

FEATURED

Rubber meeting the road



BY RICHARD STOLZ

If the turbulent financial markets have taught 401(k) participants and plan sponsors anything over the last 18 months, it's the importance of seeking out opportunities to maximize investment efficiency, transparency and diversification. The pursuit of those goals is causing many to consider the potential role of exchange-traded funds in their 401(k) investment lineup, retirement plan recordkeepers and advisers say.

Specifically, although ETFs today represent a small segment of the overall 401(k) investment universe, their rapid growth outside the qualified plan environment — from approximately \$70 billion at the beginning of the decade to \$540 billion as of April 2009, according to Financial Research Corporation, may be an indicator of their potential trajectory within the 401(k) space.

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SURVEY NEWS

Study links class, income to access to wellness programs

BY LYDELL C. BRIDGEFORD

Wellness programs, touted universally as a way to improve health outcomes and lower health care costs, are not being offered universally, research finds. According to a study by Rutgers University, well-educated, highly paid workers are more likely to have access to wellness programs, compared to less formally educated, low-income workers.

The John J. Heldrich Center for Workforce Development at Rutgers University finds that 46% of highly educated and affluent workers report that their employer offers a wellness program, while only 25% of employees with a high-school education or less say the same.

Moreover, 45% of salaried workers say they have access to some type of healthy lifestyle program through their employer, compared to 35% of hourly workers. Ac-

cess to wellness programs also depends on income. About 45% of employees with incomes of \$70,000 per year or more note they have wellness benefits, compared to 21% of those making \$35,000 a year or less.

Unlevel playing field

Employers that offer wellness programs make them available to all of their workers.

However, low-skilled workers without college degrees are heavily employed by sectors of the economy where employers provide limited or no health care benefits, which means wellness programs are not an option, explains Dr. Carl E. Van Horn, director of the center.

The survey, a national telephone poll, (SEE WELLNESS ON PAGE 57)

RETIREMENT

When workers leave, 401(k) accounts stay

BY LYDELL C. BRIDGEFORD

When former employees leave behind their 401(k) accounts, the choice has ramifications for both the previous employer and the worker, retirement experts say.

Consider, for example, research from Charles Schwab that shows 43% of assets held by 401(k) participants who left their jobs in the first quarter of 2008 had not been moved a year later.

For employers, providing counseling to plan participants on their options for retirement savings once they leave can

build up (or break down) a company's reputation.

"Former employees talk to current employees. If former workers can speak highly of an employer helping them to make a smart decision on whether to keep the money in the plan, roll it over into an individual retirement account or into their new employer's plan, then that creates good will," says Dean Kohmann, vice president of 401(k) plan services at Charles Schwab. "It is hard to go

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Dependent audits surge as employers look for cost-cutting alternatives

BY KATHLEEN KOSTER

These days, employers will stop at nothing to eliminate excessive health plan costs. Increasingly, more benefit managers are finding they can wipe out millions of dollars worth in one fell swoop by conducting dependent eligibility audits.

Employers conducting such audits generally realize 3% to 12% of covered dependents are not eligible for their plan, according to research by BMI audit services — thus, the increased interest.

The market for auditing sprung up about 10 to 15 years ago, when employers “started to see the medical cost inflation [and] started to look at other ways to reduce cost,” says Steve Schaffer, a partner in the Atlanta office of Bryan Cave LLP.

Over the last five years, though, the practice has become much more common, particularly since some big-name employers jumped on the bandwagon. “It really came on the scene starting in 2002 and 2003 when General Motors and Ford had some fairly high publicity for the work they were doing in this area,” says Tony Schy, a partner with Chapman Kelly, Inc. “Literally, within two years a niche industry popped up.”

But this isn’t just a case of keeping up with the Joneses; it may be a financial and legal necessity as well. “On the private-sector side, [dependent auditing] is more financially driven because it is becoming more critical that you only spend money that you have to spend. It also produces a significant return on investment, typically 10-to-1 or more,” says Schy.

