DEPARTMENT OF HEALTH & HUMAN SERVICES Office of Inspector General

Washington, D.C. 20201

FEB - 6 2003

TO: Thomas Scully
Administrator
Centers for Medicare and Medicaid Services

FROM: Janet Rehnquist
Inspector General

SUBJECT: Audit of the Pension Plan at a Terminated Medicare Contractor, Blue Cross Blue Shield of North Carolina (A-07-02-03017)

As part of an ongoing collaborative effort between the Office of Inspector General and the Centers for Medicare and Medicaid Services (CMS), we are alerting you to the issuance within 5 business days from the date of this memorandum of our final report entitled, "Audit of the Pension Plan at a Terminated Medicare Contractor, Blue Cross Blue Shield of North Carolina." A copy of the report, identifying about $5.3 million in excess pension assets at Blue Cross Blue Shield of North Carolina (North Carolina) is attached.

We suggest that you share this report with the CMS components involved with monitoring the Medicare contractor financial operations, particularly the Office of Financial Management, the Center for Medicare Management, and the Office of the Actuary.

North Carolina was a Medicare contractor until their contract was terminated in 2001 and, as such, was allowed to claim Medicare reimbursement for their Medicare employees' pension costs. Regulations and the Medicare contracts provide, however, that pension gains, which occur when a Medicare segment of a pension plan closes, should be credited to the Medicare program. Accordingly, we are recommending that North Carolina remit about $5.3 million in excess pension assets to the Medicare program.

North Carolina disagreed with certain aspects of our calculations.

If you need additional information about this report, please contact George M. Reeb, Assistant Inspector General for the Centers for Medicare and Medicaid Audits, at (410) 786-7104 or James P. Aasmundstad, 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 PENSION PLAN AT A TERMINATED MEDICARE CONTRACTOR, BLUE CROSS BLUE SHIELD OF NORTH CAROLINA

JANET REHNQUIST
Inspector General

FEBRUARY 2003
A-07-02-03017

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at http://oig.hhs.gov/

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

FEB 12 2003

Report Number A-07-02-03017

Mr. Christopher Woodfin
Vice President of Finance
Blue Cross Blue Shield of North Carolina
P.O. Box 2291
Durham, North Carolina 27702-2291

Dear Mr. Woodfin:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review entitled *Audit of the Pension Plan at a Terminated Medicare Contractor, Blue Cross Blue Shield of North Carolina.* The purpose of our review was to evaluate Blue Cross Blue Shield of North Carolina's (North Carolina) compliance with the pension segmentation requirements of its Medicare contract and to determine the excess assets that should be remitted to Medicare as a result of the termination of the Medicare contractual relationship effective October 31, 2001.

We computed excess pension assets of $5,305,655 as of October 31, 2001 that North Carolina should remit to the Federal Government. North Carolina disagreed with certain aspects of our calculations and asserted that excess pension assets of $4,359,200 should be remitted to the Federal Government. North Carolina's response is included as Appendix B.

INTRODUCTION

BACKGROUND

North Carolina administered Medicare Part A under cost reimbursement contracts until the contractual relationship terminated in October 31, 2001. 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 Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, 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 entitled "*Review of Medicare Contractor's Pension Segmentation Blue Cross Blue Shield of North Carolina,*" dated April 14, 1994 (A-07-93-00682), we addressed the computation of the asset fraction, the identification of the Medicare segment assets as of January 1, 1986, and updated segment assets to January 1, 1992.

North Carolina has administered Medicare under cost reimbursement contracts since the start of the Medicare program. Beginning with fiscal year 1988, the Health Care Financing Administration incorporated pension segmentation requirements into Medicare contracts. The contractual language specifies segmentation requirements and also provides for separate identification of pension assets for a Medicare segment. Contract terminations and 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 accrued 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 difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously determined pension costs.
>
> (i) The determination of the actuarial accrued liability shall be made using the accrued benefit cost method. The actuarial assumptions employed shall be consistent with the current and prior long- term assumptions used in the measurement of pension costs....
>
> (iii) The calculation of the difference between the market value of the assets and the actuarial accrued liability shall be made as of the date of the event

> (e.g. contract termination, plan amendment, plant closure) that caused the closing of the segment.... If such a date is not readily determinable, 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 that occur when a Medicare segment terminates should be credited to the Medicare program. In addition, FAR addresses dispositions of gains in situations such as contract terminations. 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)).

OBJECTIVES, SCOPE, AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards. Our objectives were to determine North Carolina's compliance with pension segmentation requirements of its Medicare contract and to determine the amount of excess assets that should be remitted to Medicare as a result of the contract termination and Medicare segment closing. Achieving our objectives did not require a review of North Carolina's internal control structure.

