

**Memorandum**

Date MAR 11 1998
for June Gibbs Brown
Inspector General

Subject Audit of the Medicare Segment Closing at Travelers Insurance Company (A-07-97-01213)

To Nancy-Ann Min DeParle
Administrator
Health Care Financing Administration

This is to alert you to the issuance of our final audit report on March 13, 1998, identifying over \$5.6 million in excess pension assets at Travelers Insurance Company (Travelers) which should be remitted to Medicare because of the closing of Travelers' Medicare segment. A copy is attached and copies of the report have been distributed to your staff for adjudication of the finding.

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

We determined that as of January 1996 (the agreed-upon settlement date for the closing of the segment), Travelers had excess Medicare pension assets of over \$5.6 million. Regulations and the Medicare contracts provide that pension gains which occur when a Medicare segment closes should be credited to the Medicare program. Accordingly, we are recommending that Travelers remit over \$5.6 million in excess pension assets to the Medicare program.

Travelers primarily agreed with our recommendation but proposed reducing the amount of excess pension assets to about \$5 million because they believed our calculations were based on incorrect total pension plan assets. Our calculations were based on applicable regulations and amounts set forth in Travelers' actuarial valuation reports. The Health Care Financing Administration, Office of the Actuary, reviewed our report, including Traveler's comments, and agreed with our analysis and resultant recommendation.

We will be working with your staff to resolve the complicated issues addressed in this report. If you need additional information about this report, please contact Barbara A. Bennett, Regional Inspector General for Audit Services, Region VII, 816-426-3591.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF THE MEDICARE
SEGMENT CLOSING AT
TRAVELERS INSURANCE COMPANY**



**JUNE GIBBS BROWN
Inspector General**

**MARCH 1998
A-07-97-01213**



Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106
CIN: A-07-97-01213

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

Dear Ms. Crean:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Audit of the Medicare Segment Closing at Travelers Insurance Company*. The purpose of our review was to determine the excess assets that should be remitted to Medicare by Travelers Insurance Company (Travelers) because of the closing of its Medicare segment.

We computed excess Medicare pension assets of \$5,624,747 as of January 1, 1996, which Travelers should remit to the Federal government. Travelers agreed with our findings, with certain exceptions, and its response is included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

Travelers administered Medicare Part A, Part B, and Railroad Retirement operations under cost reimbursement contracts until the Medicare segment closing in 1994. In claiming costs, contractors were to follow cost reimbursement principles contained in the Federal Procurement Regulations (FPR), which were superseded by the Federal Acquisition Regulations (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts.

Since its inception, Medicare has paid a portion of the annual contributions made by contractors to their pension plans. These payments represented allowable pension costs under the FPR and/or the FAR. In 1980, both the FPR and Medicare contracts incorporated CAS 412 and 413.

The CAS 412 regulates the determination and measurement of the components of pension costs. It also regulates the assignment of pension costs to appropriate accounting periods.

The CAS 413 regulates the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

The Health Care Financing Administration (HCFA) incorporated segmentation requirements into Medicare contracts starting with Fiscal Year 1988. The contractual language specifies segmentation requirements and also provides for the separate identification of the pension assets for a Medicare segment.

The Medicare contract defines a segment, and specifies the methodology for the identification and initial allocation of pension assets to the Medicare segment. Furthermore, the contract requires that the Medicare segment assets be updated for each year after the initial allocation in accordance with CAS 413.

In our report titled "*Audit of Medicare Contractor's Pension Segmentation, the Travelers Insurance Company*", dated October 28, 1993 (CIN: A-07-93-00634) we addressed the computation of the asset fraction, the identification of the segment's assets as of January 1, 1986, and updated the segment's assets to January 1, 1991.

Travelers and MetLife formed the MetraHealth joint venture, by contributing their medical businesses (including Travelers' Medicare operations) to MetraHealth on January 3, 1995. Consequently, Travelers' Medicare segment employees were terminated and the Medicare segment was closed effective December 31, 1994.

Segment closings are addressed by CAS at 9904.413-50(c)(12), which states:

"If a segment is closed, the contractor shall determine the difference between the actuarial liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated....The calculation of the difference between the market value of the assets and the actuarial liability shall be made as of the date of the event that caused the closing of the segment. If such a date cannot be readily determined, or if its use can result in an inequitable calculation, the contracting parties shall agree on an appropriate date."

