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

Final Audit Report

AUDIT OF THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM OPERATIONS AT AETNA HEALTHFUND

Report Number 1C-22-00-14-071

August 31, 2015

-- CAUTION --

EXECUTIVE SUMMARY

Audit of the Federal Employees Health Benefits Program Operations at Aetna HealthFund

Report No. 1C-22-00-14-071 **August 31, 2015**

Why Did We Conduct the Audit?

The primary objective of this performance audit was to determine if Aetna HealthFund (Plan) was in compliance with the provisions of its contract and the provisions of the laws and regulations governing the Federal Employees Health Benefits Program (FEHBP). We verified if the Plan met the Medical Loss Ratio (MLR) requirements established by the U.S. Office of Personnel Management (OPM). We also verified if the Plan developed the FEHBP premium rates using complete, accurate and current data.

What Did We Audit?

Under Contract CS 2900, the Office of the Inspector General performed an audit of the FEHBP operations at the Plan. The audit covered the Plan's 2012 FEHBP premium rate build-up and MLR submission. Our audit fieldwork was conducted from September 15, 2014 through September 26, 2014 at the Plan's office in Blue Bell, Pennsylvania.

Michael R. Esser
Assistant Inspector General for Audits

What Did We Find?

This report identifies $20,016,333 in questioned costs to the FEHBP. Specifically, the Plan underpaid its MLR penalty for contract year 2012. We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and OPM's rules and regulations for contract year 2012.

In the MLR review, we found that the Plan did not use a fair and equitable allocation method to determine the federal income tax expense related to the FEHBP. In addition, the Plan's MLR calculation included overstated dental and pharmacy claims paid on the behalf of ineligible members, and claims paid on non-covered services. Finally, the Plan incorrectly included vendor administrative expenses in the MLR calculation. As a result, the FEHBP MLR subsidization penalty account was underpaid by the Plan in the amount of $20,016,333.

ABBREVIATIONS

ACA	**Affordable Care Act**
CFR	**Code of Federal Regulations**
FEHBP	**Federal Employees Health Benefits Program**
FEHBAR	**Federal Employees Health Benefits Acquisition Regulations**
HHS	**U.S. Department of Health and Human Services**
MLR	**Medical Loss Ratio**
OIG	**Office of the Inspector General**
OPM	**U.S. Office of Personnel Management**
Plan	**Aetna HealthFund**
TCR	**Traditional Community Rating**
U.S.C.	**United States Code**

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I. BACKGROUND

This final report details the audit results of the Federal Employees Health Benefits Program (FEHBP) operations at Aetna HealthFund (Plan). The audit was conducted pursuant to the provisions of Contract CS 2900; 5 U.S.C. Chapter 89; and 5 Code of Federal Regulations (CFR) Chapter 1, Part 890. The audit covered contract year 2012, and was conducted at the Plan's office in Blue Bell, Pennsylvania.

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, and is administered by the U.S. Office of Personnel Management's (OPM) 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.

In April 2012, OPM issued a final rule establishing an FEHBP-specific Medical Loss Ratio (MLR) requirement to replace the similarly sized subscriber group (SSSG) comparison requirement for most community-rated FEHBP carriers (77 FR 19522). MLR is the proportion of FEHBP premiums collected by a carrier that is spent on clinical services and quality health improvements. The MLR for each carrier is calculated by dividing the amount of dollars spent for FEHBP members on clinical services and health care quality improvements by the total amount of FEHBP premiums collected in a calendar year.

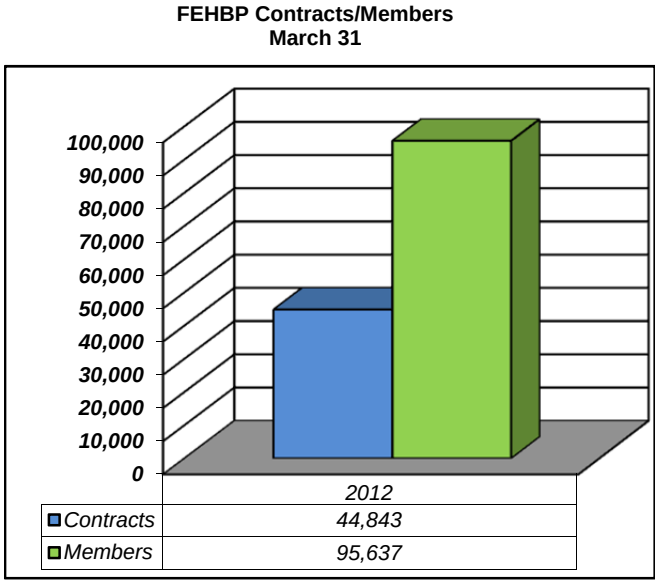
The FEHBP-specific MLR rules are based on the MLR standards established by the Affordable Care Act (ACA, P.L. 111-148) and defined by the U.S. Department of Health and Human Services (HHS) in 45 CFR Part 158. In 2012, community-rated FEHBP carriers could elect to follow the FEHBP-specific MLR requirements, instead of the SSSG requirements. Beginning in 2013, the MLR methodology is required for all community-rated carriers, except those that are state mandated to use traditional community rating (TCR). State mandated TCR carriers continue to be subject to the SSSG comparison rating methodology.

Starting with the pilot program in 2012 and for all non-TCR FEHBP carriers in 2013, OPM required the carriers to submit an FEHBP-specific MLR. OPM required that the FEHBP-specific MLR threshold calculation take place after the ACA-required MLR calculation, and that any rebate amounts due to the FEHBP as a result of the ACA-required calculation be excluded from the FEHBP-specific MLR threshold calculation. Carriers were required to report information related to earned premiums and expenditures in various categories, including reimbursement for clinical services provided to enrollees, activities that improve health care quality, and all other non-claims costs.

If a carrier fails to meet the FEHBP-specific MLR threshold, it must make a subsidization penalty payment to OPM within 60 days of notification of amounts due.

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 Plan reported 44,843 contracts and 95,637 members as of March 31, 2012, as shown in the chart below.



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 Plan has participated in the FEHBP since 2006 and provides health benefits to FEHBP members nationwide. A prior audit of the Plan covered contract years 2010 and 2011. In that audit, we determined that the FEHBP premiums were developed in accordance with applicable laws, regulations and OPM's Rate Instructions to Community Rated Carriers (rate instructions) for contract years 2010 and 2011.

