
	Medicare Qualified Plan Pension Costs	<u>14/</u> \$840,992	<u>\$127,755</u>	<u>\$713,237</u>
	Medicare Non-Qualified Plan Costs	<u>15/</u> \$322,571		
	Total Medicare Allowable Pension	<u>16/</u> <u>\$1,163,563</u>		

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STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR THE QUALIFIED PENSION PLAN
FOR FISCAL YEARS 1991 THROUGH 1995

<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1992	Plan Year Contributions	\$0	\$0	\$0
	Discount for Interest	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Present Value of Contributions	\$0	\$0	\$0
	Prepayment Credit	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Present Value of Funding	\$0	\$0	\$0
	Normal Cost	\$34,401,984	\$33,527,211	\$874,773
	Amortization Payment	<u>(\$12,960,300)</u>	<u>(\$12,414,182)</u>	<u>(\$546,118)</u>
	CAS Pension Costs	\$21,441,684	\$21,113,029	\$328,655
	Funded CAS Pension Costs	\$0	\$0	\$0
	Allowable Interest	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Allocable Pension Costs	\$0	\$0	\$0
	Fiscal Year Pension Costs		\$7,417,596	\$189,358
	Medicare LOB Percentage		<u>0.5259%</u>	<u>100.0000%</u>
	Medicare Qualified Plan Pension Costs	\$228,367	<u>\$39,009</u>	<u>\$189,358</u>
	Medicare Non-Qualified Plan Costs	<u>\$231,731</u>		
	Total Medicare Allowable Pension	<u>\$460,098</u>		

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STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR THE QUALIFIED PENSION PLAN
FOR FISCAL YEARS 1991 THROUGH 1995

<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1993	Plan Year Contributions	\$0	\$0	\$0
	Discount for Interest	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Present Value of Contributions	\$0	\$0	\$0
	Prepayment Credit	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Present Value of Funding	\$0	\$0	\$0
	Normal Cost	\$25,536,243	\$24,548,795	\$987,448
	Amortization Payment	<u>(\$23,525,527)</u>	<u>(\$22,486,834)</u>	<u>(\$1,038,693)</u>
	CAS Pension Costs	\$2,010,716	\$2,061,961	(\$51,245)
	Funded CAS Pension Costs	\$0	\$0	\$0
	Allowable Interest	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Allocable Pension Costs	\$0	\$0	\$0
	Fiscal Year Pension Costs	\$0	\$0	\$0
	Medicare LOB Percentage		<u>0.5893%</u>	<u>100.0000%</u>
	Medicare Qualified Plan Pension Costs	\$0	<u>\$0</u>	<u>\$0</u>
	Medicare Non-Qualified Plan Costs	<u>\$119,628</u>		
	Medicare Allowable Pension Costs	<u>\$119,628</u>		

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STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR THE QUALIFIED PENSION PLAN
FOR FISCAL YEARS 1991 THROUGH 1995

<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1994	Plan Year Contributions	\$0	\$0	\$0
	Discount for Interest	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Present Value of Contributions	\$0	\$0	\$0
	Prepayment Credit	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Present Value of Funding	\$0	\$0	\$0
	Normal Cost	\$30,952,757	\$29,933,763	\$1,018,994
	Amortization Payment	<u>(\$17,227,811)</u>	<u>(\$16,291,893)</u>	<u>(\$935,918)</u>
	CAS Pension Costs	\$13,724,946	\$13,641,870	\$83,076
	Funded CAS Pension Costs	\$0	\$0	\$0
	Allowable Interest	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Allocable Pension Costs	\$0	\$0	\$0
	Fiscal Year Pension Costs	\$0	\$0	\$0
	Medicare LOB Percentage		<u>0.8886%</u>	<u>100.0000%</u>
	Medicare Qualified Plan Pension Costs	\$0	<u>\$0</u>	<u>\$0</u>
	Medicare Non-Qualified Plan Costs	<u>\$260,863</u>		
	Total Medicare Allowable Pension Cost	<u>\$260,863</u>		

TRAVELERS INSURANCE COMPANY
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STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR THE QUALIFIED PENSION PLAN
FOR FISCAL YEARS 1991 THROUGH 1995