North Carolina's Medicare contract was terminated and the Medicare segment closed on October 31, 2001. North Carolina and the OAS audit team agreed, October 31, 2001 would be an appropriate settlement date for the closing of the segment. We, therefore, reviewed North Carolina's identification of the Medicare segment and its update of Medicare assets from January 1, 1992 to October 31, 2001.

In performing the review, we used information provided by North Carolina and North Carolina's prior actuarial firms. The information included pension plan liabilities, contributions, benefit payments, earnings, and administrative expenses. We reviewed North Carolina's accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, we updated the segment assets and also calculated the excess assets as of October 31, 2001. The CMS pension actuarial staff reviewed our methodology and calculations.

Site work at North Carolina's corporate offices in Durham, North Carolina was performed during May 2002. We performed subsequent audit work in our OIG, OAS Kansas City, Missouri field office.

FINDINGS AND RECOMMENDATIONS

When North Carolina's Medicare segment closed, Medicare's share of the excess pension assets was $5,305,655. We are recommending $5,305,655 be remitted to CMS. To determine Medicare's share, it was necessary to (1) update the segment assets to October 31, 2001 and (2) calculate the actuarial liability for the accrued benefits for the segment and the excess Medicare assets.

As of October 31, 2001, North Carolina identified Medicare segment assets of $14,757,365. Additionally, North Carolina identified the Medicare segment's actuarial liability for accrued benefits as $9,698,568.

We reviewed North Carolina's update of Medicare segment assets to October 31, 2001. We also reviewed North Carolina's calculation of the Medicare segment's actuarial liability for accrued benefits as of October 31, 2001. We agreed with North Carolina's determination of the segment asset values. However, we disagreed with its determination of the segment's actuarial liability. We determined the segment liability should be $9,294,376. Therefore, we computed the excess segment assets to be $5,462,989 ($14,757,365 less $9,294,376) as of October 31, 2001. However, because the segment was not 100 percent devoted to Medicare operations, only a portion of the excess segment assets were attributable to Medicare.

To arrive at Medicare's share of the excess assets, we calculated the aggregate percentage of the segment to be 97.12 percent. After applying the Medicare percentage of 97.12 to excess segment assets of $5,462,989, the resulting amount of $5,305,655 represents the portion attributable to Medicare. Because of the termination of the Medicare contracts, this excess must be remitted to the Federal Government.

Recommendation

We recommend that North Carolina refund $5,305,655 of excess Medicare pension assets resulting from the termination of its Medicare contract.

Auditee's Comments

North Carolina's comments are summarized in the following paragraph and its response is included in its entirety as Appendix B.

North Carolina disagreed with our calculation of the amount of the excess (surplus) pension assets. According to North Carolina, our calculation of Medicare segment liabilities did not take into account certain plan participants that we identified as participants in the Medicare segment. North Carolina revised the liabilities that it initially provided to include those additional participants in the Medicare segment. North Carolina also made revisions to the assets to reflect benefit payments for the additional participants and to correct an error in the original investment allocation. According to North Carolina, the Medicare segment assets should be $14,757,365 and the liabilities should be $9,698,568. Therefore, North Carolina believes that the amount of surplus assets should be $5,058,797.

Additionally, North Carolina disagreed with our methodology of using salaries to determine how much of the surplus pension assets should be remitted to the Federal Government. North Carolina noted that the surplus should be allocated using "pension costs assigned to cost accounting periods." Using this methodology, North Carolina determined that the government would receive $4,359,200 (86.17 percent of the surplus assets of $5,058,797). North Carolina’s revisions are reflected in this report.

OIG’s Response

We disagree with North Carolina's calculation of the Medicare segment liability of $9,698,568. Our calculation of the Medicare segment liability included the additional participants identified in North Carolina's response. However, our audited liability also included adjustments for participants who were identified as non-Medicare participants as of the closing date, and were, therefore, deleted from the segment liabilities submitted by North Carolina. The audited liability for Medicare segment participants on the closing date is $9,294,376.

Our calculation~~s~~ of the segment’s asset value correctly reflected the revised investment allocation~~s~~ provided by North Carolina’s actuary and the adjustments for benefit payments attributable to participants who were added or deleted from the segment calculations. We agree that North Carolina's revisions to the segment’s asset value more accurately reflects our calculations and, therefore, accept the revised asset value of $14,757,365.

Using our audited liability value of $9,294,376 and the revised asset value of $14,757,365 as submitted by North Carolina, the value of excess assets is $5,462,989.

