Dependent Audit Guide

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What Is a Dependent Eligibility Verification Audit?

A Dependent Eligibility Verification Audit (Dependent Audit) is the inspection of an employer's health & welfare plan to ensure all enrolled dependents are eligible per plan rules. For employers, a Dependent Audit:

- Reduces healthcare costs by eliminating claims paid for ineligible dependents
- Ensures an organization is able to continue providing appealing benefits that help attract talented employees
- Provides controls in support of Sarbanes-Oxley compliance
- Complies with ERISA or state laws related to operating a benefit plan as designed
- Assists in the compliance of specific provisions within Healthcare Reform (ACA) legislation
- Helps reinforce the value of employer-sponsored benefit plans

Benefits of a Dependent Audit

In an era of Healthcare Reform (ACA) legislation, it's more important than ever for employers to ensure that dependents enrolled on their sponsored benefit plans meet the guidelines of an eligible dependent. Dependent Eligibility Verification Audits become an increasingly important tool to ensure only eligible dependents remain on your company's health plan, while protecting your company's financial interests in the process.

HMS's self-service Dependent Eligibility Audit will allow your company to internally identify ineligible dependents.

Identifying and removing ineligible dependents will help your company:

- **Control Wasteful Spending:** Your company will see cost savings. Employers have experienced up to a 10% reduction in healthcare participants by using HMS services with a typical range of between 4% to 8%. A reduction of ¼ to ½% of enrolled dependents amounts to one out of every 200 to 400 enrolled dependents, and will typically cover the costs of our program. These ineligible dependents are increasing your company's and your employees' healthcare costs. Returns on investment generally range from 400% to upwards of over 1000%.

- **Comply with the Law: The Employee Retirement Income Security Act (ERISA)** mandates that Plan sponsors manage plans for the "exclusive benefit" of participants and beneficiaries. Checking for ineligible dependents helps to ensure your organization is meeting its fiduciary obligations. This also provides another internal control that helps your company comply with Sarbanes-Oxley.

- **Healthcare Reform Regulations**: These stipulate that plans under a grandfathered status can refuse coverage for adult dependents who have access to healthcare through their own employer-sponsored plans. Dependent eligibility audits allow employers the opportunity to audit dependents for this access as a course of the audit.

- **Transitional Reinsurance / PCORI:** Newly released regulations from the Department of Health and Human Services (HHS) for Transitional Reinsurance require all insurers and self-funded plans to pay a $63 fee per each covered life in 2014, and other per covered life fees in 2015 and 2016. Plans will also be required by the Internal Revenue Service to pay an additional $1 fee per each covered life to fund the Patient-Centered Outcomes Research Trust Fund (PCORI) in 2014, increasing to $2 per covered life through 2019.

- **Reduce Future Costs:** Regular dependent eligibility audits show your Plan participants that your organization is doing its best to minimize their health insurance costs. Auditing will also help stem future abuses of the eligibility provisions in your plan.

Planning Considerations

Employee Culture

It's important to consider the culture of your company when developing your audit approach. This will ensure your employees both understand and appreciate the reasoning behind the audit. In cases where employees have some level of understanding as to why the audit is taking place, they are more likely to embrace the process.

For example, if you introduce the audit as a way to confirm each enrolled dependent qualifies for the benefit plans, **employees are likely to accept their role** in the process. This is not to say that all employees will accept their responsibility to assist, but including the employees as key players in the company's attempt to reduce unnecessary spending will make the process more acceptable for them.

Culture is also important when deciding on **potential consequences** to be imposed for employees who either do not respond to the audit or do not remove ineligible dependents during the verification process. Some plans allow for amnesty during the verification phase, giving employees or members the chance to voluntarily remove ineligible dependents without any negative consequences. You will want to review your company's history of holding employees responsible for their actions when making this determination.

**We strongly recommend that you discuss any consequences to be imposed in relation to an audit with your legal and ERISA counsel, as appropriate, before beginning an audit.*

Timeline

Determining the time frame for your Dependent Audit and the individual phases of an audit is a critical step in the planning process. The timeline is designed to be flexible and can be shortened or extended based on the needs and objectives of your company. The key is being reasonable. A rush to get the project completed can often lead to trouble and end up taking far more time in terms of total effort and duration.

Giving your employees a narrow window of 2 or 3 weeks to comply with a request for documentation is not going to go over well. You'll have a very high non-response and incomplete response rate. In addition, you'll spark unnecessary concern and displeasure from participants. And you will create considerable additional work for administration staff because an appeals process will likely occur. Allow ample time for employees to request and retrieve vital records from the appropriate issuing agency.

We normally recommend the following time frame:

- **Planning Phase:** 30 days
- **Verification Phase:** 45 days
- **Unpublished Grace Period:** 20 days

Defining Eligibility

A thorough understanding of dependent types and eligibility guidelines as explained in your healthcare Summary Plan Description (SPD) is necessary to begin the dependent verification process. To insure consistency and accuracy in the validation of Plan participant dependents, relationship types and eligibility guidelines must be explained clearly to your audit population. The SPD will outline those dependents eligible for coverage by your company's plan.

