

Conducting an Eligibility Audit of Your Health Plan

5 Simple Steps to Conducting a Health Plan Eligibility Audit

WHAT IS AN ELIGIBILITY AUDIT?

An eligibility audit is a review of all of the employees and their dependents who are currently enrolled in the group health plan, for the purpose of determining if there are any ineligible dependents that should be removed from enrollment. It is an effort to validate that the spouses and other dependents that employees carry on the plan are, in fact, eligible for plan coverage.

WHY DO AN ELIGIBILITY AUDIT?

Cost savings are the biggest reason employers usually embark upon an eligibility audit. If you have one of the following situations, then there is a good chance your health plan would realize cost savings in conducting an eligibility audit. Consider these questions:

- Do you have employees adding “spouses” to their coverage without ever getting married?
- Do you have employees who get divorced but keep the former spouse on your plan?
- Do you have college-age dependents that have dropped out of school but are still being carried on your plan?
- Do you have former employees who have never been dropped from the plan?

HOW TO PERFORM AN ELIGIBILITY AUDIT

1. Review eligibility rules and procedures

Most eligibility rules are found in the plan document (benefit booklet). The plan terms should state the eligibility requirements very clearly (e.g., necessary hours worked, dependent age limits, etc.). Also, make sure it is clear in the rules as to whether or not an employee must be enrolled in order to have coverage.

2. Determine how auditing will be done

Determine what records will be reviewed and what evidence will be collected. Then communicate with identified employees to request evidence of dependent eligibility. Indicate the documentation you will require:

- Birth or adoption certificate
- Marriage license or domestic partnership affidavit
- Grades or other school documentation for student to document full-time student status
- Evidence of disability

Also consider whether you will accept the documentation at face value or investigate further (such as requesting original documents or notarized copies, requesting copies of tax returns or other proof of financial dependence such as a joint lease, mortgage, etc.).

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3. Determine whether to offer amnesty

Decide whether to offer an amnesty or grace period. An amnesty period, as part of a dependent eligibility audit, involves a time period in which employees are requested to self-report any dependents that are enrolled in their employer's health plan who are not meeting the plan's eligibility requirements. A grace period of 30-90 days is typical but it could be longer to accommodate your schedule of employee communications. Most employers focus the activity just before renewal in order to allow employees to drop the ineligible dependents at renewal without recrimination.

4. Communicate the program to employees

Communicate the program to employees, including:

- Clear information on who is eligible and a list of the individuals currently enrolled under the employee's coverage
- Clear statement of any amnesty period
 - o Terms and length
 - o Clear explanation of the exact actions the employee must take (if written, provide a form and tell them where to send or file it, etc.)
- Clear explanation of what will happen after the amnesty period
- Clear statement of consequences of keeping ineligible individuals enrolled

5. Identifying and removing ineligible dependents

Once you have identified the ineligible dependents, you should notify the employee of the determination of ineligibility and what action will be taken. It is best to do this in writing, including:

- Clear statement of reasons for removal
- Clear statement of consequences
- Identify the date of ineligibility

Then, remove the ineligible dependents from coverage and make sure they are removed from any eligibility databases that providers query electronically.

Employers that decide to audit dependent coverage will need enough time for a careful explanation and the logistics associated with a project like this. We suggest approximately 12-16 weeks between initial benefits communications and finalizing plan administration issues. Employers should make an announcement, indicate the amnesty period, and then mail a follow-up letter (or two).

Again, implementing an eligibility audit just before your benefits renewal may be best so that employees can drop ineligible dependents from coverage without being embarrassed.

It is clear that conducting an eligibility audit requires careful thought, planning and execution, as well as a long-term action plan. If you would like more detailed information about performing an eligibility audit, please contact your Mesirow Financial representative.

This article is intended as an overview and should not be viewed as legal or tax advice. Please consult with your attorney or tax advisor if you have any questions.