



Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Report Number 2024-SAG-014

August 2, 2024

MEMORANDUM FOR DENNIS N. HODGES  
Program Manager, FEDVIP

FROM: JAMES L. TUEL, JR.  
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SUBJECT: Audit of Aetna Dental's 2025 Premium Rate Proposal for the Federal  
Employees Dental and Vision Insurance Program

The U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG) conducted a limited-scope audit of Aetna Dental's (Carrier) 2025 premium rate proposal for the Federal Employees Dental and Vision Insurance Program (FEDVIP). Our objective was to determine whether premium rates proposed for contract year (CY) 2025 were in accordance with the terms of Contract Number OPM02-FEDVIP-02AP-01 (Contract) and federal regulations. The audit included a review of the Carrier's 2025 premium rate proposal and 2023 certified annual accounting statement (AAS) for FEDVIP operations.

The results of our audit identified one finding related to overestimated claims and higher than needed premium increases in the Carrier's 2025 rate proposal (May submission). We recommend that OPM require the Carrier to resubmit a July rate proposal each year with claims paid through [REDACTED], to allow the most accurate completion factor. Additionally, we recommend that OPM consider [REDACTED] Carrier using overstated claims expectations for 2022 and 2023. The final selection of premium rates is OPM's responsibility, and our recommendation is solely based on the best supported estimates needed to accurately predict the required premium rates at the retention levels guaranteed by the Carrier.

We are providing this memorandum to OPM's Healthcare and Insurance Office (HIO) to be used by OPM's Office of Actuaries in negotiating the Carrier's 2025 premium rates. Since this was a limited-scope audit, the OIG reserves the right to perform a full-scope audit of the Carrier in the future; however, any future audit would exclude a review of the Carrier's initial 2025 FEDVIP premium rate proposal. Due to the nature of this audit, a draft report/memorandum was not issued.

The Inspector General Act of 1978, as amended, 5 U.S.C. § 404(e), requires that we submit all final reports making recommendations for corrective action to congressional committees of jurisdiction. Reports can also be provided to individual Members of Congress upon request. Additionally, if the

OIG undertook the audit based on a request or complaint from an outside entity, the OIG must provide the report to that entity. Finally, the Inspector General Act of 1978, as amended, 5 U.S.C. §420, requires us to make redacted versions of our final reports available to the public on our webpage.

## **BACKGROUND**

The FEDVIP was created on December 23, 2004, by the *Federal Employee Dental and Vision Benefits Enhancement Act of 2004 (Act)*. The Act provided for the establishment of programs under which supplemental dental and vision benefits are made available to federal employees, retirees, and their dependents.

OPM has overall responsibility to maintain the FEDVIP website, be a liaison with federal agencies, facilitate the promotion of the FEDVIP through federal agencies, be responsive on a timely basis to the Carrier's requests for information and assistance, and perform, as provided by the Act, functions typically associated with insurance commissions. These functions include the review and approval of rates, forms, and education materials. OPM contracts with the Carrier to provide dental insurance benefits to FEDVIP participants. The Carrier's responsibilities under the Contract are carried out primarily at its office located in Blue Bell, Pennsylvania. Section I.11 of the Contract includes a provision, Inspection of Services – Fixed Price, that allows for audits of the Carrier's FEDVIP operations.

Our previous full-scope audit of the Carrier (Report Number 1J-0D-00-15-037) dated February 16, 2016, covered CYs 2010 through 2013 with reviews of annual accounting statements, claims processing, the fraud and abuse program, and the rate proposal. All findings related to that audit have been satisfactorily resolved.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

We conducted a limited-scope performance audit of the Carrier's 2025 premium rate proposal for the FEDVIP. Our audit objective was to determine whether premium rates proposed for CY 2025 were in accordance with the terms of the Contract and federal regulations.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objective.

The audit included a review of the Carrier's 2025 premium rate proposal (as of May 31, 2024) and its 2023 certified AAS for FEDVIP operations. Audit fieldwork was conducted remotely from our Cranberry Township, Pennsylvania office from May to July 2024.

In planning the audit, we obtained an understanding of the Carrier's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily

relied on substantive tests of transactions and not tests of controls. Additionally, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Carrier's system of internal controls taken as a whole.

In conducting the audit, we relied to varying degrees on computer-generated data provided by the Carrier. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

To determine whether the costs proposed for CY 2025 were in accordance with the terms of the Contract and federal regulations, we performed the following audit steps:

### **2025 Premium Rate Proposal Review**

- We traced the premium, enrollment, and claims data used to develop the Carrier's 2025 proposed rates to supporting documentation to ensure accuracy.
- We reviewed the benefit changes, trends, completion factors, and other actuarial assumptions to ensure that they were properly supported.