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 are included, as appropriate, as the Appendix to the report.

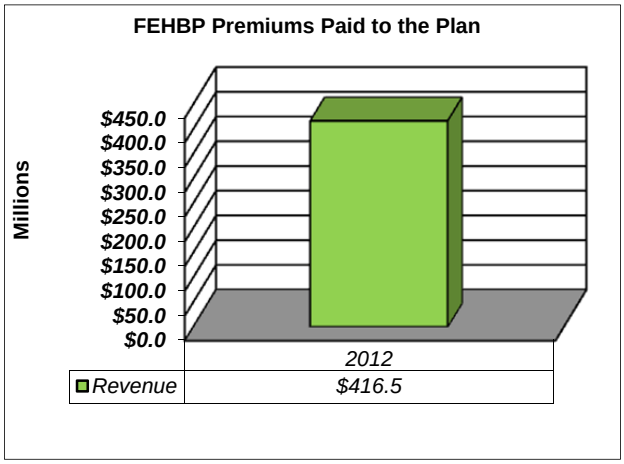
II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The primary objective of this performance audit was to determine whether the Plan was in compliance with the provisions of its contract and the laws and regulations governing the FEHBP. Specifically, we verified whether the Plan met the MLR requirements established by OPM and paid the correct amount to the Subsidization Penalty Account, if applicable. 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 year 2012. For contract year 2012, the FEHBP paid approximately $416.5 million in premiums to the Plan.

Office of the Inspector General (OIG) audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and the 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 rates charged to the FEHBP are developed in accordance with the Plan's standard rating methodology and the claims, factors, trends, and other related adjustments are supported by complete, accurate, and current source documentation; and

- The FEHBP MLR calculation is accurate, complete, and valid; claims were processed accurately; appropriate allocation methods are used; and, that any other costs associated in its MLR calculation are appropriate.

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 from September 15, 2014 through September 26, 2014 at the Plan's office in Blue Bell, Pennsylvania.

Methodology

We examined the Plan's MLR calculation and related documents as a basis for validating the MLR. Further, we examined claim payments and quality health expenses to verify that the cost data used to develop the MLR was accurate, complete and valid. We also examined the methodology used by the Plan in determining the premium in the MLR calculation. Finally, we used the contract, the Federal Employees Health Benefits Acquisition Regulations (FEHBAR), and the rate instructions to determine the propriety of the Plan's MLR calculation.

To gain an understanding of the internal controls in the Plan's claims processing system, we reviewed the Plan's claims processing policies and procedures and interviewed appropriate Plan officials regarding the controls in place to ensure that claims were processed accurately. Other auditing procedures were performed as necessary to meet our audit objective.

To test whether the Plan accurately processed and paid FEHBP claims for contract year 2012 and complied with its contract, we tested for potential claim errors within the full claims population of [redacted] medical claim lines and [redacted] pharmacy claim lines, totaling $[redacted] and $[redacted], respectively.

The tests performed, along with the methodology, are detailed below by Medical and Pharmacy claims:

Medical Claims Sample Selection Criteria/Methodology

Medical Claims Review Area	Sample Criteria	Sample Universe (Number)	Sample Universe (Dollars)	Sample Size (Claim Lines/ Total Dollars)	Sample Type	Results Projected to the Universe ?
Coordination of Benefits (COB) - Medicare	Paid claims over $50,000 for patients age 65+	21	$[redacted]	All	Judgmental	No
Bundling/ Unbundling	All claim lines with CPT codes 80047 and 80048 (Basic Metabolic Panel)	57	$[redacted]	All	Judgmental	No
Duplicate Claims – Best Match Criteria	All claims >$25,000 that meet duplicate best match criteria	No Hits	N/A	N/A	N/A	N/A
Deceased Member Review	All claims paid for identified deceased members	136	$[redacted]	All	Judgmental	No
Non-Covered Benefits (Abortion)	All claim lines with elective abortion CPT codes 59812, 59820, 59821, 59830, 59840, 59841, 59850, 59851, 59852, 59855, 59856, 59857, 59866	11	$[redacted]	All	Judgmental	No
Non-Covered Benefits (Eye Exercises)	All claim lines with elective abortion CPT code 92065	125	$[redacted]	All	Judgmental	No
Non-Covered Benefits (Radial Keratotomy)	All claim lines with LASIK CPT code 65771	No Hits	N/A	N/A	N/A	N/A
Non-Covered Benefits (reversal of voluntary surgical sterilization)	All claim lines with CPT code 55400 for males and 58750 for females	No Hits	N/A	N/A	N/A	N/A
Non-Covered Benefits (sex transformation)	All claim lines with CPT code 55970 for males and 55980 for females	No Hits	N/A	N/A	N/A	N/A
Dependent Eligibility	All claims >$1,000 for dependent members age 26 and 27	28	$[redacted]	All	Judgmental	No

Pharmacy Claims Sample Selection Criteria/Methodology

Pharmacy Claims Review Area	Sample Criteria	Sample Universe (Number)	Sample Universe (Dollars)	Sample Size (Claim Lines/Total Dollars)	Sample Type	Results Projected to the Universe?
Member Enrollment	Pharmacy claims >$10,000	17	$[redacted]	All	Judgmental	No
Dependent Eligibility	All pharmacy claims >$500 paid for members age 26	23	$[redacted]	All	Judgmental	No
High Dollar Drugs	All pharmacy claims > $5,000	90	$[redacted]	Sample of 20 claims totaling $182,161	Random	No
Deceased Member Review	All pharmacy claims paid for identified deceased members	148	$[redacted]	All	Judgmental	N/A

We also examined the rate build-up of the Plan's 2012 Federal rate submission and related documents as a basis for validating the Plan's standard rating methodology. We verified that the factors, trends, and other related adjustments used to determine the FEHBP premium rate(s) were sufficiently supported by source documentation. Further, we examined claim payments to verify that the cost data used to develop the FEHBP rates was accurate, complete and valid. Finally, we used the contract, the FEHBAR, and the rate instructions to determine the propriety of the FEHBP premiums and the reasonableness and acceptability of the Plan's rating system.

In addition, we examined the Plan's financial information and evaluated the Plan's financial condition and ability to continue operations as a viable ongoing business concern.