Medicare contracts specifically prohibit any profit (gain) from Medicare activities. Therefore, according to the contract, pension gains which occur when a Medicare segment terminates should be credited to the Medicare program. In addition, FAR addresses dispositions of gains in situations such as segment closings. When excess or surplus assets revert to a contractor as a result of termination of a defined benefit pension plan, or such assets are constructively received by it for any reason, the contractor shall make a refund or give credit to the Government for its equitable share (FAR, section 31.205-6(j)(4)).

OBJECTIVE, SCOPE AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards. Our objective was to determine the amount of excess assets that should be remitted to Medicare as a result of the Medicare segment closing. Achieving the objective did not require a review of Travelers' internal control structure.

Travelers' Medicare segment was closed on December 31, 1994 and the majority of Travelers' former Medicare segment employees began working for MetraHealth on January 3, 1995. However, former Travelers employees who were employed by MetraHealth continued to accrue benefits under the Travelers Pension Plan through January 31, 1996. Therefore, we agreed with Travelers that January 1, 1996 would be an appropriate settlement date for the closing of the segment. We therefore reviewed Travelers' identification of the Medicare segment and its update of Medicare assets from January 1, 1991 to January 1, 1996. Travelers identified total pension assets of \$1,777,195,215 and Medicare segment assets of \$26,323,948 as of January 1, 1996.

In performing the review, we used information provided by Coopers and Lybrand, Travelers' consulting actuary. The information included liabilities, normal costs, contributions, and earnings. We reviewed Travelers' accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, we verified Travelers' update of Medicare segment assets to January 1, 1996. The HCFA pension actuarial staff reviewed our methodology and calculations.

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

FINDING AND RECOMMENDATION

When Travelers' Medicare segment closed, Medicare's share of the excess pension assets was \$5,624,747, which we are recommending be remitted to HCFA. To determine Medicare's share it was necessary to (1) update segment assets to January 1, 1996, and (2) calculate the actuarial liability for accrued benefits for the segment, and the excess Medicare assets. These elements are described in detail in the following sections:

| |
|--------------------------------|
| Updating Segment Assets |
|--------------------------------|

As of January 1, 1996, Travelers identified Medicare segment assets of \$26,323,948. We determined Medicare segment pension assets to be \$27,199,273. The increase of \$875,325 resulted from:

(1) adjusting pension contributions (\$11,631 increase), (2) adjusting benefit payments (\$483,386 increase), (3) correcting the adjustment for participants that moved in and out of the Medicare segment (\$157,545 increase), and (4) calculating the update with corrected asset amounts and adjusting the rate of return on investments (\$222,763 increase).

Pension Contributions

By calculating interest on contributions based on the actual dates of deposit we increased Medicare segment assets by \$11,631. Travelers made four separate contributions to its pension plan for plan year 1991, two of which were made after December 31, 1991. Travelers assigned a portion of the contributions to the Medicare segment based on the segment's separately computed CAS pension cost. However, Travelers' calculations assumed that the segment's portion of the contributions came entirely from the first of the four deposits to the pension trust fund. As a result, Travelers maximized the discounted interest on the segment's contribution and minimized the actual contribution required, thereby treating Medicare differently than their other lines of business.

Like Travelers, we also assigned contributions to the Medicare segment based on the segment's separately computed CAS pension cost. However, we assumed that the segment's contributions were made in four separate installments in the same manner, and at the same time, as the total plan contributions. We also discounted the contributions for interest, using the same rate of return as Travelers used. However, we used the actual dates of deposit. Our calculations increased the segment's 1991 contributions from \$753,556 to \$765,187, and increased Medicare segment assets by \$11,631.

Benefit Payments

By using actual benefit payments for Medicare segment retirees, we increased Medicare segment assets by \$483,386. Travelers included a full year's annual benefit payments for all retirees, regardless of their date of termination. Additionally, Travelers duplicated payments for one retiree, and included benefit payments for two retirees that were not in the Medicare segment. A comparison of benefit amounts are shown on the following schedule.

| Year | Travelers | OIG | Variance |
|-------|--------------------|--------------------|------------------|
| 1991 | \$331,640 | \$250,432 | \$81,208 |
| 1992 | 407,196 | 330,805 | 76,391 |
| 1993 | 591,533 | 508,721 | 82,812 |
| 1994 | 876,051 | 760,663 | 115,388 |
| 1995 | <u>1,044,426</u> | <u>916,839</u> | <u>127,587</u> |
| Total | <u>\$3,250,846</u> | <u>\$2,767,460</u> | <u>\$483,386</u> |

Corrected benefit payment amounts were used in updating the Medicare segment assets shown in Appendix A. This resulted in a net increase of \$483,386 in the Medicare segment assets.

