



U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS

Final Audit Report

Subject:

Audit of the Federal Employees Health Benefits Program Operations at Presbyterian Health Plan

Report No. 1C-P2-00-13-015

Date: September 26, 2013

-- CAUTION --

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AUDIT REPORT

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Presbyterian Health Plan
Contract Number CS 2627 - Plan Code P2
Albuquerque, New Mexico**

Report No. 1C-P2-00-13-015

Date: September 26, 2013



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Assistant Inspector General
for Audits**

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EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Presbyterian Health Plan
Contract Number CS 2627 - Plan Code P2
Albuquerque, New Mexico**

Report No. 1C-P2-00-13-015

Date: September 26, 2013

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Presbyterian Health Plan (Plan). The audit covered contract years 2010 through 2012, and was conducted at the Plan's office in Albuquerque, New Mexico.

This report questions \$1,933,916 for inappropriate health benefit charges to the FEHBP in contract years 2010 and 2011. The questioned amount includes \$1,819,836 for defective pricing and \$114,080 for lost investment income. We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the Office of Personnel Management's rules and regulations for contract year 2012.

In contract year 2010, the Plan did not apply a similarly sized subscriber group discount to the FEHBP rates, and the Plan used incorrect base rates in determining the FEHBP's benefit adjustment factors. In contract years 2010 through 2012, the Plan did not properly coordinate claims with Medicare. This led to an increase of the FEHBP rates in 2010 and 2011, but had no material cost impact to the FEHBP rates in contract year 2012.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$114,080 for lost investment income, calculated through June 30, 2013, on the defective pricing finding. In

addition, the contracting officer should recover lost investment income on amounts due for the period beginning July 1, 2013, until all defective pricing amounts have been returned to the FEHBP.

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Presbyterian Health Plan (Plan). The audit covered contract years 2010 through 2012, and was conducted at the Plan's office in Albuquerque, New Mexico. The audit was conducted pursuant to the provisions of Contract CS 2627; 5 U.S.C. Chapter 89; and 5 Code of Federal Regulations (CFR) Chapter 1, Part 890. The audit was performed by the Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

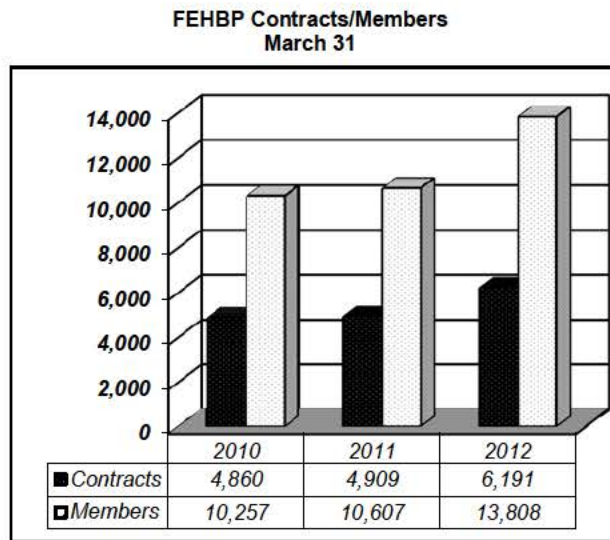
Background

The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Healthcare and Insurance Office. The provisions of the Federal Employees Health Benefits Act are implemented by OPM through regulations codified in Chapter 1, Part 890 of Title 5, CFR. Health insurance coverage is provided through contracts with health insurance carriers who provide service benefits, indemnity benefits, or comprehensive medical services.

Community-rated carriers participating in the FEHBP are subject to various federal, state and local laws, regulations, and ordinances. While most carriers are subject to state jurisdiction, many are further subject to the Health Maintenance Organization Act of 1973 (Public Law 93-222), as amended (i.e., many community-rated carriers are federally qualified). In addition, participation in the FEHBP subjects the carriers to the Federal Employees Health Benefits Act and implementing regulations promulgated by OPM.

