

DEPENDENT ELIGIBILITY AUDIT

Implementation Checklist

There are a number of reasons to implement a dependent eligibility audit. Employers can lower health plan costs by identifying and removing ineligible dependents from coverage. An employer will also meet its legal obligation to follow the terms of the plan by enforcing the plan's eligibility requirements. In addition, a dependent eligibility audit promotes fairness in the workplace by restricting health coverage to those dependents that are actually eligible.

To be successful, a dependent eligibility audit requires careful planning and preparation. If an employer takes the time to carefully structure the audit on the front end, the audit process will generally proceed more smoothly and will be more successful from both a cost savings and an employee relations perspective.

To implement a dependent eligibility audit, an employer should address the following issues:

✓ **Review employee benefit plans**

- Determine which benefit plans will be covered by the dependent eligibility audit. Typically, the audit includes medical, dental and vision coverage.
- Analyze each benefit plan's eligibility language. This will include a review of the eligibility language in the plan document and the summary plan description (SPD). A plan sponsor should take this opportunity to make sure the plan's eligibility language is accurately described in both the plan document and SPD.

✓ **For insured health coverage, discuss the audit with the carrier**

- This will help the employer get an idea of possible cost savings.
- It will also help with administrative aspects of the audit. For example, the employer and carrier should discuss how terminations of ineligible dependents will be handled.

✓ **Develop the audit's structure**

- Decide whether to administer the audit in-house or hire an independent audit firm.
- Decide upon a dependent verification method. There are two common methods:
 - Sign-off method requires employees to complete a questionnaire confirming each dependent's eligibility. Because this method does not require supporting documentation, it typically does not provide the best results.
 - Documentation method requires employees to submit documents confirming each dependent's eligibility. This method requires more effort, but provides better results than the sign-off method.

- If employees will be providing personal information to verify dependent eligibility, make sure confidentiality provisions are in place.
- ✓ **Structure the steps of the audit**
 - Typically, audits have two steps:
 - A period of amnesty when employees can voluntarily remove ineligible dependents without any penalties; and
 - The verification process when all employees must submit documents confirming each dependent's eligibility.
 - The amnesty period usually lasts for at least one month, and dependents that are identified as ineligible during the amnesty period are removed from coverage at the end of the following month.
- ✓ **Decide what the consequences will be for noncompliance**
 - If employees do not provide the necessary documentation, possible consequences include penalties, termination of coverage and/or repayment of claims paid for ineligible dependents.
 - It is uncommon for employers to impose consequences other than terminating coverage for ineligible dependents, especially for the first dependent eligibility audit.
 - If coverage will be terminated for ineligible dependents, employers should allow for an appeals process.
- ✓ **Determine COBRA obligations and identify other coverage options for ineligible dependents**
 - In general, terminating an ineligible dependent's coverage is not a qualifying event for COBRA purposes. However, a dependent may be eligible for COBRA if he or she became ineligible for coverage due to a COBRA qualifying event (for example, divorce or loss of dependent child status) and his or her 60-day period for providing notice to the plan administrator has not expired.
 - Employers should work with their advisers to determine their COBRA obligations for terminated dependents. If COBRA does not apply, employers may need to provide a notice of the unavailability of COBRA coverage.
 - Employers should also work with their advisers to determine if the ineligible dependents have continuation coverage rights under state law, separate from COBRA.
 - To help with employee relations, employers should consider helping employees identify other sources of coverage for their ineligible dependents.
- ✓ **Plan employee communications**

- Notify employees in advance of the dependent eligibility audit so they can watch for important information about the audit. If an independent audit firm will be used for the audit, this initial communication should notify employees to look for communications from the audit firm.

Sample Language -

A dependent eligibility audit is starting – please watch for more information coming soon!

*will launch a dependent eligibility audit in the next few weeks. The audit is part of our efforts to manage health care costs, so that we can continue to provide you and your eligible dependents with quality, affordable health coverage. If you are enrolled in health coverage through , you are responsible for making sure your dependents are eligible for coverage. You will be receiving more information in the future describing the dependent eligibility audit. **Make sure you read the dependent eligibility audit information carefully and return all requested documents by the deadline.***

- Inform employees about the amnesty period for removing ineligible dependents from coverage and any penalties that may apply to ineligible dependents after the end of the amnesty period.
- Notify employees about the dependent verification documents that must be submitted for dependents who remain covered after the amnesty period is over. Detail the required documents for each category of eligible dependents (for example, spouse, natural children, adopted children and foster children).
- Use familiar mediums for communicating the message, such as a company intranet, emails, bulletin board postings or payroll stuffers.
- In all employee communications, stress that the purpose of the audit is to:
 - Help control costs by removing ineligible dependents from coverage; and
 - Promote fairness by covering only those dependents that are actually eligible for coverage.
- ✓ **Address dependent verification going forward**
 - Address how dependent status will be monitored going forward.
 - This could include tightening up documentation requirements when new dependents are enrolled for coverage and/or performing audits on an annual basis for new dependents.
 - Plan documents, including SPDs, should be updated to reflect the process that will be followed in determining dependent eligibility going forward.