Participant Transfers

By correcting Travelers' transfer adjustments we increased Medicare segment assets by \$157,545. Travelers' update of segment assets included transfer adjustments for participants who transferred in and out of the Medicare segment for each year 1991 through 1995. We analyzed Travelers transfer adjustments and found that Travelers transferred out one participant that had also been transferred out in the prior year. We also found that Travelers misidentified one cost center as non-Medicare and consequently transferred out seven participants in error. We corrected these errors in our update and increased Medicare segment assets by \$157,545. See Appendix A.

Asset Amounts and Return on Investments

Travelers' update methodology calculated earnings on the Medicare segment assets based on the total plan's rate of return on investments. However, we found that Travelers did not calculate the total plan rate of return in the same manner that it was applied to segment assets. Additionally, Travelers' calculated the 1995 rate of return using incorrect total company values. These errors were compounded by the rates of return being applied to incorrect Medicare segment asset values, as identified in the previous findings.

We calculated the total company rates of return on investments for each year 1991 through 1995. We then consistently applied those rates to the adjusted Medicare segment assets in our update. As a result, we increased the Medicare segment assets by \$222,763.

| |
|--|
| Calculation of Actuarial Liability and excess Medicare Assets |
|--|

We computed the Medicare actuarial liability for accrued benefits to be \$21,574,526 as of January 1, 1996. This amount includes the accrued liability of participants who were in the Medicare segment as of the settlement date. Travelers identified the

Medicare actuarial liability for accrued benefits to be \$21,533,669 as of January 1, 1996. However, as previously mentioned Travelers incorrectly included two retirees in the Medicare segment, and erroneously transferred seven participants out of the segment. Additionally, Travelers included eight terminated vested participants in the segment that were non-Medicare participants. We corrected these misidentifications and increased the Medicare actuarial liability for accrued benefits by \$40,857.

After considering the Medicare segment assets of \$27,199,273 and the actuarial liability of \$21,574,526, the excess segment assets as of January 1, 1996 were \$5,624,747. Because of the closing of the Medicare segment, this excess must be remitted to the Federal government.

Recommendation:

We recommend that Travelers :

Remit \$5,624,747 to the Health Care Financing Administration.

Auditee Response

Travelers comments are summarized in the following paragraphs and presented in detail on Appendix B.

Travelers acknowledged that they had agreed to the January 1, 1996 settlement date, but pointed out that employees continued to accrue benefits until January 31, 1996. Therefore, the employees' liabilities should reflect the additional month of benefit accrual.

Travelers disagreed with our calculation of Medicare segment assets, because it was based on incorrect total plan asset values as of December 31, 1995. Travelers submitted a revised calculation of total plan assets and return on investments for 1995, based on the retirement plan's audited financial statements. According to Travelers, the difference between the original and revised asset amounts is due to the valuation of a Guaranteed Investment Contract (GIC). The revised asset amounts value the GIC at contract value, which Travelers asserts is the more appropriate measure of its market value. Based on the revised total plan asset values, the Medicare segment's pension assets were \$26,637,357 as of January 1, 1996.

Travelers agreed with our calculation of the Medicare segment's actuarial liability. Combined with the revised asset values, Travelers concluded that the Medicare segment's excess assets were \$5,062,831. However, Travelers did not agree that they should submit the entire amount to the Federal government. Instead, Travelers suggested offsetting the segment's excess pension assets against two other outstanding issues which represented amounts due to Travelers. Travelers requested that we not issue our final audit report until the other two open issues have been resolved.

OIG Comments

Our calculation of the segment's actuarial liability included the accrual of employees' benefits until January 31, 1996. We have revised our report to acknowledge that employees accrued benefits until that date.

The CAS specifically requires that the market value of assets be used for segment closing calculations. Our calculation of the Medicare segment's assets were based on the total company market value of assets as provided by Travelers' consulting actuary, and as set forth in Travelers' 1996 Actuarial Valuation Report. Therefore, we find no justification for reducing the total market value of assets, based on the lesser contract value of the GIC.

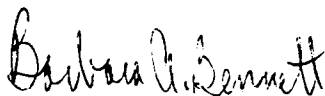
We are aware of the other two issues outstanding between Travelers and HCFA. However, the calculation of the Medicare segment's excess pension assets is not related to, or affected by, either of the issues.

