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HOW TO REDUCE HEALTH-CARE SPENDING WITHOUT SHIFTING COSTS TO EMPLOYEES

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DEV audits can achieve significant, immediate health-care cost savings without burdening employees.

Cost containment continues to be a hot topic in the health-care benefits industry. As health-care costs climb, many self-funded employers are struggling to satisfy management's need to reduce expenses, while avoiding or minimizing cost shifting and the burden this places on employees.

Unfortunately, many plan managers feel they have little choice but to either reduce the level of benefits provided or ask more of their employees in the form of tacking on co-pays or raising other out-of-pocket expenses in order to achieve the cost reductions required. The problem is, in the big picture, these efforts still do nothing to actually reduce the cost of providing coverage — they simply pass the cost on to another responsible party. There is a solution, however: dependent eligibility verification audits.

Cost Shifting vs. Verification

Shifting costs to employees can negatively impact employee attitude and loyalty. Typically, and especially in today's economic environment, employees are very sensitive to reductions in benefits and/or increases in paycheck deductions. The added cost burden may also impact recruitment efforts, especially for hard-to-fill, specialized job roles — potential employees may choose to work elsewhere simply based on the availability of benefits with fewer out-of-pocket expenses.

Dependent eligibility verification (DEV) audits provide a much more effective — and employee friendly — way to achieve significant, immediate health-care cost savings without burdening employees. By individually verifying the eligibility status of each dependent to make sure the plan is only covering those who are eligible for coverage, DEV audits enable HR and benefits managers to effectively balance the needs of management and employees to create immediate and long-term cost savings.

To see the scope of the dependent eligibility issue, consider the following: In the more than 200 DEV audits conducted by the author's company, ConSova Corp., during the past seven years, as many as 10 percent to 13 percent of covered dependents have been identified as ineligible — more than 225,000 individuals in all. Today, even after the implementation of the Patient Protection and Affordable Care Act of 2010, removing these ineligible dependents generates an average 3 percent to 5 percent savings in annual health-care expenditures and continues to deliver long-term cost containment by preventing additional charges from these ineligible dependents down the road without raising costs for employees. If the average dependent costs a self-funded employer $3,030 per year, a company with 2,500 dependents that identifies 5 percent of the dependents as ineligible could realize a saving of more than $375,000 in the first year.

DEV AUDITS PROVIDE A MUCH MORE EFFECTIVE — AND EMPLOYEE FRIENDLY — WAY TO ACHIEVE SIGNIFICANT, IMMEDIATE HEALTH-CARE COST SAVINGS WITHOUT BURDENING EMPLOYEES.

How It Works

DEV audits involve a comprehensive review of all dependents covered by the plan. To maintain fairness and avoid the appearance of targeting any specific individuals or groups, every employee/dependent must be included. Required documentation for each dependent is individually reviewed to ensure he or she meets the plan's requirements for coverage eligibility. If found ineligible, the dependent is removed from the plan.

With so many other duties and responsibilities that fall on the shoulders of the HR/benefits department, it may seem overwhelming to attempt such an undertaking. However, the DEV audit process is easy to launch and manage, especially when outsourced to a specialty firm, and offers a very worthwhile return on investment with immediate results and long-term savings. For HR and benefits managers, suggesting and spearheading such an effort within an organization can showcase their department's strategic value to the company's overall success and demonstrate resourcefulness and a proactive posture that brings value to the organization as a whole.

It should be noted that the value of this type of a review is often best realized by self-funded vs. fully insured employers. This is because in a fully insured plan, unless the removal of a dependent changes the tier level, there is a far lower direct reduction in the employer's monthly cost as compared to a self-funded program.

Outsourcing DEV Audits

Outsourcing the DEV audit to a third-party firm has a number of advantages. First, it saves time for HR staff and benefits personnel by relieving them of the time-consuming burden of conducting the audit. As a result, an outside firm can actually cost less than the expense required to conduct an audit in-house.

