

## JULY 2009 Do You *KNOW*?

### HOW DEPENDENT ELIGIBILITY AUDITS CAN CUT COSTS?

Today's market conditions demand that organizations and their health plans identify and realize every cost containment opportunity. Health insurance expenses are typically the fastest growing cost component for employers. Due to the fact that enrollment processes rely solely on employee understanding integrity, *Dependent Eligibility Audits have become necessary.....*

A Dependent Eligibility Audit identifies those dependents who do not meet the plan definition of an eligible dependent. Employees who cover dependents are asked to provide verification of dependent status. These audits provide an opportunity to re-educate employees about who is eligible to participate. Correcting errors preserves the integrity and compliance of the client's

benefit plan. This is a valuable method by which companies can effectively qualify the benefits they provide to their employees and ensure fiduciary compliance.

Current market data shows that **5%-15%** of covered dependents should NOT be enrolled in employer health plans. Ineligible dependents increase the costs for everyone else. Hospitals are currently averaging **13.5%** ineligible dependents.

We have helped several clients implement a full dependent audit. We recommend that the audit be outsourced to a disinterested third party. The process can take up to approximately 4 months and typically incorporates the following steps:

- Employer/Vendor announcement of the audit
- Vendor requests documentation from employees who cover dependents.
- Employee sends documentation to Vendor.
- Vendor receives and securely houses documents that verify compliance with

the clients Summary Plan Description (SPD) eligibility requirements.

- If all enrolled dependents are eligible, Vendor notifies employee that the audit requirements have successfully been met.
- If a dependent is ineligible or additional documentation is needed, Vendor notifies employee of what is needed or that the employee did not pass the audit.
- If dependent is removed from the plan the vendor will usually refer employees to an alternative source for individual coverage. Typically they are then NOT eligible for COBRA coverage.

We also recommend using a third party that will support employees and respond to questions or issues that come up during the audit process. Some administrators utilize an inbound and outbound call centers and secure web-based tools which we find to be a tremendous help.

The *potential savings* can reduce plan costs in a few ways;

- Return on investment (ROI) (200%-500% is conservative)
- Immediate savings impact for Self-Funded Plans
- 2%-5% or greater reduction in health plan expenditure

We firmly believe that engaging in a full dependent eligibility audit will demonstrate Human Resource's (HR) strategic and financial leadership, show your senior management team and board of directors how your HR/Benefits department contributes to the bottom line.

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**July 1, 2009**

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This update is brought to you by C.M. Smith Agency, Inc.

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