Why Dependent Eligibility Audits Make Good Business “Cents”
Agenda

• What is a Dependent Eligibility Audit?
• Types of Dependent Eligibility Audits
• Why Conduct a Dependent Eligibility Audit?
• What is the Impact of Health Care Reform on Dependent Eligibility Audits?
• General Findings
• Case Study—Dick’s Sporting Goods
• Features and Key Considerations of an Effective Dependent Eligibility Audit
• Dependent Eligibility Audit Process and Timeline
• Actual Audit Results and Statistics
• Other Return on Investment Examples
What is a Dependent Eligibility Audit?

• A successful dependent eligibility audit is a documented, evidentiary-based program that is:
  – Highly structured
  – Systemic
  – Objective
  – Replicable
  – Defensible
  – Actionable

• This controlled process is designed to:
  – Reduce future health care costs
  – Complement existing and future strategies to contain health care costs
  – Demonstrate fiduciary responsibility
  – Give plan sponsors insight into potential issues
  – Educate employees on health care eligibility rules
Types of Dependent Eligibility Audits

• **Comprehensive Audit**
  – All dependent-covering employees are required to provide documented evidence of eligibility (typically 5% to 15% ineligible outcome)
  – Most effective process, yields highest results, objective review of dependent status, ensures all participants are treated equally

• **Affidavit/Attestation Program**
  – Less invasive, limited scope
  – Lesser results (typically 1% to 3% ineligible outcome)
  – Scare tactic

• **Sample Audit**
  – Random or pre-defined selection of dependent-covering participants are required to provide documented evidence of eligibility
  – Less invasive with smaller population subject to audit, therefore lesser results
  – May be perceived as discriminatory in nature
Types of Dependent Eligibility Audits

• Ongoing Verification Strategies
  – All employees with newly added dependents (qualified life status changes, new hires, annual enrollment) are required to provide documented evidence of eligibility
  – Re-verification on a pre-defined basis to ensure eligibility (i.e., student eligibility, spouses, etc.)
Why Conduct a Dependent Eligibility Audit?

Educating Employees—Addressing “Entitlement” Behavior

- Escalating health care costs
- Cost containment
- Compliance and fiduciary responsibility
- Fairness to plan participants—everyone pays for fraud/abuse
- Very little impact to results post-health care reform
- Employer-sponsored health plan membership is highly prized
- Health care benefit ranks high in importance on compensation surveys
- Years ago we trained employees that it costs a $10 or $15 co-pay to have a baby, employers are paying for this entitlement today
Why Conduct a Dependent Eligibility Audit?

• Escalating Health Care Costs
  – Market conditions, the economy, and the financial status of many companies demand organizations and their health plans identify and realize every cost containment opportunity
  – Health insurance expenses are the fastest growing cost component for employers:
    • In 2009, the annual average premium cost for employer-provided family coverage was $13,375, 5% higher than 2008*
    • In 2009, the average percentage of premium paid by the employer for family coverage was 63%*

*The Kaiser Family Foundation And Health Research and Educational Trust Employer Health Benefits 2009 Annual Survey
Why Conduct a Dependent Eligibility Audit?

• Cost Containment
  – A significant percentage of dependents may be ineligible, which increases health care costs for plan sponsor and eligible participants
  – A way to demonstrate HR’s strategic and financial leadership, show how HR/benefits contributes to the bottom line
  – Saving Plan Dollars
    • Fully insured plans—Affects claims experience at renewal or produces a significant decrease in participation that may warrant a re-rate
    • Self-insured plans—Directly paid by plan sponsor, immediate savings when ineligibles are removed from health plan(s)
    • Stop-loss risk—If your reinsurance carrier finds the ineligible before you do, who pays for the catastrophic claim?
Why Conduct a Dependent Eligibility Audit?

• Compliance and Fiduciary Responsibility
  – ERISA/Sarbanes-Oxley Act (SOX)
  – Eliminates risk by assuring plan assets are spent only on eligible participants
  – Strengthens internal financial controls and reporting
  – Unbiased and consistent determinations
Why Conduct a Dependent Eligibility Audit?