The FEHBP should pay a market price rate, which is defined as the best rate offered to either of the two groups closest in size to the FEHBP. In contracting with community-rated carriers, OPM relies on carrier compliance with appropriate laws and regulations and, consequently, does not negotiate base rates. OPM negotiations relate primarily to the level of coverage and other unique features of the FEHBP.

The chart to the right shows the number of FEHBP contracts and members reported by the Plan as of March 31 for each contract year audited.



The Plan has participated in the FEHBP since 1991 and provides health benefits to FEHBP members in all counties of New Mexico. The last full scope audit of the Plan conducted by our office covered contract years 2007 through 2009. All issues related to that audit have been resolved.

The preliminary results of this audit were discussed with Plan officials at an exit conference and in subsequent correspondence. A draft report was also provided to the Plan for review and comment. The Plan's comments were considered in preparation of this report and included, as appropriate, in the Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

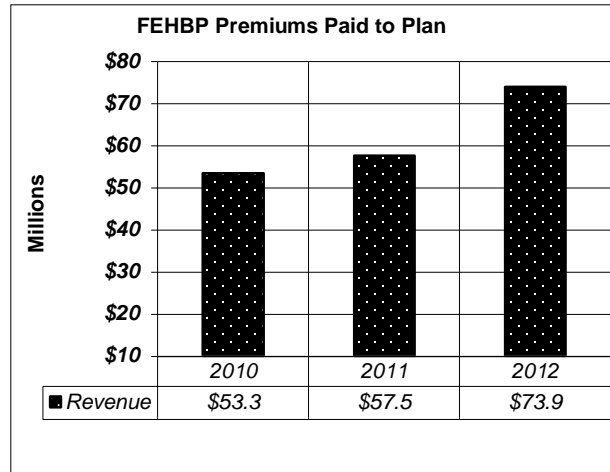
Objectives

The primary objectives of the audit were to verify that the Plan offered market price rates to the FEHBP and to verify that the loadings to the FEHBP rates were reasonable and equitable. Additional tests were performed to determine whether the Plan was in compliance with the provisions of the laws and regulations governing the FEHBP.

Scope

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 objectives.

This performance audit covered contract years 2010 through 2012. For these contract years, the FEHBP paid approximately \$184.7 million in premiums to the Plan, as shown on the chart above.



OIG audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and OPM rate instructions. These audits are also designed to provide reasonable assurance of detecting errors, irregularities, and illegal acts.

We obtained an understanding of the Plan's internal control structure, but we did not use this information to determine the nature, timing, and extent of our audit procedures. However, the audit included such tests of the Plan's rating system and such other auditing procedures considered necessary under the circumstances. Our review of internal controls was limited to the procedures the Plan has in place to ensure that:

- The appropriate similarly sized subscriber groups (SSSG) were selected;
- the rates charged to the FEHBP were the market price rates (i.e., equivalent to the best rate offered to the SSSGs); and
- the loadings to the FEHBP rates were reasonable and equitable.

In conducting the audit, we relied to varying degrees on computer-generated billing, enrollment, and claims data provided by the Plan. We did not verify the reliability of the data generated by the various information systems involved. However, nothing came to our attention during our

audit testing utilizing the computer-generated data to cause us to doubt its reliability. We believe that the available data was sufficient to achieve our audit objectives. Except as noted above, the audit was conducted in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States.

The audit fieldwork was performed at the Plan's office in Albuquerque, New Mexico during December 2012. Additional audit work was completed at our offices in Cranberry Township, Pennsylvania and Jacksonville, Florida.

Methodology

We examined the Plan's federal rate submissions and related documents as a basis for validating the market price rates. In addition, we examined the rate development documentation and billings to other groups, such as the SSSGs, to determine if the market price was actually charged to the FEHBP. Finally, we used the contract, the Federal Employees Health Benefits Acquisition Regulations, and OPM's Rate Instructions to Community-Rated Carriers (rate instructions) to determine the propriety of the FEHBP premiums and the reasonableness and acceptability of the Plan's rating system.

