



*Let us help you manage your benefits cost and risk.*

## Dependent Eligibility Audit Program

Each year employers pay thousands of health care claims for ineligible dependents enrolled in their health & welfare Plans. Plan administrators frequently assume that employees know and understand the definition of an eligible dependent according to the plan document. As a result, it is relatively common for employees to enroll ineligible dependents into their medical, dental, prescription drug and vision plans. Failure to request necessary documentation to substantiate a change in marital status or to confirm dependent or full-time student status for family members over the age of 19 can also prove a costly oversight for plan sponsors. In fact, our research shows that as a result of lax documentation requirements, 1% – 2% of currently covered dependents are not really eligible for coverage under the health & welfare plan.

Several Fortune 500 companies have discovered that the utilization of consultants, world class administrators, and sophisticated human resource information system (HRIS) resources have not prevented significant dependent eligibility abuse. For example:

- ❖ Daimler Chrysler identified 27,000 employees with ineligible family members
- ❖ Ford Motor Company identified 50,000 ineligible health plan participants to date
- ❖ Employee Retirement System of Texas identified 4,200 ineligible dependents (17% of covered population) during the initial amnesty phase; and
- ❖ State Health Benefits Program of New Jersey identified 4,700 dependents between the ages of 18 and 23 who were married and ineligible for coverage.

With the total average annual cost of providing healthcare benefits currently at \$3,744 per dependent for health care and \$360 per dependent for dental,<sup>1</sup> the additional costs to employers can be substantial. Yet, most employers have virtually no idea of how effective their dependent enrollment practices really are.

In addition to the cost savings of not covering ineligible dependents, there is potential ERISA exposure for the fiduciaries of the plans since they are required to discharge their duties solely in the interest of plan participants and beneficiaries. In this regard the fiduciaries must act prudently and in accordance with the documents governing the plans.

Section 404 of Sarbanes-Oxley (Sarbox) has placed increased focus on internal controls for financial reporting, which in many cases has meant that corporate finance departments have placed an increased focus on the intersection of employee benefits and internal controls. Sarbox has compelled corporate finance departments to dig deeper into the company's benefit plan administration, processes and data.

There is also increased financial exposure to an employer who pays a catastrophic claim for an ineligible dependent only to have the reinsurance carrier deny coverage. In most cases the Courts have not been friendly to employers who maintain ineligible dependents on the company's welfare plans only to deny coverage in the event of a catastrophic claim.

## Our Dependent Eligibility Review Services

By conducting the Dependent Eligibility Audit, the employer is provided with the resources and methodology to evaluate the effectiveness of its dependent enrollment and maintenance process.

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<sup>1</sup> Towers Perrin 2004 Health Care Cost Survey



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A Dependent Eligibility Audit provides the following benefits to the Employer:

- ❖ Immediately contributes to the management of healthcare cost and risk compliance in a manner that is comprehensive, business-oriented and innovative,
- ❖ Ensures that dependents claimed by employees are eligible to receive healthcare benefits,
- ❖ Produces results which are easily measured and generate an exceptional ROI to the company,
- ❖ Complements existing and future strategies to contain healthcare costs, and
- ❖ Provides guaranteed savings throughout your benefit cost structure including health, prescription drug, dental and vision plans.

## Dependent Eligibility Questions to Consider

How can you assess if a Dependent Eligibility Audit could benefit your company? Ask yourself the following:

- ❖ Does your plan document explicitly state who is and is not eligible for dependent coverage?
- ❖ How well does your Summary Plan Description(s) communicate dependent eligibility requirements to your participants?
- ❖ Does your Health & Welfare plan(s) confirm life events by requiring marriage certificates, dependent birth certificates and other status change documentation?
- ❖ Does your Summary Plan Description(s) warn your employees that failure to notify the plan promptly of ineligible dependents may violate ERISA and subject the employee to action under state fraud laws?
- ❖ Do your plan administrators blindly assume that all participants are trustworthy and understand the plan document?
- ❖ What is the impact on the company's financial statements if an ineligible dependent has a catastrophic claim that is not covered by reinsurance?

Bartlett O'Neill Consulting, Inc., in conjunction with our alliance partner Verify Solutions, can manage the entire process:

- ❖ Review of plan documents by ERISA counsel,
- ❖ Work with client's legal and communications team to draft amnesty letter and employee communications,
- ❖ Provide client's IT team with query for secure FTP transfer of database,
- ❖ Mail merge, print and send all outbound material to employees,
- ❖ Extend inbound phone support for employee questions,
- ❖ Collect, organize, review and record all documents received,
- ❖ Immediate reporting on COBRA related issues, and
- ❖ Dependent Eligibility Audit Program does not interfere with employee or patient privacy laws, simply verifying employee records, not personal medical or health data is all that is required.