Auditing Your Health Plan for Dependent Eligibility

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J.W. Terrill
AGENDA

- Purpose of a Dependent Eligibility Audit (DEA)
- Types of DEA
- Process/Timeline of a DEA
- Additional Benefits of a DEA
- Evaluate Your Security System
- Consider Outsourcing Your DEA
Employer Challenges to Managing Eligibility

- Employees do not always inform HR of their personal business.
- It’s too easy to add dependents to a company’s medical plan.
- Carriers may not be tracking dependents’ age qualifications.
- Carriers are not aware of employees’ life events such as divorces, ineligible step children, adoptions, and guardianships.
Purpose of a Dependent Eligibility Audit
• Identify dependents that do not meet the benefit plan’s eligibility requirements
• Reduce expenses on the benefit plan without changing the plan design or employee contributions
• Adhere to plan compliance requirements, Sarbanes-Oxley, and Stop Loss Contracts
• Comply with ERISA and state laws related to administering a benefit plan
• Assist in the compliance of special provisions within Health Care Reform (PPACA)
Recognized Cost Savings

• Estimates of ineligible dependents range from 3% to 12%

• Auditing a plan with 100 dependents could yield a conservative estimated savings of $9,000
Types of Dependent Audits

The Pros and the Cons
Types of Dependent Audits

- Promise (Affidavit Only)
- Proof (Verification)
  - Comprehensive
  - Survey
  - Random/Sample
Types of Dependent Audits

- Promise (Affidavit Only)
  - Simple process, however, limited effectiveness
  - Requires employees to attest that covered dependents are eligible (based on the health plan rules)
  - Requires employees to sign and return the Affidavit
  - Results estimated to render 1% to 3% of dependents ineligible
Types of Dependent Audits

- Proof (Verification) - Comprehensive
  - Considered best practice
  - Requires 100% of employees with dependent coverage to provide proof that dependents meet plan eligibility
  - Non-discriminatory approach
  - More intrusive, however, yields most accurate results in identifying ineligible dependents (3% to 12%)
Types of Dependent Audits

- Proof (Verification) - Survey
  - Simple process, however, limited effectiveness
  - Merit-based
  - Non-intrusive
  - Asks a variety of questions about employee’s dependent(s) and their understanding of health plan rules
  - May also require notarized employee signature
Types of Dependent Audits

- Proof (Verification) – Random/Sample
  - May be utilized with other audits
  - Survey focuses on percentage/group of employees
  - Difficult to qualify results
The Process of a Dependent Audit
The Process of a Dependent Audit

- Planning Phase
- Notification Phase
- Amnesty Phase
- Audit Process
- Grace Period
- Appeals
- Reinstatement
- Audit Results
Understanding Who is a Dependent

- A thorough understanding of the Summary Plan Description (SPD) is necessary to ensure consistency and accuracy.
The Dependent Eligibility Audit Process

- Planning Phase
  - Typically 30 days
  - Initial meeting to discuss:
    - Company culture
    - Communication campaign
    - Timeline for audit
    - Repercussions to employee
The Dependent Eligibility Audit Process

- Notification Phase
  - Typically 45 to 60 days
  - “Advertise” audit to employees via e-mail, flyers, posters, meetings, and a formal letter of notification
The Dependent Eligibility Audit Process

- Amnesty Phase (Optional)
  - Typically 20 to 30 days
  - Allows employees to remove ineligible dependents without consequences
  - Employer cautions
The Dependent Eligibility Audit Process

- Audit Process
  - Typically 30 to 45 days
  - Collect required documents and process according to audit protocol
  - Field employee calls/questions
Types of Requested Documentation

- Marriage certificate for spouse
- Birth certificate for all covered children
- Adoption and guardian paperwork
- Domestic Partner requirements
- Proof of financial dependency
Dependents Removed Through Audit

- Divorced spouses
- Common law spouses
- Step children, foster children, grandchildren
- Dependents exceeding maximum age
- Friends, roommates, other relatives
- Ineligible domestic partners
- Dependents of employees who fail to provide documentation
The Dependent Eligibility Audit Process

- Grace Period (Optional)
  - Typically 20 days
  - Allows additional, unannounced time for employees
  - Allows extra time for document processing and formal appeals
  - Should not be published to employees
The Dependent Eligibility Audit Process

- Appeals (Optional)
  - Available for employees with dependents who have been removed from the plan due to a partial/incomplete or no response status
The Dependent Eligibility Audit Process

- Reinstatement
- System for processing dependent reinstatements upon verification of eligibility
The Dependent Eligibility Audit Process

- Audit Results
  - Comprehensive audit results to document savings to the company
The Dependent Audit Timeline

- **Planning Phase**: 30 days
- **Notification Phase**: 45-60 days
- **Amnesty Phase**: 20-30 days
- **Audit Process**: 45-60 days
- **Grace Period**: 20 days
- **Appeals**: n/a
- **Reinstatement**: n/a
- **Audit Results**: n/a

- Estimated timeline is 6 months – 10 months
Additional Benefits of a Dependent Audit
- Keeping Plans Compliant
Additional Benefits from a Dependent Audit
- Keeping Plans Compliant

- ERISA
- Sarbanes-Oxley Act
- PPACA
Consider Evaluating Your System’s Security

• Information Collection Security

• Information Technology Security
Plan Years Beginning After 1/1/2014
Outsourcing the Dependent Audit

- Removes employer/HR burden
- Directs employee concerns to third party
- Reduces employees’ privacy concerns
The recommendations and opinions provided herein are based on general Human Resources management fundamentals, practices and principles and are not legal opinions or guaranteed outcomes. We strongly recommend as part of a team approach to management, that clients consult with legal counsel of their choice to address legal concerns related to human resource issues.