INSTRUCTIONS FOR AUDITEE RESPONSE

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

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

Sincerely,



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

Enclosures

HHS Action Official:

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

Travelers Insurance Company
Hartford, Connecticut
CIN: A-07-97-01213

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1991 TO JANUARY 1, 1996

| Description | | Total Company | Other Segment | Medicare |
|-------------------------------|-----------|------------------------|------------------------|---------------------|
| Assets January 1, 1991 | <u>1/</u> | \$1,479,821,213 | \$1,462,392,789 | \$17,428,424 |
| Contributions | <u>2/</u> | \$27,180,000 | \$26,414,813 | \$765,187 |
| Earnings | <u>3/</u> | \$131,876,774 | \$130,280,284 | \$1,596,490 |
| Benefits | <u>4/</u> | (\$85,515,501) | (\$85,265,069) | (\$250,432) |
| Expenses | <u>5/</u> | \$0 | \$0 | \$0 |
| Transfers | <u>6/</u> | \$0 | (\$245,091) | \$245,091 |
| Assets January 1, 1992 | | \$1,553,362,486 | \$1,533,577,726 | \$19,784,760 |
| Contributions | | \$0 | \$0 | \$0 |
| Earnings | | \$181,305,453 | \$178,937,100 | \$2,368,353 |
| Benefits | | (\$97,621,200) | (\$97,290,395) | (\$330,805) |
| Expenses | | \$0 | \$0 | \$0 |
| Transfers | | \$0 | (\$300,545) | \$300,545 |
| Assets January 1, 1993 | | \$1,637,046,739 | \$1,614,923,886 | \$22,122,853 |
| Contributions | | \$0 | \$0 | \$0 |
| Earnings | | \$158,230,010 | \$156,040,911 | \$2,189,099 |
| Benefits | | (\$105,800,038) | (\$105,291,317) | (\$508,721) |
| Expenses | | \$0 | \$0 | \$0 |
| Transfers | | \$0 | \$5,577 | (\$5,577) |
| Assets January 1, 1994 | | \$1,689,476,711 | \$1,665,679,057 | \$23,797,654 |

Travelers Insurance Company
Hartford, Connecticut
CIN: A-07-97-01213

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1991 TO JANUARY 1, 1996

| Description | Total Company | Other Segment | Medicare |
|--|------------------------|------------------------|---------------------|
| Assets January 1, 1994 | \$1,689,476,711 | \$1,665,679,057 | \$23,797,654 |
| Contributions | \$0 | \$0 | \$0 |
| Earnings | \$114,361,760 | \$112,717,750 | \$1,644,010 |
| Benefits | (\$117,178,445) | (\$116,417,782) | (\$760,663) |
| Expenses | \$0 | \$0 | \$0 |
| Transfers | \$0 | (\$36,124) | \$36,124 |
| Assets January 1, 1995 | \$1,686,660,026 | \$1,661,942,901 | \$24,717,125 |
| Contributions | \$0 | \$0 | \$0 |
| Earnings | \$212,110,650 | \$208,940,186 | \$3,170,464 |
| Benefits | (\$121,575,461) | (\$120,658,622) | (\$916,839) |
| Expenses | \$0 | \$0 | \$0 |
| Transfers | \$0 | (\$228,523) | \$228,523 |
| Assets January 1, 1996 | \$1,777,195,215 | \$1,749,995,942 | \$27,199,273 |
| 1/1/96 Assets Per Travelers <u>7/</u> | \$1,777,195,215 | \$1,750,871,267 | \$26,323,948 |
| Variance <u>8/</u> | \$0 | (\$875,325) | \$875,325 |