We disagree with the methodology used by North Carolina to determine the percentage of the excess pension assets to be remitted to the Federal Government. In determining the government's share of the excess, North Carolina used a ratio based on CAS 412 pension costs. North Carolina described the numerator as the "Reported Pension Cost on FACP" and the denominator as the "Total Pension Cost." This methodology produced a fraction equal to 86.17 percent.

We determined that the Reported Pension Costs on FACP used by North Carolina included not only the pension costs claimed for the Medicare segment, but also included indirect pension costs and administrative costs. Furthermore, the Total Pension Cost presented by North Carolina in its response and used for the denominator of the fraction was not determined in a manner consistent with the pension costs reported in the numerator of the fraction. For almost half of the years shown in the calculation, the costs reported on the Final Administrative Cost Proposal (FACP) exceeded the Total Pension Cost.

As stated in North Carolina's response, CAS 413 states, "...the numerator of such fraction shall be the sum of the pension costs allocated to all contracts and subcontracts (including foreign Military Sales) subject to this Standard during a period of years representative of the Government's participation in the pension plan.... The denominator of such fraction shall be the total pension costs assigned to cost accounting period during those same years."

Our calculation of the percentage of excess segment assets due the government was based on salaries. Salaries were used as the driver to determine the Medicare line of business percentage for purposes of allocating Total Pension Cost for FACP reporting purposes. Therefore, we determined that the percent of salaries charged to the Medicare contract for the Medicare segment is the most accurate method of determining the amount of the CAS 412 pension costs for the period of the government's participation. Consequently, the appropriate denominator should be the total salary dollars assigned to the Medicare segment and the appropriate numerator should be the amount of the total salary dollars for the Medicare segment that were charged to Medicare for reimbursement. Using this methodology, we determined that the fraction is 97.12 percent. Therefore, we recommend that North Carolina refund $5,305,655 of excess Medicare pension assets resulting from the termination of its Medicare contract. This report reflects all revisions.

INSTRUCTIONS FOR AUDITEE'S COMMENTS

Final determination as to actions to be taken on all matters reported will be made by the CMS 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 CMS action official, presenting any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS, reports are made available to the public to the extent information contained therein is not subject to exemptions in the Act.

(See 45 CFR part 5.) As such, within 10 business days after the final report is issued, it will be posted on the worldwide web at http://oig.hhs.gov/.

Sincerely,

James P. Aasmundstad
Regional Inspector General for
Audit Services, Region VII

Enclosure

CMS Action Official

Ms. Rose Crum-Johnson
Regional Administrator, Region IV
Centers for Medicare & Medicaid Services
Sam Nunn Atlanta Federal Center
4th Floor 61 Forsyth Street, SW Suite 4T20
Atlanta, Georgia 30303

Appendix A

CALCULATION OF MEDICARE SEGMENT'S AGGREGATE MEDICARE PERCENTAGE

Year	Total Direct Medicare Salary	Medicare Portion of Direct Medicare Salary	Aggregate Percent Over All Years
1983	2,341,973	2,150,148	
1984	2,995,087	2,504,484	
1985	2,358,885	2,346,719	
1986	2,811,665	2,604,593	
1987	3,092,649	2,666,281	
1988	3,242,097	3,242,097	
1989	3,456,071	3,237,384	
1990	3,653,712	3,584,646	
1991	3,857,717	3,763,175	
1992	3,994,874	3,881,467	
1993	4,147,946	4,055,625	
1994	4,339,397	4,247,577	
1995	4,338,160	4,338,160	
1996	4,369,163	4,369,163	
1997	4,547,747	4,496,169	
1998	5,049,567	4,930,657	
1999	5,879,095	5,879,095	
2000	6,009,076	6,009,076	
2001	5,264,700	5,264,700	
Total	75,749,581	73,571,216	97.12%

(73,571,216/75,749,581 = 97.12%)

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November 18, 2002

Via Facsimile
(573-893-5416)

James P. Aasmundstad
Regional Inspector General
Office of Inspector General
Office of Audit Services
Region VII
601 East 12th Street
Room 284A
Kansas city, MO 64106

Attn: Greg Tambke

Re: Office of Inspector General (OIG), Office of Audit Services (OAS) Draft Report on *Blue Cross and Blue Shield of North Carolina Pension Segment Closing Audit* October 18, 2002 (CIN: A-07-02-03017)

Dear Mr. Aasmundstad:

This letter sets out the response of Blue Cross and Blue Shield of North Carolina ("BCBSNC") to the above-captioned draft audit report ("draft report"). BCBSNC disagrees with the specific findings of the draft report for two reasons:

(1) The auditors' calculation of Medicare segment liabilities does not take into account certain plan participants *previously identified by CMS* itself as participants in the Medicare segment. This perhaps inadvertent omission causes the auditors' calculation of the surplus to yield a surplus amount some $500,000 larger than is correct as of October 26, 2001.

