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EMPLOYEE BENEFITS

Dependent Eligibility Audits: Are You Covering the Wrong People?

Employee benefits administrators are confronted with multiple moving parts during the day-in, day-out focus of the job. However, it takes even more work to uncover issues that need to be addressed, particularly when it comes to dependent eligibility. In other words, is an employer paying insurance premiums for people who aren't qualified to be on the plan? Too often, the answer is "yes." In our experience, we find that anywhere from 4% to 8% of dependents enrolled in group employee health insurance plans are not eligible to be in the plan.

How do ineligible dependents become enrolled?

It literally pays, budget-wise and compliance-wise, for employers to ensure they're offering coverage to eligible employees and valid dependents. (As you know, these guidelines are defined by eligibility standards in ERISA plan documents.) For example, if you've determined that all full-time equivalent employees receive benefits for themselves and their dependents after 30 days, but you allow someone earlier coverage because of a special circumstance and mistakenly enroll another person late, you're not running eligibility according to best practices.

There are a couple of common ways that employers end up paying health insurance premiums for ineligible dependents. The most basic factor is a change in a person's situation — children pass the age of 26, spouses get jobs, people get divorced, etc. — and the employee is unaware of the need to notify the employer. Usually, these situations are caused by a lack of internal controls by the employer, or a lack of understanding by the employee, but there is typically nothing sinister occurring.

The other scenario is nefarious – an employee mischaracterizes someone as a dependent. They may claim that a nephew is a son, or they may claim they are still married to an ex-spouse.

In either of these situations, the employer spends more on benefits than necessary. For a company with a couple hundred employees that spends in the area of $2 million a year on health insurance, this ineligible dependent "leakage" can start to become a significant issue.

How does an employer prevent ineligible dependent leakage?

When coverage of ineligible dependents happens, it is typically because the employer is not following eligibility best practices. If you aren't confident that you've verified every dependent, that's a red flag and you need to consider changing your approach.

There are three primary goals for employers when it comes to preventing ineligible dependent leakage. They are, in order:

1. Improve dependent eligibility verification processes by following best practices.

2. Create plan and employer savings by removing ineligible dependents.

3. Ensure plans comply with ERISA and provide coverage as described in plan documents.

Those best practices begin when the employee first comes onboard. The eligibility of every potential plan member should be investigated upon the employee's initial application for insurance coverage. The employer should seek documentation to verify that the person is, in fact married, or that their kids are their kids, and not someone else's. This means asking for marriage certificates, birth certificates, etc. Following these processes at the outset avoids the awkwardness of having to question employees about their various family relationships. Nobody wants to ask a colleague if the divorce is final yet.

Once this practice is established, it is important to conduct periodic dependent eligibility audits, as required by ERISA. There are a couple of different approaches employers can take. The first is to conduct the audit internally, or to hire an external auditor. This decision to use either option is usually driven by the size of the workforce.

Communicate to plan participants that evaluating dependent eligibility is a matter of course. Employees are then asked to verify the current status of any dependents. Surveys can be conducted by phone asking workers to provide documentation as a follow-up. Some employers — again, depending on the size of the workforce — will conduct random sample audits of 5% to 10% of the employee population.