<u>Plan Year</u>	<u>Description</u>	<u>Total Plan</u>	<u>Other Segment</u>	<u>Medicare Segment</u>
1995	Plan Year Contributions	\$0	\$0	\$0
	Discount for Interest	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Present Value of Contributions	\$0	\$0	\$0
	Prepayment Credit	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Present Value of Funding	\$0	\$0	\$0
	Normal Cost	\$30,546,584	\$29,512,453	\$1,034,131
	Amortization Payment	<u>(\$8,262,628)</u>	<u>(\$7,557,757)</u>	<u>(\$704,871)</u>
	CAS Pension Costs	\$22,283,956	\$21,954,696	\$329,260
	Funded CAS Pension Costs	\$0	\$0	\$0
	Allowable Interest	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Allocable Pension Costs	\$0	\$0	\$0
	Fiscal Year Pension Costs	\$0	\$0	\$0
	Medicare LOB Percentage		<u>0.5231%</u>	<u>100.0000%</u>
	Medicare Qualified Plan Pension Costs	\$0	<u>\$0</u>	<u>\$0</u>
	Medicare Non-Qualified Plan Costs	<u>\$85,731</u>		
	Total Allowable Medicare Pension Costs	<u>\$85,731</u>		

TRAVELERS INSURANCE COMPANY
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STATEMENT OF ALLOWABLE CAS PENSION COSTS
*FOR THE QUALIFIED PENSION PLAN
FOR FISCAL YEARS 1991 THROUGH 1995*

FOOTNOTES

- 1/ Travelers did not make contributions to its qualified pension plan for years 1992 through 1995. However, they did make contributions to the qualified pension plan for years 1990, and 1991. For 1990, we assigned contributions to the Medicare segment based on a ratio of the Medicare segment's CAS funding target to the total company CAS funding target. For 1991, we assigned contributions to the segment equal to the segment's CAS pension cost. Travelers used this same methodology. The amount shown for the "other segment" represents the difference between the total company and the Medicare segment.
- 2/ We subtracted interest that was included in the contributions deposited after January 1 of each year to discount the contributions back to their value at the beginning of the year. For purposes of this appendix, we computed the interest as the difference between the present value of contributions at the valuation interest rates, and the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 4/ We applied the prepayment credits toward the funding of the CAS pension costs. The prepayment credit represents the premature funding from the previous year(s). Prepayment credit may be carried forward, with interest, to fund future CAS pension costs. The prepayment credits are reimbursable for the plan year in which they are absorbed.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that was available to cover the CAS funding target measured at January 1 of each year.
- 6/ We obtained the normal cost for the total company from Travelers' actuarial valuation reports. We obtained normal cost for the Medicare segment from actuarial valuation reports and from data files provided by Travelers' consulting actuary.
- 7/ We based the amortization payment on a CAS amortization schedule developed from information obtained from Travelers' valuation reports and IRS Form 5500 reports. The amortization payment was negative for years in which pension assets exceeded actuarial liabilities, thereby creating a negative unfunded actuarial liability.

TRAVELERS INSURANCE COMPANY
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STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR THE QUALIFIED PENSION PLAN
FOR FISCAL YEARS 1991 THROUGH 1995

- 8/ The CAS pension costs represents the sum of the amortization payment and the normal cost. We separately calculated CAS pension costs for years 1990 through 1995.
- 9/ The CAS pension cost for the qualified plan must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(i). Only the funded CAS pension costs of the qualified plan are eligible for Medicare reimbursement.
- 10/ We assumed interest on the funded CAS pension cost accrues in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of each quarter.
- 11/ The allocable CAS pension costs are the amount of pension costs for the qualified plan which may be allocated for contract cost purposes, on a plan year basis.
- 12/ We converted qualified plan CAS pension costs allocable to the plan year to a fiscal year basis (October 1 through September 30). Costs charged to the Medicare contract should consist of the Medicare segment's pension costs plus an allocable portion of the other segment's pension costs attributable to indirect Medicare operations.
- 13/ We calculated allowable qualified plan pension costs for Medicare and other segments based on the Medicare line of business (LOB) percentage of the segments. We obtained the percentages from documents provided by Travelers.
- 14/ The Medicare pension costs are the amounts of CAS pension costs for the qualified plan which may be claimed for Medicare reimbursement for the segment and indirect Medicare operations.
- 15/ See Appendix B for details on the pension costs of the non-qualified pension plan.
- 16/ The Medicare allowable pension cost is the sum of the Medicare pension costs for the qualified pension plan and the Medicare pension costs for the non-qualified pension plan.