In defining eligibility, you will also need to consider whether any of your plans are fully insured, as these plans must be administered in accordance with specific state and/or federal regulations as they apply to common law marriage, domestic partnerships, and student eligibility.

You will also need to decide how your company will address **Healthcare Reform** within your employee population from the appropriate issuing agency.

Documentation

You'll need to determine what documents employees will need to submit to prove their dependents are eligible. The document requirements are based on the eligibility guidelines for each dependent type and are established during the planning process. When a Plan participant responds during verification, their documents will require processing. Consideration should be given as to how the documents will be handled, reviewed, stored, and destroyed.

Working Spouse Provision Audits

Working Spouse Provisions, such as the Spousal Surcharge or the Spousal Carve-out, can result in substantial savings to the plan, but must be closely monitored to ensure that the provisions are being applied on an ongoing basis to any spouses who have available coverage through their own employer.

Types of Audits

There are three types of Dependent Audits.

- **Comprehensive Dependent Audit**
- **Affidavit Only**
- **Ongoing, which may include a Point of Enrollment Audit**

Comprehensive Dependent Audit

Comprehensive Dependent Audit communications typically include amnesty language, which allows employees the opportunity to terminate ineligible dependents without the fear of negative repercussions.This approach will yield the **greatest cost-savings results** and will also require a greater investment of time and resources.

- Participant Notification: A well planned communications strategy helps to ensure Plan participants will support the upcoming audit. The specific form(s) of communication should be tailored to your unique population and culture. For example, if employees have access to email you'd use a broadcast e-letter to reach most (if not all) of your target audience. Some clients prefer an entirely paperless approach.

- Verification Phase: During the Verification Phase, the Plan participant is required to provide specific documentation to verify the eligibility of each enrolled dependent. This will not include any dependents removed from coverage during the amnesty period. As a Plan participant's documents are reviewed, their responses will result in partial or full completion of the Dependent Audit. A partial response may require additional review and additional communication to the Plan participant.

  Healthcare Reform (ACA) regulations allow Plans under a grandfathered status to refuse coverage for adult dependents who have access to healthcare through their own employer-sponsored Plans. Dependent eligibility audits allow employers the opportunity to audit dependents for this access as a course of the custom program, including auditing provisions such as Working Spouse provisions.

- Grace Period: Following the Verification Phase, the program timeline should include a Grace Period for the close-out process. This brief period of time will allow proper close out of the project, which includes additional time for employees to respond if you decide to allow this. A Grace Period will allow for the processing of documents received at the deadline. The Grace Period should not be widely published, as it is intended solely for non-responders.

- Appeals: At the conclusion of the Dependent Audit, there will be plan participants whose files are in a *no response or partial/incomplete status.* A process for reviewing appeals should be considered. If an appeals process will be offered, instructions for submitting an appeal should be communicated in the Final Notice of Adverse Action. A high participation rate can make this unnecessary, which is ideal.

» **Reinstatement:** A system for processing reinstatements should be considered. Even if you do not offer an appeals process, there will be Plan participants who unintentionally remove a dependent from coverage, requiring benefits to be reinstated.

» **Close Out:** Upon completion of the Verification Phase and the conclusion of the grace period, you need to formally close out the program process. During the close-out program, data should be compiled to include the number of responses and terminated dependents. Additionally you will want to report the estimated cost savings the program will generate.

The close-out process should also include the proper storage and destruction of the documents collected during the Dependent Audit. The Health Insurance Portability and Accountability Act (HIPAA) and other government regulations require businesses to properly manage confidential information. Failure to do so can result in penalties and fines.

Affidavit Only Dependent Audit

Amnesty, which may be part of the Verification Phase, is intended to allow Plan participants to *voluntarily remove* ineligible dependents from coverage. An Affidavit Only (also known as "Amnesty Only") program will **require** all participants to confirm the eligibility of their enrolled dependents.

Under the *Affidavit Only model*, employees are asked to certify that their dependents are eligible for coverage. While this process is appealing because of its simplicity, its effectiveness is limited. Documentation is not required to validate dependents during this period and therefore, gaps may remain which allow ineligible dependents to continue to receive health benefits. This program is easily administered and requires less investment resources. However, the return will not be as significant as that realized through the verification program and does not provide the highest cost-savings or effectiveness.

The benefits of an Affidavit Only Program are that participants will not incur consequences; therefore, your organization will immediately realize cost savings as ineligible dependents are removed from the health plans.

Ongoing Dependent Eligibility Audit

After a full Dependent Audit is performed, there will still be instances where employees may need to go through the process. There are several circumstances where new dependents can be added to a benefit plan. These can include:

» Life events

» New hires

» Open enrollment

» Acquisitions

Ongoing Audit Processes

An Ongoing Audit Process will determine if these dependents are eligible. Considerations for this audit should include:

» How frequently should ongoing reviews be performed?

