



# HEALTH CARE REFORM OUR UPDATE & ADVICE

MORRIS & REYNOLDS INSURANCE PRESENTS ADVICE & ANSWERS ON AMERICA'S HEALTH CARE REFORM

APRIL 2013

## DEPENDENT COVERAGE AUDIT ANSWERS & SUGGESTIONS

AS HEALTHCARE COSTS CONTINUE TO RISE, EMPLOYERS LOOK FOR WAYS TO REDUCE THEIR COSTS



### **(Q): WHAT IS A DEPENDENT AUDIT?**

**(A):** Dependent audits are one-time or ongoing events that allow employers to validate the eligibility of dependents covered on their health and welfare plans. An audit assures employers that only **eligible dependents** are covered and that company-provided benefit dollars are allocated to entitled individuals.

### **(Q): What are the key drivers to determine if you have an issue with employees covering ineligible dependents?**

**(A):** Here are a few questions you can ask to determine if ineligible dependents are incorrectly covered under your benefits:

***How rigid is our dependent enrollment process?*** The more demanding the enrollment process (i.e. supporting documentation required to enroll), the less likely ineligible dependents will be covered under the plan.

***When was the last time (if ever) we conducted a dependent verification?*** More recent audit activity lowers potential for ineligible dependent coverage.

***How easy are our dependent eligibility requirements for employees to understand, and how frequently are these requirements communicated?*** Complex Requirements + Infrequent Communication = Increased potential for ineligible dependents covered in error.

### **(Q): On average, how many ineligible dependents does an audit reveal?**

**(A):** An audit can reveal 8% to 11% of a dependent population is ineligible, with extreme cases ranging from 2% to 30%.

### **(Q): We ask our employees to confirm their dependent eligibility each year. How is a dependent audit different?**

**(A):** While dependent verification usually requires employees to validate eligibility online or verbally, a dependent audit is more thorough. In order for dependent coverage to continue, dependent audits require employees to provide paper documentation that confirms both the dependent's relationship with the employee and financial responsibility.

### **(Q): What type of audit strategy do you recommend for a company with little experience in dependent audits?**

**(A):** A random sample audit is a good way to get the "pulse" on the accuracy of dependent coverage. With the potential for significant cost savings, many companies choose to conduct an audit of the entire dependent population. This is where learning about the company's history, culture, and objectives for the audit come into play.

### **(Q): How does health care reform affect an employer's ability to remove ineligible dependents?**

**(A):** Employers are facing numerous changes with the recently passed Patient Protection and Affordability Act (PPACA). While the full impact of this new legislation has yet to be measured, one thing is certain:

Group health costs are expected to rise once these modifications are implemented. Employers must prepare for the coming changes with every tool available.

A dependent eligibility audit remains one of the most compelling means to obtain immediate savings and protect health plan(s) from unnecessary and fraudulent claim expenditures. Some estimate that an average of **11% of dependents on one's group plan are actually ineligible** and elect to continuously monitor dependents to ensure that they are not re-enrolled in the plan(s), or added as new hires and following a family status event.

Based on the sections of the law that began in September 2010, PPACA Sec. 2712 *Prohibition on Rescission*" and Sec. 2714 *Extension of Dependent Coverage*" are priorities and will affect every employer's eligibility and plan participation.

### **(Q): What does Sec. 2712 mean to employers?**

**(A):** A group health plan offering group or individual health coverage shall **not rescind** such plan or coverage once the enrollee is covered under such plan except in cases where a covered individual has performed an act or practice that constitutes fraud or makes an intentional misrepresentation of material fact as prohibited by the terms of the plan.

Such a plan or coverage may not be cancelled except with prior notice to the enrollee, and only as permitted under section 2702(c) or 2742(b). The impact of Section 2712 will make eligibility management more critical than ever.

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### **(Q): What does "Prohibition on Rescission" mean for your plan and what are the consequences?**

**(A):** Once an enrollee is covered, you may not be able to remove them retroactively. Unless, there has been an act or practice that constitutes "fraud" or made an "intentional misrepresentation" of material fact. Ineligible dependents, such as ex-spouses, nieces, nephews, girlfriends/boyfriends, neighbor's children, parents, etc. could have claims paid by the employer sponsored health plans during the period of ineligibility.

### **(Q): How does a plan sponsor prove that an individual has intentionally misrepresented a material fact or performed an act that constitutes fraud?**

**(A):** Employers should define what they consider an act of "fraud" or "intentional misrepresentation", as well as the dependent eligibility requirements to protect the plan from unintended beneficiaries.

### **(Q): What can employers do now?**

**(A):** If you have not completed a dependent eligibility audit there is still time to do so and remove ineligible retroactively before the Prohibition on Rescission takes effect for your plan.

After the effective date, an eligibility audit is still of great value: You remove ineligible dependents on a prospective basis, or on a retroactive basis in the case of fraud or intentional misrepresentation.

Annual enrollment is also a good time to define who is eligible and require evidence of the relationship. Add an attestation process, where the enrollee confirms that the dependents are eligible and that

he or she will promptly notify the plan of ineligibility.

For dependent eligibility audit projects, we recommend tighten SPD definitions of who is eligible. Organizations will want to clearly define a "qualified dependent." While the Department of Health & Human Services has not yet fully defined what constitutes a dependent child, we do know grandchildren need not be covered by plans.

Conduct a comprehensive, evidence-based eligibility audit on all participants covering dependents. Meaning, employees must provide proof (e.g. vital records, such as birth certificates and marriage certificates) evidencing the relationship to the employee.

### **(Q): Does Sec. 2714, "Extensions of Dependent Coverage" affect my plans?**

**(A):** A group plan and a health insurance issuer offering group or individual health insurance coverage that provides dependent coverage of children shall continue to make such coverage available until the age of 26. Nothing in this section shall require a health plan or a health insurance issuer to make coverage available for a child of a child receiving dependent coverage.

### **(Q): If an employer is considering a dependent eligibility audit and has concerns about their current SPD definitions for an adult, child, or the new rules on adult dependent children to age 26, what should you do?**

**(A):** We recommend employers audit their current plans with the new rules. We believe the mandate to cover dependent children to age 26 without financial, resi-

dency, enrollment, or marital status could decrease an employer's ineligible results by as much as 3% of the total enrolled dependent population. A number of case studies have demonstrated the return on investment (ROI) by conducting the audit will not be impacted significantly as student age children typically carry a lower cost per dependent than a spouse.

Please keep in mind that within Sec. 2714 of the PPACA, which requires employers to cover dependent children to age 26, until 2014, an employer does not have to cover an adult dependent child if they have access and are eligible to participate in their own employer's plan.

### Summary

We believe employers should react now to cover "only" the eligible participants as intended. Health Care Reform will continue to evolve over the coming years and the employers who are proactive and manage their plans closely will be able to mitigate some of the unwanted and sometimes fraudulent costs from ineligibles. If you have not conducted a dependent eligibility audit and are considering doing so, we believe the time is right

### MORRIS & REYNOLDS INSURANCE



Morris & Reynolds is deeply involved in America's health care reform and looks forward to delivering the coverage, solutions and advice you need. Please continue to count on our professional people to answer your questions as well as provide the solutions you, your family and businesses need. Please contact us at **305.238.1000** or at [www.morrisandreynolds.com](http://www.morrisandreynolds.com).



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