Travelers Insurance Company
Hartford, Connecticut
CIN: A-07-97-01213

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1991 TO JANUARY 1, 1996

FOOTNOTES

- 1/ Total actuarial asset values were obtained from Travelers' valuation reports. We computed the Medicare segment assets based on our identification of the segment. The January 1, 1991 Medicare segment assets were established during our previous review (CIN: A-07-93-00634). The amounts shown for the other segment represent the difference between the total company and the Medicare segment.
- 2/ We obtained total contribution amounts, and dates of deposit, from IRS Form 5500 reports. We assigned contributions to the Medicare segment based on the segment's separately computed CAS funding target. Travelers used this same methodology.
- 3/ We calculated total company rates of return on pension investments from information obtained from Travelers' valuation reports and IRS Forms 5500. We assigned earnings to the Medicare segment using the total company rates of return. We calculated and applied the total company rates of return based on the average value of assets during each year. Pension administrative expenses were included in our calculations of the rates of return.
- 4/ Travelers provided benefit payment amounts and we verified them to IRS Form 5500 reports. We used the actual benefit payments for Medicare segment retirees.
- 5/ Travelers did not separately identify plan administrative expenses, but instead included the expenses as a reduction in plan earnings. We used the same methodology.
- 6/ Travelers transferred assets equal to the net transfer of the actuarial accrued liability of the participants who moved from the Medicare segment to the other segment, and vice versa. We verified Travelers' transfer adjustments by comparing annual participant listings provided by Travelers consulting actuary.
- 7/ We obtained the total assets as of January 1, 1996 from Travelers' update of assets provided by its actuary.
- 8/ The asset variance represents the difference between the OIG calculation of assets as of January 1, 1996 and the assets calculated by Travelers' actuary.



One Tower Square
Hartford, CT 06183-1080

Marissa F. Crean
Deputy General Auditor
Internal Audit, 11 MS
(860) 954-5018
(860) 954-6818 (fax)

October 3, 1997

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

Re: CIN: A-07-97-01213

Dear Ms. Bennett:

This letter is our response to your draft audit report for review titled *Audit of the Medicare Segment Closing at Travelers Insurance Company*.

We agree with your findings, except as follows:

1. In paragraph 2 of page 3, you stated that employees continued to accrue benefits through December 31, 1995. However, benefit accruals ceased on January 31, 1996. We agreed that the settlement date would be January 1, 1996, but that the liabilities would reflect the additional month of benefit accrual.
2. We disagree with your calculation of Medicare segment assets because it is based on incorrect total plan asset values as of December 31, 1995. We are submitting to you a revised calculation of total plan assets and return on investment for 1995 that is based on results of the retirement plan's audited financial statements. The primary difference is that the corrected figure uses the contract value for Guaranteed Investment Contract, which is a more appropriate measure of its market value. Taking into account the correct asset values, the Medicare segment assets are \$26,637,357.
3. We agree with your calculation of the Medicare segments' actuarial liability of \$21,574,526. Thus, the excess segment assets as of January 31, 1996 were \$5,062,831. However, we do not agree that we should remit this entire amount to the federal government. We wish to offset the amount of excess segment assets by two outstanding issues which represent amounts due to Travelers. One issue relates to the unfunded retiree medical and life insurance benefit liability for current and future eligible retirees from the Medicare operation. We are in the process of completing our valuation of this liability,

Page 2

and will be able to submit the calculation to you by the end of October. The second issue relates to the open audit years of 1990 - 1993. Depending on the resolution of relatively few items, it appears likely that the federal government will owe Travelers in the range of \$1.5 - \$2.5 million for the 1990 - 1993 period.

Both of the above issues must be resolved in connection with the segment closing. We request you withhold your final Audit Report until we have a resolution of these open issues.

Please advise me as to the next steps to be taken with respect to the Audit Report and if you have any questions regarding our response, please call me.

Very truly yours,



Marissa F. Crean
Deputy General Auditor

cc: J. Michener
M. Christophy
F. Lindgren
B. Shirk

Enclosures

Travelers Insurance company
Hartford, Connecticut
ICN: A-07-97-01213

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1995 TO JANUARY 1, 1996

| Description | Total Company | Other Segment | Medicare |
|-----------------------------|------------------|------------------|---------------|
| Assets January 1, 1995 | \$ 1,686,660,026 | \$ 1,661,942,901 | \$ 24,717,125 |
| Contributions | \$ - | \$ - | \$ - |
| Earnings | \$ 174,374,729 | \$ 171,766,181 | \$ 2,608,548 |
| Benefits | \$ (123,923,305) | \$ (123,006,466) | \$ (916,839) |
| Expenses | \$ - | \$ - | \$ - |
| Transfers | \$ - | \$ (228,523) | \$ 228,523 |
| Assets January 1, 1996 | \$ 1,737,111,450 | \$ 1,710,474,093 | \$ 26,637,357 |
| 1/1/96 Assets per Travelers | \$ 1,777,195,215 | \$ 1,750,871,267 | \$ 26,323,948 |
| Variance | \$ (40,083,765) | \$ (40,397,174) | \$ 313,409 |