» How much administrative oversight will be needed?

» What population should these reviews include?

» What method of review is appropriate?

Frequency and Administrative Oversight

Frequency of auditing should be determined by the volume of newly added dependents to coverage over a period of time. Some employers choose to review eligibility as new dependents are added to coverage. This allows employers to ensure that a dependent is eligible at the time of enrollment. However, it does require a fair amount of administrative oversight as each piece of documentation must be reviewed and tracked in order to ensure no one slips through the cracks.

Other employers choose to conduct periodic reviews of dependents at specific intervals of time. This approach requires less administrative oversight on an ongoing basis but does require a more timely commitment during the predetermined audit periods. Periodic audits should be conducted, at a minimum, on an annual basis.

One example of a type of ongoing audit is at Point of Enrollment, which validates new plan members prior to loading them into their internal benefit systems or very soon after enrollment. This process saves valuable time and expense and minimizes disruptions and unnecessary transactions.

Still, other employers decide to do nothing for a set amount of time (usually three years) and to then perform another complete audit of all dependents enrolled in coverage a few years down the road. Administrative oversight is still required for planning the project and for review of any unique situations that may arise.

HMS suggests ongoing services on a monthly, quarterly, or annual basis to ensure accurate dependent eligibility records without adversely impacting all employees with dependents once again.

Population and Methodology

Those employers that choose to begin requesting documentation from each employee as they join the plan should be consistent with what was required for the complete audit to ensure all dependents are treated fairly. Please note that Healthcare Reform changes eliminate the need to validate support of a dependent child.

Employers that choose to conduct periodic reviews of dependents focusing on newly added dependents over a specific time or a randomly selected group of dependents do not need to make significant changes to the enrollment process. At the beginning of each periodic audit all dependents who meet the criteria (newly added or random selection) are asked to provide the documentation required to prove their eligibility. Existing dependents who may be selected are asked for documentation that verifies they still qualify as an eligible dependent.

The employers that choose to wait for a period of time to complete another full audit should require similar documentation to what was required during the complete audit. This is the least desirable approach from both a cost containment and Plan compliance standpoint, as there is a significant period of time during which ineligible dependents will have had access to healthcare coverage. As an outside vendor is typically chosen for this approach, administrative oversight is less of a challenge, but costs involved for a complete audit may prove this approach to be less desirable overall.

HMS is able to provide a customized ongoing services program that would house and maintain all eligibility information and keep all prior documentation in order to track verification appropriately.

Remember, when conducting Ongoing Audits you still need customer service staff and you need to provide employees with a high level of security and assistance in sourcing missing or hard-to-find documents.

Communications

Communication with audit participants is the most critical part of any successful dependent verification process, and should be a central focus throughout the audit.

This may be the first time your employees have experienced anything like this,(although dependent audit is increasingly common) so they may find it intrusive, a bit frightening, and somewhat confusing. The more you communicate with your employees, the better your results and relationship will be. The communications strategy should involve sending out correspondences specifically to each employee who is part of the audit. Key information such as '*why* you are conducting this audit' should be present in each communication. You will want to consider the **best ways for communicating** with your audit population—whether through direct mail, email, department or location meetings, voicemail, or intranet postings—or a combination of these.

Once the audit has begun, all **communication** to participants should be detailed and consistent. Specific ***phases*** should be outlined. We recommend that a few key items be integrated into the strategy:

- **Make the process simple and easy to understand.**
- **Customize the communications.**
- **Try and answer common questions, but not every possible question.**
- **Always provide feedback to any response that is submitted.**

Most employees will appreciate the communications as a reminder. Rarely will you come across an employee who says there was too much communication.

Initial Communications

An essential part to your auditing process will be to provide an initial notification to your Plan participants about the inspection you are conducting. We suggest a minimum of three forms of **initial communication** prior to the launch of your audit. Notifying your Plan participants of the Dependent Audit will result in a higher response rate and reduce the anxiety of Plan participants complying. We have found that the response rate is proportional to the number of internal communications sent to Plan participants.

HMS suggests notifying your population five to seven days prior to the initial mailing, typically the amnesty mailing. Executives, department managers, and human resource personnel should already be familiar with the Dependent Audit and can often help ease employee concerns with the process. Also, the use of the word "program" instead of "audit" in the initial notification can help quell anxiety about the process from a Plan participant standpoint. Some communications methods might include:

- **Company newsletters**
- **HR newsletters**
- **Online newsletter**
- **Paycheck stuffers**
- **Broadcast email or voicemail**
- **Desk drops**
- **Bulletin boards/posters**
- **Shift huddles**
- **Intranet braodcast notification**
- **Office video monitors**
- **Postcard mailers**

Additional communication efforts may be necessary in reaching retirees and COBRA recipients. As these individuals are not part of your active Plan participant population, additional and varied communications will likely be necessary.

