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Employee Benefit Plan Review

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Cut Costs with Dependent Eligibility Verification

MICHAEL SMITH

Once health care reform was announced last year, many businesses feared escalating costs and radical changes to eligibility requirements would force them to drastically change the way they offer coverage, or perhaps even consider the possibility of no longer offering coverage in the future.

In fact, most employers now realize providing health care coverage is a valuable competitive differentiator in their recruiting efforts.

Can You Control Costs and Still Remain Competitive?

The first phase of implementing legislated broader health coverage is complete, yet businesses still find themselves faced with rapidly rising costs. In an effort to maintain their plan's efficiency and combat annual increases, some employers are implementing wellness programs, such as weight loss, smoking cessation, and other health and welfare improvement programs.

However, there may be cost shifting involved in these programs, i.e., employees who are smokers and do not participate in the company-sponsored smoking cessation program may be required to contribute a higher percentage toward their monthly premium compared to a nonsmoker. Although there is ultimately a clear value in having a healthy workforce, there are two concerns often associated with these initiatives: the timeliness of the actual value created and respective ROI, and the potential cost burden they place on employees who do not participate. Meanwhile, the cost of health care delivery continues to increase, even as the industry takes steps to try and improve efficiency (the move to electronic medical records is one example).

With this cumulative effect on the skyrocketing cost of providing coverage, many businesses feel they have no choice but to pass along the burden to their employees in the form of reduced benefits, increased premiums, copays, and other cost-sharing methods.

The fact is, for many employers, there is a better alternative—a way to generate immediate savings without added burden.

Pay Only for Those Who Belong on the Plan

Dependent Eligibility Verification (DEV) has emerged as a leading cost containment tool for employers to effectively safeguard against uncertainty and changing conditions in the health care industry. DEV audits and ongoing verification can help businesses slash the impact of expected cost increases by roughly 50 percent, reducing plan expenditures, delivering near-immediate bottom line savings, generating long-term return on investment, and fulfilling their fiduciary responsibility by managing the plan as economically as possible. In fact, most employers begin to realize cost savings in as little as 60 days, and most see a 1,000 percent or more return on their investment, merely by identifying their ineligible dependents.

Just how big of a problem are ineligibles? It is estimated that an average of seven percent to 10 percent of covered dependents are found to be ineligible for benefits. In addition, these ineligible dependents can consume as much as five percent of a self-funded insurer's total annual health plan expenses.

Who Are Ineligibles?

Ineligible dependents typically fall into three categories:

- Children under age 19 who do not meet the plan/legal relationship requirements;
- Adult children age 19 to 25 who enroll under the new health reform laws, but are not actually related to the employee. One example could be an eligible child's spouse who enrolls by purporting to be a child of the employee by virtue of the same last name; and
- Former spouses of employees who remain on the plan after a divorce. In a DEV audit, these ex-spouses often account for 50-60 percent of cost savings, and equate to roughly

40 percent of the ineligible dependents identified.

While many ineligible dependents make their way onto the plan intentionally, a large number are often there simply by mistake. Employee misunderstanding or a lack of clarity in eligibility rules may result in dependents being added by accident. In these situations, DEV audits can help companies identify and correct any misinformation or confusion in the eligibility rules.

Conducting an Audit

The mere mention of the word "audit" may strike fear into the hearts of benefits managers, HR representatives, and the employees themselves. However, when benefits of the audit for both the plan and the employee are clearly communicated, resistance wanes, and participation improves. For best results, a comprehensive review of all employees who cover at least one dependent, versus targeting certain dependent types or random selection, should be implemented. Proper communication from multiple channels to all employees will help them understand that the audit itself is a standardized process and that it can actually save them money will relieve individual employee concerns about their participation in this process.

Whether a company chooses to conduct an audit in-house or involve a third party firm is a matter of preference, but there are some clear advantages to bringing in outside help:

1. Time—many HR and benefits managers are overwhelmed and an in-house DEV audit is beyond their capacity.
2. Money—an outside firm specializing in DEV audits has the resources and processes in place to conduct the audit, typically with much greater efficiency than in-house employees.
3. Neutrality—bringing in a third party reduces the risk of personality conflicts and employees feeling as though they are being unfairly scrutinized. Auditors have no personal relationships with those being verified, which keeps the process at arm's length for colleagues who must work together each day.
4. Efficiency—to properly verify, a minimum of two documents per dependent (where appropriate) should be required. For a company with 5,000 employees, this could mean reviewing over 10,000 documents. This does not include handling incoming questions and follow-up communications to request additional information and confirm the status of the employee's review. An experienced third party auditor should have the systems in place to handle this process efficiently, securely, and much more cost-effectively than an in-house effort.

Choosing an Auditor

If the utilization of an outside firm is the approach that makes the most sense for the business, be sure to select a vendor that provides a comprehensive, multidisciplinary approach that guarantees all ineligible dependents will be removed. Many service providers can leave as many as 15 percent of dependents unverified, placing the burden on HR and benefits managers to finish the job. It is important to choose a vendor with a proven track record of high employee participation.

It may also be beneficial to choose an auditing firm that provides ongoing verification services as well. Certainly, a one-time or annual audit will generate savings, but to gain the maximum results for the long-term, an ongoing dependent verification process protects both the financial security of the plan and the employer's initial investment in the audit by verifying eligibility for all future dependents added to the plan with the same nondiscriminatory process.

Michael Smith is president and co-founder of ConSova Corporation, a provider of health care cost containment solutions. He is also a Certified Public Accountant.