III. AUDIT FINDINGS AND RECOMMENDATIONS

1. MLR Penalty Underpayment **$20,016,333**

The Plan elected to participate in the 2012 MLR pilot program offered to certain FEHBP carriers. MLR pilot program carriers must meet the OPM-established MLR threshold of 89 percent. Therefore, 89 cents of every health care premium dollar must be spent on health care expenses. If the MLR threshold is less than 89 percent, a carrier will owe a subsidization penalty equal to the difference between the threshold and the carrier's actual MLR.

The Plan underpaid its 2012 MLR subsidization penalty payment to OPM in the amount of $20,016,333.

The Plan calculated an MLR of [redacted] percent and paid a penalty of $3,205,977 to OPM before the deadline of August 31, 2013. However, during our review of the Plan's MLR submission, we found the following issues.

Tax Allocation

Pursuant to the provision of HHS 45 Code of Federal Regulation (CFR) § 158, Plans are allowed to reduce the premium used in the MLR calculation by taxes and regulatory fees paid, excluding Federal income taxes paid on investment income and capital gains. The Plan allocated non-income related taxes, regulatory fees, quality health improvement expenses, and fraud reduction expenses that were applicable to the FEHBP by using a premium ratio allocation method. The premium ratio was calculated by dividing the FEHBP premium by the total large group sector premium on the HHS grand total MLR filing, of which the FEHBP is included. However, for Federal income taxes, the Plan attempted to calculate the gain or loss on the FEHBP as if it was its own entity. The result was a Federal Income tax allocation of $22,573,129 to the FEHBP, even though the grand total HHS Federal income tax amount for large groups was $12,732,786.

Additionally, HHS 45 CFR § 158.170 requires that the Plan's allocation method be based on a generally accepted accounting method. However, we found that the Plan's method used to allocate the Federal income taxes to the FEHBP is not applied proportionately, appropriately, and is not based on a generally accepted accounting method. Also, it is not suitable to treat the FEHBP as if it were its own entity since expenses are not tracked at the group level and the method is not related to actual expenses incurred. As the Plan did for several other expenses in its MLR calculation, the premium ratio allocation method is more appropriate and yields a more accurate result and is supportable (i.e., well documented). Therefore, we recalculated the Federal income tax allocation using the premium ratio method and

determined that the FEHBP's portion of Federal income tax is $1,036,575. As a result, we reduced the premium in our audited MLR calculation by $1,036,575.

Plan's Comments (see Appendix):

The Plan disagrees with the OIG's Federal income tax allocation in the 2012 MLR calculation. The Plan contends that their methodology of calculating the FEHBP net income and applying the corporate tax rate of 35 percent is a more accurate representation of the FEHBP federal income tax expense. The Plan states that net income, not premium, should be used to allocate income taxes since income and losses are what determines taxes. Also, the Plan states that its income tax allocation method for the FEHBP conforms to generally accepted accounting principles. Several examples were provided by the Plan to show different scenarios using their allocation method compared to the OIG's method (see Appendix). In addition, the Plan continuously asserts that the method used for its FEHBP Federal income tax allocation is the same method they used for their HHS MLR filing.

OIG's Response to the Plan's Comments:

The OIG disagrees with the Plan and asserts that the Plan's method used to calculate the FEHBP Federal income tax does not conform to the HHS 45 CFR § 158, which states, "All costs reported by issuers must be *allocated* according to generally accepted accounting methods that yield the most accurate results and are well documented." The Plan did not allocate a portion of the Federal income tax expense that was reported on the Plan's statutory financial statements, but instead calculated an FEHBP net income value that is not well documented. Ultimately, the Plan's FEHBP net income calculation is unverifiable and is not an equitable basis to determine the FEHBP Federal income tax expense.

The HHS regulations require a portion of taxes be allocated to each of the MLR health insurance markets (e.g., individual, small group, large group, etc.), which the Plan refers to as MLR pools. To determine each pools' Federal income tax amount, including that of the HHS large group pool, the Plan calculated the net income for the large group pool, divided by the net income for the entire company and multiplied by the Federal income taxes reported on the annual statement. This methodology adheres to the HHS regulation by allocating a portion of the Federal income taxes reported by the Plan on their statutory financial statements.

However, the Plan did not consistently use this method to determine the Federal income tax attributable to the FEHBP, which is part of the HHS large group pool. Instead of allocating a portion of the reported Federal income tax to the FEHBP as required by HHS 45 CFR § 158, the Plan calculated the FEHBP net income and multiplied by the corporate tax rate of 35 percent. This method is inconsistent with the Plan's Federal income tax allocation for the HHS MLR pools and not well documented since the FEHBP's net income cannot be verified.

The Plan's removal of expenses in the FEHBP net income calculation distorts the expenses reported for the HHS large group pool. Since the FEHBP is part of the large group sector, those expenses should be removed from the large group net income calculation as well. If they are not removed then the expenses are spread out amongst the rest of the large group sector which will understate the amount of taxes allocated to the large group pool. Since the Plan cannot track expenses on a group level, contractual exclusions or variances in contractual expenses cannot be accurately tracked, rendering it impossible to determine any one group's net income (i.e., not well documented).

The premium ratio allocation method yields a more accurate result to determine the FEHBP Federal income tax expense, since it adheres to the HHS regulation and was used by the Plan in several other MLR cost allocations areas. Therefore, we recalculated the Federal income tax allocation using the premium ratio method and determined that the FEHBP's portion of Federal income tax is $1,036,575. As a result, we reduced the premium in our audited MLR calculation by $1,036,575.

Dental Claims

The 2012 OPM MLR instructions require the Plan to utilize claims incurred from January 1, 2012 through December 31, 2012, and paid through March 31, 2013. However, the Plan used calendar year 2011 dental claims data in its MLR calculation. The 2012 dental claims amount was $[redacted], and the 2011 dental claims amount was $[redacted], resulting in a $973,820 overstatement in claims costs used by the Plan in its MLR calculation. We updated our audited MLR calculation to reflect the correct 2012 dental claims. As a result, the incurred claims are $973,820 less in the audited MLR calculation.

Plan's Comments (see Appendix):

The Plan agrees with our finding.

Vendor Payments

Pursuant to the provision of HHS 45 CFR § 158.140, the Plan failed to remove $71,669 of FEHBP incurred claims that were used to cover administrative costs for vendors. As a result, we removed the $71,669 from the incurred claims in our audited MLR calculation.