Audit Communications

During the audit process, communications will need to consist of the following items, depending on your approach and culture:

Verification Notice

Verification notices will be mailed to employees with dependents who are not removed from coverage. The verification notice should include eligibility guidelines specific to your Summary Plan Description, a list of covered dependents, and documentation requirements for validating each dependent relationship.

The verification notice should also include the option of removing an ineligible dependent, as well as any consequences for covering an ineligible dependent. As the recommended time frame for conducting verification is 45 days, multiple communications may be necessary. Not all of your constituents will respond to your initial verification notice. Therefore, HMS recommends sending additional letters prior to the verification deadline.

Verification Reminders

As the recommended time frame for conducting verification is 45 days, multiple communications will be necessary. Not all of your constituents will respond to your initial verification notice. Therefore, HMS recommends sending a *verification reminder* mailer 20 days into the process. An email reminder or automated call may also be used.

Verification FAQs

In an effort to assist your audience in completing the dependent verification program, HMS recommends including a document which outlines *Verification Frequently Asked Questions (FAQ)*. This information will serve as a resource to the program participant and will alleviate inquiries to your human resources and benefits personnel.

Termination Confirmation Notice

A *Termination Confirmation Notice* should be sent to an individual who chooses to remove a dependent from coverage, whenever applicable throughout the verification process to alert these employees of their request. Variations of the termination notice may be necessary if additional consequences are imposed for removing dependents during the verification process.

Custom Response Notice

Employees who provide a partial or incomplete response should receive a Custom Response Notice to include the documentation received as well as any outstanding documentation required to complete the audit.

This communication will alleviate calls to your human resource or benefits personnel as it will outline exactly what documentation is still needed.

Involuntary Termination Notice

When documentation is submitted in an attempt to validate a dependent but the documentation actually indicates a dependent is ineligible, an Involuntary Termination Notice should be sent to the employee. The notice should include the affected dependent's name, relationship, and explanation of removal from coverage. As an example, involuntary termination confirmations are sent to an employee who confirms that his or her listed spouse is actually a common law spouse where the specific plan guidelines do not recognize this relationship.

Final Notice of Adverse Action

Depending on your audit response rate, you may choose to send a Final Notice of Adverse Action to individuals who failed to provide a response or who only provided a partial/incomplete response. The notice informs the employee of the action(s) to be incurred for not complying with the audit process. The letter can also serve as a final notice to submit outstanding documentation if you decide to allow an extension of time to respond. Previous communication attempts, a list of affected dependent(s), and instructions to appeal the termination of benefits should be detailed in the letter.

Documentation

While you may certainly choose the documents employees must submit, you should keep in mind the documentation recommended by HMS is commonly accessible for 90% of most populations and serves to validate the language in your SPD (Summary Plan Description) with regard to eligible dependents. While there may be employees who are not able to provide certain documents due to their unique circumstances, the majority of your employees should have no issues in obtaining the documentation.

Spouse

We have found it important to require both the marriage certificate and an additional form of documentation, such as a mortgage or lease statement or bank statement dated within the past 60 days. The second form will better establish the current state of the relationship through reasonable measures and show the employee and spouse remain legally married. If the marriage certificate requirement is removed, you will not be able to flush out any common law marriage or domestic partnership situations. If the additional form of current documentation requirement is removed, you will not be able to ensure that the employee and covered spouse remain legally married.

Child/Disabled Dependent

The relationship of a child to the employee is best validated through a legal document such as a birth certificate listing parent names or a court order identifying the relationship of the child to the employee. Income tax returns should only be used to establish dependency of a disabled dependent child over the limiting age of the Plan. The use of an income tax return to establish the relationship of a child is not recommended for three specific reasons:

1. Healthcare Reform (ACA) legislation does not allow a plan to use such items as residency or dependency to be used to determine eligibility of a child for benefit coverage. Internal Revenue Service (IRS) guidelines establish a dependent in terms of residency and dependency upon the person claiming that dependent on their tax return.

2. Many people do not file their tax returns as the IRS code dictates but rather look for the most financially beneficial way to file for their situation. For example, come married couples with two or more children will choose to both file their tax returns as "head of household" claiming one or more children as the standard deduction taken for both parties tends to be more advantageous than the standard deduction for couples filing "married filing jointly." Dependent verification auditors are not IRS auditors.

3. Unique family situations often dictate who will claim a child as a dependent for income tax purposes. For example, divorced couples often alternate claiming a child while parents who were never married may verbally agree on income tax arrangements and have no court documentation to provide. These arrangements do not impact the relationship of a child to the parent, but can make it difficult to provide this form of documentation for an audit.