• Fairness to Plan Participants—Everyone Pays for Fraud/Abuse
  – Enrollment processes rely solely on employee understanding and integrity, no built-in process to catch the offenders
  – With employers still funding the majority of health care costs, audits remove excess waste/fraud for both plan sponsor and participants
  – Opportunity to build employee awareness
    • Share the benefits of fiscally sound plan(s)
    • Simple message: “Ineligible dependents increase the costs for everyone”
    • Strategy to re-educate employees on “who” is eligible to participate
    • Set the tone from the top, employer-sponsored health care is a privilege, not an entitlement and fraud is not tolerated
Impact of Health Care Reform on Dependent Eligibility Audits

- What was the impact to dependent eligibility verification?
  - More dependents to verify (up to age 26)
  - Removal of full-time student criteria for many plans
  - Need to check other employer coverage for adult children through 2014
  - Plenty of other dependent criteria to validate
    - 2009—Only 5.6% of dependents verified were full-time students
  - Adult children less likely to use coverage frequently
    - 2009—85% of ineligible dependents were either spouses or children under age 19
  - Retroactive termination difficult due to rescission clause
General Findings

• Dependent eligibility audits typically uncover 5%–15% of covered dependents who should NOT be enrolled on employer health plans.

• There are many potential categories of ineligible dependents, including:
  – Ex-spouses and ex-domestic partners
  – Boyfriends/girlfriends (sometimes in addition to “spouses”)
  – Aged-out dependents not in school (contingent upon plan eligibility criteria—watch for Michelle’s Law and HCR)
  – Hired support (e.g., the nanny, housekeepers, etc.)
  – Adult dependents with access to their own employers group health plan
  – Cultural misinterpretation of “eligible dependent”
  – Other family members that do not meet plan eligibility criteria
About Us

Dick’s Sporting Goods
• Founded 1948
• 455 Stores in 42 States
• 3 Distribution Centers
• Acquired Golf Galaxy in 2007
• 81 GG Stores in 30 States
• 26,000 associates
• 10,000 benefits-eligible associates
• 8,000 enrolled
Our Numbers

Enrolled associates with dependents: 3,520
Dependents enrolled in a benefit plan: 7,249*
2.1 dependents per associate

Dependent eligibility:
• Spouse, for federal income tax purposes
• Common-law spouse (only in states that recognize common law)
• Children to the age of 19
• Children age 19-25, if full-time student (pre-Health Care Reform)

*as of May 18, 2010
Make the Case

• Senior Leadership
• Never been done
• Self-insured
• Data clean up
• Adding children to age 26
• Ineligibles occasionally reported
• Covering dependents of dependents
Market Data

Based on a 2010 Aon survey, 48% of all employers are performing some level of dependent eligibility verification.
Coaching

• “Talking Points” for store and distribution center managers
• “Huddle messages”
• Corporate managers e-mail blast
• Field HR managers e-mail
• Intranet posting
Associate Communications

- Final Results Notice
- Reminder Notice
- Dependent Audit Announcement
- Dependent Audit Notice
- Dependent Audit Results Notice
## July 14 through September 10, 2010

Results

<table>
<thead>
<tr>
<th>Total Dependents</th>
<th>7,105*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependents Approved</td>
<td>6,562</td>
</tr>
<tr>
<td>Dependents Denied</td>
<td>543</td>
</tr>
<tr>
<td>• Ineligible</td>
<td>29</td>
</tr>
<tr>
<td>• No documents received</td>
<td>385</td>
</tr>
<tr>
<td>• Insufficient documentation</td>
<td>129</td>
</tr>
</tbody>
</table>

*data as of September 10, 2010*
## December 31, 2010

Results following appeals period

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Dependents</strong></td>
<td>6,982*</td>
<td></td>
</tr>
<tr>
<td><strong>Dependents Approved</strong></td>
<td>6,617</td>
<td>94.77%</td>
</tr>
<tr>
<td><strong>Dependents Denied</strong></td>
<td>492</td>
<td></td>
</tr>
<tr>
<td>• Ineligible</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>• No documents received</td>
<td>362</td>
<td></td>
</tr>
<tr>
<td>• Insufficient documentation received</td>
<td>99</td>
<td></td>
</tr>
</tbody>
</table>

*Data as of December 31, 2010*
## Cost Savings

Expected: 2–4% reduction  
Actual: 5.2% reduction

<table>
<thead>
<tr>
<th>Coverage Termination</th>
<th>Annual Cost Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spouses</td>
<td>176</td>
</tr>
<tr>
<td>Dependents</td>
<td>304</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Assumes annual cost projection at $3,653 PMPY  
**Assumes annual cost projection at $2,710 PMPY
What We Learned

• Timing is essential
• Expectation versus reality
  – Response rate
• Appeals process following end of audit
  – Define deadline
• Internal systems shortcomings
  – Inability to “flag” approved dependents in HRIS system
Features of an Effective Dependent Eligibility Audit