Plan's Comments (see Appendix):

The Plan agrees with our finding.

Pharmacy Claims Paid on Ineligible Members

Per the FEHBP certificate of coverage, dependent coverage ends once the dependent turns 26 years of age. We identified three ineligible members who exceeded the dependent age limit. Six pharmacy claims, totaling $2,180, were incorrectly paid on behalf of the three ineligible members. As a result, we removed $2,180 from the incurred claims in our audited MLR calculation.

Plan's Comments (see Appendix):
The Plan agrees with our finding.

Non-Covered Benefits
Only FEHBP claims incurred for covered benefits should be included in the Plan's MLR calculation. Elective abortion claims are not covered under the FEHBP, except when the life of the mother is endangered or the pregnancy resulted from rape or incest. We reviewed 11 abortion claims and determined that 10 of these claims were elective and should not have been covered. These 10 elective abortion claims totaled $8,470. As a result, we removed $8,470 from the incurred claims in our audited MLR calculation.

Plan's Comments (see Appendix):
The Plan agrees with our finding.

Based upon the issues outlined above, our audited MLR calculation resulted in an MLR of 83.25 percent compared to the Plan's calculated MLR of [redacted] percent. The result is an MLR penalty underpayment of $20,016,333 (see Exhibit B).

Recommendation 1

We recommend that the contracting officer require the Plan to return $20,016,333 to the MLR subsidization penalty account for contract year 2012.

Recommendation 2

We recommend that the contracting officer require the Plan to implement proper system edits to prevent claims from being paid for ineligible members and non-covered benefits.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

COMMUNITY-RATED AUDITS GROUP

[redacted], Auditor-in-Charge

[redacted], Auditor

[redacted], Auditor

[redacted], Senior Team Leader

[redacted], Chief

EXHIBIT A

Aetna HealthFund
Summary of Questioned Costs

Contract Year 2012

Medical Loss Ratio Questioned Costs	$20,016,333
Total Questioned Costs	**$20,016,333**

EXHIBIT B

Aetna HealthFund
MLR Questioned Costs

	Per Audit	Per Plan
2012 FEHBP MLR Target	89%	89%
Claims Expense		
Medical and Pharmacy Claims	[redacted]	[redacted]
Dental Claims	$	$
Health Savings Account Deposits		
Finding: Vendor Payments		
Finding: Non-covered benefits		
Finding: Pharmacy Claims paid on termed members		
Less: Prescription Drug - Rebate		
Allowable Fraud Reduction Expense		
Less: Healthcare Receivables Current		
Incurred Claims		
Expenses to Improve Health Care Quality		
Total Adjusted Incurred Claims	$336,032,315	$337,051,618
Premiums		
Earned Premium	$409,883,534	$409,883,534
Less: Federal and State Taxes and Licensing or Regulatory Fees	$6,226,652	$27,571,630
Adjusted Premiums	$403,656,882	$382,311,904
Less: Defective Pricing Finding (Due OPM)	$0	$0
Total Adjusted Premiums less Defective Pricing Finding	$403,656,882	$382,311,904
Total Adjusted Incurred Claims (MLR Numerator)	$336,032,315	$337,051,618
Total Adjusted Premiums less Defective Pricing (MLR Denominator)	$403,656,882	$382,311,904
FEHB MLR Calculation	83.25%	88.16%
Penalty Calculation	$23,222,310	$3,205,977
Penalty Paid	$3,205,977	$3,205,977
MLR Underpayment Finding (Due OPM)	**$20,016,333**	**$0**

980 Jolly RoadBlue Bell, PA 19422

[redacted]
Executive Director
FEHBP Underwriting
Tel: [redacted]
Email: [redacted]@aetna.com

March 24, 2015

[redacted]
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: Audit of Aetna HealthFund
Contract Number CS 2900 – Plan Code 22
Report No. 1C-22-00-14-071

Dear [redacted]:

Thank you for the opportunity to respond to the draft audit report dated February 24, 2015. After careful review of the draft report, we agree with the draft report's findings on *Dental Claims, Vendor Payments, Non-Covered Benefits,* and *Pharmacy Claims Paid on Ineligible Members*. However, discussed in detail in the attached response, we respectfully disagree with the OIG's findings that the Aetna HealthFund's method to determine the portion of federal income taxes attributed to the FEHBP was not fair and equitable for purposes of calculating the 2012 Minimum Loss Ratio. We believe that Aetna HealthFund's calculation of federal income taxes was consistent with the standard required in the MLR regulations and accordingly the subsidization penalty in the draft report is overstated.

Please see the attached analysis in support of Aetna HealthFund's position. If you have any questions as you review our response please call.

Sincerely,

[redacted]

[redacted]
Executive Director

cc: Alan Spielman
Assistant Director for Federal Employees Insurance Operations

Lloyd Williams
Deputy Assistant Director for Federal Employees Insurance Operations

[redacted]
Chief, Health Insurance Group III

[redacted]
Health Insurance Group III

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Actuaries group

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Audit Resolution

[redacted]
Contract Specialist, Health Insurance Group III

[redacted]
President, Federal Plans

Response to Draft Report dated February 24, 2015

Audit of Aetna HealthFund
Blue Bell, Pennsylvania

Report No. 1C-22-00-14-071

Contents

I. Introduction/Executive Summary

Aetna submits the following comments to the above mentioned draft report ("Draft Report") issued by the Office of Personnel Management ("OPM") Office of Inspector General ("OIG") under the Federal Employees Health Benefits Program ("FEHBP"). The audit covered the FEHBP contract for the Aetna HealthFund Plan Code 22, (hereinafter, the "Plan") for the contract year 2012 Medical Loss Ratio ("MLR") pilot program.

The Draft Report found that the Plan underpaid its 2012 MLR subsidization penalty in the amount of $20,088,002. The Draft Report cites five specific findings that make up the $20,088,002. The Plan agrees with the Draft Report's findings on *Dental Claims, Vendor Payments, Non-Covered Benefits,* and *Pharmacy Claims Paid on Ineligible Members*.