### **2023 Annual Accounting Statement Review**

- We reconciled the premiums received, as reported in the Carrier's AAS, to the BENEFEDS cash transfer reports to determine if the information was accurate. Additionally, we reconciled the paid claims reported in the AAS to supporting documentation to ensure the claims were accurately reported.
- We reviewed the Carrier's supporting documentation to determine whether the administrative expenses were allowable, allocable, and reasonable in compliance with the Contract and Federal Acquisition Regulation Subpart 31.2.
- We recalculated the Carrier's dental loss ratio and profit based on the supporting documentation provided by the Carrier to determine if the percentage and amounts were accurately calculated and disclosed to OPM in the 2023 certified AAS.

## **RESULTS OF THE AUDIT**

### **2025 Premium Rate Proposal Review**

The results of our review showed that the Carrier overestimated claims in its 2025 FEDVIP premium rate proposal (May submission) by [REDACTED]

[REDACTED] Through meetings with the Carrier, we found [REDACTED]

[REDACTED] across its entire book of business [REDACTED]

The result of this methodology shows that the FEDVIP group outperforms the Carrier's

estimated completion factors for its book of business, thereby inflating the FEDVIP’s estimated claims.

The Carrier guaranteed retention factors of [REDACTED] profit and [REDACTED] administrative expenses in its annual rate developments. Additionally, section K.9.b.1 of the Contract states, “The allowable costs chargeable to the contract for a fiscal year will be the actual, necessary, **reasonable** [emphasis added], and allocable amounts incurred with proper justification and accounting support ... .” Finally, section VII of the Contract states “Carriers must also explain their proposed methodology for estimating factors used within the Rating Sheet provided by OPM, such as claims completion factors and prospective factors ... Any future premium rate not supported by these practices and methodologies must be approved by OPM.”

In contract years 2022 and 2023, we found that the Carrier overestimated claims by [REDACTED] [REDACTED], respectively, due to the [REDACTED], as the chart shows below.

Year	Estimated Claims	Paid Claims	Difference
2022	[REDACTED]	[REDACTED]	[REDACTED]
2023	[REDACTED]	[REDACTED]	[REDACTED]

As a result, the Carrier made excess profits of more than [REDACTED] for the two years combined. The Carrier historically exceeded its guaranteed retention factor of [REDACTED] profit as a direct result of overstating its claims.

Year	Profit Guarantee	Actual Profit	Difference	Excess Profit
2022	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2023	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

In addition, the Carrier only used [REDACTED] in its May rate proposal submission, when the FEDVIP standard is to use claims paid through the latest date available, which is usually [REDACTED] months of run-out. [REDACTED] With the initial rate proposal submission due on May 31<sup>st</sup>, there is no reason the Carrier cannot submit [REDACTED] months of run-out.

During the audit, the Carrier updated its premium rate proposal with its July submission (the 2<sup>nd</sup> submission deadline) using [REDACTED], which reduced the proposed High Option increase from [REDACTED] while the Standard Option [REDACTED]. This [REDACTED] claims data resulted in a reduced annual premium of [REDACTED] for the High Option. In the future, OPM should require the Carrier to resubmit in July each year using at least [REDACTED] months of run-out and preferably [REDACTED] months of run-out if available.

The Carrier also applied a [REDACTED] over the last two years (2023 to 2024 and 2024 to 2025). We were unable to determine if this [REDACTED] was appropriate since it’s a book rate applicable to all states with no supporting documentation for how it was calculated.

Ideally, the Carrier should rate the FEDVIP with [REDACTED] completion factors. If this is not an option, then OPM should negotiate an overall discount to the final rates to account for overperformance of the FEDVIP claims compared to the Carrier's book of business. OPM should consider the Carrier's history of overestimating its claims each year when negotiating the rates since any shortfall in anticipated claims results [REDACTED] to the Carrier and [REDACTED]

### **Recommendation 1**

We recommend that OPM require the Carrier to submit its initial rate proposals in May using [REDACTED] months of run-out to better estimate future claims for the rating period.

### **Recommendation 2**

We recommend that OPM require the Carrier to resubmit its rate proposal every July using [REDACTED] or [REDACTED] months of claims run-out to better estimate future claims for the rating period.

### **Recommendation 3**

We recommend that OPM negotiate a discount on the final rates due to a history of the Carrier exceeding its profit guarantee by overestimating claims.

### **Recommendation 4**

We recommend that OPM discuss with the Carrier the feasibility of rating the FEDVIP with [REDACTED] completion factors.

### **2023 Annual Accounting Statement Review**

The results of our review showed that the Carrier had sufficient policies and procedures in place to ensure that its 2023 AAS was accurately reported to OPM. We did not identify any findings during this review and no corrective action is necessary.

The results of the audit were discussed with Carrier officials at an exit conference on July 22, 2024. OPM's HIO and Office of Actuaries may discuss the results of the audit with Carrier officials. We notified the Carrier that this memorandum is issued directly to the contracting officer to assist in finalizing the Carrier's 2025 premium rates for FEDVIP.

If I can be of assistance during your review of this memorandum, please contact me at [REDACTED] or Luke Z. Johnson at [REDACTED].

cc: The Honorable Robert H. Shriver  
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