- Pre-audit communication to executive leadership and key personnel (union leaders, HR managers, benefit representatives, etc.) is crucial
- Comprehensive employee communication campaign is essential
- Consultative project management is necessary
- Participant support and convenience makes the difference
- Client resources must be available
- Need a well-defined escalations and exception process
- Create a post-audit plan for appeals
- Determine how to keep the plan “clean” prospectively
Key Considerations—Preparing for a Dependent Audit

Make Decisions and Adhere

- Identify who you need to audit—plans, actives, COBRA, union, retirees, ex-pats, leave of absence, rotators, etc.
- Review plan eligibility and verify all internal communication is consistent and accurate
- What enrollment date should be used?
- Will you offer an amnesty period for self identification without ramification?
- When will benefits terminate for those who do not comply?
- Will COBRA be offered?
- Review your Code of Conduct/Code of Ethics—most organizations have strict rules regarding fraud
- Will you recover claims paid or premium dollars on ineligible dependents?
- Will employees be terminated for intentional fraud?
- What action/disciplinary action will be levied against those who do not respond or refuse to provide verification documents?
Key Considerations—Preparing for a Dependent Audit

Make Decisions and Adhere

- Then versus now—what are you prepared to do with respect to individuals who were ineligible…but became eligible during the audit period (i.e., newly married)?
- Hold your ground. At a minimum, ineligible dependents should be terminated from coverage following the completion of an audit
- Don’t target—you run into some significant compliance issues if you “pick and choose” which ineligibles are dropped (e.g., ERISA, the tax code, HIPAA, et al)
- Executives covering ineligibles—what are you prepared to do if you uncover an executive covering their housekeeper?
  - Remember ERISA’s fiduciary duties
  - Knowingly violating a fiduciary duty increases your threat level
    - Civil fiduciary breach liability
    - Criminal fiduciary breach liability—DOL likely to be less forgiving if/when a plan is in distress
Key Considerations—Preparing for a Dependent Audit

Make Decisions and Adhere

- Heartstrings—a dependent eligibility audit may put you in the position of making a coverage decision for someone having a particularly difficult time
- How are you going to manage appeals post-audit?
**Key Considerations—Preparing for a Dependent Audit**

**Internalize or Outsource Project**

- Project is labor intensive and time consuming
  - Consider internal resources available to handle the project
  - Expect large call volumes
  - Expect high volumes of document submissions going out and coming in
  - Consider internal staff qualifications to audit verification documents and maintain objectivity
  - Document storage in a HIPAA-compliant environment
  - HR/Benefits may want to separate from project to maintain employer/employee good will
Best Practices of a Dependent Eligibility Audit Program

Outsourcing the Project—find a qualified vendor that:

• Can develop an employee communications program tailored to your needs and corporate culture

• Has the ability to receive and securely house verification documents evidencing compliance with SPD eligibility requirements and HIPAA

• Supports employees and resolves questions throughout the audit process utilizing an inbound and outbound call center and secure web-based solutions

• Captures/images documents and data evidencing qualification of dependents for benefits eligibility in plan(s). Don’t leave hard copies of the verification documents lying around or in an unsecured environment

• Ensures objective eligibility determinations through an automated rules based, data-driven adjudication platform based on eligibility rules in your SPD(s)

• Has a proven track record of leadership, processes, and results
Best Practices of a Dependent Eligibility Audit Program

Outsourcing the project—find a qualified vendor that:

• Review the exceptions, i.e., dependents who fail
• Retain documentation for an appropriate period
• Report/share status and results of audit throughout the engagement, a web interface enables wider 24/7 access
### When’s the Best Time?

<table>
<thead>
<tr>
<th></th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Off Cycle from Annual</td>
<td>• Able to quantify results</td>
<td>• Increased visibility/sensitivity from employees</td>
</tr>
<tr>
<td>Enrollment</td>
<td>• Communications aren’t blended</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Added availability from HR staff</td>
<td></td>
</tr>
<tr>
<td>Amnesty During Annual</td>
<td>• Package volume and communications with AE</td>
<td>• Unable to quantify results</td>
</tr>
<tr>
<td>Enrollment</td>
<td>• Feels less intrusive to employees</td>
<td></td>
</tr>
</tbody>
</table>

- Other timing issues
- Consider timing of other projects
  - Annual Enrollment
  - Student Certification
- We recommend conducting dependent verification outside of Annual Enrollment. This increases the likelihood your employees will receive the message and gives you the highest visibility to results
Aon Hewitt Solution—
Dependent Verification Timeline

