

*United States*  
**Office of**  
**Personnel Management**  
*The Federal Government's Human Resources Agency*



**LETTER OF CREDIT (LOC) SYSTEM  
GUIDELINES**

**FEDERAL EMPLOYEES' HEALTH BENEFITS PROGRAM  
(FEHBP)**

*For the Experience-Rated Carriers Only*

**May 2009**

## TABLE OF CONTENTS

I.	PURPOSE.....	3
II.	AUTHORITY.....	3
III.	BACKGROUND.....	3
IV.	GENERAL DESCRIPTION & PROCESSING OF LOC DRAWDOWN SYSTEM.....	3
V.	CASH MANAGEMENT REQUIREMENTS.....	4
VI.	THIRD PARTY INFORMATION.....	5
VII.	ACCOUNTING, RECONCILIATION, REPORTING AND AUDITING.....	5
VIII.	INQUIRIES.....	6

## **I. PURPOSE**

The purpose of these instructions is to set forth procedures to be followed by the Federal Employees' Health Benefits Program (FEHBP) Experience-Rated Carriers (hereafter, "Carriers") who are identified by the U.S. Office of Personnel Management (OPM) to receive funding via the Treasury Financial Communication Systems – Letter of Credit (TFCS-LOC).

## **II. AUTHORITY**

The regulations governing the financing of Federal programs via the Letter of Credit (LOC) method are established in 31 CFR 205 (Treasury Department Circular No. 1075). These instructions are established under the provision of Treasury Department Circular No. 1083, Regulations Governing the Utilizations of the U.S. TFCS (as revised), 5 CFR Part 890, and 48 CFR Chapter 16.

## **III. BACKGROUND**

OPM contracted with the consulting firm of Towers, Perrin, Forster & Crosby (TPF&C) to undertake a comprehensive evaluative study of the FEHBP. The study report, "Study of the Federal Employees Health Benefits Program," was published in April 1988. One of the recommendations in the report was that OPM should pay enrollment charges to experienced-rated Carriers via LOC. This, TPF&C concluded, would enhance the Government's cash management practices. In evaluating the recommendation, OPM considered the Department of the Treasury regulation (31 CFR 205), which mandates the use of LOC for Federal disbursements where the program agency has a continuing relationship with a contractor involving annual payments of at least \$120,000.

Upon review of the Treasury regulations, OPM concluded that the use of the LOC method, as recommended by TPF&C, would not alter the basic financial relationships that existed in the FEHBP, nor would it affect the premium rate-setting process. Premiums would continue to be made available to the Experience-Rated Carriers for the payment of claims and administrative expenses no later than 30 days after receipt by the FEHB fund. Where a Carrier has so authorized, the underwriter would have access to the LOC account.

## **IV. GENERAL DESCRIPTION & PROCESSING OF LOC DRAWDOWN SYSTEM**

OPM developed an on-line LOC Drawdown System to allow FEHBP Carriers to enter requests for funds. Normal operating hours are from 6:00 am Eastern Standard Time (EST) to 2:00 pm EST Monday through Friday, excluding Government holidays. Each Carrier should assign access to two (2) or more users to the OPM LOC Drawdown System to provide adequate backup. A completed OPM LOC System Users Access Request form is required for each authorized user.

In the event the OPM LOC Drawdown System is not in operation, the Carrier should fax their drawdown request, separated by plan option, to 202-606-1338 **no later than 1:30 pm EST**. If the Government is closed, due to an emergency, the drawdown request will be processed when the Government reopens. The drawdown for each LOC account option is limited to one per day. OPM requires the Carriers or its underwriter to request the amount of drawdown by plan option.

At 2:00 pm EST, OPM LOC Drawdown System goes off-line (stops receiving requests). During this time, OPM creates a payment file from the drawdown requests and provides the Department of Treasury with the file to issue payment to the Carriers' banking institution on the morning of the next workday. If the drawdown request was made on a Friday, the payment will be made to the bank on Monday (or Tuesday if that Monday is a Government holiday).

Each Carrier participating in the TFCS-LOC must select a secured financial institution which agrees to receive payments on behalf of the Carrier. The Carrier must provide OPM with the name and account number of the financial institution selected by completing the ACH Vendor/Miscellaneous payment form (SF-3881).

The Checks Presented technique is a procedure whereby drawdowns are delayed until the checks issued for authorized disbursements have been presented to the Carrier's financial institution for payment. Drawdown for administrative expenses or service charges, if applicable, should be allocated on a monthly basis. Total drawdown for these expenses must not exceed the contract limitation for the respective contract year.

## **V. CASH MANAGEMENT REQUIREMENTS**

OPM provides availability of Federal funds to a Carrier on the day after the drawdown request has been made. Carriers must ensure their drawdown submission is entered in the LOC Drawdown System no later than 2:00 p.m. EST.

Funds cannot be commingled between FEHBP and corporate accounts. Before entering an initial request for funds, Carriers must draw funds on a "checks presented" basis. Should OPM determine a Carrier is not meeting this requirement, all subsequent requests for funds must be pre-approved by OPM, thereby delaying availability of funds until the day after the request is received.

