

## Dependent Eligibility Verifications-Controlling Health Care Costs

With health care costs continuing to rise, many employers are looking for additional ways to cut costs. Making sure your health plan covers only those who are eligible can be a significant cost saver.

How can you do this?

A dependent eligibility verification may be an option.

The purpose of a dependent eligibility verification is to identify dependents that should not be covered under your plan. Examples include children who have reached the maximum age limit, divorced spouses or friends, roommates or other relatives who are ineligible for coverage. Estimates are that 3 to 12 percent of covered dependents are not actually eligible. Removing ineligible dependents from their health plans can translate into significant cost savings for employers.

Additionally, ERISA requires plan sponsors to follow the rules contained in the plan documents, including the plan's eligibility rules. Performing an audit helps make sure that the employer complies with ERISA by providing benefits only to eligible participants. There may also be tax implications associated with covering ineligible dependents.

When planning a verification, an employer should consider the following:

- Are all plan documents, including the summary plan description, consistent in defining dependents?
- What will the scope of the verification be and who will perform it?
- What documents will satisfy proof of eligibility for various types of dependents?
- How will you communicate the audit to employees?
- How will employees perceive a verification? Are there other employee relations issues that need to be addressed prior to the verification?
- How will privacy issues be addressed?

One of the most essential aspects of a dependent eligibility verification is employee communication. Employees should be informed in advance of the coming verification, so they can gather the proper documentation. Employees should also be frequently reminded about the importance of responding to the verification to ensure the highest possible participation rate. Use familiar mediums for communicating the message, including your company intranet, emails, bulletin board postings and payroll stuffers.

Preparing for a dependent eligibility verification requires cooperation throughout the organization. These communication initiatives include:

- **Senior management:** The support of the senior executives is crucial to the success of your dependent eligibility verification. They need to be prepared to answer questions and overcome objections to the verification.
- **HR and managers:** Managers need to understand and be able to communicate all the details and information regarding the verification. More importantly, they need to be able to communicate why the verification is important and necessary in the first place.
- **Explanation to Employees:** Employee communications should explain that the company's health plan exists to provide coverage for employees and their eligible dependents only. The health plan's ability to provide for those it aims to benefit is significantly compromised when ineligible persons receive benefits.

Typically, there are two phases to a dependent verification:

**Phase 1 – Amnesty Period:** Employers establish a period of amnesty when employees can voluntarily remove ineligible dependents without penalty. Employees are notified by letter, explaining eligibility rules. An employee can then review all covered dependents for status, and no penalty will apply to those dependents removed due to ineligibility. Employers generally give employees one month to respond. Ineligible dependents that are voluntarily removed by employees are terminated at the end of the following month.

**Phase 2 - Verification:** For all remaining dependents after the initial amnesty period, employees must provide documentation to verify dependent status/relationship. Documents must establish both a dependent relationship and that the relationship still exists. Documents typically required include marriage certificates, domestic partner affidavits, legal documents that establish custody, guardianship or foster care, birth certificates, tax forms, medical documentation of disability and adoption papers.

If an employee is unable to establish a dependent relationship, the employer may impose penalties, terminate coverage or seek reimbursement for claims paid for ineligible dependents. It is not typical for employers to seek out disciplinary action as a result of the initial audit. Some employers also offer an appeals process to give those deemed to have ineligible dependents (or non-respondents) a chance to reinstate their children or spouses.

The health care reform law limits an employer's ability to retroactively remove ineligible dependents from coverage. Under the law, a rescission (or retroactive cancellation of coverage) is permissible only if the individual obtained coverage through fraud or an intentional misrepresentation of material fact and the individual is given at least 30 days' advance notice of the rescission. An employer can avoid the law's restrictions on rescissions by canceling coverage on a prospective basis.

It is recommended that plan documents be amended to reflect the process that will be followed in determining dependent eligibility going forward, such as frequency of verifications, verification process at the point of new employee enrollment and penalties.

Bolton can provide all services associated with the dependent eligibility verification process, including design, communication, execution, follow-up, and ongoing monitoring and auditing. For more information contact Carolyn Bourg, Senior Consultant, 443-573-3910, [cbourg@boltonusa.com](mailto:cbourg@boltonusa.com)