(Are you using dependent eligibility audits to cut clients' costs?)

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JOE ALFONSI

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A Summit PUBLICATION

Secret weapon

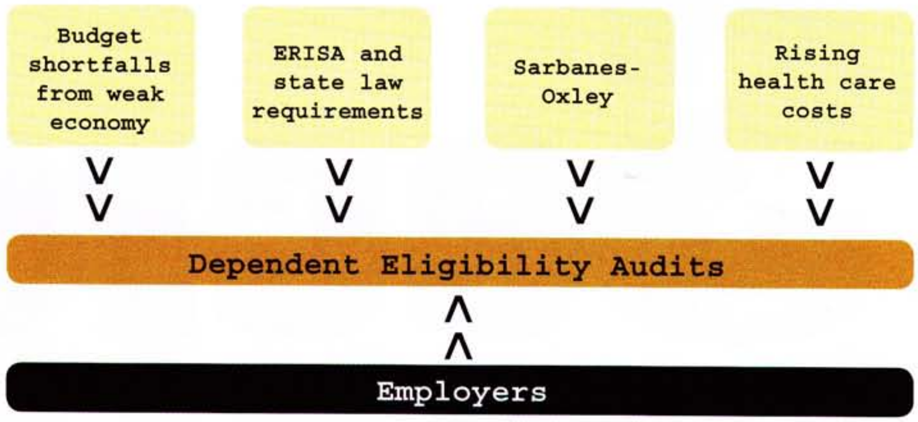
Illustration by Michael Austin *Story By Michael Browning*

DEPENDENT-ELIGIBILITY AUDITS ARE AN ALL-TOO-OFTEN OVERLOOKED COST CONTROL TOOL

Employers continue to use an arsenal of strategies to help control their health care costs. Wellness and disease management programs, consumer-directed health plans, and quality initiatives are all valuable tools in an employer's armory.

But what if the most effective weapon was well within their reach, but wasn't being used? Many employers have found that dependent eligibility audits can dramatically reduce their health care costs. Brokers who understand how dependent eligibility audits work, and how to discuss them with their clients, have a rare opportunity to strengthen their relationships and possibly gain new customers.>>

Dependent Audits



A RECENT RISK

During the last 20 years, human resource departments have benefited from the integration of technology into most of their core processes. Payroll systems, recruitment software, and enrollment management software all have helped automate tasks that once required a large amount of paper shuffling. However, this paperless automation has brought with it an unforeseen risk.

Negative externality is the term economists use to identify unintended results from implementing a change. When employers implemented self-service enrollment throughout their organizations, their negative externality took the form of ineligible dependents being supported by their plan. In the past, employers enrolled new dependents in their plan through a paper-based process. It was typical for them to ask for supporting documentation to prove a dependent's eligibility for coverage. Because this was a paper-based transaction, asking for this documentation made sense and didn't require a separate process.

However, when employers moved to self-service enrollment systems, many of them no longer required supporting documentation for enrolling dependents. Most included some form of attestation during the enrollment process where the employee would acknowledge that they had reviewed the eligibility rules and affirmed that their dependents were eligible. Unfortunately, for employers, paying for the health benefits of individuals who were not eligible was more common than expected.

Roughly eight years ago, some employers started to recognize the risk. More specifically, Detroit automakers began to internally conduct a few random samples of their dependents to find out if ineligible dependents were an issue. These sample audits of their dependent population confirmed that ineligible dependents were indeed a problem. They soon expanded the dependent eligibility audits to their entire population. Now, dependent eligibility audits are standard practice for automakers that are struggling to support the health care costs of their employees and retirees.

Soon after Detroit's series of successful audits, other employers began to want to take a closer look at the dependents on their plan. However, managing the audit process involved handing large volumes of sensitive documents and data. These audits also required a dedicated call center, as well as secure areas for receiving, processing and storing sensitive documents. Employers also found it difficult to track the communications, documents and status of each dependent. Because of these logistical challenges, most employers with more than 300 employees have chosen to hire a third party to handle the audit. This demand gave rise to a few specialized dependent eligibility audit firms that continue to meet the needs of the market today.

A PROCESS FOR PROOF

As with most services, all dependent eligibility audits do not necessarily follow the same process or achieve the same results. Dependent eligibility audits normally take one of two forms: promise or proof. Under the promise model, employees are asked to certify that their dependents are indeed eligible for coverage. This can be done via electronic means or through a paper-based affidavit. While this process is simple, its effectiveness is limited. Since it does not actually validate eligibility from supporting documents, this process is still relying on a promise similar to those made during self-service enrollment. Because of these limitations, most dependent eligibility audits follow the proof model.