File AVAFNA2.wk1

| Date | Description | Total Company | Timing Factors | Medicare Segment As Audited | Per 1/31/97 Letter | | 06/13/97 Timing Factors |
|----------|---|---------------|----------------|-----------------------------|--------------------|-------------|-------------------------|
| | | | | | ROI | Segment | |
| 01/01/91 | Actuarial Asset Value | 1,479,821,213 | | 17,428,424 | | 17,428,424 | |
| | Prepayment Transfer | 0 | 1.0000 | 0 | | 0 | 1.0000 |
| 1991 | Employer Contribution | 27,180,000 | 0.1531 | 765,187 | | 753,538 | 0.3370 |
| 9.17% | Investment Earnings * | 131,578,774 | | 1,595,490 | 9.48% | 1,658,060 | |
| | Benefit Payments | (88,815,801) | 0.5417 | (250,432) | | (331,840) | 0.5000 |
| | Net Asset Transfer | 0 | 0.0000 | 248,091 | | 248,091 | 0.0000 |
| 01/01/92 | Actuarial Asset Value | 1,553,362,486 | | 19,784,760 | | 19,753,511 | |
| | Prepayment Transfer | 0 | 1.0000 | 0 | | 0 | 1.0000 |
| 1992 | Employer Contribution | 0 | 0.0000 | 0 | | 0 | 0.0000 |
| 12.08% | Investment Earnings | 181,305,453 | | 2,368,353 | 12.10% | 2,366,439 | |
| | Benefit Payments | (97,621,200) | 0.5417 | (330,805) | | (407,186) | 0.5000 |
| | Net Asset Transfer | 0 | 0.0000 | 300,648 | | 300,648 | 0.0000 |
| 01/01/93 | Actuarial Asset Value | 1,637,046,739 | | 22,122,853 | | 22,012,398 | |
| | Prepayment Transfer | 0 | 1.0000 | 0 | | 0 | 1.0000 |
| 1993 | Employer Contribution | 0 | 0.0000 | 0 | | 0 | 0.0000 |
| 10.02% | Investment Earnings * | 158,230,010 | | 2,189,099 | 10.30% | 2,238,813 | |
| | Benefit Payments | (105,800,038) | 0.5417 | (508,721) | | (691,583) | 0.5000 |
| | Net Asset Transfer | 0 | 0.0000 | (5,577) | | (5,577) | 0.0000 |
| 01/01/94 | Actuarial Asset Value | 1,689,476,711 | | 23,787,654 | | 23,652,102 | |
| | Prepayment Transfer | 0 | 1.0000 | 0 | | 0 | 1.0000 |
| 1994 | Employer Contribution | 0 | 0.0000 | 0 | | 0 | 0.0000 |
| 7.03% | Investment Earnings * | 114,361,760 | | 1,844,010 | 7.30% | 1,894,828 | |
| | Benefit Payments | (117,178,446) | 0.5417 | (760,653) | | (876,051) | 0.5000 |
| | Net Asset Transfer | 0 | 0.0000 | 36,124 | | 35,109 | 0.0000 |
| | Travelers Grp Merged | 0 | 0.0000 | 0 | | 0 | 0.0000 |
| 01/01/95 | Actuarial Asset Value | 1,885,980,028 | | 24,717,125 | | 24,506,788 | |
| | Prepayment Transfer | 0 | 1.0000 | 0 | | 0 | 1.0000 |
| 1995 | Travelers Grp Contrib | 0 | | 0 | | 0 | |
| 18.77% | Investment Earnings * | 174,374,729 | 0.0000 | 2,698,848 | 9.81% | 2,352,788 | 0.0000 |
| | Benefit Payments | (123,923,305) | 0.5417 | (916,838) | | (1,044,428) | 0.5000 |
| | Net Asset Transfer | 0 | 0.0000 | 228,523 | | 71,993 | 0.0000 |
| 01/01/96 | Actuarial Asset Value | 1,737,111,450 | | 26,637,357 | | 25,886,144 | |
| | | | | 1.533428% | | 1.490183% | |
| 01/01/96 | ABCN Actuarial Liab | 1,549,182,349 | <FAS 35 PVAB | 21,574,528 | | 21,574,528 | |
| 01/01/96 | Market Value of Assets | 1,737,111,450 | | 26,637,357 | 1.533428% | 26,323,948 | 1.515386% |
| 01/01/96 | CAS 413-60(d)(12) Adj Medicare Share %age | (187,819,101) | | (5,062,831) | 100% | (4,749,422) | 100% |
| 01/01/96 | Credit Due Medicare | | | (5,062,831) | | (4,749,422) | |

REVISED WORKSHEET.