<table>
<thead>
<tr>
<th>Strategy, Planning, and Implementation</th>
<th>Amnesty</th>
<th>Verification</th>
<th>Extension</th>
<th>ERISA Claims &amp; Appeals Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>30–60 Days</td>
<td>15–30 Days</td>
<td>60 Days</td>
<td>30 Days</td>
<td>90 Days</td>
</tr>
<tr>
<td>Develop organizational consensus, define cultural message</td>
<td>Issue letter notifying employees of “audit”</td>
<td>Issue letters communicating required documentation</td>
<td>Verification extension addresses late/non-responders</td>
<td>Follows DOL &amp; ERISA guidelines for claims processing</td>
</tr>
<tr>
<td>Define timeline, activity phases, groups subject to review, data and verification requirements, communications plan</td>
<td>Employees voluntarily drop ineligible dependents during amnesty period</td>
<td>Administer event-based employee communications (return mail, failure to validate, successful validation, etc.)</td>
<td>Preliminary results data set to client or designated vendor</td>
<td>Research and process first-level ERISA Claims</td>
</tr>
<tr>
<td>Configure engine based on project specifications—load data, prepare letters/notices, reporting access</td>
<td>Amnesty results reported to client</td>
<td>Inbound/outbound calls/questions</td>
<td>Preliminary action on known ineligible dependents</td>
<td>Provide research to clients for second level ERISA appeals</td>
</tr>
</tbody>
</table>

**Wrap-Up** will run concurrent the first 14 days of Claims and Appeals support (Final Audit Analysis, Results Sent, Next Steps discussed including ongoing audit plan)

**Data Feeds:**
- Data Exchange will occur throughout the audit project
- **24/7 Real Time Reports**—Plan-Smart technology is a real-time platform that enables the plan sponsor to have transparency and access through our sophisticated Web-portal
- **Weekly Reports**—throughout the audit, assigned client manager will provide weekly reports to the plan sponsor team providing insight into the audit project
- **Weekly Meetings**—assigned client manager will schedule weekly meetings. These meetings are used to discuss the audit status, review weekly reports, discuss status of any outstanding escalated situation, reconfirm upcoming data exchange dates, and finalize upcoming communication letter content and mail dates
- **Client Manager Escalations**—any employee escalation will be communicated to the plan sponsor through established communication protocol throughout the audit project
Aon Hewitt Solution

- Aon Hewitt has broad and deep experience
  - Conducted almost 500 audits
  - Clients span more than 20 industries, with 500 to 300,000 employees
  - More than 3.5 million dependents audited
  - Proprietary, flexible platform
  - Time-tested systematic process driving a quality experience for you and your employees
- Leverages our in-depth health care expertise, tools, information security, and customer service experience with more than 20 million outsourcing participants
- Proprietary, built-for-purpose technology platform for dependent verification administration
Aon Hewitt Solution—
Our Philosophy

- Put the client first and deliver with excellence
- Deliver on commitments
- Have the most satisfied clients in the industry
- Provide thought leadership
- Reinforce best practices
- Support excellent employee experience
- Make the process simple
- Provide a helpful personalized approach
- Offer multiple resources
- Supplement service with eligibility advocate support
- Remember, results matter
- Effective and efficient process
- Offer a positive experience for both employees and your team
- Look for cost containment and solid return on investment (ROI)
- Goal is to achieve optimal results maximizing savings
Aon Hewitt Solution—Key Differentiators for Employers

- Experienced Audit Team
- Compelling Financial Offer
- Proven Results
- True End-to-End Solution
- Critical Integration
- Leading Technology
- Flexibility in Design
- Superior Support for Your Employees
- Best-in-Class Delivery
- True End-to-End Solution
- Proven Results
- Critical Integration
Aon Hewitt Solution—
Key Differentiators for Employees

- Separate, Secure Dedicated Audit Team
- Robust System, Custom Ad Hoc and On-Demand Reporting
- Fully Customizable Solution in Design, Communications, and Time Line
- Superior Support for Your Employees With Our Eligibility Advocate Team
- Employee Requested Appointments
- Auto-Adjudication Technology
- Inbound and Outbound Personal Communications Imaged
- Phone Line Does Not Close After Completion of Program
- 98% Response Rate 100% Call Recording
Aon Hewitt Solution—
2011 Results to Date

Comprehensive Audit Results—5.9% Ineligible
Ongoing Verification Results—11.8% Ineligible
Average ROI—1,369%
## Client I Final Audit Results

