

# EMPLOYEE BENEFIT Adviser



MID-YEAR  
PLAN CHANGES  
EXPECTED

CONTROL  
YOUR MORAL  
COMPASS

## Finance 101

WORKERS NEED IT.  
ADVISERS QUESTION IT. WILL  
YOU DO IT? CRAIG HASDAY  
HAS FOUND A WAY.

## Do not let your clients make these six dependent audit mistakes

BY TONY SCHY

**D**ependent eligibility audits are a hot topic. The high return on investment has helped this cost containment strategy become a central point of discussion between many advisers and their clients. While audits can be extremely effective, advisers should make sure that their clients avoid some of the most common mistakes that can send these projects off track.

### Don't ignore the fact that you have ineligible dependents

Most employers would like to believe that their benefit plan does not incur the extra cost burden of ineligible dependents. However, as employers of all sizes and from a wide variety of industries have found, ineligible dependents are a problem that every employer must address. Most employers who have not conducted an audit can expect between 5% to 8% of their dependents to be ineligible. Advisers can help these employers better understand their risk factors by focusing on the processes that each employer currently has in place. If the employer fails to require extensive physical documentation of dependents on a regular basis, then they are probably at risk.

### Don't scrimp on communications efforts

Effective communication with employees is critical to the success of a dependent eligibility audit. Never assume that an employer is communicating with employees too much during these audits. Early communication will not only help the employees understand the process, but also will help lower the number of "non-responders" that need to be dealt with at the end of the process. Non-responders are those individuals who

have not acknowledged the audit in any way. Employers should try to make this number as small as possible, under 5% would be ideal. The consequences of not focusing on communication can be serious. The state of Louisiana suffered a non-response rate of more than 47% of their employees nearly eight months into the audit. Employers can avoid this situation by opening up many different channels of communication. E-mail, fax and call centers should all be available for employees who need help with the process.

### Don't rush it

During a dependent eligibility audit an employer will face unique situations that require a well thought out and standardized position. If time is spent up front to consider how these situations will be addressed, the project will be more successful. Things to consider include: handling documents from foreign countries, common-law marriages, untraceable documents and the appeals process.

### Don't ignore the details

Details always matter. However, when handling sensitive issues, details take on an even higher level of importance. A simple detail like co-branding the first letter that is sent to employees with the name of the employer and the name of the vendor performing the audit will go a long way toward making the project successful. The state of New Jersey is in the initial stages of a dependent eligibility audit right now. The *Star-Ledger* reported that the state's logo was not present on the first letter that was sent to employees. Because of this, many employees were not familiar with the vendor performing the audit and they simply discarded the letter. Employers should also try to use

letters that have the dependents for each employee listed on the form. Sending out blank forms for the employee to fill out will not help catch ineligible dependents that the employee doesn't realize are still on the plan. These are just a few examples of the critical details that will make the difference in a project's success.

### Don't ignore applicable laws

Employers should pay close attention to any laws that will impact their dependent audit project. Many states have specific language in their statutes that protect certain groups and their right to coverage. Employers also need to carefully consider COBRA and how they will integrate this into their projects. Another consideration is a new federal law titled "Michelle's Law" that will go into effect in October of 2009. This law prevents students from being dropped from their health plan if their full-time student status is impacted by a medical leave of absence from school.

### Don't forget about the future

After an employer has gone through a dependent eligibility audit, they must consider how they will address ineligible dependents from that point forward. Many employers use a dependent eligibility audit as a signpost to tighten up their existing documentation requirements for enrolling dependents. In addition, some employers perform audits on a quarterly or annual basis for new dependents. These follow-up audits are a good way to ensure that an employer's benefit plan does not continue to carry ineligible dependents. **EBA**

---

*Schy, co-founder of Chapman Kelly, can be reached at [tschy@chapmankelly.com](mailto:tschy@chapmankelly.com).*