File AVAFINA1.wx1

| Date | Description | Total Company | Timing Factors | Medicare Segment As Audited | Per 1/31/97 Letter | | 05/13/97 Timing Factors |
|----------|---|----------------------------|----------------|-----------------------------|--------------------|-------------|-------------------------|
| | | | | | ROI | Segment | |
| 01/01/91 | Actuarial Asset Value | 1,479,821,213 | | 17,428,424 | | 17,428,424 | |
| | Prepayment Transfer | 0 | 1.0000 | 0 | | 0 | 1.0000 |
| 1991 | Employer Contribution | 27,180,000 | 0.1531 | 766,187 | | 753,556 | 0.3370 |
| 9.17% | Investment Earnings * | 131,878,774 | | 1,806,490 | 9.45% | 1,858,080 | |
| | Benefit Payments | (83,616,501) | 0.5417 | (250,432) | | (331,840) | 0.5000 |
| | Net Asset Transfer | 0 | 0.0000 | 246,091 | | 246,091 | 0.0000 |
| 01/01/92 | Actuarial Asset Value | 1,553,362,488 | | 19,784,760 | | 19,763,511 | |
| | Prepayment Transfer | 0 | 1.0000 | 0 | | 0 | 1.0000 |
| 1992 | Employer Contribution | 0 | 0.0000 | 0 | | 0 | 0.0000 |
| 12.08% | Investment Earnings | 181,305,453 | | 2,368,353 | 12.10% | 2,365,539 | |
| | Benefit Payments | (97,621,200) | 0.5417 | (350,805) | | (407,188) | 0.5000 |
| | Net Asset Transfer | 0 | 0.0000 | 300,545 | | 300,545 | 0.0000 |
| 01/01/93 | Actuarial Asset Value | 1,837,048,738 | | 22,122,853 | | 22,012,399 | |
| | Prepayment Transfer | 0 | 1.0000 | 0 | | 0 | 1.0000 |
| 1993 | Employer Contribution | 0 | 0.0000 | 0 | | 0 | 0.0000 |
| 10.02% | Investment Earnings * | 158,230,010 | | 2,189,099 | 10.30% | 2,236,813 | |
| | Benefit Payments | (108,800,038) | 0.5417 | (308,721) | | (591,533) | 0.5000 |
| | Net Asset Transfer | 0 | 0.0000 | (5,577) | | (5,577) | 0.0000 |
| 01/01/94 | Actuarial Asset Value | 1,889,478,711 | | 23,797,854 | | 23,652,102 | |
| | Prepayment Transfer | 0 | 1.0000 | 0 | | 0 | 1.0000 |
| 1994 | Employer Contribution | 0 | 0.0000 | 0 | | 0 | 0.0000 |
| 7.03% | Investment Earnings * | 114,361,790 | | 1,844,010 | 7.30% | 1,694,828 | |
| | Benefit Payments | (117,178,445) | 0.5417 | (780,863) | | (878,051) | 0.5000 |
| | Net Asset Transfer | 0 | 0.0000 | 38,124 | | 38,109 | 0.0000 |
| | Travelers Grp Merged | 0 | 0.0000 | 0 | | 0 | 0.0000 |
| 01/01/95 | Actuarial Asset Value | 1,688,660,028 | | 24,717,125 | | 24,505,789 | |
| | Prepayment Transfer | 0 | 1.0000 | 0 | | 0 | 1.0000 |
| 1995 | Travelers Grp Contrib | 0 | | 0 | | 0 | |
| 13.00% | Investment Earnings * | 212,110,650 | 0.0000 | 3,170,484 | 9.81% | 2,352,789 | 0.0000 |
| | Benefit Payments | (121,575,461) | 0.5417 | (916,838) | | (1,044,428) | 0.5000 |
| | Net Asset Transfer | 0 | 0.0000 | 228,523 | | 71,993 | 0.0000 |
| 01/01/96 | Actuarial Asset Value | 1,777,195,215 | | 27,199,273 | | 25,886,144 | |
| | | | | 1.530461% | →→ | 1.456573% | →→ |
| 01/01/96 | ABCN Actuarial Liab | 1,849,192,349 ←FAS 95 PVAB | | 21,574,528 | | 21,574,528 | |
| 01/01/96 | Market Value of Assets | 1,777,195,215 | | 27,199,273 | 1.530461% | 26,323,348 | 1.481207% |
| 01/01/96 | CAS 413-50(a)(12) Adj Medicare Share %age | (228,002,886) | | (5,624,747) | 100% | (4,749,422) | 100% |
| 01/01/96 | Credit Due Medicare | | | (5,624,747) | | (4,749,422) | |

