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## **Finding Bogus Beneficiaries**

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Seeking to rapidly cut costs as the economy sours, a growing number of U.S. employers are zeroing in on workers who are collecting health benefits for which they aren't eligible.

In recent years, such "dependent eligibility audits" -- where employees are required to provide documented proof, rather than just give their word, that spouses and children are eligible for corporate medical coverage -- have become increasingly popular among large employers seeking to rein in rising medical expenses.

In a survey by Watson Wyatt released last March, when the economy was in much better shape, almost three quarters of large employers said they planned to conduct health-plan audits this year, up from 55% in 2008. Now, as the economic downturn deepens, some large employers are moving up their plans, while other employers, including medium-size companies that had hesitated on taking such action, are calling in auditors, benefits consultants and auditors say.

"[Health plan] audits can be intrusive and in a healthier economic climate employers might be reluctant to take such steps. However, given the severity of the recession, companies can't afford to ignore any aspect of their expenses" that can be reduced, says Greg Mansur, a senior consultant at Watson Wyatt, where he oversees the health-care auditing practice.

In the fourth quarter of 2008, the U.S.'s economy shrank by 3.8%, the biggest quarterly contraction in 26 years.

Employees are more likely to be open to participating in health-plan audits if the savings generated stave off more draconian cost-cutting measures, such as pay freezes or cuts, shorter workweeks and in the most extreme cases, layoffs, experts say. A slew of major U.S. companies including Caterpillar Inc., Sprint Nextel Corp., Pfizer Inc., Macys Inc., Home Depot Inc. and General Motors Corp. have all announced significant layoffs recently.

About 180 million Americans get their health insurance through their employers. In 2007, U.S. employers spent more than \$532 billion on providing health benefits to workers and their families, according to estimates released by the nonpartisan Employee Benefits Research Institute. That makes health-care the third-largest component of compensation paid by employers, after wages and retirement benefits.

Benefits consultants and auditors say they began receiving more inquiries from employers about health-plan audits this past October and the pace has quickened ever since.

Mark Rucci, senior vice president at Gallagher Benefit Services Inc.'s Healthcare Analytics group, said his firm conducted twice as many health-plan audits in the fourth quarter of 2008 compared with the same period the previous year. Based on the present inquiry rate and proposals the firm has already sent out to employers in January, he expects the firm to conduct three to four times as many audits this year as in 2008.

"The economic issues are becoming more pressing each day and many companies are in panic mode," says Mr. Rucci.

Tom Lerche, Health Care practice leader with Aon Consulting, an employee-benefits consulting firm that conducts benefit audits for employers, estimates 4% to 8% of the dependents enrolled in the average employers' health plan don't meet their eligibility requirements. (They include divorced spouses, children who have exited full-time education, boyfriends and girlfriends). Other auditors cite percentages as low as 3% and as high as 27%. Given that employers that self-insure health benefits on average spend \$3,400 on medical expenses per dependent, large employers can save millions by removing those who are ineligible. (Employers need to examine their own health claims data to see what health costs are for each dependent covered, according to Mr. Lerche).

In October HRAdvance, a Dallas-based human-resources company, completed an audit of a large retailer's health plan. Around 37,000 of the 63,000 workers covered under the plan had enrolled dependents. The audit revealed that 12.6% of the dependents didn't meet the plan's eligibility requirements and their coverage was dropped, producing projected first-year savings to the employer of \$25 million net of the audit's cost, according to data from HRAdvance.

Employers typically flag audits several months in advance and provide an amnesty period where workers can voluntarily remove dependents who don't meet the plan's eligibility requirements without penalties. So long as employees adhere to the rules going forward, they should be fine, experts say.

Workers should be prepared to dig out copies of birth and marriage certificates, root around for tax returns and obtain a letter from their child's college.