To test the Plan's compliance with the FEHBP health benefit provisions related to coordination of benefits with Medicare, we selected a judgmental sample of potential uncoordinated claim lines. We queried the Plan's FEHBP claims data for any members over the age of 65 and sorted by the Insurance Amount Paid. We then selected the top 10 - 20 claims in dollar amounts paid (all claims over \$25,000 were selected for review). The 2012 sample included 14 members with 17 claims out of a universe of 24 members, the 2011 sample included 11 members with 15 claims out of a universe of 11 members, and the 2010 sample included 14 members with 23 claims out of a universe of 24 members. The results of the samples for each year were not projected to the universe.

To gain an understanding of the internal controls in the Plan's rating system, we reviewed the Plan's rating system policies and procedures, interviewed appropriate Plan officials, and performed other auditing procedures necessary to meet our audit objectives.

III. AUDIT FINDINGS AND RECOMMENDATIONS

Premium Rate Review

1. Defective Pricing

\$1,819,836

The Certificates of Accurate Pricing the Plan signed for contract years 2010 and 2011 were defective. In accordance with federal regulations, the FEHBP is therefore due a rate reduction for these years. Application of the defective pricing remedy shows that the FEHBP is due a premium adjustment totaling \$1,819,836 (see Exhibit A). We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the rate instructions in contract year 2012.

Carriers proposing rates to OPM are required to submit a Certificate of Accurate Pricing certifying that the proposed subscription rates, subject to adjustments recognized by OPM, are market price rates. OPM regulations refer to a market price rate in conjunction with the rates offered to an SSSG. SSSGs are the Plan's two employer groups closest in subscriber size to the FEHBP. If it is found that the FEHBP was charged higher than the market price rate (i.e., the best rate offered to an SSSG), a condition of defective pricing exists, requiring a downward adjustment of the FEHBP premiums to the equivalent market price rate.

2010

The Plan selected [REDACTED] as SSSGs for contract year 2010. We agree with the Plan's selection of [REDACTED] but not the selection of [REDACTED]. We found that [REDACTED] was an administrative services only (ASO) group. The 2010 rate instructions specifically exclude ASO groups from SSSG eligibility. We selected [REDACTED] because it met all of the SSSG requirements and was the next closest group in subscriber size to the FEHBP. The Plan stated in its 2010 reconciliation questionnaire that there were no SSSG discounts.

Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount and [REDACTED] did not receive a discount. [REDACTED] discount was due to the Plan's use of an incorrect pooling level and related pooling charges. Based on [REDACTED] membership of [REDACTED], the Plan's rating methodology calls for a pooling level of [REDACTED], and the pooling charges of [REDACTED] per member per month (PMPM) for the current and prior periods, respectively. However, the Plan used a pooling level of [REDACTED], and pooling charges of \$ [REDACTED] PMPM for the current and prior periods, respectively. Since the FEHBP is entitled to any discount or rate advantage given to an SSSG, we recalculated the FEHBP rates using the [REDACTED] percent [REDACTED] discount.

We also found that the Plan used incorrect medical and prescription drug base rates when calculating the benefit adjustment factors (BAFs) for the current (2009) benefit level to the new (2010) benefit level. In 2009, the Plan offered the FEHBP both a high and standard option. In 2010, the Plan did away with the standard option and only offered a high option benefit plan. When calculating the 2010 BAFs, the Plan incorrectly used the preferred

provider organization prescription drug base rate instead of the health maintenance organization base rate. In addition, the Plan incorrectly used the FEHBP 2008 high option medical base rate, instead of the FEHBP 2010 high option medical base rate. The Plan calculated a high option BAF of [REDACTED], and our audited factor is [REDACTED]. The Plan calculated a BAF going from the standard option to the high option of [REDACTED], and our audited factor is [REDACTED].

We also found seven FEHBP claims totaling \$176,269 that were not properly coordinated with Medicare in contract year 2010. The Medicare rules set forth in the Plan's contract with OPM state when an annuitant or their covered spouse are 65 or over and have both Medicare and FEHB coverage, the primary payer is Medicare and the secondary payer is the FEHBP. We removed the \$176,269 that should have been coordinated with Medicare from our audited rate development.