Birth Certificate Scenarios

Scenario	Solution
My name (father) is not on the birth certificate	Some form of documentation to establish the parent/child relationship is required. A court order, child support order, paternity acknowledgment will generally be available if the Plan participant is providing health insurance and support.
The birth certificates in our state don't include the parent's names	All states have a certified birth certificate which will include this information. Some states provide a "short form" birth certificate or birth card when the child's birth is recorded. This may not have the names of the parents, so the Plan participant will need to order the full certificate.
There are specific instructions on our State's birth certificates to not make copies or reproductions	These statements generally refer to the use of copies for official purposes (passport, driver's license, etc.). The Plan participant may send the document via fax; may send a copy with "Not An Original; Not for Official Use" written on the document. The Plan participant may also send the certified copy. They should mark it "Not for Official Use."
I can supply the social security card or passport for my dependent, isn't that enough?	While these documents are used to establish identity, they do not establish the dependent relationship that a marriage certificate and birth certificate do.

Marriage Scenarios

Scenario	Solution
We are not actually married, but live as common law spouses.	The plan must first allow a common law relationship; and then the Plan participant must reside in a state which recognizes common law marriage. The Plan participant and common law spouse complete a notarized Affidavit of Common Law Marriage which details the specific requirements for that state. In addition, two forms of documentation establishing a common household are required. The plan may allow opposite gender domestic partners. If so, the dependent may be changed to a Domestic Partner (DP). All requirements for a Domestic Partner must then be completed. This may result in tax implications regarding imputed income. HMS Employer Solutions does not provide details regarding this situation.
We were married in Vegas – they didn't give us a marriage certificate.	Nevada, along with every other state, will provide you with a certified marriage certificate.
My divorce decree stipulates that I maintain health insurance for my former spouse.	Regardless of the decree, the employer is not required to carry a former spouse. The Plan participant is responsible for paying the cost for insuring the former spouse via COBRA or another source. If a plan does allow coverage for a former spouse, the Plan participant will be required to provide the divorce decree, along with an affidavit certifying neither spouse has remarried.

Deadlines

Establishing deadlines for the **Verification Phase** will be *critical* to completing the audit in a timely manner. While you can allow a little flexibility in offering employees to respond within a few days of the deadline, you will want to be cognizant of late submissions and their effect on the overall process.

Late submissions delay your ability to finalize the results of the audit. Allowing late submissions to be accepted for prolonged periods of time also undermines your authority in the minds of your employees. If employees feel you are not being truthful about the deadline, they may also feel you are not being truthful about consequences to be imposed.

That being said, you may find allowing late submissions after the Verification Phase deadline is prudent, especially if your response rate at that point is not very good. Allowing a little more time through the use of the Final Notice of Adverse Action letter allows you to remind employees of your intent to remove *any* unverified dependents from coverage while allowing them "one last chance" to provide the required documentation. This allows you to address the issue of non-compliance while reaffirming your intent for the audit process, as communicated in multiple communications by this point.

Determining Audit Participants

As you consider the benefits and expected outcomes of conducting a dependent verification program, you will need to determine which populations to include. Depending on your model approach, you may choose to segment your populations for participation. Employees can be selected at random, or a single group of Plan participants, such as a location or union can be chosen. This is also a viable option for conducting a pilot program prior to initiating a comprehensive verification program. We strongly recommend that you consult with an attorney prior to segmenting your population for inclusion in the Dependent Audit for any method other than a random selection process.

Active Employees

Active Plan participants will be your most captive audience and the easiest group with which to communicate. You should be able to initiate personal outreach to this group fairly easily if you find that they are not responding as you would like.

International Employees

In developing your communication strategy, be cognizant of the extra time and effort required to communicate with Plan participants on an ex-patriot assignment/ those living outside of the United States. Be sure that you are committed to removing outstanding dependents for this group before including them in the audit process to avoid any potential of treating groups differently at the conclusion of the audit.

Retirees

We usually receive the highest response rate from retirees. However, it can be more difficult to reach this population as they tend to travel frequently and may not have alternate means of communicating such as email accounts. Be sure to keep these factors in mind when deciding on a **timeline**.

COBRA Recipients

We usually receive a low to moderate response rate from COBRA participants. It is important to consider that dependents are typically enrolled in COBRA plans as they no longer meet the definition of an eligible dependent. This group can have difficulty providing the documents needed to continue coverage.

For example, an employee may have the marriage certificate needed to establish that a legal marriage took place for a former spouse, but would likely not have the current documentation needed to establish financial interdependency for them. It becomes very important to be able to differentiate dependents on COBRA from other dependents within the data file(s) so that special consideration can be given to this group with regard to documentation required for the audit.

Surviving Dependents

Surviving dependents, those who remain on coverage after the death of the employee, can present a special challenge. Many employers prefer to be sensitive to this population and choose to leave them out of the audit process so as not to create anxiety or be seen as harsh toward this group. If you do decide to include this group in your audit, you will want to consider the communications used and documentation required for them in order to complete the audit process.

