

## Holly Corporation Plan-Smart™ Dependent Eligibility Audit Case Study

### Part I: Plan Sponsor Company Information

Holly Corporation, headquartered in Dallas, TX is an independent petroleum refiner and marketer producing high-value products such as gasoline, diesel fuel and jet fuel. Holly operates through its subsidiaries a 82,000 barrel per stream day (“bpsd”) refinery located in New Mexico, and a 26,000 bpsd refinery in Utah.

Holly also owns an interest in Holly Energy Partners, L.P., which through subsidiaries owns or leases approximately 1,600 miles of petroleum product pipelines in Texas, New Mexico and Oklahoma and refined product terminals in several Southwest and Rocky Mountain states.

#### Holly Corporation:

- Holly’s refineries operate in the high margin & high growth Southwest & Rockies markets
- 109,000 bpd of refining capacity
- All HOC refineries directly connected to Domestic / Canadian crude trading hubs
- Extensive crude oil gathering network in West Texas and Southeast New Mexico for the Navajo Refinery

#### Holly Energy Partners:

- Over 1,700 miles of product pipelines
- 11 Terminals in 5 states (3 of the terminals are 50% owned)
- 70% interest in Rio Grande Pipeline Company, a joint venture with BP



## Part II: Purpose of Program

Holly Corporation is committed to providing a competitive health plan for our employees and their families. Our dedicated management team understands that our employees are our number one asset and it is critical to maintain a comprehensive and fiscally healthy benefit plan in order to hire and retain top talent.

We are challenged every year to continue to provide a high level of benefits and manage costs at the same time. Costs have continued to increase and we have struggled to keep employee contributions, deductibles and copays the same. In April, 2006, we began discussing our 2007 benefits strategy and asked the question: What could we do as a company to produce significant savings without adversely affecting our current medical plan design? The answer was a *Dependent Eligibility Audit*.

In April, 2006, the benefits team at Holly Corporation began to research and collect information and statistics on dependent eligibility audits. Early adopters' results indicated 5% - 15% of dependents enrolled on employer health plans are ineligible and removing 5%+ ineligible dependents produced significant savings for the plan. In addition to the compelling economics (Projected ROI's in excess of 300%), Holly realized that we have a fiduciary responsibility to our plan participants and shareholders to uphold and enforce the eligibility rules as clearly stated in our SPDs.

### U.S. Department of Labor Health Plans Fiduciary Responsibility ERISA Exclusive Benefit Rule

The primary responsibility of fiduciaries is to run the plan solely in the interest of eligible participants and beneficiaries and for the exclusive purpose of providing benefits and paying plan expenses. Fiduciaries must act prudently and must diversify the plan's investments in order to minimize the risk of large losses. In addition, they must follow the terms of plan documents to the extent that the plan terms are consistent with ERISA. They also must avoid conflicts of interest. In other words, they may not engage in transactions on behalf of the plan that benefit parties related to the plan, such as other fiduciaries, services providers, or the plan sponsor.

Fiduciaries that do not follow these principles of conduct and fulfill their duties appropriately may be personally liable to restore any losses to the plan, or to restore any related-party profits made through improper use of plan assets. Courts may take whatever action is appropriate against fiduciaries that breach their duties under ERISA including their removal.

## Holly Corporation & HRAdvance Dependent Eligibility Audit

### Why Holly Corporation Chose HRAdvance:

- Competent, experienced benefit professionals
- Focused on development of highly refined solutions, configured specifically to meet Holly's needs
- Advanced systems and technology
- Service driven, employee focused

### HRAdvance's Strategy :

- Enable HR professionals to achieve the extraordinary through best of breed, hosted solutions
  - ⇒ Ease of deployment
  - ⇒ Compelling ROI
  - ⇒ Distributed workflow solution
  - ⇒ Guaranteed 100% of the *eligible* dependents would be verified and remain on the health plan

### HRAdvance Advantages:

- Plan-Smart and Plan-Guard, propriety web-based dependent eligibility audit system
- Dependent Eligibility Audits are their core competency
- Unbiased and independent review
- Web-based management tool for the employer and employee
- Complete associate support
- Document source referral, which includes a database of every county and state government office in the US, international consulate offices and contacts, as well as a reference library of "government" issued documents assembled to support the employees
- Comprehensive audit
- Rules based objectivity
- Unmatched technology
- Performance standards and guarantees

### Key Components of an Effective Dependent Eligibility Audit:

- **Communications:**
  - ⇒ Tailored specifically for Holly Corporation
  - ⇒ Designed to project corporate culture
  - ⇒ Controlled and approved by Holly Corporation
- **Service:**
  - ⇒ Transparent solution
  - ⇒ Employee focused
  - ⇒ Supportive approach guides employer and employees through the entire audit process
- **Reporting:**
  - ⇒ Web-based utilities to design and to monitor the audit
  - ⇒ Associate web portal
  - ⇒ Custom reports
- **Technology:**
  - ⇒ Business rules driven by SPD eligibility provisions, required documents, escalation rules
  - ⇒ Verification documents scanned
  - ⇒ Process ensures consistent objective assessment

### HRAdvance provided Holly Corporation the following with their Plan-Smart Dependent Eligibility Audit Service:

- Employee letter campaign
- Automated project calendar and project timeline  
(see attached sample)
- Inbound and outbound call center
- 7 am to 7 pm (CT)
- Bi-lingual services
- Online employee FAQ's
- 48-hour response for web-based inquiries
- Custom web portal for employees, employer branded
- Real-time, web-based reporting
- Electronic integration with benefits, payroll and/or carrier/TPA systems
- Appeals process included with comprehensive audit

- Plan-Guard (Gatekeeper), ongoing dependent eligibility verification for new hires, family status changes and re-verification of specific populations as needed
- Document storage
- Document disposal

## Part III: Challenges of the Program

### Time Consuming and Labor Intensive Process

We quickly concluded that performing this audit internally was a practical impossibility and outsourcing was the only way to quickly accomplish a project of this magnitude. The dependent eligibility audit took approximately 7 months to complete. HRAdvance did recommend that we shorten the timeframe of the audit to 90 days for the comprehensive audit and 30 days for an appeals process; however, we made the decision to extend the audit time thinking our employees needed extra time to comply with the audit and obtain their verification documents (i.e. marriage certificates, birth certificates, tax returns, adoption records, QMCSO, divorce decrees, etc). Holly would not make the same decision now, we did not need to extend the deadlines, and have since concluded that 90 days would have been sufficient time for our employees to comply with the audit provisions.