We recalculated the FEHBP's rates by applying the SSSG discount, using the correct BAFs, and removing the claims that should have been coordinated with Medicare and determined that the FEHBP was overcharged \$1,534,999 in contract year 2010 (see Exhibit B).

Plan's Comments (see Appendix)

The Plan did not respond to the use of incorrect medical and prescription drug base rates in the FEHBP's BAF calculations.

The Plan does not agree with our selection of [REDACTED] as an SSSG and instead argues that [REDACTED] should be an SSSG. The Plan states, "PHP's¹ group account most similar in size to the FEHBP for 2010 was [REDACTED]...The Report did not identify it as an SSSG because the Plan did not include the group on the list of 2010 potential SSSGs in its FEHBP rate proposal submitted at the end of May 2009. At the time of the rate proposal, [REDACTED] was a retrospectively experienced rated group and was left off the list of 'potential' SSSGs. Subsequently, the account switched to the same prospective rating method as the FEHBP for 2010. Therefore, [REDACTED] would be eligible for 2010 SSSG status."

The Plan also states that "[REDACTED] or (4) changed to ASO status on 7/1/2010, but we were not notified that [REDACTED] was moving to ASO until 6/11/2010. The switch came over a year after the 2010 FEHBP proposal was submitted and also after submission of the 2010 rate reconciliation...It is ironic that a rote application of the SSSG instructions results in [REDACTED], the group most similar in size to the FEHBP, falling out of SSSG treatment because it was not listed in PHP's rate proposal. [REDACTED] in turn, was eligible at the time of the rate proposal, but became ineligible for 2010 as an ASO account later...an equitable approach would be to permit [REDACTED] to be an SSSG, since it certainly could have been considered a 'potential' SSSG as of the time of the rate proposal submission."

¹ In the Plan's response, PHP stands for Presbyterian Health Plan.

The Plan does not agree that [REDACTED] received a discount because of an inappropriate pooling charge. The Plan states “the Report faults PHP for employing the applicable pooling charge for a group with [REDACTED] when the group had [REDACTED]. It is this rounding that the Report treats as a discount...Rounding in this fashion should not be considered a ‘discount’, particularly not in the circumstances here. Specifically, while the FEHBP and other groups had claims excluded via the pooling point exclusion that exceeded the net amount of pooling charges over a three year period, the pooling charges to [REDACTED] greatly exceeded the group's pooled claims experience. To have charged the higher pooling charge on account of the group having a few members less than [REDACTED] would have resulted in an extraordinary subsidization by [REDACTED] of other accounts.”

The Plan also states that “the [REDACTED] pooled claims are much lower than the pooling charges for the three years [of the experience period]. In effect, [REDACTED] is subsidizing the pooling deficiencies of other groups including the FEHBP group.

Finally, even if the pooling charge for the [REDACTED] account were viewed as a discount, it is not appropriate to convert that into a [REDACTED] discount adjustment for the FEHBP. It would be more logical to give the FEHBP an adjustment corresponding to the percentage reduction in the pooling charge set for the group. In this case, the actual PMPM pooling charge for [REDACTED] was set at [REDACTED], rather than [REDACTED], which, if considered a discount, amounts to a [REDACTED] reduction in the pooling charge. Applying that percentage reduction to the pooling charge used for the FEHBP rates would produce a recovery amount of \$307,322.”

The Plan agrees with our coordination with Medicare finding.

OIG’s Response to the Plan’s Comments

Since the Plan did not respond to the use of incorrect medical and prescription drug base rates in the FEHBP’s BAF calculations, we will continue to question the full amount relating to this finding.

We disagree with the Plan’s position that [REDACTED] should be replaced by [REDACTED] as a 2010 SSSG. For contract year 2010, plans had a choice. They could submit a list of potential SSSGs based on eligible groups as of March 2009, or wait until the rate reconciliation and select SSSGs based on eligible groups as of March 2010. For contract year 2010, the Plan chose to submit a list of potential SSSGs based on March 2009 eligible groups. This list did not include [REDACTED] because the group was retrospective rated in 2009, and therefore not eligible to be a potential SSSG. The 2010 rate instructions exclude retrospective rated groups from potential SSSG eligibility. Since we verified that [REDACTED] was not eligible for SSSG consideration at the time of proposal, we agree with the Plan’s original list of potential SSSGs, which excluded the group.

