

**CONTROLLING
HEALTH-CARE COSTS
WITH DEPENDENT
ELIGIBILITY AUDITS**

BY MARK MACK



Dependents represent a large portion of the cost of many employers' health plans, but how many of those enrolled dependents are legitimately eligible for health coverage benefits? The answer is fewer than you think. One might assume that ineligibility is a matter of extraordinary circumstances, but the internal audits of an increasing number of public and private sector organizations are proving otherwise. The bottom line: Ineligible dependents are probably costing your government money.

Studies suggest that roughly 8 percent of dependents enrolled in health-care plans are ineligible for coverage.¹ The City of Corpus Christi, Texas, was surprised to find that 9 percent of dependents covered by its plan were technically ineligible for coverage. These cases cost employers an average of roughly \$3,500 a year per dependent, so identifying them is an economic imperative.² Conducting a dependent eligibility audit (DEA) saved Corpus Christi more than \$1 million in the first year alone.

The central task of dependent eligibility audits is to verify the eligibility of each dependent claimed by an employee. DEAs are a particularly helpful health-care cost-containment strategy because it does nothing to erode the quality of the health-care benefit. After the audit, qualified plan members still receive exactly the same benefits, and their out-of-pocket cost does not increase. Further, unlike many other cost-containment strategies, DEAs are straightforward and expedient; they can be accomplished in a matter of months.

While DEAs are relatively common in the private sector, they appear to be more rare among local governments.³

WHO IS INELIGIBLE?

Since dependents (as a category) often make up the majority of lives covered by an average health-care plan (see Exhibit 1), identifying them can have a significant financial impact.

Sixty percent of ineligible dependents enrolled in an employer's health plan are children. The most common reason a child is found to be ineligible is that the employee is not the legal guardian of the child (e.g., a stepchild or a grandchild who lives with the employee). Older children who have passed the eligible age (now 26 under the Affordable Care Act) are also part of this 60 percent, often having inadvertently remained a parent's health plan past eligibility.

Wait!

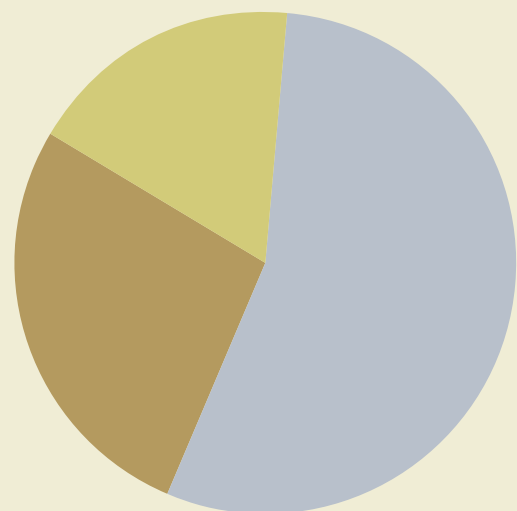
Won't My Provider Identify Ineligible Participants?

Some readers may wonder if going through the time and expense of conducting an audit is really necessary. Shouldn't insurance providers catch ineligible dependents before they're enrolled? The reality is that these providers have no economic incentive to identify and remove ineligible participants. (In fact, their incentive is just the opposite.) Often, ineligibility isn't determined until a dependent makes a very large claim, at which point the provider might deny coverage.

Spouses, who are typically the heaviest users of health benefits, make up the remaining 40 percent of ineligible dependents. The most common reason for spousal ineligibility is divorce, where the ex-spouse was never removed from the health plan.

Exhibit 1: Dependents Often Represent the Majority of Covered Lives in an Employer's Health Plan

- 18% Employees with No Dependents
- 27% Employees with Dependents
- 55% Dependents



Data were provided by HMS and represent an organization of 5,000 employees.

Fraud Is Uncommon.

Most ineligible dependents are included on an employee's health plan because of a lack of understanding on the part of the employee or a lack of communication on the part of the employer. Negligence in updating the status of dependents can also be a factor. Outright fraud, however, is the exception, not the rule.

WHAT IS THE FINANCIAL BENEFIT?

The potential reductions in cost provided by a DEA are obviously substantial. However, two questions must be answered before a conclusion can be reached on the net financial benefit. First, even though substantial savings are available across all employers, how likely is any individual employer to realize savings? Second, how do the savings compare to the costs of performing a DEA?

