



Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Report Number 2024-SAG-015

August 2, 2024

MEMORANDUM FOR DENNIS N. HODGES  
Program Manager, FEDVIP

FROM: JAMES L. TUEL, JR.  
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SUBJECT: Audit of EmblemHealth 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) has conducted a limited scope audit of EmblemHealth 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-07 (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 and the Carrier remove the [REDACTED] added to the 2023 base year's completion factor that allows for a [REDACTED] since that loading is unsupported and unreasonable in obtaining the most accurate pricing needed for a rate increase. Additionally, OPM should consider the excess profits earned by the Carrier in 2022 and 2023 when negotiating the premium rate increase. 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 [REDACTED] retention level 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 offices located in New York, New York. 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 prior limited scope audit of the Carrier's 2024 FEDVIP premium rate proposal identified a finding related to overestimated claims and a higher than needed premium increase for the proposed 2024 premium rates. Additionally, our previous full scope audit of the Carrier (Report Number 1J-0L-00-17-051), dated September 21, 2018, included a review of the Carrier's AAS, claims processing, fraud and abuse program, performance guarantees, and premium rate proposals for FEDVIP operations for CYs 2014 through 2016. All findings and recommendations related to those two audits have been 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 Jacksonville, Florida and Cranberry Township, Pennsylvania offices from June 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 premiums, 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 claims were accurately reported.
- We reviewed the Carrier's supporting documentation to determine whether the administrative expenses were accurately reported.
- 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 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's initial 2025 FEDVIP premium rate proposal (May submission) contained one unsupported loading that overestimated claims and the required premium needed to maintain the [REDACTED] retention guaranteed by the Carrier. This one factor

was unsupported and considered unreasonable in obtaining the most accurate pricing needed for a premium increase.

- The Carrier applied an additional [REDACTED] to the 2023 base year's completion factor as a margin for error.

The Certificate of Accurate Pricing states that cost or pricing data submitted to OPM in support of the 2025 FEDVIP rates must be developed in accordance with the requirements of the Contract and are accurate, complete, and current as of the date the certificate is executed.

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."

We requested justification for why the Carrier was applying the one additional loading to the premium rates and found that there was no reasonable support documentation to show that applying the factor resulted in the most accurate pricing needed for a premium rate increase. Additionally, prior periods showed that the Carrier exceeded its [REDACTED] retention guarantee as a direct result of overestimating its claim projections while making additional profits. By removing the unsupported [REDACTED] completion loading from the rating sheet, consolidated claim projections for 2025 were reduced by [REDACTED]

During our audit, the Carrier agreed to reduce the 2023 to 2024 utilization trend from [REDACTED] [REDACTED] for both options, thereby providing another reduction in claim projections of [REDACTED]

### **Recommendation 1**

OPM and the Carrier should remove the [REDACTED] added to the 2023 base year's completion factor that allows for a margin of error since the loading is unsupported and unreasonable in obtaining the most accurate pricing needed for a premium rate increase.

### **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. However, OPM should consider the following two issues when negotiating the 2025 premium rates with the Carrier:

- While the Carrier developed its rates factoring in administrative expenses at [REDACTED], actual administrative expenses were reported at [REDACTED] in 2022, and [REDACTED] in

2023, which resulted in excess profit from administrative expenses in the amount of [REDACTED] for the two years.

Year	Proposed Administrative Expenses	Actual Administrative Expenses	Difference	Excess Profit from Lower Expenses
2022	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2023	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
			Total	[REDACTED]

- While the Carrier developed its rates factoring in a profit of [REDACTED] it achieved an actual profit of [REDACTED] in 2022, and [REDACTED] in 2023, which resulted in excess profit in the amount of [REDACTED] for the two years.

Year	Proposed Profit	Actual Profit	Difference	Total Excess Profit
2022	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2023	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
			Total	[REDACTED]

**Recommendation 2**

OPM should consider the overestimated administrative expenses and excess profits shown in the tables above when negotiating the 2025 premium rate increase with the Carrier.

The results of the audit were communicated to 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 [REDACTED]

cc: The Honorable Robert H. Shriver  
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