We disagree with the Plan’s position that [REDACTED] did not receive a discount because of the pooling charges assessed to the group in 2010. [REDACTED] had [REDACTED] current experience members. According to the Plan’s rating methodology and state-filed rates, member claims above a [REDACTED] specific pooling level are removed from the claims experience. At this

pooling level, a group should receive pooling charges of [REDACTED] PMPM for the current and prior experience periods, respectively. The Plan altered its pooling table and strayed from its standard rating methodology when it developed rates for [REDACTED]. As a result, a [REDACTED] percent rate reduction was given to the group. Since the FEHBP is entitled to any SSSG discount or rate advantage given to an SSSG, we recalculated the FEHBP rates using the [REDACTED] percent [REDACTED] discount.

We disagree with the Plan's position that [REDACTED] would have been subsidizing other groups if their pooling level was not increased to the 1,000 member threshold. This argument has no effect on the actual finding. However, a subjective application of the pooling method circumvents the true purpose of having a mechanism to spread the risk of high dollar claims among the Plan's entire book of business. Each group should be treated consistently and use the same pooling table.

We disagree with the Plan's position that even if the pooling charge for [REDACTED] was considered a discount, we should apply a percentage reduction to the FEHBP's pooling charge. In accordance with the Plan's established rating methodology, we use the filed pooling table for the pooling level and pooling charges for all groups in our 2010 premium rate review. By doing so, we determined that [REDACTED] received a [REDACTED] percent rate advantage which we applied to the FEHBP's line 5 rates. The 2010 rate instructions state "we expect the Federal group to receive at least the largest rate discount and any other advantage given to either SSSG...The FEHBP must receive all discounts given to an SSSG in the rate reconciliation of the same year the discounts were given."

2011

The Plan selected [REDACTED] [REDACTED] as SSSGs for contract year 2011. We agree with these selections. Our analysis of the rates charged to the SSSGs shows that neither group received a discount.

We found five FEHBP claims totaling \$225,905 that were not properly coordinated with Medicare in contract year 2011. The Medicare rules set forth in the Plan's contract with OPM state when an annuitant or their covered spouse are 65 or over and have both Medicare and FEHBP coverage, the primary payer is Medicare and the secondary payer is the FEHBP. We removed the \$225,905 that should have been coordinated with Medicare from our audited rate development.

We recalculated the FEHBP's rates by removing the claims that should have been coordinated with Medicare and determined that the FEHBP was overcharged \$284,837 in contract year 2011 (see Exhibit B).

Plan's Comments (see Appendix):

The Plan agrees with our finding.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$1,819,836 to the FEHBP for defective pricing in contract years 2010 and 2011.

2. Coordination of Benefits (COB)

During our COB review, we found FEHBP claims not properly coordinated with Medicare in contract years 2010, 2011, and 2012. This resulted in an increase of the FEHBP rates in contract years 2010 and 2011. We found seven claims totaling \$176,269 in 2010, and five claims totaling \$225,905 in 2011 that Medicare should have paid as primary instead of the Plan. This error had no material cost impact to our 2012 FEHBP audited rates.

We queried the SAS data for any members over the age of 65 and sorted by the Insurance Amount Paid. We then selected the top 10 - 20 claims in dollar amounts paid (all claims over \$25,000 were selected for review). The 2012 sample included 14 members with 17 claims out of a universe of 24 members, 2011 sample included 11 members with 15 claims out of a universe of 11 members, and the 2010 sample included 14 members with 23 claims out of a universe of 24 members. The results of the samples for each year were not projected to the universe.

The Medicare rules set forth in the Plan's contract with OPM state when an annuitant or their covered spouse are age 65 or over and have both Medicare and FEHBP coverage, the primary payer is Medicare and the secondary payer is the FEHBP.

The Plan stated that some COB errors were the result of late Centralized Enrollment Clearinghouse System (CLER) reports and some errors were due to a delay in the CLER data getting to their COB department.