Bringing in a third party also keeps the process at arm's length for colleagues to ensure neutrality and eliminate the risk of personality conflicts or apprehension from employees who do not feel comfortable sharing certain information with fellow co-workers. Granted, some employees might have concerns regarding sharing information with an outside group. However, employers can reassure staff by referencing the third-party group's reliability and security credentials and emphasizing that the purpose of the audit is to keep benefits costs under control.

Finally, an experienced third-party auditor whose only focus is dependent verification will have the opportunity to leverage its experience with the many different variables and situations that often present themselves during this type of a review process — efficiently, expeditiously and securely. For example, auditors who specialize in DEV reviews have expertise with a variety of dependent types, multiple worksite reporting requirements and alternative solutions required by unique dependent scenarios (e.g., dependents who cannot access birth certificate records due to foreign government changes, etc.).

Choosing an In-House Audit vs. Selecting an Experienced DEV Auditor

In-house audits are often considered viable within smaller organizations (fewer than 500 employees). Even in those cases, employers who contemplate conducting audits in-house should consider the challenges associated with that approach. These challenges include the employer's ability to handle the volume of documents involved (approximately 2.5 per dependent), the timely management of inbound phone calls, and the ability to securely manage data and document transactions/communications with employees throughout the audit process.

Many employers select an experienced third-party auditor who specializes in DEV reviews and has proven processes and resources in place to manage these challenges. It is important for employers who are exploring the possibility of outsourcing DEV audits to select an auditor with a track record of results, adequate data security measures and a control infrastructure in place that is independently verified, such as SAS 70 Type II certification.

DEV Audit Frequency: Ongoing Verification

Whether the employer or a third-party auditor ends up in charge of the DEV audit process, it is important to note that ongoing verification beyond a one-time or annual audit is the only way to ensure maximum long-term savings and protect the initial audit investment. In follow-up reviews conducted during the open enrollment period following the typical initial audit, ConSova found that as many as 50 percent of dependents identified as ineligible make attempts to re-enroll, and up to 85 percent of these individuals are still ineligible. Ongoing verification, which typically takes place at the time of a qualifying event (e.g., a new hire, dependent addition due to marriage or the birth of a child, periodic spouse/domestic partner reviews, etc.), can protect a plan's long-term financial security and help mitigate the ever-growing cost of providing care to legitimate employees and their dependents.

Working-Spouse Rules: Are They Working for You?

Beyond DEV audits, it's important to consider the increasingly common cost-containment program that involves the establishment of working-spouse rules, such as a spouse surcharge or waiver (carve-out) program. In a spouse surcharge program, additional monthly contributions are assessed from employees with spouses who have other coverage available but elect to remain on the employee's plan. In a waiver program, spouses with other coverage available typically are ineligible to participate in the employee plan. While these programs can help reduce expenses, they can be as much as 70 percent ineffective if the other coverage availability is not verified using independent means rather than employee-reported eligibility information.

Verification of the availability of other insurance can ensure the intended benefits of having working-spouse rules to maximize the financial effectiveness of these programs. ConSova audit statistics show that among organizations that have previously implemented working-spouse rule programs, only about 8.3 percent of employees with working spouses participate prior to verification. Subsequent to employing effective audit techniques, the percentage of employees with working spouses participating in these cost-saving programs can often jump by nearly 300 percent, creating an immediate boost to the cost offset that was intended when the program was initially launched. In many cases, the reason for non-participation is driven by confusion around the actual rules, but that confusion results in a significant missed opportunity for employers to truly reduce costs.

Again, it's important that the audit program applies equally to all employees. Comprehensive audits cover all dependents — a fact that can serve to reassure employees. Unlike audits targeting specific populations, partial or random audits, comprehensive audits are generally perceived as fair.

Conclusion

By championing DEV audits as an alternative to cost shifting, HR and benefits managers can help their organizations reduce health-care spending without shifting the burden to employees. Furthermore, as the economy slowly improves and hiring begins to trend slightly upward, the DEV process can put the company ahead of the competition by enabling it to offer an attractive benefits package that will aid in recruiting efforts and effective cost-containment measures that yield immediate and long-term financial results.

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