HCEA's ORIGINAL WORKSHEET

TRAVELERS INSURANCE COMPANY

Development of 1995 Rate of Return on Assets

| | (REVISED) Audited Financial Statements | (USED BY HCFA) Market Value | Variance | Explanation |
|--|---|--------------------------------------|--------------|--|
| 1. Value of assets at 1/1/95 | 1,684,459,146 | 1,685,205,171 | (746,025) | See note below. |
| 2. Value of assets at 12/31/95 | 1,737,111,450 | 1,777,195,215 | (40,083,765) | See note below. Also, C&L valued the Immediate Participation Guaranteed Contract using the market value of the underlying assets. The audited financial statements use the contract value. The difference in these two values is \$41.9 million. Offsetting this variance is the inclusion of an asset transfer of \$1.8 million in the audited financial statements that C&L reflects later in their market value analysis. |
| 3. Increase = (2) - (1) | 52,652,304 | 91,990,044 | (39,337,740) | |
| 4. Contributions | - | - | - | |
| 5. Benefit Payments | 123,923,305 | 123,359,041 | 564,264 | See note below. |
| 6. Expenses | 4,232,680 | 4,587,431 | (354,751) | See note below. |
| 7. Other additions | - | 1,783,580 | (1,783,580) | C&L accrued an asset transfer that is included in the market value as of 12/31/95 per the audited financial statements. |
| 8. Net additions = (4) - (5) - (6) + (7) | (128,155,985) | (126,162,892) | (1,993,093) | |
| 9. Net investment increase = (3) - (8) | 180,808,289 | 218,152,936 | (37,344,647) | |
| 10. Average assets = [(1) + (2) - (9)] / 2 | 1,620,381,154 | 1,622,123,725 | | |

Note: The market value of assets was provided to Coopers & Lybrand for purposes of preparing our FAS 87 annual valuation. The audited financial statements are completed after the valuation report is issued. It is possible to have immaterial discrepancies in the amounts presented here because of findings discovered during the accounting and audit process.

**PENSION PLAN FOR SALARIED EMPLOYEES OF THE TRAVELERS INSURANCE COMPANY
AND CERTAIN AFFILIATES**

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

| | <u>As of December 31,</u> | |
|--|-----------------------------|-----------------------------|
| | <u>1995</u> | <u>1994</u> |
| Assets: | | |
| Investments: | | |
| At fair or estimated fair value: | | |
| Investments in separate accounts of The Travelers Insurance Company | \$ 879,565,967 | \$ 644,487,994 |
| Investments in State Street Global Advisors accounts | 245,051,586 | 398,494,054 |
| Investments in RCM Capital Management account | 29,498,358 | 25,000,000 |
| At contract value: | | |
| Immediate Participation Guarantee Contract with The Travelers Insurance Company | <u>582,995,539</u> | <u>616,477,098</u> |
| Net assets available for benefits | <u>\$ 1,737,111,450</u> | <u>\$ 1,684,459,146</u> |

See notes to financial statements.

**PENSION PLAN FOR SALARIED EMPLOYEES OF THE TRAVELERS INSURANCE COMPANY
AND CERTAIN AFFILIATES**

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| | <u>For the year ended December 31,</u> | |
|--|--|--------------------------------|
| | <u>1995</u> | <u>1994</u> |
| Net assets available for benefits as of beginning of year | <u>\$ 1,684,459,146</u> | <u>\$ 1,718,135,923</u> |
| Additions: | | |
| Net appreciation of investments at fair value | 143,091,793 | 51,079,367 |
| Interest and dividends | <u>37,716,496</u> | <u>36,338,044</u> |
| Total additions | <u>180,808,289</u> | <u>87,417,411</u> |
| Deductions: | | |
| Benefits paid directly to participants | 123,923,305 | 116,337,010 |
| Administrative expenses | <u>4,232,680</u> | <u>4,757,178</u> |
| Total deductions | <u>128,155,985</u> | <u>121,094,188</u> |
| Net assets available for benefits as of end of year | <u>\$ 1,737,111,450</u> | <u>\$ 1,684,459,146</u> |

See notes to financial statements.