We adjusted the FEHBP claims experience used in our audited rate developments to account for the incorrect COB claims.

Plan's Comments (see Appendix):

The Plan agrees with our finding.

Recommendation 2

We recommend the contracting officer require the Plan to take the necessary steps to ensure that COB is performed in a timely, accurate, and effective manner.

3. Lost Investment Income

\$114,080

In accordance with the FEHBP regulations and the contract between OPM and the Plan, the FEHBP is entitled to recover lost investment income on the defective pricing finding in contract years 2010 and 2011. We determined that the FEHBP is due \$114,080 for lost

investment income, calculated through June 30, 2013 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning July 1, 2013, until all defective pricing finding amounts have been returned to the FEHBP.

Federal Employees Health Benefits Acquisition Regulation 1652.215-70 provides that, if any rate established in connection with the FEHBP contract was increased because the carrier furnished cost or pricing data that was not complete, accurate, or current as certified in its Certificate of Accurate Pricing, the rate shall be reduced by the amount of the overcharge caused by the defective data. In addition, when the rates are reduced due to defective pricing, the regulation states that the government is entitled to a refund and simple interest on the amount of the overcharge from the date the overcharge was paid to the carrier until the overcharge is liquidated.

Our calculation of lost investment income is based on the United States Department of the Treasury's semiannual cost of capital rates.

Plan's Comments (see Appendix):

The Plan did not respond to our lost investment income finding.

Recommendation 3

We recommend that the contracting officer require the Plan to return \$114,080 to the FEHBP for lost investment income, calculated through June 30, 2013. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning July 1, 2013, until all defective pricing finding amounts have been returned to the FEHBP.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████, Auditor-in-Charge

██████████, Auditor

██████████ Chief

██████████, Senior Team Leader

**Presbyterian Health Plan
Summary of Questioned Costs**

Defective Pricing Questioned Costs

Contract Year 2010	\$1,534,999
Contract Year 2011	<u>\$284,837</u>

Total Defective Pricing Questioned Costs \$1,819,836

Lost Investment Income: \$114,080

Total Questioned Costs **\$1,933,916**

Exhibit B

**Presbyterian Health Plan
Defective Pricing Questioned Costs**

2010

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	[REDACTED]	[REDACTED]	
FEHBP Line 5 - Audited Rate	[REDACTED]	[REDACTED]	
Bi-weekly Overcharge	[REDACTED]	[REDACTED]	
To Annualize Overcharge:			
3/31/2010 enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]	[REDACTED]	
Total 2010 Defective Pricing Questioned Costs			\$1,534,999

2011

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	[REDACTED]	[REDACTED]	
FEHBP Line 5 - Audited Rate	[REDACTED]	[REDACTED]	
Bi-weekly Overcharge	[REDACTED]	[REDACTED]	
To Annualize Overcharge:			
3/31/2011 enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]	[REDACTED]	
Total 2011 Defective Pricing Questioned Costs			\$284,837

Total Defective Pricing Questioned Costs **\$1,819,836**

EXHIBIT C

**Presbyterian Health Plan
Lost Investment Income**

Year	2010	2011	2012	June 30, 2013	Total
Audit Findings:					
1. Defective Pricing	\$1,534,999	\$284,837	\$0	\$0	\$1,819,836
<hr/>					
Totals (per year):	\$1,534,999	\$284,837	\$0	\$0	\$1,819,836
Cumulative Totals:	\$1,534,999	\$1,819,836	\$1,819,836	\$1,819,836	\$1,819,836
Avg. Interest Rate (per year):	3.1875%	2.5625%	1.8750%	1.3750%	
Interest on Prior Years Findings:	\$0	\$39,334	\$34,122	\$12,511	\$85,967
Current Years Interest:	\$24,464	\$3,649	\$0	\$0	\$28,113
<hr/>					
Total Cumulative Interest Calculated Through June 30, 2013:	\$24,464	\$42,983	\$34,122	\$12,511	\$114,080



Health Plan, Inc.