Participant Data

During a Dependent Audit, some of the most sensitive employee data is gathered and processed. This data may include: birth certificates, divorce decrees, tax forms, marriage licenses and more—but does not include any protected health information (PHI). When considering a Dependent Eligibility Audit, it is important to make sure that you (or your vendor) have the proper controls and processes in place to protect your employee's data.

A data file of your audit participants should be compiled, reviewed, and tested during the program planning process. This file should include elements that will allow you to communicate with the appropriate employees, track program responses, and report results. Consider the following data fields for inclusion in your program data file:

- Employee Name (only those with dependents)
- Unique Employee Identifier – can be used to link employees and dependents. The employee's social security number should not be used.
- Employee Date of Birth
- Employee Address
- Employee Plan Type – is necessary if there are multiple plans with varying eligibility requirements, and if reports by plan type will be used
- Employee Status – will identify an employee's respective population (active, retired, COBRA)
- Plan Enrolled Indicator – will identify which products their dependents are receiving (i.e. Medical, Dental, Vision, Life Insurance, etc.)
- Unique Dependent Identifier - can be a helpful field if multiple files are used to identify various product types to ensure that each dependent is accurately listed with the appropriate products
- Dependent Name
- Dependent Relationship
- Dependent Date of Birth

Special Considerations:

» QMSCO: As your data is compiled, consider whether you have any dependents covered by a Qualified Medical Child Support Order (QMCSO) or a Qualified Domestic Relations Order (QDRO). These dependents should be referenced in communications to employees, but must remain enrolled in the health benefit plans as directed by the court, regardless of the employee's ability to provide documentation through the audit process.

» Disabled Dependents: If you have an indicator for these dependents already in your data it will make identifying this particular population easier.

» TIP: Make sure your data is as organized as possible before generating your audit communications so when you receive responses, the dependent status can be easily updated. This allows for accuracy when determining who is an ineligible dependent.

Participant Responses

A Plan participant's response to the Dependent Audit will result in a specific 'status.' Below are the definitions of each status.

Complete

A Plan participant who responds to the audit and provides **all** required documentation will be marked as *complete*. A complete response can include the validation of all dependents, the removal of all dependents, and/or the removal of *some*, dependents.

Insufficient Response

A response which doesn't include all necessary documentation to validate dependents is considered an *insufficient* or *incomplete* response. A response may include the instance of some dependents being verified and some remaining in an open or partial status.

Voluntary Termination

When a Plan participant elects to remove a dependent from coverage at any point in the audit process, he/she does not have to provide further documentation. Voluntary removal of dependents may occur during the Verification Phase. Depending on the reason and date the dependent became ineligible the individual may be entitled to receive COBRA benefits.

Involuntary Termination

A Plan participant may submit documentation in an attempt to validate a dependent that actually indicates their dependent(s) is ineligible. That dependent will be dropped from coverage. For example, an employee who indicates he or she cannot provide a marriage certificate because the couple is considered to be "common law married" would fall into this category. Depending on the reason and date on which the dependent became ineligible, the individual may be eligible to receive COBRA benefits.

No Response

Employees who do not respond to the audit will have their dependents removed from coverage at the conclusion of the audit process.

Consequences

Regardless of the consequences you choose to impose, you do need to consider how you will administer them. This can become very difficult in cases where strict consequences for covering ineligible dependents are used, such as retroactive terminations or required repayment of claims paid/employer portion of coverage premiums.

A compromise may be to include language of possible consequences in multiple audit communications, thereby making the employees aware of possible action regardless of your intent to follow through on them.

We strongly recommend that you discuss any consequences to be imposed in relation to an audit with your legal and ERISA counsel, as appropriate, before beginning an audit.

Employee Support

Providing the necessary support for your employees during a Dependent Verification program is important to the success of the program and the continuation of good employee relations. HMS recommends providing a host of support channels to assist your employees though the process. You know your employee base the best, so when determining the support and methods that you provide, consider your company culture.

Website

If your company hosts an intranet, consider creating a "Dependent Verification" page that offers the following:

- Project Phases and Timelines
- Frequently Asked Questions
- Eligible Dependent Definitions
- Required Documentation
- Resource Links (how to procure marriage certificates, birth certficates, etc.)
- A 'Contact Us' link for questions or issues (link to inbox)
- Notification of project announcements, reminders, and stats throughout the process

Email Inbox

Creating an email inbox for Dependent Verification assistance is an efficient way to track questions and responses. You may also consider sending a confirmation email to your employees as they complete the process. This confirmation will ease employee concern as to their status when they have submitted documentation.

