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More Employers Turn to Eligibility Audits To Counter Coverage Costs, Reform Rules

Benefits consultants queried by *HPW* say spouse surcharges and dependent eligibility audits are on the rise due to increased coverage costs and concern that expanding eligibility for adult dependent children — as called for by the health reform law — will require them to cover more lives.

Michael Smith, president of ConSova Corp., a Colorado-based company that conducts dependent eligibility audits, says his firm experienced a drop in audit requests shortly after the reform law was enacted in March *(HPW 3/29/10, p. 1)*, but reports that interest picked up sharply a few months later as employers concluded that the law would lead to higher coverage costs. There also is concern that a provision that allows dependent children to remain on a parent's plan to age 26 will lead to higher "dependent ratios," especially for adult children, he adds *(HPW 3/29/10, p. 4)*. According to some estimates, that provision will boost coverage costs by between 0.25% and 2%.

Requests for dependent audits at Mercer LLC are up between 30% and 40% compared with a year ago. Such audits typically determine that between 3% and 8% of an employer's covered dependents are ineligible, says Dan Priga, a partner at Mercer who heads the company's Performance Audit Group. The cost of covering a dependent typically runs between $2,000 and $3,000 a year. "So the return on investment (ROI) could be on a magnitude of 8 to 1 or more depending on the size of the organization," he tells *HPW*. The recent increased interest in audits, he adds, is more likely due to rising coverage costs than fear of the reform law's dependent provision.

Audits Called 'Established Practice'

Jay Savan, an employee benefits consultant in the St. Louis office of Towers Watson, says eligibility audits are now less of a trend and more of a "newly established practice" for large employers. David Delahanty, a benefits consultant in Towers Watson's Minneapolis office, agrees and says a typical audit of a large employer will determine that 6% to 10% of dependents are ineligible for coverage. However, he says children generally don't incur high medical expenses, so dropping their coverage might only reduce medical spending by 1% to 3%. Smith places potential cost reduction a bit higher at 3% to 5%, and he says his firm typically identifies 8% to 14% of dependents as ineligible.

Given typical coverage costs for dependents and spouses, an employer can offset the cost of a dependent audit if just 1.5% to 2% of its dependents are determined to be ineligible, says Judy Felhaber, principal and national audit and reporting practice leader at Buck Consultants.

But dependent audits are labor intensive and might be worthwhile only for large employers that cover a significant number of dependents. Audits also can lead to public relations problems if employees consider it intrusive, Delahanty warns.

Strategies for identifying ineligible dependents range from occasional spot checks to companywide policies that require documentation for each dependent and spouse covered by a company's health plan. Delahanty says about 20% of large employers now require some documentation for dependents.

Felhaber says employers are moving away from eligibility spot checks and instead are reviewing their entire dependent population. They also are increasingly adding verification requirements for newly enrolled dependents, and annual population samplings to "re-verify" dependents whose status might have changed. She says a majority of her clients now request documentation before dependents can be covered.

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Asking employees to document eligibility of their dependents is critical, Smith says, adding that employers that opt not to go that route could be leaving 20% to 25% of the savings on the table.

To promote new verification rules, some employers are incorporating educational materials and “amnesty provisions” in most initial dependent verification reviews, Felhaber says. “This process encourages employee compliance by removing the fear of the discovery of an ineligible dependent [e.g., unintentional noncompliance] and promotes a sense of future shared responsibility between employee and employer.”

Rescission Provision May Affect Audits

Once a dependent is determined to be ineligible, some employers require workers to reimburse them for costs associated with the coverage. In some cases, an employer has made the cancellation retroactive, leaving the ineligible enrollee responsible for medical expenses already incurred. But a rescission provision of the reform law allows insurers to rescind coverage “only in the case of fraud or an intentional misrepresentation of a material fact.” For employers that follow a calendar year, the provision goes into effect on Jan. 1.

“The rescission rule makes it a lot harder to cut people off who might have improperly added someone to a plan,” says Angela Bohmann, an attorney who heads the compensation and employee benefits practice at the law firm Leonard, Street and Deinard in Minneapolis. “Unless you can show fraud, you are not allowed to drop someone retroactively who is making premium payments. And it can be hard to prove fraud. You have to show that someone intentionally misrepresented themselves… and that is difficult.”

And retroactive terminations can be an administrative nightmare for health insurers and third party administrators if it involves trying to recoup claim costs. “It’s like trying to unscramble an egg,” says David Ermer, an employee benefits attorney at the law firm Gordon & Ermer in Washington, D.C. But Smith says it’s rare for employers to request funds back from their workers. “Most employers want to remove ineligibles and continue eligibility verification activities to realize future savings by avoiding costly claims,” he says. Felhaber agrees and says the best cost-containment strategy “is to prevent the payment in the first place.” The ROI for dependent audits, she adds, typically comes from future cost-avoidance versus the collection of a financial penalty or retroactive claim expenditures from the employee.

Some Spouses See Surcharge

Delahanty says surcharges for spouses who have access to coverage through another employer typically range from $50 to $100 a month, and are becoming common among employers. And with good reason: Medical expenses for a spouse can be 10% to 30% higher than for an employee, he says. A medical condition, for example, might prevent a spouse from being employed. Smith says between 15% and 28% of employees’ spouses — who are not charged an additional fee for coverage — have access to insurance through their own employer.

Bohmann says she has a few clients who either don’t allow coverage for a spouse who has access to coverage through another employer or have required the spouse also to be covered under the spouse’s employer’s plan, making the client’s coverage secondary for the spouse. “Employers don’t want to pick up another employer’s responsibility for providing coverage.”

Savan says one client has a similar strategy. A spouse who has access to coverage through an employer must enroll in their employer’s plan in order to be eligible for coverage as a spouse. “Given the way such coverage is coordinated, the spouse’s employer’s plan would pay first, followed by my client’s plan, so the spouse is paying the same premium they would for primary coverage, but receiving what amounts to supplemental, or secondary, coverage.”

To help ensure that only eligible spouses and dependents have coverage, Bohmann says employers are likely to “beef up” their enrollment forms with specific questions about a dependent’s eligibility. Some will require documentation, such as birth certificates and marriage licenses.

Contact Smith at michael.smith@consova.com, Bohmann at angela.bohmann@leonard.com, Ed Gadowski for Felhaber at edward.gadowski@ buckconsultants.com, Delahanty at david.delahanty@ towerswatson.com, Savan at jay.savan@towerswatson. com, Bruce Lee for Priga at bruce.lee@mercer.com and Ermer at dermer@ermerlaw.com.