P.O. Box 27489, Albuquerque, NM 87125-7489

RECEIVED JUN 19 2013

June 18, 2013

██████████
Chief, Community-Rated Audits Group
U.S. Office of Personnel Management
Office of the Inspector General
800 Cranberry Woods Drive, Suite 270
Cranberry Township, PA 16066

Re: Presbyterian Response to Draft of Proposed Report – OPM
Report No. 1C-P2-00-13-015
Date: March 27, 2013

Dear ██████████

This letter responds to the draft audit report ("the Report") containing the results of the Federal Employees Health Benefits Program ("FEHBP") operations at Presbyterian Health Plan ("PHP") for contract years 2010 through 2012. The Report identifies issues with regard to SSSG rating for 2010 and regarding coordination of benefits with Medicare for 2010 and 2011. It recommends a total of \$1,819,836 in recovery in health benefit charges and also recommends recovery of lost investment income. PHP accepts the recommendation with regard to coordination of benefits with Medicare, but respectfully disagrees with the Report's recommendations regarding SSSG rating in 2010.

The proposed findings of the Report with regard to SSSG selection and rating for 2010 result from a technical and rigid construction of the rating instructions that has a punitive impact on PHP, a small local health plan that seeks to provide value and strong service to all of its members including FEHBP enrollees. The recommended adjustment is simply inequitable. In addition, PHP disagrees that any rate adjustment is due the FEHBP based on the rating of ██████████.

A. 2010 SSSG selection

It is only through a unique and unforeseen effectuation of the instructions that [REDACTED] is treated by the Report as an SSSG. An equitable application of the instructions would not produce this harsh result.

PHP's group account most similar in size to the FEHBP for 2010 was [REDACTED]. We did not provide any discount to [REDACTED] for its plan year starting 7/1/2010. The Report did not identify it as an SSSG because the Plan did not include the group on the list of 2010 potential SSSGs in its FEHBP rate proposal submitted at the end of May 2009. At the time of the rate proposal, [REDACTED] was a retrospectively experienced rated group and was left off the list of "potential" SSSGs. Subsequently, the account switched to the same prospective rating method as the FEHBP for 2010. Therefore, [REDACTED] would be eligible for 2010 SSSG status. Documentation with regard to [REDACTED] account is included in Exhibit A.

[REDACTED] was the fifth closest account to the FEHBP as shown on the submitted list. The groups included on the rate submission in advance of the 2010 contract year are shown below, along with the FEHBP and [REDACTED] account.

POTENTIAL SSSGS		
NAME	ENROLLMENT/ AS OF	2010 SSSG Eligibility
FEHBP	[REDACTED] / 3/31/09	
[REDACTED]	[REDACTED] / 3/31/09	Yes
1. [REDACTED]	[REDACTED] / 3/31/09	No
2. [REDACTED]	[REDACTED] / 3/31/09	Yes
3. [REDACTED]	[REDACTED] / 3/31/09	No
4. [REDACTED]	[REDACTED] / 3/31/09	No
5. [REDACTED]	[REDACTED] / 3/31/09	Yes

6. [REDACTED]	[REDACTED] / 3/31/09	
7. [REDACTED]	[REDACTED] / 3/31/09	
8. [REDACTED]	[REDACTED] / 3/31/09	
9. [REDACTED]	[REDACTED] / 3/31/09	
10. [REDACTED]	[REDACTED] / 3/31/09	

[REDACTED] (1) changed to ASO status on 1/1/2010 eliminating it from SSSG consideration. The Report agrees with the Plan's selection of [REDACTED] (2) as an SSSG and that it received no discount.

[REDACTED] (3) became retrospectively rated effective 3/1/2010 eliminating it from SSSG eligibility. [REDACTED] (4) changed to ASO status on 7/1/2010, but we were not notified that [REDACTED] was moving to ASO until 6/11/2010. The switch came over a year after the 2010 FEHBP proposal was submitted and also after submission of the 2010 rate reconciliation. See Exhibit B.

