Are You Paying for Ineligible Dependents?

According to Michael Smith, CEO of ConSova, the three areas of your health plan with the greatest potential for cost containment are: well-chosen provider networks; employee cost-sharing strategies like premiums, copays, coinsurance, and deductibles; and coverage for ineligibles. BLR spoke with him recently to address this last area.

ConSova (www.consova.com) helps clients with dependent audits that search for children, spouses, ex-spouses, and others who are receiving benefits, but are not truly covered by the plan.

Most executives in his position might come from a human resources or benefits background. Smith's experience started in finance.

"While working at a large airline carrier as an internal auditor, I found myself in the benefits area. Personnel costs are second only to fuel costs for an airline," he said. "So I spent a great deal of my time trying to understand where we were spending our money."

Often, the trail led to ineligible dependents. Smith started ConSova in 2003 in an effort to help other companies learn what the airline (and many other companies with which he had later consulted) already knew: Most plans cover people who are not eligible—and that costs a lot of money.

In fact, ConSova finds that ineligible dependents cost most companies between 3% and 6% of their total benefits spent.

"That's a significant amount of money," Smith says. But saving money is not the only reason to conduct a dependent audit. Another is fiduciary responsibility. "As a plan fiduciary under ERISA, you have to act in a prudent manner with plan assets, making sure they are spent only on those specified by the plan," he says.

"In order for the employer, especially the people in the benefits area, to meet their fiduciary obligations, it is important to make sure of that. It's also important for the stockholders. No one wants to take on the cost burden of covering healthcare costs for people who aren't eligible."

Another good reason to conduct an audit is employee relations. While not everyone will be positive about having to prove a dependent relationship, Smith reports the company sometimes receives 'thank you' notes from employees. In spite of the paperwork involved, employees usually understand the need. "They say, 'I'm glad you're doing this because I understand that my employer won't keep paying out dollars for ineligibles, which in turn means I don't see my premiums go up next year because of them.'"

HR professionals, with their focus on service and relationships, sometimes resist dependent audits, too, Smith says. "They're focused on people. Often, employees don't realize their dependent isn't eligible. Maybe the divorce decree says the employee must cover the ex-spouse, but the plan doesn't allow that.

But when we tell the HR staff that we see plans with 10% to 13% of dependents who aren't eligible, they realize they can't just sit by and do nothing. These are real dollars, and these are tough times. This is an opportunity for HR people to show real value to the organization."

Comprehensive Audits Best

Instead of asking randomly selected employees to self-verify the eligibility of their dependents, ConSova takes the process a step further, says Michael Smith, CEO of the company. "Using that methodology, the number of ineligibles you're going to find is limited.

"From my perspective, I don't believe clients want predictive modeling based on small samples, just to get maybe 40 cents on the dollar in return on investment.

"Instead, we ask for vital records from all covered employees with dependents: tax records, marriage certificates, or other vital records proving the relationship. We find about 11% to 13% of dependents are not eligible using that methodology."

Healthcare reform has changed the picture for plans that cover students. Because the law will require dependent children to be covered to age 26, effective January 1, 2011, many plans are no longer spending the time and resources to verify whether children of employees are full-time students. Smith is OK with that reasoning.

"Right now, we find that about 1/3 of the dependent children in the age 19 and up group don't meet the relationship test. The other 2/3 of them do, but [many] don't meet the full-time student test. [However] when we take them out of the model, the costs don't go down much because that group is just not that expensive," he concludes.