(2) Contrary to the provisions of Cost Accounting Standard 413 (CAS 413), the auditors applied a fraction based on salary to calculate the portion of the surplus to be remitted to the federal government. CAS 413, on the other hand, contemplates that the allocation of any surplus between the contractor and the government is to be based on CAS 412 pension costs. Allocation of the surplus based on salaries would result in government receipt of 97.12% of the surplus. Allocation of the surplus in the manner required by CAS 413, *i.e.*, based on CAS 412 pension costs, results in government receipt of 86.17% of the surplus.

We discuss both of these points in more detail below. Please note, however, that this response does not address all issues relating to the amounts due the government in connection with any pension surplus. These other issues include, but are not limited to, the inequitable result arising from use of the contract termination date to value the pension plan and various offsets to the amount of any pension surplus to be remitted to CMS. All such issues are outside the scope of both the draft audit report and this response and will be addressed in separate correspondence to CMS.

ALLOCATION OF SURPLUS

CAS 413

The Cost Accounting Standard Board (CASB) was formed by Congress to establish standards for determining the price of negotiated contracts. The CASB promulgates standards that define terminology and establish uniform, consistent procedures for cost allocations. CAS 412: Cost Accounting Standard for Composition and Measurement of Pension Cost defines the manner of determining pension plan costs to be allocated to the contract between the Centers for Medicare & Medicaid Services (CMS) and BCBSNC. CAS 413: Adjustment and Allocation of Pension Cost covers the development and recovery of pension costs for segments of an organization. The standard also covers accounting for a segment that is terminating.

Section 413-50(c)(12)(vi) of CAS 413 describes how the plan surplus (referred to as the "adjustment amount") from a pension plan will be allocated upon termination of a contract.

> "The Government's share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the sum of the pension plan costs allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of years representative of the Government's participation in the pension plan. The denominator of such fraction shall be the total pension costs assigned to cost accounting period during those same years."

Surplus Allocation Using CAS 412 Pension Costs

Since CAS 413 specifies that the surplus should be allocated using "pension costs assigned to cost accounting periods," we summarized the CAS 412 pension costs that were

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incurred and compared them to the costs reimbursed on the Final Administrative Cost Proposal (FACP) for each fiscal year since 1988.

Fiscal Year	Reported Pension Cost on FACP	Total Pension Cost
1988	$ 62,013	$ 56,702
1989	198,835	240,254
1990	172,972	310,006
1991	244,227	342,261
1992	322,576	383,494
1993	284,370	410,397
1994	387,394	382,052
1995	397,836	393,905
1996	507,542	500,652
1997	498,416	492,202
1998	472,883	467,740
1999	327,873	572,575
2000	180,638	156,586
2001	0	0
Total	$ 4,057,575	$ 4,708,826
Surplus Fraction		86.17%

Allocating the surplus based on pension costs assigned to each cost accounting period, the government would receive 86.17% of the surplus.

Surplus Allocation Using Salary Information

In determining the government's share of the surplus, the auditors used a ratio based on salaries. The auditors described the numerator as the Medicare Portion of Direct Medicare Salary; the denominator was described as the Total Direct Medicare Salary. Both the numerator and the denominator were a summation of salaries from 1983 to 2001. This methodology produces a fraction equal to 97.12%. These salary amounts do not directly correlate with the pension costs assigned to the cost accounting periods thus do not appear to satisfy the description of the fraction in Section 413-50(c)(12)(vi) of CAS 413.

Basing the surplus allocation on salary information does not take into account the actual costs of the plan and how those costs change from year to year based on liability and asset experience. For example, due to the full funding limit, the minimum required contribution and maximum deductible contribution for the 2000 and 2001 plan years was $0. As a result the CAS

412 pension costs for the 2000 plan year and 2001 plan year were also $0. In assigning the plan year's pension costs to the government's fiscal years, the 2000 fiscal year CAS 412 pension cost and the 2001 fiscal year CAS 412 pension cost were impacted by the $0 contribution for the 2000 and 2001 plan years. However, the Office of Audit Services method of allocating the surplus does not reflect the reduced pension costs for those years. Since the total salaries grew over the period of the contract, using the salary information results in the final years of the contract carrying more weight in the surplus fraction than the earlier years of the contract, despite the fact that the pension costs in the final years of the contract were reduced and should carry less weight.