The proof model usually contains three distinct phases: planning, amnesty and verification. The planning phase is where the employer, broker, and dependent eligibility audit firm decide on the specifics of the process. Decisions will need to be made concerning what documents will be required for each type of dependent. For example, an employer can choose to only request a copy of the marriage certificate to validate that a dependent is a spouse. However, a marriage license only proves that someone was once married, not that they are still married. Most employers also choose to request a redacted copy of the employee's 1040 tax form. Seeing if the spouse is listed on the form is a good indication that they are still married. These considerations, along with the project timeline and communication templates, are the main focus of the planning phase.

The amnesty phase of an audit is optional, but most employers choose to include it.

"The utilization of an amnesty phase helps to ease the initial fears of employees," said Chris Powers, senior vice president of Benefit Development Group, a Massachusetts-based benefits consulting firm.

During this phase, the employees will be notified of the audit and given a chance to remove any ineligible dependents, normally without any negative repercussion. The letter should list the employee's dependents and the rules of eligibility for each of them. Not only does the amnesty phase offer employees a "get out of jail free card," but they also result in significant savings. The state of Michigan recently conducted a dependent eligibility audit that included an amnesty period.

"The dependents voluntarily dropped during the amnesty period resulted in premium savings of about $1 million annually," said Matt Fedorchuk, compensation director for Michigan's Civil Service Commission.

This accounted for a significant portion of the $3.6 million in premium reductions that the state achieved by conducting the audit.

During the verification phase, the audit firm sends a series of letters to each employee and requests the specific documents required to prove the eligibility of each dependent on the plan. The audit firm also supports the process by establishing a phone number, Web site and other communication methods that allow employees to ask questions. After the verification phase most audits also include an unpublished grace period. This grace period will allow those who waited until the last minute, as well as employees that are having difficulty obtaining their documents, more time to comply.

A SAMPLING OF RESULTS

"Few strategies offer the opportunity for the immediate and substantial impact on health care costs that is available through dependent eligibility audits," said Bruce Gilbert, director of Ohio's School Employees Health Care Board.

Gilbert's organization has just mandated that all school districts within Ohio conduct regular dependent eligibility audits. His organization estimates that these audits will save the state of Ohio more than $90 million a year on health care costs. That amount of savings will get any employers attention, especially in the current economic environment.

Most employers will identify and permanently remove between 5 percent and 10 percent of their dependents during the course of any thorough dependent eligibility audit.

"The potential savings that can be realized in a short period of time by performing a dependent eligibility audit can be substantial. Removing ineligible dependents from the health plan frees up funds for wage increases, investments in preventative health programs and other quality initiatives," Gilbert said.

Goodyear Tire and Rubber Co. found that more than 10 percent of the dependents on their plan actually were ineligible for coverage. This resulted in reducing its overall health care spending by 6 percent. This level of savings isn't just reserved for very large employers. Columbus Public Schools, an Ohio school district, completed an audit that identified 1,200 ineligible dependents. The district obtained a one-year return-on-investment of more than 1,500 percent from the audit, which cost about $90,000. Most employers with more 500 employees should expect between a 500 percent and 1,500 percent return-on-investment if they use a qualified audit firm. Although all employers are at risk of supporting ineligible dependents on their plan, this risk is especially high for employers that offer rich benefits. The financial return of dependent eligibility audits is indeed significant.

However, it is only part of the reason why demand exploding.

A TIPPING POINT

Demand for dependent eligibility audits grew steadily from 2001 to 2007. However, 2008 and 2009 have seen unprecedented growth in demand for this product. While

the state of the economy drives down demand for a host of products and services, dependent eligibility audits have blossomed into a powerful cost saving tool. A recent survey by Watson Wyatt indicates that demand for dependent eligibility audits among large employers has grown by more than 75 percent since 2006. The survey indicates that 74 percent of large employers plan to conduct an audit in 2009.

The high level of interest from employers is not surprising when considered in context. During the last few years employers have been facing unprecedented financial challenges. Health care costs have continued to rise and the economy has wreaked havoc on the financial strength of many employers. In addition to the financial struggles that face employers today, employers are also required to be more vigilant than ever about compliance. ERISA and Sarbanes-Oxley both have provisions which demand higher levels of controls over health care spending and reduction of risk. State laws are also having an impact on the employers' ability to cut costs.