### Addressing the Employee Reaction

Division managers and employees expressed their concerns that Holly Corporation would be perceived as accusing employees of fraud and the audit would have a negative effect on morale. Additionally, many of Holly's front-line managers thought we were already compliant, so the audit was an unnecessary process.

We acknowledge that many organizations share the same concerns as we did and they will not consider a dependent eligibility audit regardless of the potential savings. In our due diligence, we came to understand that our widely dispersed workforce, rapidly changing societal trends and the traditionally weak controls around the enrollment process ALL contribute to the situation most employers face today: 10% or more of employees are enrolling ineligible dependents. So, our challenge became communicating to the participating employees that an audit accomplish two things. First, it fulfilled our fiduciary duty around a known risk. Second, and most importantly, it would likely produce savings and those savings would be redirected to them in some form of an improved benefit offering from Holly Corporation. HRAdvance made available to us the necessary tools to push that message consistently during the audit and reinforced that message as their call center interacted with our employees.

## Part IV: Results of the Program

### Holly Corporation Plan-Smart™ Dependent Eligibility Audit Cost and Savings Analysis

\* Audit results confirmed 8.04% ineligibility among dependents

| <b>Employer Statistics:</b>                                   |  | <b>Actual Based on Audit Outcome*</b> |
|---|--|---------------------------------------|
| Employees Participating                                       |  | 851                                   |
| Employees With Dependents                                     |  | 693                                   |
| Average Contract Size   |  | 2.79                                  |
| Percent of Employees w/Dependents                             |  | 81%                                   |
| Cost Per Dependent Per Month                                  |  | \$294.83                              |
| <b>Project Assumptions:</b>                                   |  | <b>Actual Based on Audit Outcome*</b> |
| Total Number of Dependents                                    |  | 1,526                                 |
| Number of Ineligible Dependents                               |  | 116                                   |
| Number of Calls Received (HRAdvance)                          |  | 536                                   |
| Outbound Mailings-Employee Letter Campaign (HRAdvance)        |  | 3,037                                 |
| Documents Received (HRAdvance)                                |  | 3,595                                 |
| <b>Pricing:</b>   |  |                                       |
| Full Audit Cost   |  | \$40,041                              |
| <b>Savings:</b>   |  | <b>Actual Based on Audit Outcome*</b> |
| Monthly Savings   |  | <b>\$34,200</b>                       |
| Savings - 1st Year<br>(Cost of Audit Deducted from Savings)   |  | <b>\$410,403</b>                      |
| Lifetime Savings (over 5 Years)                               |  | <b>\$1,191,168</b>                    |
| ROI 1st Year  |  | <b>1025%</b>                          |
| ROI Years 1-5   |  | <b>2975%</b>                          |
| Project Payback in Months                                     |  | <b>1.1</b>                            |
| Project Break Even - Number of Ineligible Dependents          |  | <b>11</b>                             |
| Project Break Even - Percentage of Total Dependent Population |  | <b>0.7208%</b>                        |

Holly Corporation knew that we had ineligible dependents enrolled on our health plans and we estimated that we would find 1.5% to 2% ineligible. We were very surprised to find 2% ineligible during the first few weeks of our audit and this number continued to escalate. At the end of the audit process, HRAdvance had identified a little over 12% ineligible. Following the completion of the dependent eligibility audit, we offered a 30 day appeals process to anyone who had not complied with the audit or felt that they needed to appeal the decision to terminate their dependents. The final audit results produced significant savings and Holly concluded the audit and terminated 8.04% of the dependents enrolled on our health plans. The following statistics summarize our results:

- 8.04% ineligible dependents
- \$410,403 annual savings (based on employer only cost of \$294.83 per dependent per month)
- 1025% ROI First Year
- Audit paid for itself in 1.1 months
- Break even on cost of the audit was 11 dependents (0.7298% of the dependent population enrolled)

The overall experience was very positive for Holly Corporation and our employees. We have since implemented HRAdvance's Plan-Guard (Gatekeeper-Ongoing Dependent Eligibility Audit Service) for all new hires and family status changes in order to fulfill our fiduciary duties and fiscal responsibilities in a cost-effective manner.

#### **About HRAdvance**

HRAdvance was founded in 2004 with a narrow mission in mind: To provide HR and benefit professionals with best-of-breed hosted solutions that can be deployed with minimal capital expenditure or IT dependency. Our Guiding Principle: We believe that employees are the most valuable asset of virtually every organization. Our management competencies and healthcare focus reflect over 80 years combined experience in developing automated human resource, benefits, administration and financial solutions for public and private organizations. Our background assures that every client and their employees will be served by a firm with the greatest possible familiarity with their industry, an acute understanding of their workforce and first hand appreciation of the value every employee represents. Contact **Brennan Clipp**, Senior Vice President of Sales & Marketing at 214-965-5806 or [bclipp@hradvance.com](mailto:bclipp@hradvance.com) or visit [www.hradvance.com](http://www.hradvance.com).

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