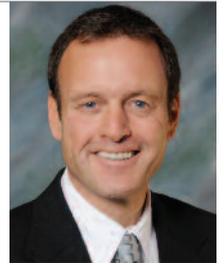


# Reducing Healthcare Costs with Dependent Eligibility Audits



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**A**n employee benefits program is one of the largest expenses for local governments. Administrators must balance escalating benefits costs, while continuing to provide employees with superior health coverage—no small feat in today's economy.

In the past few years, employers have begun to realize that they have been paying for the health benefits of those they never intended (ineligibles). Historically, the norm has been the "honor system," where documentation proving the relationship of dependents was never required. There was no verification that a marriage still existed, a student was full-time, or a son wasn't really a nephew.

ELIGIBILITY AUDITS SHOULDN'T BE  
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Several years ago the Ford Motor Company performed one of the first large-scale Dependent Eligibility Audits (DEA). A Dependent Eligibility Audit is a process that verifies that dependents covered under a group health plan are in fact eligible dependents, qualifying to be covered under the employer-sponsored healthcare plan.

The result of the Ford Motor audit was the identification of 50,000 ineligible dependents. The result was an enormous amount of benefits plan savings when the rolls were corrected. Since then, a growing number of larger companies have started doing eligibility audits. In fact, the New Jersey State Health Benefit Plan (SHBP) recently decided to do a DEA. They expect the audit will result in savings of millions of dollars annually.

Many smaller private companies and Public Entities are now recognizing that there are potentially significant savings to be realized by performing a DEA, especially since the national average for the cost of an employee dependent is \$2,600 per year. The biggest challenge is understanding the most cost effective way of completing a DEA and finding the right support to assist in getting it done.

Time for a check up? In the past few years, employers have begun to realize that they have been paying for the health benefits of those they never intended (ineligibles). There was no verification that a marriage still existed, a student was full-time, or a son wasn't really a nephew.

A typical DEA consists primarily of three phases: the planning phase, the amnesty phase and the verification phase. Each phase plays an integral part in making sure the audit process is completed in the most efficient, most cost-effective way possible.

**Planning Phase** During the planning phase a customized audit plan is developed to reflect the Public Entity's style and culture. The goal of the planning phase is to address, discuss and make detailed decisions on exactly how you want the audit to be conducted. The planning phase will address issues such as defining an eligible dependent, planning the communication campaign, determining the bargaining union's involvement, setting an appropriate schedule, defining the employer's role and the auditor's role and planning each of the next two phases.

**Amnesty Phase** The next step in the audit is the amnesty phase which is done to create a "no-fault event" where any employees with enrolled dependents will be informed of the guidelines for dependent eligibility. Employees at this stage can reconsider their dependents and officially declare their decision in a simple affidavit to the employer. This offers employees the opportunity to voluntarily remove ineligible dependents from their benefit programs without sanctions. The Amnesty phase is performed over a specified period of time, after which time voluntarily affirmed "ineligible" dependents are removed from the insurance coverage and the next phase of the audit commences.

While the amnesty phase requires a signed affidavit from members confirming their dependents eligibility, it does not prove eligibility. To prove each dependent has a bonafide eligibility status requires a review of specific documentation for each dependent. This is the purpose of the third phase of the audit known as the Verification Phase.

**Verification Phase** The Verification Phase uses the information confirmed by the employees during the amnesty phase in order to request supporting eligibility documentation. This documentation will provide the information necessary to verify a dependent's eligibility. It is important to note that not

only is a Public Entity verifying that a dependent relationship once existed, but they are also verifying that the relationship still exists. For example, a marriage certificate provides the proof that a marriage exists, however, what document would certify that the marriage still exists 5, 10 or 15 years later? The most common document requested for proof that a marriage still exists is a copy of the member's most recent tax filing, with financial information and social security numbers blocked out.

The following are a few examples of documentation requirements for dependent situations:

- Spouse or Domestic Partner or Civil Union: Copy of the marriage certificate, Affidavit of Domestic Partnership, Civil Union Certificate and a copy of the top half of the most recent federal tax filing (with financial info and Social Security Numbers blocked out).
- Dependent Child: Copy of the birth certificate.
- Adoption or placement for adoption: Court order signed by the judge.
- Full-time student status: Birth certificate and a copy of current semester official class schedule reflecting full-time student status or signed statement from the registrar or dean of students verifying full-time student status or copy of the current semester tuition bill showing proof of payment for full-time student status/credit hours.

**Confidentiality** Confidentiality of all members' personal information should not be taken lightly. The guidelines established by The New Jersey Identity Theft Protection Act should be strictly adhered to during the DEA. The information collected does not include any combination of information deemed "personal" by the Act (defined as Social Security Number; Driver's license number or State Identification card number; or Account number or credit or debit card number in combination with any required security code, access code or password).

If an employee does not provide documentation, most companies then remove dependents that cannot be verified from the insurance coverage. The New Jersey SHBP DEA rules state that "The SHBP/SEHBP will have no choice but to terminate your dependent(s) cov-

erage if you do not provide the required documentation to verify eligibility."

Moving forward, companies can formally adopt an eligibility management process, whereby the requested eligibility documentation will be a requirement of any new enrollee or change in status to a client's employee benefit plans.

At the end of the audit, final reports are provided to the Public Entity indicating non-respondents and any open action items. It is the final decision of the public entity client on how to handle these employees.

Business & Governmental Insurance Agency (BGIA) recently performed a DEA for a New Jersey Public Entity with approximately 275 employees. Even though this Public Entity does an excellent job managing dependent eligibility, the audit identified and removed eight dependents that were not eligible for healthcare benefits.

If you are like many Public Entities struggling with the question of how to reduce health plan costs, independent of cutting benefits, then a Dependent Eligibility Audit is an excellent option.

Here are some questions you should consider as you prepare for a DEA:

- Does your plan description provide a clear definition of eligible dependents and are your employees educated on this process?
- Is dependent and other insurance data collected at initial enrollment only? Or annually at re-enrollment?
- What proof of dependency (documentation) is required for enrollment and eligibility updates to your health plan?

Eligibility audits shouldn't be perceived as setting the stage for blowing the whistle on "waste, fraud or abuse." Rather, DEAs give employers the ability to introduce formal policies and procedures that will put the healthcare plan in a better position to provide benefits at reasonable costs for all employees. And, not insignificantly, eligibility audits can lead to tangible savings on total healthcare spending. ▲

Steve Edwards co-founded BGIA in 1993. Active in various civic and charitable causes since 1985, Mr. Edwards was a member of the Advisory Board of Directors of American Union Bank and the Governors Liaison to the New Jersey Public Employees Retirement System Board of Trustees.