Changes to Liabilities Since February

The liabilities initially provided to CMS were later revised to include additional participants in the Medicare segment. The CMS auditors found these additional participants and determined they should have been included as participants in the Medicare segment. As noted above, the draft audit report incorrectly and perhaps inadvertently omits these additional participants from the calculation of segment liabilities.

Changes to Assets Since February

The assets used to determine the surplus initially communicated to CMS have been revised. The determination of investment allocation in the 1999 Cost Accounting Standard Board (CASB) valuation was incorrect and has since been corrected. In addition, the participants added by CMS impacted the benefit payments used to develop the segment's market value of assets. The October 31, 2001 market value of assets has been updated to reflect these changes..

Determination of Pension Plan Surplus

Methodology

Since BCBSNC is not terminating the pension plan, CAS 413 requires that the surplus calculation be based on the present value of accrued benefits. The present value of accrued benefits is to be based on a unit credit method. All other assumptions are to be the same as the plan's ongoing actuarial assumptions. Any plan improvements that were adopted during the last five years are to be included on a pro rata basis. BCBSNC amended the plan in 1998 to provide a cost-of-living adjustment for retirees. Based on the October 26, 2001 termination date, we included 77% of the liability associated with the amendment.

The majority of the Medicare segment participants were terminated from BCBSNC. Those participants who terminated were valued using the accrued benefits for the participants in

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a manner consistent with the methodology for valuing other inactive participants. As of January 1, 2002, there were still six participants active at BCBSNC (three are on disability). For the six participants, we calculated the age 65 benefit that had been accrued as of October 26, 2001. We then determined their liabilities as if they were terminated vested participants.

The market value of assets are reduced by the accumulated value of prepayment credits and increased by the accumulated value of any unassignable portions of unfunded actuarial accrued liability. The surplus is equal to the market value of assets less the present value of accrued benefits.

PENSION PLAN SURPLUS AS OF OCTOBER 26, 2001 CALCULATED USING ADDITIONAL MEDICARE SEGMENT PARTICIPANTS IDENTIFIED BY CMS AUDITORS

Pension Plan Surplus as of October 31, 2001

The amount of the plan surplus as of October 31, 2001 is:

	As of October 31, 2001
Present Value of Accrued Benefits	$9,698,568
Market Value of Assets for Surplus Purposes	$14,757,365
Surplus	$5,058,797[1]

Conclusion

The correct amount of the pension surplus is $5,058,797. The correct percentage to be used to calculate the amount of the surplus to be reimbursed to the government is 86.17%. Thus,

[1] See Attachment A

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subject to further reduction by other factors to be addressed by separate correspondence to CMS, the amount of the surplus to be reimbursed to the government is $4,359,200.

Sincerely,

W. Bruce Shirk

W. Bruce Shirk

WBS:bct
Attachment

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ATTACHMENT A

Pension Plan Surplus as of October 26, 2001

Present Value of Accrued Benefits		
Participants in Payment Status on November 1, 2001		$ 5,971,772
Participants not in Payment Status on November 1, 2001		3,726,796
Total		$ 9,698,568
Section 1.1 Development of Market Value of Assets	**Total**	**Segment**
Market Value of Assets, January 1, 2001	$ 202,906,426	$ 16,574,693
Company Contributions for Prior Year	0	0
Investment Income During 2001 Net of Expenses	(13,068,597)	(1,067,160)
Benefit Payments During 2001	(4,941,547)	(414,423)
Market Value of Assets, October 31, 2001[2]	$ 184,896,282	$ 15,093,110
Development of Assets for Determining Surplus		
Market Value of Assets, October 31, 2001		$ 15,093,110
Accumulated Value of Prepayment Credits[3]		(335,745)
Accumulated Value of Unassignable Unfunded Actuarial Accrued Liability		0
Market Value of Assets for Surplus Purposes		$ 14,757,365
Plan Surplus on October 26, 2001		
Market Value of Assets for Surplus Purposes		$ 14,757,365
Present Value of Accrued Benefits		(9,698,568)
Surplus		$ 5,058,797

[2] Market value of assets are determined on a monthly basis only.
[3] January 1, 2001 value of $317,433 was brought forward at interest only

Attachment A to
11/18/02 letter to
Mr. James Aasmundstad
::ODMA\PCDOCS\WSH\281275\1

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Personnel Counts

BCBSNC Retirement Plan	October 26, 2001
Participants in Payment Status on November 1, 2001	54
Participants Not in Payment Status on November 1, 2001	108
Total	162

Attachment A to
11/18/02 letter to
Mr. James Aasmundstad
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