As discussed in detail below, the Plan disagrees with the finding pertaining to the tax allocation methodology. Specifically, the Plan disagrees with OIG's use of the premium ratio allocation method to determine the FEHBP's portion of federal income tax. The federal MLR regulations at 45 C.F.R. §158.170 require that the tax allocation method be based upon a generally accepted accounting method ("GAAM") that is expected to yield the most accurate results. The Plan believes its calculation is correct and meets the standards set under a GAAM and therefore satisfies the requirements of 45 C.F.R. § 158.170. In this response, the Plan demonstrates through a detailed explanation and supporting examples that the method the Plan used to allocate Federal income tax provides the most accurate results, and is consistent with the method used to calculate the Department of Health and Human Services ("HHS") MLR filings.

II. Medical Loss Ratio Background

The Affordable Care Act ("ACA") passed in 2010 included a requirement that a minimum amount of premiums collected by health insurance carriers must be spent on medical benefits. This requirement became known as the MLR and requires health insurance carriers to meet a predetermined threshold for the percentage of premium that is spent on medical benefits. Failure to meet the threshold requires a rebate of premium to policyholders.

The MLR is calculated as total claims paid divided by premiums. However, the ACA allows for certain adjustments to both the claim and premium numbers in the ratio. Claims include medical benefits paid on behalf of members and are adjusted by the cost of health care quality improvement activities ("QIA"). Premiums include premium revenue from members and plan sponsors and are adjusted by federal and state taxes, and licensing and regulatory fees.

In 2012, OPM adopted an MLR requirement for the FEHBP on a pilot basis and the Plan elected to participate in the pilot. *See* 77 Fed. Reg. 19522 (April 2, 2012). OPM published MLR regulations and other guidance that generally adopts the HHS MLR guidelines in addition to a few requirements specific to the FEHBP MLR program.

III. Tax Allocations and Generally Accepted Accounting Method

a. Background

The amount of federal taxes to be used as an adjustment to premiums is the amount allocated to health insurance coverage reported on the MLR form. A health insurer pays federal taxes on all of its business net income on a combined basis. Consequently, the amount of federal income tax related to health insurance coverage reported on the MLR form must be allocated. The ACA did not include specific rules for calculating MLR. Rather, HHS was directed to establish detailed rules by regulation. HHS promulgated regulations in 2010 and 2011 that contain detailed rules, including the method to allocate expenses in the MLR calculation. 75 Fed. Reg. 74864 (Dec. 1, 2010) as amended by 76 Fed. Reg. 76574 (Dec. 7, 2011).

The applicable regulation states in part, "[a]llocation to each category should be based on a generally accepted accounting method that is expected to yield the most accurate results." and "[a]ny basis adopted to apportion expenses must be that which is expected to yield the most accurate results and may result from special studies of employee activities, salary ratios, premium ratios or similar analyses." (see 45 C.F.R. §§ 158.170(b)(1) and (3)).

b. Aetna HealthFund Income Tax Allocations

The Plan adopted a method to allocate federal income tax that is based upon the net income or loss generated by the "reporting unit." With respect to the HHS MLR filing, the "reporting unit" is the MLR segment and contract situs or location ("MLR Pool") as outlined in the HHS filing form[1]. For the FEHBP MLR filing, the "reporting unit" is the Plan Code that is included in the FEHBP MLR filing form[2]. With respect to federal income tax returns, the "reporting unit" is the legal entity.

Allocated income tax can be either an expense or a refund depending on whether a reporting unit experiences net income or loss. For the HHS and FEHBP MLR tax allocations, Aetna allocates income tax expense to reporting units with net income and an income tax refund to reporting units with a net loss. This allocation is consistent with Generally Accepted Accounting Principles ("GAAP") as promulgated by the Financial Accounting Standards Board and with Statutory Accounting Principles ("SAP") as promulgated by the National Association of Insurance Commissioners. In fact, the MLR calculation for income taxes instructs the use of SAP as the accounting standard for such taxes.

The income tax allocation method that Aetna uses for the FEHBP MLR reporting and HHS MLR reporting is consistent with the United States ("US") accounting principles explained above. The only difference between Aetna's HHS MLR reporting and FEHBP MLR reporting is that the HHS form includes all the MLR Pools in a legal entity. The FEHBP MLR form includes only the reported Plan Code activity and that Plan Code may

[1] The 2012 HHS MLR reporting form and instructions are included as Exhibits A and B, respectively.
[2] The 2012 FEHBP MLR reporting form and instructions are included as Exhibit C and D, respectively.

include more than one legal entity. Therefore, Aetna allocates general and administrative expenses along with the Plan Code's premiums and incurred claims in order to determine the net income or loss from the Plan Code. The final step is the allocation of income tax expense or refund to the Plan Code using the tax rate applicable to the net income or loss in Aetna's income tax returns.

Unlike income taxes, non-income taxes, such as employment taxes and QIA expenses, are not based on income. Therefore, these specific items are allocated based on the premium ratio allocation method used by the Plan, with which the Draft Report agrees.

IV. OIG Tax Allocation Audit Findings

The Draft Report contains a preliminary finding that the Plan did not use a fair and equitable allocation method to determine the portion of Federal income taxes attributed to the FEHBP and identifies a draft MLR penalty underpayment of $20,088,002. According to the Draft Report, the premium ratio allocation method that the Plan used for non-income tax expenses and QIA is also the appropriate method for income tax expense.

The Plan respectfully disagrees that the premium ratio allocation method is an appropriate method to allocate income taxes as there is no conceptual basis in applicable US accounting standards for income taxes to be determined based solely on premium. It is net income or loss that generates income tax expense and refunds under US tax laws and regulations, as well as US accounting principles. Relying solely on premiums produces inaccurate results as this method ignores a fundamental accounting principle that income taxes are determined on net income or loss.

a. AHF FEHBP Tax Allocation not proportionate, appropriate or a GAAM

The Draft Report states, "the Plan's method used to allocate the Federal income tax to the FEHBP is not applied proportionately, appropriately, and is not based on a generally accepted accounting method."

As discussed previously in this response, the Plan asserts that with respect to allocating income taxes, a GAAM must account for income net of expenses (i.e., net income or loss) in order to be appropriate and yield an accurate result. The Plan's tax allocation method is appropriate as Plan Codes reporting net loss are allocated a proportionate income tax refund and Plan Codes reporting net income are allocated a proportionate income tax expense.

This allocation method is consistent with the HHS MLR tax allocations that allocate a proportionate income tax refund to MLR Pools reporting net losses and income tax expense to MLR Pools reporting net income.

