

## IN THE NEWS

### Health Care: Tips for Auditing Dependent Eligibility

Originally Printed in SHRM Online



By Joanne Sammer, February 2008

Employers continue to seek ways to eliminate unnecessary costs and waste within their health plans. One means that's increasingly popular is conducting a "dependent eligibility audit." In short, this requires all employees to provide proof that any dependents for whom they wish to purchase insurance under their employer-provided group health plan are, in fact, eligible for that coverage.

This proof can include:

- A birth certificate.
- A marriage license.
- Court documents.
- Documentation that a dependent is a full-time student.

Employers that undertake this process can reap significant savings. David Neikrug, CEO of Optimum Group LLC, a New York-based health care consulting firm, estimates that 10 percent of dependents covered by an employer plan are ineligible for that coverage.

In a real-life scenario, an employer whose plan provides coverage for 1,000 dependents at a cost of \$2,000 per year per dependent could save \$200,000 per year by eliminating that unnecessary coverage. However, the exact level of savings will vary according to employee demographics.

#### Getting Started

Here are steps to begin auditing for dependent eligibility, along with tips for ensuring a smooth process.

##### Step No. 1

##### Determine if an audit is necessary

Dependent eligibility audits do not yield significant savings in every case. A company with a largely young and single population or a company that has been diligent about requiring proof of eligibility during open enrollment might not find enough ineligible dependents during an audit to justify the time and expense involved.

Even if a company handles the process internally rather than hiring a vendor, the process still has a cost in staff time, mailings and other expenses.

- **Tip:** Auditing a random sampling of employees can help companies decide whether to conduct a full audit. If an audit is not warranted, a company can strengthen its gatekeeping system by being more vigilant about requiring eligibility documentation during open enrollment.

##### Step No. 2

##### Check vendor data

Before requiring employees to provide proof of dependent eligibility, it's a good idea to make sure that the company and its plan administrators are using the same data.

In some cases, the vendor might not have the right information regarding dependent eligibility or might not be updating that information in a timely way as dependents' status changes, notes Neikrug.

- **Tip:** These discrepancies should be dealt with before asking employees to provide proof of dependent eligibility.

### Step No. 3 Tread lightly

Employee relations is a key issue before, during and after a dependent eligibility audit. Companies need to explain the process and purpose of the audit carefully so that employees do not feel that they are being accused of wrongdoing.

"If the employer approaches this as a way to save money and provide better benefits to employees, employees are likely to be more accepting of the process," says Ken Perlman, CPA, a partner with accounting firm Buchbinder Tunick & Co. in New York. "It depends on the way it is packaged."

- **Tip:** Communicate exactly what will happen, what documentation employees must provide, how quickly they will need to produce it, the consequences for not complying with the documentation request, and any consequences for having an ineligible dependent on the plan. Be sure to note that better cost controls can mean lower premiums for employees who play by the rules.

### Step No. 4 Explain eligibility criteria

Before conducting a dependent eligibility audit, explain the plan's dependent criteria. "It might not be clear to employees who can be covered by the plan, says Perlman. "If no one is ever watching, the enrollment of ineligible dependents just happens."

In some cases, employees might be enrolling ineligible dependents because they did not know any better.

- **Tip:** Explain the eligibility criteria and then allow a grace period during which employees can drop ineligible dependents before the eligibility audit begins.

### Step No. 5 Decide if there will be penalties

Before conducting the audit, decide what, if any, sanctions will be imposed on employees with ineligible dependents, such as reimbursement for premiums and claims paid on behalf of ineligible dependents.

- **Tip:** Many companies do not impose penalties as a result of an initial audit, instead emphasizing that penalties will be imposed for any future violations.

### Step No. 6 Eligibility beyond enrollment

Keeping ineligible dependents from enrolling in the plan is only half the battle. Some employers that sponsor an on-site clinic or diagnostic center have begun to see employees using the identity of a dependent to obtain treatment for non-dependent friends and relatives.

- **Tip:** Consider issuing photo identification cards to dependents to prevent others from using these benefits.

### Step No. 7 Stay on top of things

Once employers have completed a dependent eligibility audit, they must remain vigilant. "You can't just put safeguards in place and leave them there; you must manage the process," says Neikrug. "You can't assume that you don't have to think about this in the future."

- **Tip:** Conduct spot tests of documentation and vendor data to ensure that no one is slipping through the cracks. This lets employees know that they could be asked to show proof of dependent eligibility at any time.

### Plugging Other Leaks

Dependent eligibility is just one area where unnecessary costs can creep into a health benefits plan. Once a dependent eligibility audit is complete, employers can consider auditing other aspects of the plan, such as:

- Whether claims are being paid correctly.
- Whether claims continue to be paid for terminated employees.
- Whether terminated employees and their dependents are being removed from the plan in a timely way.