However, if done incorrectly or without regard to state and federal statutes, mistakes can eat away at valuable savings. Some tips from the experts on conducting effective and efficient dependent eligibility audits:

Implement a three-phase plan

Generally, the first part of the auditing process involves an amnesty period of about two weeks where employees are given the opportunity to voluntarily remove any ineligible dependents from the plan. Employ-

ees receive amnesty letters explaining an employer’s fiduciary responsibility

to conduct the audit and reminding them of eligibility requirements. The

letter also should explain how removing ineligible dependents would reduce health

insurance costs for both employer and employee. [\(SEE AUDITS ON PAGE 18\)](#)

Audits

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and employee, and will generally enable the company to provide the most competitive benefits at the best value.

Next, the verification phase should be long enough to allow employees to track down copies of birth or marriage certificates needed to confirm eligibility. This period is generally 45-to-60 days. Experts advise sending regular reminders to workers asking for documentation and also sending an acknowledgement postcard to employees who submit information.

Finally, the appeals process gives those deemed to have ineligible dependents or non-respondents a chance to reinstate their children or spouses.

Going backward to try and retrieve past claims will “open a can of worms that you may not want to open,” says Dean Hatfield, senior vice-president and national health practice leader for Sibson Consulting, the HR consulting division of Segal. “Organizations should be cautious about auditing retrospectively, as it can complicate collection efforts and require correction of W-2s” he continues.

A better option, according to Hatfield, is a prospective audit. In other words, the employer would state in their initial letter that as of today they will be noting any ineligible dependents within the 2009 period.

Shaw Industries Inc., a Georgia-based floor-

covering manufacturing company, found that about 2,000 of its 60,000 covered dependents were ineligible by going back two years and seeking reimbursement for ineligible claims. Although the firm did not experience too many headaches by tracking backwards, the company has since set up a forward-looking process by auditing all new dependents before their existing ones.

Jean Whiteside, director of health & welfare for Shaw Industries, Inc., recommends that employers “not do an audit in conjunction with an open enrollment period” and to “make sure communications are complete and thorough, and that you provide plenty of time for [employees] to obtain the documentation needed.”

Decide whether in-house or outsource

Although Shaw conducted its audit internally, it is a complex process and requires significant resources to verify documents and answer employees’ questions. Many consultants, unsurprisingly, recommend retaining outside help with a call center to handle the complexities.

“Most large companies tend to want to use a third party because the process is inherently cumbersome — it requires some specialized technology, a call center to answer questions, [and] you must be able to take in a huge volume of birth certificates and marriage licenses. Smaller organizations are more inclined to do it themselves,” says Schy.

Many third party auditors provide detached council, and Schy’s firm even has a “do-it-your-

self” kit tailored to smaller businesses.

Nevertheless, while most large employers elect help from the outside when auditing, many employers audit dependents themselves. Here’s some advice should you choose to go it alone:

Be consistent

Decide whether to audit the entire employee population or just a sample fraction, as well as determine when and how often to audit. Then stick with it, the pros say.

Schy recommends not splitting up the workforce, but advises employers only auditing a sample to ensure they do not appear discriminatory in any way. One way to get around this is to audit employees by divisions or plan type. Another option is to do a fraction-of-employees’ audits that target a commonly falsely represented group, such as students or college-aged children, the group experts find to be the most often falsely claimed.

Further, the definition of dependents can vary for different plans, so benefit managers must reconcile the various definitions in your summary plan document and abide these discrepancies during the audit.

Experts agree that the cornerstone to a successful audit is sharing information with employees using a variety of media. “Communication is the number one [deciding] factor between having a successful project and one that goes very poorly,” says Schy.

First, Schy recommends one-on-one outreach, whether by mail, e-mail or a meeting with a supervisor. Bolster the initial contact with repeated touch points, using communication pathways already in place, such as HR newsletters, blast e-mails, voicemails, posters in break rooms or company Web site. Schy recommends keeping these messages brief and simple.