The Plan's income tax allocation method is a GAAM and conforms with GAAP and SAP accounting principles that produce income tax expense for reporting units with net income and income tax refund for reporting units with net losses.

b. AHF FEHBP Tax Allocation exceeded HHS Tax allocated to all Large Group MLR Pools

The Draft Report states, "for federal income taxes, the Plan attempted to compute the gain or loss on the FEHBP as if it was its own entity. The result was a Federal Income tax allocation of $22,573,129 to FEHBP; even though the grand total HHS Federal income tax for large groups was $12,732,785."

The Plan disagrees with the Draft Report. During the on-site audit, Plan staff provided the OIG auditors with a revised income tax allocation that showed the correct income tax expense is $14,268,997 and not $22,573,129 as reported on the original MLR filing[3]. Therefore, the Draft Report's comparison of the Plan's tax allocation to the HHS federal income tax for all large group pools of $12,732,785 should be based upon this revised income tax expense.

The Plan's income tax allocation method for FEHBP MLR reporting allocates income tax expense to Plan Code units that report net income and income tax refunds to Plan Code units that report net loss. Aetna's income tax allocation method for HHS MLR reporting allocates income tax expense to MLR Pools that report net income and income tax refunds to MLR Pools that report net loss. For 2012 HHS MLR reporting, Aetna Life Insurance Company (the legal entity that reports the AHF Plan Code) had 28 HHS large group pools that were allocated income tax refunds totaling $29,469,383 and 22 HHS large group pools that were allocated income tax expense totaling $42,202,168[4]. Therefore, an MLR Pool can be allocated more income tax expense than the total of all of the MLR Pools within the Large Group segment[5].

The Plan's FEHBP income tax expense allocation is consistent with the HHS MLR tax allocations where MLR Pools reporting net income are allocated income tax expense and MLR Pools reporting a net loss are allocated income tax refunds.

c. AHF FEHBP Tax Allocation treats FEHBP Plan Code as a legal entity

The Draft Report states, "it is not suitable to treat the FEHBP as if it were its own legal entity since expenses are not tracked at the group level and the method is not related to actual expenses incurred. As the Plan did for several other expenses in its MLR calculation, the premium ratio allocation method is a more appropriate method."

The Plan did not treat the Plan Code as if it were its own legal entity. Rather, the Plan simply computed the net income or loss attributable to the Plan Code, as that is the reporting unit required to file the FEHBP MLR form. This computation included the actual premiums and claims associated with the Plan Code and associated expenses allocated to the Plan Code.

[3] During the onsite portion of the OIG audit, Aetna agreed that certain expenses allocated to the Plan Code were incorrect and adjusted net income reported by the Plan Code. Consequently, the allocated income tax expense was reduced to $14,268,997.

[4] Attached Exhibit E details the income tax allocation to all MLR Pools in the HHS Large Group that total $12,732,785.

[5] For example, see the DC MLR Pool in Exhibit E.

1. Allocation of expenses to determine Plan's net income or loss.

The Plan applied the following premium ratio to allocate non-income tax expenses and other non-tax expenses to determine the Plan's net income or loss:

$$\frac{\text{AHF Plan Code Premium}}{\text{Legal Entity Premium for all HHS Large Group Pools}}$$

Since the Plan Code was included in the HHS Large Group pools, this ratio is a GAAM that yields the most accurate allocation of non-income tax expenses and other non-tax expenses such as QIA.

With respect to the FEHBP, this allocation was used only for those expenses that are applicable to the FEHBP business. For instance, the Plan's expense allocation specifically excluded state premium tax expense and broker commissions since FEHBP premiums are exempt from state premium tax and the FEHBP does not use brokers.

2. Income tax expense or refund allocated based on net income

As discussed above, income tax expense or refunds are fundamentally different from non-income tax or other non-tax expenses because they are based upon the net income or loss of the reporting unit. Therefore, it is necessary to determine net income or loss in order to appropriately allocate income taxes to the Plan Code.

The Plan's method to allocate income tax expense or refund applies the non-income tax and non-tax expense allocation method discussed in the section above to determine the net income or loss from the Plan Code and then uses this result to allocate income tax expense or refund to the Plan Code. This is not an attempt to treat the Plan Code as if it were its own legal entity, but necessary to determine the appropriate income tax expense or refund to allocate to the Plan Code.

Aetna does not allocate income tax expense or refund on the HHS MLR filings using a premium ratio used for non-income taxes because a premium ratio would not be a GAAM that yields the most accurate result. The same method is necessary for the FEHBP MLR filing; the income tax allocation method must be different from the allocation method for non-income tax and other non-tax expenses in order to be a GAAM. If a premium ratio is used to allocate income tax, the same amount of income tax would be allocated to two Plan Codes with the same premium income even though one incurred significantly higher claims. This is illustrated in Example 1 in Section VI below where the Ohio and Texas Plan Codes are allocated the same income tax expense under this method even though they incurred higher claims. That result is inconsistent with US accounting principles and is not the most accurate allocation method as required by the HHS MLR regulations.

V. AHF Income Tax Allocation Method

The Plan's method to allocate income tax expense or refund is based upon the net income or loss associated with the Plan Code for the year. To fully illustrate the Plan's

method, the following section provides three examples, which compare the income tax allocations as proposed in the Draft Report to the income tax allocations using the Plan's method.

The Plan Code's income tax allocation is the final allocation performed after calculating the Plan Code's net income. All applicable expenses other than income taxes are allocated to the Plan Code using a gross premium percentage ratio that is calculated by dividing the Plan Code's premium by the premium for all large group pools. The Plan Code's claims and these allocated expenses are deducted from the Plan Code's gross premium to generate the net income or loss per Plan Code. Then the income tax is allocated by multiplying the Plan Code net income or loss by the applicable tax rate. This produces an income tax expense for Plan Codes that generate net income or an income tax refund for Plan Codes that generate net losses. This allocation method is illustrated as follows:

	Total	FL	OH	TX
Gross Premiums	1,200.0	400.0	400.0	400.0
Claims	(1,075.0)	(340.0)	(365.0)	(370.0)
Allocated Expenses (Plan Code Gross Premiums divided by Total Gross Premiums):				
Non-income taxes	(18.0)	(6.0)	(6.0)	(6.0)
QIA	(15.0)	(5.0)	(5.0)	(5.0)
All other G&A Expenses	(75.0)	(25.0)	(25.0)	(25.0)
Net Income/(Loss)	17.0	24.0	(1.0)	(6.0)
Applicable Tax Rate	35%	35%	35%	35%
Income Tax Expense/(Refund)	6.0	8.4	(0.4)	(2.1)

The Draft Report method differs from the Plan's method in that it utilizes the gross premium ratio, used to allocate expenses other than income tax, to allocate the total income tax expense or refund for all large group pools. This method does not account for the fact that some Plan Codes generate net income and others generate a net loss.

