How Many Ineligible Dependents Are Lurking on Your Benefits Plan?

By Patrick O'Connor, Benefits Consultant, Corporate Synergies
12.4.2018

Are you paying insurance premiums for people who aren't qualified to be on the plan? For some employers, too often, the answer is "yes," their benefits program includes ineligible dependents.

In our experience, we find that nearly 10% of dependents enrolled in employee health & welfare plans are not eligible to be in the program. For a company with a couple of hundred employees that spends around $2 million a year on benefits, ineligible dependents can become a significant financial issue.

When employers pay for ineligible dependents, costs increase for them and employees. Unfortunately, it's an all-too-common issue that employers need a solid strategy to combat.

How ineligible dependents get enrolled in the first place

There are a couple of common ways that employers end up paying health insurance premiums for ineligible dependents. The most basic factor is a change in a person's situation—children pass the age of 26, spouses get jobs, people get divorced, etc.—and the employee is unaware of the need to notify the plan sponsor. Most often, these situations arise because the employer doesn't have a process in place.

But some situations are more nefarious: An employee mischaracterizes someone as a dependent. They may claim that a nephew is a son, or that they're still married to an ex-spouse. In either of these situations, the employer loses.

Prevent ineligible dependents with best practices

Prevent paying for ineligible dependents by putting into place best practices that begin when a new employee joins the company. Here are 3 steps to follow:

1. **Documentation.** During onboarding, investigate each potential plan member when the employee applies for insurance coverage. That means seeking documentation, such as marriage certificates and birth certificates, to verify that a person is, in fact, married, or that their kids are their kids and not someone else's. Following these processes at the outset prevents the awkwardness of having to question employees about their various family relationships. Nobody wants to ask a colleague if the divorce is final yet.

2. **Information Sharing.** To make it easy for employees to verify everyone's eligibility, provide access to a portal where they can upload scans or images of relevant documents. This will also make it easier to track—and keep track of—onboarding documents and dependent audits when the time comes.

3. **Audits.** Once this best practice is established, it's important to conduct periodic dependent eligibility audits, as required by ERISA. The employer can conduct an audit or hire an external auditor. This decision is usually driven by the size of the workforce.

The most logical time to conduct an audit is during benefit enrollment. Employees are already considering options for the next plan year, and they likely won't be confused by the need to submit verifying documents. (During this exercise, it's also a good idea to ask plan participants to verify beneficiaries on employer-provided life insurance.) Some employers—again, depending on the size of the workforce—will conduct random sample audits of 20-25% of their employee population. Obviously, the larger the sample size, the better. Benefits administration platforms typically streamline this process.

The most logical time to conduct an audit is during benefit enrollment. Employees are already considering options for the next plan year, and they likely won't be confused by the need to submit verifying documents. (During this exercise, it's also a good idea to ask plan participants to verify beneficiaries on employer-provided life insurance.)

Some employers—again, depending on the size of the workforce—will conduct random sample audits of 20-25% of their employee population. Obviously, the larger the sample size, the better. Benefits administration platforms typically streamline this process.

What happens when ineligible dependents are identified?

Many employers offer workers an amnesty period during which an employee can come forward to say they have someone that should be taken off the plan. If the plan sponsor identifies an ineligible dependent, employees are typically offered a one-time pass. Then, they must sign an affidavit attesting that they can be terminated if it happens again.

What can happen if the employer has processed insurance claims for an ineligible dependent?

If an employer has already processed insurance claims for an ineligible dependent, they can declare fraud and seek back payment of claims payouts. Again, most in this situation prefer a more benevolent approach and will ask the employee to make monthly differential payments until the account is even. Conducting regular dependent eligibility audits as part of the benefits administration process needs to be handled with finesse for the good of organizational culture.

Some employers may shy away from conducting audits out of concern for creating awkward situations. But frankly, it's the plan sponsor's job to help them navigate the waters, educate them and keep them engaged in the process by becoming their best advocates. This will not only help enhance the efficiency and accuracy of employee benefit offerings, but it will result in a smoother ride for everyone involved.

Ensuring that a health and welfare benefits program follows eligibility best practices is the responsibility of the plan sponsor. But employees have a share in that responsibility, too.

For more information, please call **1.877.426.7779**