



Plan-Smart® and Plan-Guard® Dependent Verification Services

Point of View

How Health Care Reform Impacts Your Ability as an Employer to Remove Ineligible Dependents

Fast, decisive action is key to controlling costs and retaining your employer rights.

Employers are facing numerous changes with the recently passed Patient Protection and Affordable Care Act (PPACA). While the full impact of this new legislation has yet to be measured, one thing is certain: group-sponsored health plan costs are expected to rise once these modifications are implemented. It is essential that employers prepare for and react to the forthcoming changes with every tool available.

A dependent eligibility audit remains one of the most compelling means to obtain immediate savings and protect your health plan(s) from unnecessary and fraudulent claim expenditures. At Aon Hewitt, our clients have seen an average of 10.7 percent ineligible results from their comprehensive dependent eligibility audit projects and are electing to continue with ongoing unitization services to ensure that ineligible dependents are not reenrolled on the plan(s), or added as new hires, during annual enrollment or following a family status change event.

As we know today, some of the first PPACA provisions that will be implemented begin with plans renewing as of September 23, 2010. PPACA Sec. 2712 “Prohibition on Rescission” and Sec. 2714 “Extension of Dependent Coverage” are high priorities and will affect every employer’s eligibility and plan participation.

SEC. 2712—Prohibition on Rescission

A group health plan and a health insurance issuer offering group or individual health insurance coverage shall not rescind such plan or coverage with respect to an enrollee once the enrollee is covered under such plan or coverage involved, except that this section shall not apply to a covered individual who has performed an act or practice that constitutes fraud or makes an intentional misrepresentation of material fact as prohibited by the terms of the plan or coverage. Such plan or coverage may not be cancelled except with prior notice to the enrollee, and only as permitted under Section 2702(c) or 2742(b).

In summary, the impact of Section 2712 will make eligibility management more critical than ever.

What does “Prohibition on Rescission” mean for your plan, and what are the consequences?

Once an enrollee is covered, you may not be able to remove that individual from the date when first ineligible unless he or she performs an act or practice that constitutes “fraud” or makes an “intentional misrepresentation” of material fact as prohibited by the terms of the plan or coverage. Ineligible dependents, such as ex-spouses, nieces, nephews, girlfriends/boyfriends, neighbor’s children, parents, etc., could have claims paid by the employer-sponsored health plans during the period of ineligibility.

How does a plan sponsor prove an individual has intentionally misrepresented a material fact or performed an act that constitutes fraud?

Employers must clearly define what they consider to be an act of “fraud” or “intentional misrepresentation” as well as the dependent eligibility requirements to protect the plan from unintended beneficiaries.

What can employers do right now?

■ If you haven’t completed a dependent eligibility audit on your population, there’s still time to do so and remove ineligible dependents before the Prohibition on Rescission takes effect for your plan. After the effective date, a dependent eligibility audit is still of great value: You remove ineligible dependents on a prospective basis, or on a retroactive basis in the case of fraud or intentional misrepresentation.

Annual enrollment is also a good time to define who is eligible and require evidence of the relationship. Add an attestation process where the enrollee confirms that the dependents are eligible and that he or she will promptly notify the plan of ineligibility. This may help the plan prove future cases of fraud or intentional misrepresentation.

- For all dependent eligibility audit projects, we recommend:
 - Tighten SPD definitions of who is eligible. Organizations will want to clearly define a “qualified dependent.” While the Department of Health & Human Services has not yet fully defined what constitutes a dependent child, we do know grandchildren need not be covered.
 - Conduct a comprehensive, evidence-based eligibility audit on all employees covering dependents. By this we mean, employees must provide proof (e.g., vital records, such as birth certificates and marriage certificates) evidencing the relationship to the employee.

SEC. 2714—Extension of Dependent Coverage

A group health plan and a health insurance issuer offering group or individual health insurance coverage that provides dependent coverage of children shall continue to make such coverage available for an adult child until the child turns 26 years of age. Nothing in this section shall require a health plan or a health insurance issuer to make coverage available for a child of a child receiving dependent coverage.