The examples below demonstrate why the Plan's method is proportionate, consistent and accurate. These standards establish that the Plan's method is a GAAM that yields the most accurate results.

VI. Examples of Income Tax Allocation - AHF Method and Draft Report Method

Example 1

Carrier has entered into 3 FEHBP Plan Codes – one each in Florida, Ohio and Texas.
Carrier has no other business.
The Florida Plan Code generates net income.
The Ohio and Texas Plan Codes generate net losses.

Non-claim expenses are allocated based upon a Premium ratio (Ratio for each Plan Code = $400 / $1,200 = 33.3%).
Plan Code results for 2012 are as follows:

	Total	FL	OH	TX
Plan Code Premiums	1,200.0	400.0	400.0	400.0
Plan Code Claims	(1,075.0)	(340.0)	(365.0)	(370.0)
Allocated Expenses:				
Non-income taxes	(18.0)	(6.0)	(6.0)	(6.0)
QIA	(15.0)	(5.0)	(5.0)	(5.0)
All other G&A Expenses	(75.0)	(25.0)	(25.0)	(25.0)
Net Income/(Loss)	17.0	24.0	(1.0)	(6.0)
Applicable Tax Rate	35%			
Income Tax Expense/(Refund)	6.0			

Income Tax Allocation and MLR Ratios per the Draft Report Method (premium ratio method used to allocate non- claim expenses):

	Total	FL	OH	TX
Income Tax Expense/(Refund)	6.0	2.0	2.0	2.0
MLR ratio	91.3%	86.7%	93.0%	94.2%

Income Tax Allocation and MLR Ratios per the Plan's Method (Net income/(loss) multiplied by the applicable tax rate):

	Total	FL	OH	TX
Income Tax Expense/(Refund)	6.0	8.4	(0.4)	(2.1)
MLR ratio	91.3%	88.1%	92.4%	93.3%

Observation/Comment:
The Draft Report Method allocates the same income tax expense to all three FEHBP Plan Codes. The Draft Report Method also allocates income tax expense to the two Plan Codes that reported net losses for 2012 as opposed to allocating an income tax refund. This method does not yield an accurate result because a Plan Code with a net loss would not pay income tax but would receive a tax refund.

The Plan Method allocates an income tax refund to the two Plan Codes that reported net losses.

Example 2

Carrier has entered into 3 FEHBP Plan Codes – one each in Florida, Ohio and Texas.
Carrier has no other business.
The Florida Plan Code generates the same net income as in Example 1.
The Ohio and Texas Plan Codes also generate net income.

Non-claim expenses are allocated based upon a Premium ratio (Ratio for each Plan Code = $400 / $1,200 = 33.3%).
Plan Code results for 2012 are as follows:

	Total	FL	OH	TX
Plan Code Premiums	1,200.0	400.0	400.0	400.0
Plan Code Claims	(1,005.0)	(340.0)	(330.0)	(335.0)
Allocated Expenses:				
Non-income taxes	(18.0)	(6.0)	(6.0)	(6.0)
QIA	(15.0)	(5.0)	(5.0)	(5.0)
All other G&A Expenses	(75.0)	(25.0)	(25.0)	(25.0)
Net Income/(Loss)	87.0	24.0	34.0	29.0
Applicable Tax Rate	35%			
Income Tax Expense/(Refund)	30.5			

Income Tax Allocation and MLR Ratios per the Draft Report Method (premium ratio method used to allocate non- claim expenses):

	Total	FL	OH	TX
Income Tax Expense/(Refund)	30.5	10.2	10.2	10.2
MLR ratio	87.2%	88.5%	85.9%	87.2%

Income Tax Allocation and MLR Ratios per the Plan's Method (Net income/(loss) multiplied by the applicable tax rate):

	Total	FL	OH	TX
Income Tax Expense/(Refund)	30.5	8.4	11.9	10.2
MLR ratio	87.2%	88.1%	86.3%	87.2%

Observation/Comment:
The Draft Report Method allocates the same income tax expense to all three FEHBP Plan Codes. The Draft Report Method allocates a different amount of income tax expense to the Florida Plan Code than in Example 1, even though the Plan Code results are identical to the results in Example 1. The MLR for the Florida Plan Code is impacted by the results of the Ohio and Texas Plan Codes resulting in inconsistent income tax allocations among the Plan Codes.

The Plan Method allocates a different income tax expense to each of the Plan Codes based upon the varying amount of net income. The Plan Method allocates the same income tax expense and reports the same MLR for the Florida Plan Code as in Example 1, which is accurate and appropriate since the Florida Plan Code results are the same under both examples.

Example 3

Carrier has entered into 3 FEHBP Plan Codes – one each in Florida, Ohio and Texas.
Carrier has no other business.
The Florida Plan Code generates the same net income as in Example 1.
The Ohio Plan Code generates the same net income as in Example 2.
The Texas Plan Code generates the same net loss as in Example 1.
Non-claim expenses are allocated based upon a Premium ratio (Ratio for each Plan Code = $400 / $1,200 = 33.3%).
Plan Code results for 2012 are as follows:

	Total	FL	OH	TX
Plan Code Premiums	1,200.0	400.0	400.0	400.0
Plan Code Claims	(1,005.0)	(340.0)	(330.0)	(370.0)
Allocated Expenses:				
Non-income taxes	(18.0)	(6.0)	(6.0)	(6.0)
QIA	(15.0)	(5.0)	(5.0)	(5.0)
All other G&A Expenses	(75.0)	(25.0)	(25.0)	(25.0)
Net Income/(Loss)	52.0	24.0	34.0	(6.0)
Applicable Tax Rate	35%			
Income Tax Expense/(Refund)	18.2			

Income Tax Allocation and MLR Ratios per the Draft Report Method (premium ratio method used to allocate non- claim expenses):

	Total	FL	OH	TX
Income Tax Expense/(Refund)	18.2	6.1	6.1	6.1
MLR ratio	89.3%	87.6%	85.0%	95.2%

Income Tax Allocation and MLR Ratios per the Plan's Method (Net income/(loss) multiplied by the applicable tax rate):

	Total	FL	OH	TX
Income Tax Expense/(Refund)	18.2	8.4	11.9	(2.1)
MLR ratio	89.3%	88.1%	86.3%	93.3%

Observation/Comment:
The Draft Report Method allocates the same income tax expense to all three FEHBP Plan Codes. The Draft Report Method allocates a different amount of income tax expense to the Florida Plan Code than in Examples 1 and 2, even though the Plan Code results are identical to the results in Examples 1 and 2. In addition, the Draft Report Method allocates a different amount of income tax expense to the Ohio Plan Code than in Example 2, even though the Plan Code results are identical to the results in Example 2.