<table>
<thead>
<tr>
<th><strong>Client</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees Participating in Health Plan(s)</td>
<td>804</td>
</tr>
<tr>
<td>Employees with Dependents</td>
<td>693</td>
</tr>
<tr>
<td>Average Number of Dependents Per DCE</td>
<td>2.2</td>
</tr>
<tr>
<td>% of Employees w/Dependents</td>
<td>81%</td>
</tr>
<tr>
<td>Cost Per Dependent Per Month</td>
<td>$294.83</td>
</tr>
<tr>
<td>Total # of Dependents</td>
<td>1,526</td>
</tr>
<tr>
<td># of Ineligible Dependents</td>
<td>123</td>
</tr>
<tr>
<td># of Calls Received</td>
<td>536</td>
</tr>
<tr>
<td>Outbound Mailings—Employee Letter Campaign</td>
<td>3,037</td>
</tr>
<tr>
<td>Documents Received</td>
<td>3,595</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Savings</strong></th>
<th><strong>Audit Savings Results</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Savings—1&lt;sup&gt;st&lt;/sup&gt; Year</td>
<td></td>
</tr>
<tr>
<td><em>burdened-less cost of audit project</em></td>
<td>$395,303</td>
</tr>
<tr>
<td>Project ROI 1&lt;sup&gt;st&lt;/sup&gt; Year</td>
<td>1,040%</td>
</tr>
<tr>
<td>Project Payback in Months</td>
<td>1.1</td>
</tr>
<tr>
<td>Project Break Even—# of Ineligible Dependents</td>
<td>11</td>
</tr>
<tr>
<td>Project Break Even—% of Total Dependent Population</td>
<td>0.72%</td>
</tr>
</tbody>
</table>
# Client II Final Audit Results

<table>
<thead>
<tr>
<th>Client</th>
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</thead>
<tbody>
<tr>
<td>Employees Participating in Health Plan(s)</td>
<td>3,716</td>
</tr>
<tr>
<td>Employees with Dependents</td>
<td>2,753</td>
</tr>
<tr>
<td>Average Number of Dependents Per DCE</td>
<td>2.24</td>
</tr>
<tr>
<td>% of Employees w/Dependents</td>
<td>74%</td>
</tr>
<tr>
<td>Cost Per Dependent Per Month</td>
<td>$256.08</td>
</tr>
<tr>
<td>Total # of Dependents</td>
<td>6,172</td>
</tr>
<tr>
<td># of Ineligible Dependents</td>
<td>1,029</td>
</tr>
<tr>
<td># of Calls Received</td>
<td>3,599</td>
</tr>
<tr>
<td>Outbound Mailings—Employee Letter Campaign</td>
<td>12,251</td>
</tr>
<tr>
<td>Documents Received</td>
<td>14,510</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Savings</th>
<th>Audit Savings Results (16.68% Ineligible)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Savings—1st Year</td>
<td>$2,912,847</td>
</tr>
<tr>
<td><em>(burdened-less cost of audit project)</em></td>
<td></td>
</tr>
<tr>
<td>Project ROI 1st Year</td>
<td>3,048%</td>
</tr>
<tr>
<td>Project Payback in Months</td>
<td>0.4</td>
</tr>
<tr>
<td>Project Break Even—# of Ineligible Dependents</td>
<td>31</td>
</tr>
<tr>
<td>Project Break Even—% of Total Dependent Population</td>
<td>0.5 %</td>
</tr>
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## Client III Final Audit Results

<table>
<thead>
<tr>
<th><strong>Client</strong></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Employees Participating in Health Plan(s)</td>
<td>16,219</td>
</tr>
<tr>
<td>Employees with Dependents</td>
<td>7,027</td>
</tr>
<tr>
<td>Average Number of Dependents Per DCE</td>
<td>1.89</td>
</tr>
<tr>
<td>% of Employees w/Dependents</td>
<td>43%</td>
</tr>
<tr>
<td>Cost Per Dependent Per Month</td>
<td>$184.64</td>
</tr>
<tr>
<td>Total # of Dependents</td>
<td>14,378</td>
</tr>
<tr>
<td># of Ineligible Dependents</td>
<td>2,803</td>
</tr>
<tr>
<td># of Calls Received</td>
<td>11,438</td>
</tr>
<tr>
<td>Outbound Mailings—Employee Letter Campaign</td>
<td>21,815</td>
</tr>
<tr>
<td>Documents Received</td>
<td>33,027</td>
</tr>
</tbody>
</table>

| **Savings** | **Audit Savings Results**  
**(19.50% Ineligible)** |
|---|---|
| Projected Savings—1\textsuperscript{st} Year  
*(burdened-less cost of audit project)* | $6,010,030 |
| Project ROI 1\textsuperscript{st} Year | 2,968% |
| Project Payback in Months | 0.39 |
| Project Break Even—# of Ineligible Dependents | 91 |
| Project Break Even—% of Total Dependent Population | 0.63% |
For more information, please email us at peoplesolutions@aonhewitt.com

Thank you