If you’re considering a dependent eligibility audit and have concerns about using current SPD definitions for an adult child or the new rules covering adult dependent children to age 26, what should you do?

We recommend employers audit their current plans with the new rules. We believe covering dependent children to age 26 without financial, residency, or marital status requirements could affect an employer’s ineligible results by as much as 3 percent. However, we believe your return on investment should not be impacted significantly as student-age children typically carry a low cost per dependent—lower than that of a spouse.

Please note: Within Sec. 2714 of the PPACA, which requires employers cover dependent children to age 26, until 2014, the employer does not have to cover an adult dependent child if he or she has access and is eligible to participate in his or her own employer’s plan.

Case Studies: The Argument for Audits—Immediate Savings and Fiduciary Compliance

We’ve conducted more than 300 dependent eligibility audits, resulting in more than one million dependents audited. Our results to date for completed projects have produced an average ROI of 1400 percent and an average ineligible result of nearly 11 percent.

Case Study Assumptions

- Pre-Health Care Reform results are based on our own audit results.
- Cost per dependent spouse and dependent child is based on an average annual cost per employee at \$5,124 per year. We assumed the same employee-only cost for the spouse and the cost-per-dependent-child at \$2,050 per year, which is 40% of the employee-only figures.

- For post-Health Care Reform, we assume all dependents over age 19 will be eligible under the new laws. This is a highly conservative figure, as we know not all dependents over age 19 would be eligible, even under the PPACA regulations.

Retail Company—63,000 Enrollees

Pre-Heath Care Reform		Post-Heath Care Reform
30,778	Employees Covering Dependents Subject to Audit	30,778
60,712	Dependents Subject to Audit	60,712
\$2,849	Cost Per Dependent Per Year	\$2,849
6,627	Ineligible Dependents	5,103
1,524	Ineligible Dependents Over Age 19	0
10.92%	Percentage of Dependents Found Ineligible	8.41%
\$18,880,323	First-Year Savings	\$14,538,447
2489%	First-Year Return on Investment	2061%

Health Care Organization—9,600 Enrollees

Pre-Heath Care Reform		Post-Heath Care Reform
5,572	Employees Covering Dependents Subject to Audit	5,572
11,800	Dependents Subject to Audit	11,800
\$3,614	Cost Per Dependent Per Year	\$3,614
1,323	Ineligible Dependents	1,173
150	Ineligible Dependents Over Age 19	0
11.21%	Percentage of Dependents Found Ineligible	9.94%
\$4,781,322	First-Year Savings	\$4,239,222
2378%	First-Year Return on Investment	2219%

County Government—3,814 Enrollees

Pre-Heath Care Reform		Post-Heath Care Reform
2,054	Employees Covering Dependents Subject to Audit	2,054
4,481	Dependents Subject to Audit	4,481
\$3,160	Cost Per Dependent Per Year	\$3,160
681	Ineligible Dependents	574
107	Ineligible Dependents Over Age 19	0
15.20%	Percentage of Dependents Found Ineligible	12.81%
\$2,151,960	First-Year Savings	\$1,813,840
2734%	First-Year Return on Investment	2446%

The Time Is Right

We believe employers should react now and retain their right to cover only eligible participants as intended. Health care reform will continue to evolve over the coming years, and employers who are proactive and manage their plans closely will be able to mitigate some of the unwanted and fraudulent costs that result from covering ineligible.

If you have not conducted a dependent eligibility audit and are considering doing so, we believe now, more than ever, the time is right.

Learn More

If you are interested in learning more about Aon Hewitt's approach to dependent audits and ongoing verification, please contact your local Aon Hewitt consultant or email peoplesolutions@aonhewitt.com.

About Aon Hewitt

Aon Hewitt is the global leader in human capital consulting and outsourcing solutions. The company partners with organizations to solve their most complex benefits, talent and related financial challenges, and improve business performance. Aon Hewitt designs, implements, communicates and administers a wide range of human capital, retirement, investment management, health care, compensation and talent management strategies. With more than 29,000 professionals in 90 countries, Aon Hewitt makes the world a better place to work for clients and their employees. For more information on Aon Hewitt, please visit www.aonhewitt.com.