An important part of the answer to the first question is “the law of large numbers,” which holds that as a sample size gets larger, its mean will become increasingly close to the average of the whole population. In other words, larger employers are more likely to have closer to 8 percent of their dependents ineligible, while smaller employers are more likely to experience wider variation (much higher or lower than 8 percent).

To better understand this principle, we examined a sample of 17 local governments — cities, counties, and school districts — that conducted DEAs in 2013. The average number of ineligible dependents across all 17 governments in the sample was 7 percent, which is close to the nationwide average of 8 percent.

The five largest jurisdictions had between 3,581 and 7,507 dependents in the health plan, and the five smallest ranged

from 367 to 759. Exhibits 2 and 3 show the details for these two groups. As the tables suggest, the percentage of ineligible dependents are closer to 8 percent for the larger governments, while there is more variation among the smaller governments.

The conclusion one can draw from looking at these samples is that, in general, DEAs are more of a “sure thing” for larger governments (with smaller governments realizing substantial savings as well, but with wider variation). But how can we know if a particular government is likely to benefit from a DEA? Fortunately, practitioner experience with DEAs has revealed a number of characteristics that the organizations most likely to benefit often share:

- Loose process for bringing in new employees and poor communication of benefit eligibility rules (e.g., the employer does not collect documents from new hires when adding them to the plan and/or does not clearly explain the rules to new employees).
- Jurisdictions that are governed by complicated labor contracts, and more adversarial relations between management and organized labor. Such environments may impede the clear communication and understanding of eligibility rules to employees.
- The employer has not performed a proof-based audit in the past, or has not taken steps to make sure that ineligible dependents did not enroll in the years since the audit.

What About Small Organizations?

While the data available for our research did not include small organizations, it is still likely that smaller organizations can benefit from a DEA. That said, there are no guarantees — variability widens as organizations decrease in size.

Exhibit 2: The Five Largest Jurisdictions Analyzed

	Five Largest Jurisdictions				
Number of Dependents Reviewed	3,581	3,882	5,440	6,797	7,507
Number Found Ineligible	322	197	278	406	385
Percent of Ineligible Dependents	9%	5.1%	5.1%	6%	5.1%
First-Year Savings	\$934,153	\$591,000	\$1,287,587	\$1,161,109	\$1,095,993

Figures represent potential first-year savings if all ineligible dependents were removed.

Exhibit 3: The Five Smallest Jurisdictions Analyzed

	Five Smallest Jurisdictions				
Number of Dependents Reviewed	367	645	659	756	759
Number Found Ineligible	47	22	76	46	26
Percent of Ineligible Dependents	12.8%	3.4%	11.5%	6.1%	3.4%
First-Year Savings	\$131,500	\$106,106	\$228,000	\$138,000	\$78,000

Figures represent potential first-year savings if all ineligible dependents were removed.

Exhibit 4: Potential First-Year Return on Investment

	Average ROI	
Five Smallest Jurisdictions	Five Largest Jurisdictions	Overall Sample Jurisdictions
1135%	2147%	1557%

- The employer does not collect documents from employees after life-changing events (e.g., marriage or the birth of a baby).

The second question to ask is how savings compare to the cost of the audit itself. The benefit of a DEA stretches many years beyond the first-year savings, since your organization won't have to pay future premiums. These savings must be compared to the total cost of the DEA project, which often includes staff time from an organization's human resource department as well as third-party vendor cost. While the cost of a project will vary from one jurisdiction to the next, the steps described above can help governments begin to assess potential savings, thus providing a basis for informed decision making. Although staff time and future premium savings were not included, Exhibit 4 provides an indication of the potential first-year ROI an organization could expect based on the 17 jurisdictions in the sample.

WHO PERFORMS THE DEA?

Dependent eligibility audits can be time consuming, detail orientated, and resource intensive, which may be the reason that many organizations choose to use a third party to conduct their audit. Third-party auditors can ensure that an organization's human resource department is not placed

in the uncomfortable position of asking personal questions of employees (e.g., marital status). Third-party vendors also bring advantages in experience and technology. The vast majority of companies that conduct DEAs do so as their primary function and are therefore better prepared than the employer for the intensive document collection that is the crux of the process. For example, a third party can provide technology that allows employees to scan and upload documents with their smartphones. Vendors often provide online portals that allow easy document tracking to keep employees informed about what they have submitted and what is still needed. Still other resources available through such vendors allow employees to source missing or hard-to-obtain documents if copies are needed.