A provision of the Massachusetts Health Care Reform Law enacted in 2007 provides a salient example.

"One of the issues for employers in Massachusetts is that this provision allows dependents to stay on their parents' insurance for up to two years after losing dependency status, or reaching the age of 26, whichever comes first. A properly structured dependent eligibility audit can help limit potential exposure to this law," said Powers. Similar laws are being introduced and written into law in other states as well. This shift towards mandating that employers provide dependent coverage later into a young adult's life will result in higher costs for employers. It is very important that employers impacted by these laws make sure every dependent they are covering is actually eligible for coverage.

A PLAN OF ACTION

Although awareness and adoption of dependent eligibility audits is high among the largest employers, many mid-size and small employers are still unaware of the opportunity. As a result, brokers have an unprecedented opportunity to use dependent eligibility audits to both solidify their current relationships and gain new customers. Identifying and informing an employer of a solution that helps solve their problems is always an effective strategy for growing one's business.

"We have started promoting dependent eligibility audits to our clients as part of our existing client management strategy. We are also discussing this with prospects," said Powers. "We began to do this as a result of the process we went through with National Grid." National Grid conducted a successful dependent eligibility audit in 2008. Since dependent eligibility audits are such a powerful tool for cost saving, they represent an effective way to gain the attention of prospective clients. Chapman Kelly, an Indiana-based dependent eligibility audit firm, allows qualified brokers to "private label" these projects with the branding of the broker's firm. This allows the broker to provide value to prospective clients while building the brand recognition of the broker's firm. If the prospective client's current broker isn't discussing dependent eligibility audits with them, then this creates a great opportunity for differentiation.

Brokers who offer voluntary benefits are also able to capitalize on the demand for dependent eligibility audits. A very recent trend is that of voluntary benefit brokers offering a "free" dependent eligibility audit to prospective clients, contingent on the prospective client agreeing to offer voluntary benefits to its employees. In reality, the brokers are paying the audit firm.

However, the revenue from the voluntary benefits will often more than pay for the cost of the audit. This is just one example of how brokers are using these audits to win new business.

Discussing dependent eligibility audits with current clients is not only important for defensive positioning, but it also has value as part of the client's current benefit management strategy. If a client is going through a major plan change, such as transitioning to a new carrier, an audit can be an effective way to make sure that the client starts the new plan with the correct dependents. Dependent eligibility audits can also provide an opportunity for your clients to gather critical information from their employees like other insurance information and dependent social security numbers. New Medicare Secondary Payer provisions being implemented in 2009 will require all carriers to report the social security numbers of all participants. Most carriers will be requesting these numbers from the employer. A dependent eligibility audit can be a terrific time to collect this data.

"My advice to employers considering this project would be to move forward! You can be as personally or universally involved as you like – whichever you decide, it is definitely worthwhile for the future protection of your employees' benefits program," Dr. Eugene T.W. Sanders, CEO of the Cleveland Metropolitan School District.

His school district reduced its premium cost by $2.4 million during the first year as a result of their dependent eligibility audit. With employers sharing good news like this, the demand for dependent eligibility audits will continue to expand. Brokers have a rare opportunity to be the first one to speak with current and prospective clients about this effective tool for managing health care costs and compliance.

Michael Browning is the director of strategic development at Chapman Kelly, a company that provides health care cost-containment and compliance services to large employers and managed care organizations. Browning's writing on health care cost containment has been featured in numerous nationally distributed publications. For more information visit www.chapmankelly.com or email mbrowning@chapmankelly.com.

Chapman Kelly and Verify Solutions are now hms Employer Solutions

In 2010, two leading healthcare cost-containment firms joined forces to create HMS Employer Solutions. This newly formed division of HMS combines the distinguished personnel and advanced technology from each company, making it one of the most experienced providers of cost-containment services within the industry. The staff of HMS Employer Solutions provides employers and managed care organizations with Dependent Eligibility Audits, Medical Claim Audits, as well as other healthcare cost-containment services.

Since 2001, clients have saved over $1 billion through our auditing services. Over 2 million dependents have been verified through our dependent eligibility services, which makes HMS Employer Solutions one of the most qualified dependent verification providers in the industry. HMS Employer Solutions is the *only* dependent verification firm with products and experience across the entire range of employer sizes. Our dependent audit clients range in size from those with 50 employees to the largest Fortune 500 companies and government entities. This newly formed division is supported by the 30-year history of HMS, the healthcare cost-containment, coordination of benefits, and program integrity services experts.