Though experts concur that a communications campaign is imperative, they diverge on when to start.

Schy recommends beginning a few days to a week in advance of the audit, so that employers are fully prepared to answer detailed questions. However, Schaffer advises his clients to launch the communications campaign two or three months prior because the more an employer stresses their message, the greater the percentage that will listen to and heed it.

“The more proactive you are in informing your workforce about what its responsibilities are, what type of auditing documentation to be on the lookout for, to respond to it and what the result would be if they failed to respond, the better position the employer’s in to act decisively once that period expires,” says Schaffer.

According to news reports, the state of New Jersey had a significant problem receiving certi-

fication forms for its dependent eligibility audit because officials neglected to imprint the state’s logo on the first letter sent to employees.

“The worst thing you could do is have a letter come from your third-party administrator or insurance company, because those forms go in the garbage,” says Schaffer.

To avoid such mishaps, Schaffer recommends that employers “communicate often, in advance, clearly and by a number of different means so that your workforce knows something is happening that they need to respond to.”

David J. Pastor, the manager of corporate health and welfare benefits for Ferro Corporation, a technology-based performance materials supplier based in Cleveland, Ohio, seconds that: “We supplemented our letters with supporting statements in every other benefits communication that we would send out, which would include a little reminder: ‘Hey don’t forget the dependent verification deadline.’ For the verification process we had a 95% return rate,” says Pastor.

How did he get those results? “You bug ‘em, bug ‘em, bug ‘em,” he says.

Determine when to start

When to start auditing depends on past practice. For those employers who have never asked for identification when adding dependents, the honor system is no longer an option, and as such they should start auditing now or very soon, says Schy.

After the first audit, it’s a good idea to audit dependents when new employees enroll, and once a year or quarter for current workers to identify and verify any new dependents added to the plan. Schy recommends both, since it “sets that expectation that documentation will be required. This makes the process less evasive.”

Make sure consequences — namely, removing ineligible or undocumented dependents — is in line with plan documents.

“Whatever sanction you are going to impose should be delineated in your plan document, because simply doing an audit and having someone not respond to the audit doesn’t necessarily give an employer the right to deny coverage unless that is spelled out,” says Schaffer.

Most employers will not automatically remove dependents when employees miss the verification deadline, though. Rather, companies will repeatedly remind employees of the impending deadline and even extend it.

Shaw Industries Inc., for example, extended its deadline three times. Whiteside explains that it wasn’t their goal to remove as many dependents as possible from the plans, but to remove anyone who was not supposed to be covered. —K.K.

Audits also can keep plans in compliance

Although economic necessity has been the driving force behind most dependent eligibility audits, such investigations can help employers stay in compliance with key employment laws as well.

ERISA

1. The “exclusive benefit” rule states that only eligible participants may receive benefits.

2. Employers must be in accordance with plan documents. Often, the first thing a third-party auditor will do is reconcile the terms and conditions of an audit with an employer’s summary plan description or wrap document, making sure that these documents are clear, current and explain the definition of a dependent and that the consequences of an audit, such as removing an ineligible from the plan, are detailed as well.

3. The “prudent man” standard requires employers to manage benefit plans in a manner that “a prudent man acting in a like capacity and familiar with such matters would use.” Although a nebulous guidepost, since dependent auditing has become so popular in recent years, auditing could be considered a required practice by definition of the standard. “As more and more companies do it, it becomes more and more of a risk for other companies to not do it because the prudent man standard evolves over time,” says Tony Schy, a partner with Chapman Kelly, Inc.

SARBANES-OXLEY ACT

Section 302 of the law requires companies to prevent unauthorized disposition of company assets, indirectly requiring that employers conduct dependent eligibility audits to stop the flow of capital to ineligible plan members.

MICHELLE’S LAW

Effective in October, the law guarantees that full-time students who take a medical leave of absence from school can maintain eligibility on their parents’ health plan.

Chapman Kelly and Verify Solutions are now



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.