If a Carrier determines it has requested excess funds, the Carrier should contact OPM to adjust the original request NLT 1:45pm EST. If the transaction has been completed, the Carrier must contact OPM immediately for procedures on returning the funds. The Carrier should contact Melanese Wynn of the Trust Funds Group at 202-606-4498.

Excess of funds must be held in a separate interest-bearing account. The interest earned on these funds must be credited to the FEHBP, by reducing the amount of a draw, at least on a monthly basis and used by the Carrier to pay only FEHBP expenses.

If the amount of funds received in the financial institution is less than the amount requested and certified, a Treasury Offset may have occurred. The Carrier must inform OPM that there was a reduction in the drawdown. The Carrier must also contact the Department of Treasury to ascertain the reason for the offset. OPM does not have access to that information. The telephone number to the Treasury Offset Center is 800-304-3107.

Carriers should maintain a working capital balance equivalent to an average of 2 days of paid claims. The working capital fund should be established using federal funds. Carriers are required to monitor their working capital fund on a monthly basis and adjust if necessary on a quarterly basis. The interest earned on the working capital funds must be credited to the FEHBP at least on a monthly basis. **The working capital is not required but strongly recommended.** Working capital calculation is as follows:

**Working Capital Calculation**

1. Determine the highest single-day dollar amount of FEHBP benefits and administrative expense checks presented (excluding electronic funds transfers, administrative expense, and Service Charge)
2. Determine the total dollar amount of FEHBP benefits and administrative expenses included in checks presented for payment during the week that includes this date (excluding electronic funds transfers, administrative expense, and Service Charge)
3. Subtract #1 from #2.
4. Divide #3 by four (based on a week payment cycle, adjust number if week includes a holiday or a skipped payment date) and then add #1.
5. Number four is the recalculated working capital deposit.

**Example:**

<b>Highest single day Amount</b>	<b>1,014,546.67</b>
<b>Week ended 4/4/08</b>	<b>2,025,334.89</b>
<b>Subtotal</b>	<b>1,010,788.22</b>
<b>Divide by 4</b>	<b>252,697.06</b>
<b>Working Capital Deposit</b>	<b>1,267,243.73</b>

OPM will monitor drawdowns to ensure Carriers are maintaining minimal balances of Federal funds. If OPM determines Carrier-held funds exceed the minimal level, all future requests for funds must be preapproved by OPM.

## **VI. THIRD PARTY INFORMATION**

Where applicable, Federal regulations afford Carriers the capability to authorize direct drawdown from their LOC accounts by their underwriters. In order to monitor drawdown by authorized underwriters, and to ensure accurate and complete account records, OPM requires all parties requesting a drawdown identify whether they are the Carrier or its underwriter. Thus, where a Carrier intends to authorize its underwriter to drawdown funds from an LOC account, a workable drawdown arrangement must be made.

## **VII. ACCOUNTING, RECONCILIATION, REPORTING AND AUDITING**

The amounts made available in the Carrier's LOC represents an obligation on the part of OPM to disburse premium payments. As a result, the balance in the LOC must be reflected as an account receivable on the books of the Carrier and reported as such on the Annual Accounting Statement (AAS).

OPM will continue to provide Carriers with Payment Advices for each premium payment date. The Payment Advice includes the Carrier's balance in the LOC account on a given date, plus the amount of the current LOC increase, and the amount of interest distributed monthly to the Carrier's LOC account. OPM requires each Carrier to reconcile the LOC account balance on their books to the Payment Advice. All differences should be immediately reported to OPM's Trust Funds Group at (202) 606-4498.

OPM requires detailed cash flow information with both the annual and interim accounting statements. Detailed instructions concerning special reporting requirements will be provided by OPM. More frequent reporting may be required, should a pattern of drawdowns be observed leading OPM to suspect funds have been withdrawn from the LOC in excess of daily requirements.

As part of ongoing oversight, OPM will audit the Carrier's management of their LOC account to ensure strict adherence to these guidelines. Carriers must maintain a clear audit trail enabling OPM to reconcile claims and administrative payments directly to request-for-funds. Also, Carriers must maintain documentation to support all working capital calculations/adjustments, interest earned on FEHBP funds, interest returned to the FEHBP LOC account, and Treasury Offsets (including support showing the offset amount, the reason for the offset, and verification that additional funds were not drawn for the offset.) OPM highly recommends that the Carrier prepare a reconciliation of the total actual costs charged to the FEHBP to the Carrier's LOC drawdowns on a yearly basis, and maintain documentation to support all amounts in the reconciliation. In addition, the Carrier should maintain monthly or yearly drawdown schedules showing the daily detail to justify/support all letter of credit drawdown amounts (e.g., claim payments cleared date, claim payments cleared amount, refunds and other health benefits adjustments, administrative expenses, service charge, drawdown date, and net drawdown amount for each day), and documentation to support all amounts.

## **VIII. INQUIRIES**

Please direct general questions on any matters discussed in this guideline to your respective Health Benefit Contract Specialist. Inquiries concerning technical or financial matters should be referred to Melanese Wynn of the Trust Funds Group at 202-606-4498.