Knowledge of best practices and statutory requirements also give third-party vendors the ability to identify which documents represent proof of legal dependency. For instance,

someone who does not conduct DEAs frequently may not know the difference between a marriage license and a marriage certificate for the purpose of determining eligibility for benefits. (A marriage license only authorizes a couple to get married within a certain time period, while a marriage certificate certifies that the couple is actually married.) Additionally, a third-party

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auditor would likely employ industry best practices that require the spouse to provide proof of residency, ensuring that the dependent is currently married and residing under the same roof as the employee. This is often accomplished by requesting a current 1040 tax document or a bank statement to accompany the marriage certificate. Most third-party vendors are familiar with such subtleties, making the documentation verification portion of the audit faster and more accurate.

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the verification phase. Providing a clear explanation of the purpose and motivation for the audit can often improve employees' perception of the project, which can in turn affect participation and curb discontent. Employees also need to be made aware that failing to participate could result in the loss of benefits for their dependent. To communicate this information, organizations often reach out to employees in a number of ways,

WHAT IS THE PROCESS FOR A DEA?

Dependent eligibility audits have four primary phases that include planning the project, collecting and verifying information, updating the health-care plan, and handling appeals.

1. Make a Plan. Organizations often define dependents differently in their health-care plans, so the planning phase tends to center on clearly establishing the definition of an eligible dependent. It also includes communicating this definition to employees. The communication in this step is critical, as it will directly affect how employees respond in

including internal emails, centralized information posters, and word of mouth (via managers) to announce the impending audit, and to prepare employees for additional communications. A diversified communication strategy is necessary to ensure a high response rate from employees. For example, all 17 local governments in our sample used diversified communication strategies, and all had a response rate from employees of 95 percent or greater.

2. Verify Eligibility. The verification phase involves the physical or electronic collection of identification documents ranging from marriage and birth certificates to a spouse's proof of residence. Some organizations are implementing point-of-enrollment options that collect additional detailed information when new employees are initially enrolled in a plan. In the verification phase, obtaining a high employee response rate is vital. The ideal is a 100 percent response rate within the allotted timeframe (often 30 to 45 days). But this is rarely the reality, and a project with an initial response rate of 95 percent or more is generally considered successful. Employees who do not respond often lack the appropriate documentation, or are in the process of assembling their documentation. As one might imagine, supplying birth certificates, marriage certificates, and proof-of-residency documents can be a time-consuming process. Here, third-party vendors can often expedite an audit by providing additional resources to obtain these documents. An organization's human resources department will also play a role in this phase by gently reminding non-responders of the need to submit documentation, and the gravity of not doing so. As organizations work through the verification phase, there are typically employees who will acknowledge



that a dependent does not meet the criteria outlined in the plan. This is encouraged — again, keep in mind that the enrollment of ineligible dependents often results from a lack of information, a lack of clarity, or a lack of communication on the part of the employer.

Dependent eligibility audits can be time consuming, detail orientated, and resource intensive, which may be the reason that many organizations choose to use a third party to conduct their audit.

information they are asked to submit, and the need to demonstrate the eligibility of their dependents. In addition, employees who do not have dependents are excluded from the audit, which can also seem unfair at first glance. But a DEA does not have to cause morale problems.

3. Update the Health-Care Plan.

Most DEAs result in the disenrollment of some ineligible dependents. This step is often postponed, taking place after an unpublished grace period to avoid erroneous disenrollments. Like most employers, Corpus Christi took special care in completing this step. It was important to the city that the plan be updated in a thoughtful and conscientiousness manner.

An organization's human resources department often completes the removal of ineligible dependents from a health-care plan, allowing the employer to exercise discretion in special circumstances. In the case of Corpus Christ, this method provided the city the flexibility to allow employees time to secure other coverage for their dependents.