It is ironic that a rote application of the SSSG instructions results in [REDACTED] [REDACTED] the group most similar in size to the FEHBP, falling out of SSSG treatment because it was not listed in PHP's rate proposal. [REDACTED], in turn, was eligible at the time of the rate proposal, but became ineligible for 2010 as an ASO account later.

This type of anomaly and difficulty in identifying and using other commercial accounts for rating comparison to the FEHBP is a large part of the reason OPM transitioned away from SSSGs to a "medical loss ratio"-based rating review. Here, an equitable approach would be to permit [REDACTED] to be an SSSG, since it certainly could have been considered a "potential" SSSG as of the time of the rate proposal submission. As noted above, we are including back-up information relating to that group's 2010 rating in Exhibit A. We can also provide information with regard to the rates proposed to [REDACTED] [REDACTED] for 2010 prior to its decision to switch to ASO if that information would be useful to you.

B. Pooling charge for [REDACTED]

The Report claims that PHP established an inappropriate pooling charge for [REDACTED], as an SSSG, which resulted in a [REDACTED] “discount”. We also disagree with the Report’s calculation of the recommended recovery amount for the FEHBP. The pooling charge for [REDACTED] was not established as a means to provide a discount.

Under PHP’s rating, claims experience above a pooling point is excluded, and a corresponding pool charge is set for the group. The pooling charge is set on a weighted basis, blending the current and prior year charge, depending on the size of the group. For [REDACTED], the Report faults PHP for employing the applicable pooling charge for a group with 1,000 members when the group had [REDACTED] members. It is this rounding that the Report treats as a discount. This alone accounts for the proposed finding of a [REDACTED] % “discount” finding and recommended adjustment of \$1.36 million.

Current Members	Pooling Point	Pooling Charge Current	Pooling Charge Prior
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Rounding in this fashion should not be considered a “discount”, particularly not in the circumstances here. Specifically, while the FEHBP and other groups had claims excluded via the pooling point exclusion that exceeded the net amount of pooling charges over a three year period, the pooling charges to [REDACTED] greatly exceeded the group’s pooled claims experience. To have charged the higher pooling charge on account of the group having a few members less than 1,000 members would have resulted in an extraordinary subsidization by [REDACTED] of other accounts.

The following table shows the pooling experience for [REDACTED] and FEHBP for the three renewals prior to 1/2010.

Renewal **[REDACTED] Pooling Experience**

	Pooling Charge	Pooled Claims
January 2007	[REDACTED]	[REDACTED]
January 2008	[REDACTED]	[REDACTED]
January 2009	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]

Renewal **FEHBP Pooling Experience**

	Pooling Charge	Pooled Claims
January 2007	[REDACTED]	[REDACTED]
January 2008	[REDACTED]	[REDACTED]
January 2009	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]

Back-up data for this experience is shown in Exhibit C. As you can clearly see, the [REDACTED] pooled claims are much lower than the pooling charges for the three years. In effect, [REDACTED] is subsidizing the pooling deficiencies of other groups including the FEHBP group.

Finally, even if the pooling charge for the [REDACTED] account were viewed as a discount, it is not appropriate to convert that into a [REDACTED] discount adjustment for the FEHBP. It would be more logical to give the FEHBP an adjustment corresponding to the percentage reduction in the pooling charge set for the group. In this case, the actual PMPM pooling charge for [REDACTED] was set at [REDACTED], rather than [REDACTED] which, if considered a discount, amounts to a [REDACTED] reduction in the pooling charge. See Exhibit D. Applying that percentage reduction to the pooling charge used for the FEHBP rates would produce a recovery amount of \$307,322. See Exhibit D.

We strongly urge that the proposed findings and recommendations of the Report be modified to eliminate, or at most reflect a much lower adjustment for contract year 2010. The proposed findings of the Report, which convert a putative “discount” of approximately [REDACTED] into a \$1.36 million penalty, would be a strong disincentive for a Small Health Plan like Presbyterian Health Plan to participate in the FEHBP. ([REDACTED] million excludes the COB portion.)

Thanks for your consideration related to this finding.

Sincerely



Senior Actuarial Assistant
Presbyterian Health Plan

Enc: Exhibits A through D