TRAVELERS INSURANCE COMPANY
CIN: A-07-98-01214

STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR THE NON-QUALIFIED PENSION PLAN
FOR FISCAL YEARS 1991 THROUGH 1995

Year	Description	Notes	
Plan Year 1990	Non-Qualified Plan Costs	<u>1/</u>	\$5,787,151
Plan Year 1991	Non-Qualified Plan Costs		\$15,895,034
Fiscal Year 1991	Non Qualified Plan Costs	<u>2/</u>	\$13,368,063
	Medicare LOB Percentage	<u>3/</u>	2.4130%
	Medicare Non-Qualified Plan Costs	<u>4/</u>	\$322,571
Plan Year 1992	Non-Qualified Plan Costs		\$5,399,104
Fiscal Year 1992	Non-Qualified Plan Costs		\$8,023,087
	Medicare LOB Percentage		2.8883%
	Medicare Non-Qualified Plan Costs		\$231,731
Plan Year 1993	Non-Qualified Plan Costs		\$3,170,207
Fiscal Year 1993	Non-Qualified Plan Costs		\$3,727,431
	Medicare LOB Percentage		3.2094%

TRAVELERS INSURANCE COMPANY
CIN: A-07-98-01214

STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR THE NON-QUALIFIED PENSION PLAN
FOR FISCAL YEARS 1991 THROUGH 1995

Year	Description	Notes	
	Medicare Non-Qualified Plan Costs		\$119,628
Plan Year 1994	Non-Qualified Plan Costs		\$7,418,763
Fiscal Year 1994	Non-Qualified Plan Costs		\$6,356,624
	Medicare LOB Percentage		4.1038%
	Medicare Non-Qualified Plan Costs		\$260,863
Plan Year 1995	Non-Qualified Plan Costs	<u>5/</u>	\$0
Fiscal Year 1995	Non-Qualified Plan Costs		\$1,854,691
	Medicare LOB Percentage		4.6224%
	Medicare Non-Qualified Plan Costs		\$85,731

TRAVELERS INSURANCE COMPANY
CIN: A-07-98-01214

STATEMENT OF ALLOWABLE CAS PENSION COSTS
*FOR THE NON-QUALIFIED PENSION PLAN
FOR FISCAL YEARS 1991 THROUGH 1995*

FOOTNOTES

- 1/ We obtained the total company non-qualified plan CAS costs, for plan years 1990 through 1994, from a special actuarial valuation report prepared by Travelers actuary. The valuation report was prepared to determine non-qualified pension costs under CAS 412 and 413, and included only accrued benefits.
- 2/ We converted non-qualified plan CAS pension costs allocable to the plan year (January 1 through December 31) to a fiscal year basis (October 1 through September 30).
- 3/ We calculated allowable non-qualified plan CAS pension costs for Medicare based on the total Medicare line of business (LOB) percentages. We obtained the Medicare LOB percentages from documents provided by Travelers.
- 4/ The Medicare non-qualified plan costs are the amounts of CAS pension costs for the non-qualified plan which may be claimed for Medicare reimbursement.
- 5/ The non-qualified plan costs are shown as \$0 for plan year 1995 because Travelers' Medicare segment was closed as of December 31, 1994.

May 19, 1998

VIA FACSIMILE (816) 426-3655
Ms. Barbara A. Bennett
Regional Inspector General for
Audit Services, Region VII
HHS-OIG-OAS
Room 284A
601 East 12th Street
Kansas City, MO 64106

Re: CIN: A-07-97-01213

Dear Ms. Bennett:

This letter is our response to your draft audit report titled *Review of Pension Costs Claimed for Medicare Reimbursement by Travelers Insurance Company*.

You have determined that Travelers did not claim \$1,492,221 of allowable pension costs. We agree with this finding.

You have suggested that Travelers revise its Final Administrative Cost Proposals to reflect the additional allowable pension costs. Instead, John Barton's staff has agreed to offset the results of this audit with the results of two other audits that are near completion. These audits are as follows:

1. The Final Administrative Costs Audit for the years 1990 - 1993.
2. The audit of the Medicare segment closing as of January 31, 1996.

If you have any questions, please call me.

Very truly yours,



Marissa F. Crean
General Auditor

cc: J. Michener, Travelers Property Casualty Corp.
M. Christophy, United HealthCare Corp.
F. Lindgren, Coopers & Lybrand, LLP
B. Shirk, Powell, Goldstein, Frazer & Murphy LLP
J. Barton, HCFA
J. Robbins, HCFA
R. Solomon, HCFA

5/25/98