4. Handle Appeals and Reinstatements. Inevitably, some employees will want to appeal the audit findings. This is typically built into the audit process and can involve the human resource department, a third-party auditor, or both. Roughly 1.5 percent of dependents who were believed to be ineligible are subsequently reinstated.⁴ Reinstatements are often the result of missing documents being located and submitted by employees. Another significant portion of reinstatements occur because employees who previously had not complied with the audit finally submit their documents, often after realizing the gravity of non-compliance. A more formal appeals process can also take place after the audit has been completed, with the employee appealing directly to the health-care provider.

ARE DEPENDENT ELIGIBILITY AUDITS BAD FOR MORALE?

A DEA has the potential to cause real friction among employees because of the various records and personal

In fact, Corpus Christi was surprised by the low number of employee complaints — most likely because of the city's thorough communication effort. Early communication to employees, including direct mail to employees' homes before any official planning action, helped set the tone for their project. The communication was continued with posters in common areas sharing information about the audit, electronic communication, and word-of-mouth communication from managers and staff. Special outreach was also made to the city's public safety unions and other employees under collective bargaining agreements explaining the purpose

How Does the ACA Affect DEAs?

Not surprisingly, the passage of the Patient Protection and Affordable Care Act (ACA) has affected some aspects of dependent eligibility audits. Perhaps the most significant impact is the ability of health-care providers to attribute surcharges and create coverage "carve-outs," or exclusions for spouses with existing health coverage (received through their own employers, for example). Although such actions are often left to the discretion of the employer, they are becoming increasingly common. If an insurance carrier has implemented surcharges or carve-outs for dependents with other coverage, a DEA can help identify plan participants who have coverage elsewhere. This is often accomplished through an affidavit delivered to the employee by a third-party vendor, which must be then delivered to the spouse, and then to the spouse's employer. Another important impact of the ACA is the ability of children to remain on their parent's health plan until the age of 26.

and benefits of the audit prior to initiation. Once the project began, most communication was generated by the third-party auditor, which reinforced what employees had already heard and guided them through the actual steps of the process.

Providing additional support through the organizations human resource department, (e.g., reaching out to employees who did not provide the required documents directly) prior to disenrollment also ensured that each employee had a clear understanding of why the audit was taking place and what the city hoped to accomplish, as well as what was expected of the employee and the consequences of non-compliance. The emphasis on a thorough communication strategy was likely critical in curbing morale issues and mitigating employee discontent.

DO THE RESULTS LAST?

Experts have recommended that organizations verify audits biannually to maintain the savings realized through a DEA, primarily to monitor for changes in employees' life circumstance such as spousal relationships and children aging out of their parents' plans. Improving dependent enrollment techniques (e.g., point-of-enrollment verification) can help ensure sustained compliance and curb health-care spending over time. ■

The benefit of a DEA stretches many years beyond the fist-year savings, since your organization won't have to pay future premiums.

Notes

1. Research focused on the health-care firms HMS, ConSova, and the Society for Human Resource Management. See the following: ConSova Resource Center — *Dependent Eligibility Audit Case Studies*, January 1, 2010; Gary Claxton, 2014 Employer Health Benefits Survey, September 1, 2014; Healthcare 411, U.S. Department of Health and Human Services Medical Expenditure Panel Survey; "Modest health benefit cost growth continues as consumerism kicks

into high gear," November 19, 2014; Stephen Miller, *Health Care Savings with Dependent Eligibility Audits*, Society for Human Resources Management, April 19, 2009; and HMS, *Understanding Dependent Eligibility Audits*, October 1, 2013).

2. \$3,500 is an industry average that is based on research conducted by the Kaiser Family Foundation and Mercer's 2014 National Survey of Employer-Sponsored Health Plans. The equation used for calculating an organization's actual per dependent premium is as follows: $\text{HC Claims \$ Per Year} + \text{RX Claim \$ Per Year} + \text{Admin Fees} / \text{Total Number of Lives Covered by the Plan} = \text{Per Dependent Premium}$.

3. Based on personal interview with DEA provider HMS.

MARK MACK is a consultant/analyst with the GFOA's Research and Consulting Center in Chicago, Illinois. Mack would like to acknowledge the contributions of Mike P. Dunlap, national sales director, HMS Employer Solutions; John Webb, managing director, HMS Employer Solutions; and Steve Viera, benefits manager at the City of Corpus Christi, Texas.

