Health Coverage ▶

by Michael Smith

Reducing Healthcare Costs With Eligibility Audits

Employers are under tremendous pressure to reduce the cost of providing healthcare coverage amid new healthcare reform requirements including more dependents being added the plan. With double-digit increases in healthcare costs, senior management is pushing hard to offset these added expenses.

Amid these turbulent times, some employers have made an up-front investment in wellness programs that they hope will pay off in the long-term. Others have made the tough decision to pass the increases on to employees in the form of premium increases and higher co-pays. Still others have turned to their brokers to help design and implement high deductible plans and renegotiate rates with carriers.

Some premium increases may be unavoidable, but there are options to deliver immediate and long-term savings. These options also position the broker as a valued partner in bringing initiatives to the table that deliver proven results.

Dependent Eligibility Audits

One of the best cost containment options is the dependent eligibility verification (DEV) audit. A DEV audit ensures that only eligible dependents are enrolled under the employer's plan. Companies can cut their annual healthcare spending by as much as 5% within the first year and often reduce their expected healthcare cost increases by up to 50% by examining eligibility criteria for each dependent and removing those who don't meet the requirements. An efficient and thorough DEV audit typically generates a 10 to one return on investment in the first year, which is far greater than the most other cost containment programs.

Without adding a cost burden to the employees, DEV audits can save on annual healthcare expenditures and ensure continued cost savings down the road since ineligible dependents are no longer a drain on the plan's resources. Most employers begin to see a cost savings within 60 days by removing ineligible dependents from the plan.

DEV in Action

Providence Saint Joseph Medical Center in Burbank, Calif. saved an estimated $1 million per year when it eliminated 1,200 ineligible dependents from its plan. The audit found that roughly 8% of the 16,000 members were ineligible -- mostly unmarried couples and adult children of employees who were no longer eligible for the plan.

Providence even included an appeals process in the audit as well as the ability to grant exceptions, when appropriate, to align with its core Catholic values. This is a perfect example of the flexibility and customization options available with the DEV audit process. The most capable third-party can accommodate these nuances to ensure a satisfactory result for both the employer and the employee.

Performing a DEV audit with in-house staff is often daunting, especially for smaller employers. But brokers who build partnerships with qualified third-party DEV service providers can offer a valuable outsourced solution and a dramatically higher return-on-investment compared to an in-house audit. A third-party auditor alleviates nearly all of the potential burden on the internal HR department. The auditor also provides discretion that eliminates the perception of co-workers scrutinizing one another's family situations and dependents.

Furthermore, conducting ongoing DEV audits during open enrollment, when new employees are hired or when employees change coverage options can deliver long-term cost savings and protect the employer's investment in the initial audit. We have found that about 50% of dependents were ineligible during the prior audit cycle try to re-enroll during open enrollment – 85% of whom are still ineligible.

Other Coverage Verification

Working spouse rules, such as spousal surcharges or waiver (carve-out) programs, are making a resurgence in light of healthcare reform. This cost-containment program has gained popularity in the past year and consultants are looking for plan design specifics for groups to implement in 2012.

Working spouse rules can save money by collecting additional funds through added premium charges or encouraging spouses to participate in their own employer's plan.

How does the employer know who should be participating in the program without verifying whether other coverage is truly available? Working spouse rules can be as much as 75% ineffective if the spouse's other coverage is not verified. With employers that don't have a comprehensive verification of other coverage, typically only about 8% of employees with spouses actually participate. That percentage can jump by nearly 300% after conducting the other coverage verification audit. In many cases, failure to participate is the result of confusion surrounding the rules. Once this is cleared up through the audit process, it can generate significant opportunity for employers to reduce their out-of-pocket costs. Savings vary based on the program that is implemented. In general, spouse surcharges generate value by delivering direct dollar remuneration in the form of a collection from the employee each pay period. However, a waiver or carve-out program that removes a spouse with other coverage can generate far greater impact based on the savings in utilization. Often this can save an employer up to 7% on annual healthcare expenses.

Brokers are in a powerful position to offer solutions that deliver immediate savings as well as a long-term return on investment.

Offering creative solutions allows brokers to provide a more valuable service to clients and differentiate themselves in a crowded marketplace known for its tight margins. ❑

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