Incoming emails should receive an automated message stating the inquiry has been received and set the expectation of when to receive a response. To ensure some level of privacy, it is critical to limit the personnel who have access to the inbox. Those responsible for managing the inbox and responding to questions should understand the process when responding via email. Additionally, it is critical to give standard responses that do not offer information that could be taken out of context. **Remember that emails are printable and can be used as a record by you or your employee.**

Recommendations for proper management include:

- Create a filing system for messages that are awaiting a response and those that are complete.
- Create a list of "standard" responses to questions you expect to get during the process. The FAQ's and Best Practices are a great place to start.
- Anytime a response is given outside of the original "standard" list, file it for use for future responses for the same question.
- Never provide more than one response to the employee, i.e., don't go back and forth over email. If additional information is requested after the initial response, request the employee contact the appropriate team in the business for assistance. This will ensure that the employee's question is answered in a personal manner, thereby assisting the employee in completing the process.
- Focus on answering the question asked—no more, no less. Also, ensure you are addressing a question, not just a complaint. Discourage printing the email sent by the employee—the more things in hard copy, the more opportunity for poor security and privacy.

Voicemail/Hotline

Procuring a phone line and/or voicemail box is something you will want to consider. This enables your employees to reach out with an issue or question they have. It will be key to have a good process in place to monitor the phone line or voice mail box to ensure messages are returned in a timely fashion and you will want to ensure responses are consistent. You will want to set the expectation of your response in the voicemail message.

Fax

Most fax volume will be used for document procurement. However, depending on your culture and preferred communications, some employees may want to write and fax questions to you instead of through email or the phone. If you have email inboxes set up to receive faxes, this is the best case scenario. From there, you can manage responses to the faxes similar to managing the inbox process. We do not recommend responding via fax as it may be hard to control who will be able to view the fax.

If you do receive customer service-related questions via fax, you should ensure the inquiries are managed, but limit responses to either a phone call or via email to the employee to protect his or her privacy.

Resources for Your Employees

Locate proper documents

Employees will most likely require assistance in obtaining documentation to verify their dependents. The following resources are recommended to assist employees in gathering the required documentation to complete the dependent eligibility verification program:

VitalChek – For a small fee, government issued vital records can be obtained by visiting: www.vitalchek.com

U.S. Department of State - A Consular Report of Birth can be obtained by writing to the U.S. Department of State for individuals born abroad to U.S. citizen parents. Visit http://www.state.gov/ for more information

Internal Revenue Service - A free transcript of a federal tax return can be obtained by contacting the local IRS office. Local contact information is available at www.irs.gov.

Immigration and Naturalization Service (INS) - The site, http://www.uscis.gov/portal/site/uscis, will help you find information about citizenship, ordering copies of immigration forms, etc.

Whitepapers

- Understanding Dependent Eligibility Audits: Straight to the Point

Glossary

Adoption Decree – This is the legal document filed upon finalization of an adoption that makes the child the legal child of the adopted parents. The decree may also set forth a new name. An adoption decree can be used in place of a birth certificate to establish a parent-child relationship for an adopted child and validate a child's dependent status.

Affidavit – A formal sworn statement of fact, signed by the affiant or deponent (the person who is offering the sworn statement) whose signature is witnessed by a notary public.

Amnesty – Is an act by which an entity (such as an employer) restores those who may have been guilty of an offense against it (such as a Plan participant) to compliance status.

Birth Certificate – Requiring a birth certificate which lists parent names establishes the relationship of a child to the Plan participant or the Plan participant's spouse or domestic partner. While some states issue a birth record or "short form" document for identity purposes, each state also offers the full certificate including parent names. The birth certificate will validate a child, dependent of eligible dependent (such as a grandchild) or a stepchild.

Certificate of Disability – This is a document that is used by the IRS to validate whether a person is physically or mentally disabled. For the Dependent Audit process this document could be used to validate a disabled dependent's eligibility. Child Support Order – A Child Support Order is a document from a court that states (a) when, (b) how often, and (c) how much a parent is to pay for child support. This document provides the details of financial support and/or health benefits coverage for a child of the noncustodial parent and may be used to validate a child or stepchild's relationship to the biological parent.

Consolidated Omnibus Reconciliation Act (COBRA) – A health insurance plan which allows a Plan participant who leaves a company to continue to be covered under the company's health plan, for a certain time period and under certain conditions. The system is designed to prevent Plan participants who are between jobs from experiencing a lapse in coverage.

Common Law Marriage – In a handful of states (Alabama, Colorado, District of Columbia, Georgia, Idaho, Iowa, Kansas, Montana, New Hampshire, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina and Texas), opposite sex couples can become legally married without a license or ceremony. Contrary to popular belief, a common law marriage is not created when two people simply live together for a certain number of years. In order to have a valid common law marriage, the couple must do all of the following:

» Live together for a significant period of time (not defined in any state)
» Hold themselves out as a married couple — typically this means using the same last name, referring to the other as "my husband" or "my wife," and filing a joint tax return, and
» Intend to be married

When a common law marriage exists, the spouses receive the same legal treatment given to formally married couples, including the requirement that they go through a legal divorce to end the marriage.

Dependent – A person who depends on another as a primary source of income. For purposes of the DE Audit, this person would be enrolled on an employee benefit plan.