Lastly, the Draft Report Method allocates a different amount of income tax expense to the Texas Plan Code than in Example 1, even though the Plan Code results are identical to the results in Example 1. The MLR for each Plan Code is impacted by the results of the other Plan Codes resulting in inconsistent and incorrect income tax allocations even when the Plan Code results are identical in the examples.

The Plan Method allocates the same income tax expense and reports the same MLR for the Florida Plan Code as in Examples 1 and 2; allocates the same income tax expense and reports the same MLR for the Ohio Plan Code as in Example 2; and allocates the same income tax expense and reports the same MLR for the Texas Plan Code as in Example 1. These are correct and appropriate income tax allocations since the Plan Code results have not changed in these examples.

VII. Aetna's Response to Other OIG Findings

Dental Claims – The Plan agrees with the Draft Report's finding of $973,820 and has applied this adjustment into the updated MLR calculation in this response. The total dental claims applied in the MLR calculation are $14,205,302.

Vendor Payments – The Plan agrees with the Draft Report's finding of $71,669. However, in the revised calculation in Exhibit B of the Draft Report, $71,669 was subtracted twice from the total claims; once in the Medical and Pharmacy Claims (line one) and once in the Finding: Vendor Payments (line four). The Plan has applied this amount once to the updated MLR calculation in this response.

Pharmacy Claims Paid on Ineligible Members – The Plan agrees with the Draft Report's finding of $2,180 and has applied this adjustment into the updated MLR calculation at the end of this response.

Non-Covered Benefits – The Plan agrees with the Draft Report that ten elective abortion claims totaling $8,470 should not have been covered and has applied this adjustment into the updated MLR calculation in this response.

To ensure accurate handling of potentially elective abortion claims going forward, our claims processing team has taken the following steps:

- Potentially elective abortion claims will be routed to a designated bin for three specialized processors to handle. These specialized processors will be trained on the handling of these claims.
- ECHS REVIEW –The Electronic Correspondence Handling System will be reviewed each day to intercept any requested Medical Records to send to the specialized processors for submission to Clinical Claim Review (CCR), because potential abortion claims are frequently pended for Medical Records.
- CLINICAL REVIEW & APPROVAL – A specialized Registered Nurse will review the Medical Records to determine if the procedure is elective or therapeutic. If

therapeutic, the abortion-case will be routed to the Sr. Medical Director, Head of Women's Health (or designee) for verification of determination. Final determination will be sent back to designated project managers.

- DAILY REPORT – A daily report will be pulled before noon each day to identify and review processed abortion claims for accuracy.
- TRACKING – Each routed abortion claim will be tracked on a spreadsheet through finalization.
- Two managers will validate that CCR determined the claim to be therapeutic (non-elective).
- As part of the action plan, we are in the process of performing an audit of the abortion claims for the past several years and will continue to do so for future years.

VIII. Conclusion

As explained above and demonstrated in the examples provided, the Plan's income tax allocation method is a GAAM that yields the most accurate result. That is, the Plan's method produces consistent results when the Plan Code results are the same, and is not impacted by changes resulting from other activity occurring within the legal entity. An allocation method that produces a different result when the activity of other business or Plan Codes change cannot be considered a GAAM that yields the most accurate result.

The Plan has updated the MLR calculation to account for the applicable adjustments described in this response. These include the adjustments to the dental claims, the vendor payments, the non-covered benefits, the pharmacy claims, and the Plan's income tax allocation method. The updated MLR calculation results in the Plan owing the FEHBP $8,239,479 as computed below.

Revised Penalty Calculation

Aetna Health Fund
MLR Questioned Costs

	Adjusted Per Plan	Per Draft Report	Per Original Filing
2012 FEHBP MLR Target	**89%**	**89%**	**89%**
Claims Expense			
Medical and Pharmacy Claims	$		
Dental Claims			
Health Savings Account (HSA) Deposits			
Finding: Vendor Payments			
Finding: Non-covered benefits paid by Plan			
Finding: Pharmacy Claims paid on termed members			
Less: Prescription Drugs - Rebate			
Allowable Fraud Reduction Expense			
Less: Healthcare Receivables Current Year			)
Incurred Claims			
Expenses to Improve Health Care Quality			
Total Adjusted Incurred Claims	$336,032,315	$335,960,646	$337,051,618
Premiums			
Earned Premium	$409,883,534	$409,883,534	$409,883,534
Less: Federal and State taxes and Licensing or Regulatory Fees[6]	$19,459,072	$6,226,652	$27,571,630
Adjusted Premiums	$390,424,462	$403,656,882	$382,311,904
Less: Defective Pricing Finding (Due OPM)	$0	$0	$0
Total Adjusted Premiums less Defective Pricing Finding	$390,424,462	$403,656,882	$382,311,904
Total Adjusted Incurred Claims (MLR Numerator)	$336,032,315	$335,960,646	$337,051,618
Total Adjusted Premiums (MLR Denominator)	$390,424,462	$403,656,882	$382,311,904
FEHBP MLR Calculation	86.07%	83.23%	88.16%
Penalty Calculation	$11,445,456	$23,293,979	$3,205,977
Penalty Paid	$3,205,977	$3,205,977	$3,205,977
Net MLR Underpayment Finding (Due OPM)	$8,239,479	$20,088,002	$0

[6] Income Tax Expense included in these amounts as follows:

Adjusted Per Plan	Per Draft Report	Per Original Filing
$14,268,997	$1,036,575	$22,573,129

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