Divorce Decree – This is a court document detailing a divorce. A divorce decree listing relevant parties can be used to establish a parent-child relationship, as well as a court directive to provide health insurance. This document can be used to validate a child, stepchild and/or former spouse.

Documentation Establishing Common Residency – A driver's license, school record, household account, or state identification card can be used to establish that the Plan participant and his or her dependents live with them. These documents validate a spouse, domestic partner or a common law marriage.

Documentation Establishing Financial Interdependence – Proof of financial interdependence is used to establish that a marriage continues to exist. A jointly filed federal tax return, joint mortgage/lease, or joint bank or credit account will prove financial interdependence. These documents may validate a spouse, domestic partner or common law marriage.

Domestic Partner – A domestic partnership is a legal or personal relationship between two individuals who live together and share a common domestic life but are neither joined by marriage nor a civil union.

Employee Retirement Income Security Act (ERISA) – The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that mandates minimum standards for most voluntarily established pension and health plans in private industry to provide protection for individuals in these plans. ERISA requires plans to provide participants with plan information including important information about plan features and funding; provides fiduciary responsibilities for those who manage and control plan assets; requires plans to establish a grievance and appeals process for participants to get benefits from their plans; and gives participants the right to sue for benefits and breaches of fiduciary duty. In general, ERISA does not cover group health plans established or maintained by governmental entities, churches for their Plan participants, or plans which are maintained solely to comply with applicable workers compensation, unemployment, or disability laws. ERISA also does not cover plans maintained outside the United States primarily for the benefit of nonresident aliens or unfunded excess benefit plans.

Federal Tax Return – A copy of the most recently filed federal tax return can be used to prove financial interdependence for a Plan participant and spouse, domestic partner or common law marriage arrangement. In the instance of a disabled dependent over the limiting age of the Plan, the return is used to establish dependency upon the employee.

Health Insurance Portability and Accountability Act (HIPAA) – The Privacy Rule provides federal protections for personal health information held by covered entities and gives patients an array of rights with respect to that information. At the same time, the Privacy Rule is balanced so that it permits the disclosure of personal health information needed for patient care and other important purposes.

Legal Guardianship Order – A court order which establishes guardianship of a child. This documentation could validate the relationship of a child, stepchild, grandchild, foster child or a disabled dependent with whom they rely on for primary source of income.

Marriage Certificate – A marriage certificate can be used to establish that a marriage occurred. Sometimes a company may require a copy of the certified marriage certificate. This documentation can be used to validate a spouse and/or stepchild.

Personal Health Information (PHI) – Any information dealing with your own health.

Point of Enrollment - A new HMS service that creates the electronic means by which an employer or enrollment vendor can validate new plan members prior to loading them into their internal benefit systems or very soon after enrollment. This process saves valuable time and expense and minimizes disruptions and unnecessary transactions.

Qualified Domestic Relations Order (QDRO) – A court order that uses pension or retirement benefits to provide alimony or child support, or to divide marital property, at divorce. This special order is necessary to comply with federal law governing retirement pay. A QDRO can be used to validate a child, stepchild and/or spouse.

Qualified Medical Child Support Order (QMCSO) – A court order that provides health benefit coverage for the child of the noncustodial parent under that parent's group health plan. A QMSCO can be used to validate a child or stepchild.

Sarbanes-Oxley (SOX) – The Sarbanes-Oxley Act of 2002, also known as the Public Company Accounting Reform and Investor Protection Act of 2002 and commonly called Sarbanes-Oxley or SOX, is a United States federal law enacted as a reaction to a number of major corporate and accounting scandals. These scandals, which cost investors billions of dollars when the share prices of affected companies collapsed, shook public confidence in the nation's securities markets. The legislation set new and improved standards for all U.S. public company boards, management and public accounting firms. It does not apply to privately held companies. The act requires the Securities and Exchange Commission (SEC) to implement rulings on requirements to comply with the new law.

Summary Plan Description (SPD) – A document containing a comprehensive description of a insurance plan, including the terms and conditions of participation.

Transitional Reinsurance – To help insurers offset unexpected costs of offering coverage in health Exchanges, the Department of Health and Human Services (HHS) released regulations requiring all insurers and self-funded plans to pay a $63 fee per each covered life in 2014. Self-funded plans should ensure that members are truly eligible for coverage, as these fees will be derived from average covered life totals for 2014.

Working Spouse Provision Audits - Auditing two Working Spouse Provisions (WSPs)—the Spousal Surcharge Provision Audits and the Spousal Carve-out Provision Audits—can result in substantial savings—both as an add-on to a Dependent Eligibility Verification Audit (DEVA) or as a standalone audit. Both of these provisions are based on identifying working spouses who have coverage available through their own employer. In the case of the **Spousal Surcharge Provision**, a higher premium is charged when these spouses choose to stay on your plan and not take their employer's coverage. The **Spousal Carve-out Provision** carves out from your plan any working spouse who has healthcare coverage available through his or her own employer.