HEALTH WEALTH CAREER

EMPLOYERS' HEALTH COALITION OF IDAHO

SPOUSAL SURCHARGES AND DEPENDENT ELIGIBILITY AUDITS: STRATEGIES TO MANAGE DEPENDENT POPULATIONS

A PRESENTATION TO THE EMPLOYERS' HEALTH COALITION OF IDAHO

SEPTEMBER 17, 2015

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SPOUSAL SURCHARGE
WHAT IS IT?

- An additional monthly contribution required by an employer for employees who choose to cover a spouse who has access to health coverage through his or her own employer
- Sometimes referred to as a "working spouse charge"
- Amount of the surcharge generally varies between $25 to $150+ per month, with a median amount of $100 in 2014 for large employers[1]

1. From the 2014 Mercer National Survey of Employer-Sponsored Health Plans; "large employer" is defined as an employer with 500 or more employees

SPOUSAL SURCHARGE
VARYING APPROACHES

- Most common approach:
  - If enrolling for spouse coverage, employee attests at open enrollment whether his or her spouse has access to coverage through his or her own employer
  - Surcharge applies if
    - Employee enrolls the spouse
    - The spouse declines enrollment through his or her own employer
  - Surcharge does not apply if spouse is enrolled in both plans (so coverage through the employee is secondary)
  - Some employers have not applied a surcharge in cases where the coverage through the other employer is catastrophic or limited in nature (e.g. very high deductible and out-of-pocket maximum, mini-med plan) or if the cost of coverage on the spouse's plan is excessive (e.g. >50% of premium cost)

SPOUSAL SURCHARGE
VARYING APPROACHES CONTINUED

- Other approaches:
  - Apply to all spouse coverage
    - Surcharge is essentially buried in the employee contribution, spread across all employees enrolling for spouse coverage
    - Not common, questions of effectiveness due to the surcharge not being visible and questions of equity
  - Exclude spouses from coverage entirely
    - Allows spouses to access public exchange subsidies
    - Very uncommon, and obviously could create employee relations, attraction, and retention issues

SPOUSAL SURCHARGE
VARYING APPROACHES CONTINUED

- Other approaches:
  - Exclude spouses with access to other employer coverage from eligibility
    - More effective at removing spouses from coverage, but more disruptive than a surcharge
    - Some employers modify this approach by allowing spouse enrollment only if the other employer coverage is also taken
    - Some large employers have taken this approach and made headlines…

The New York Times

BUSINESS DAY

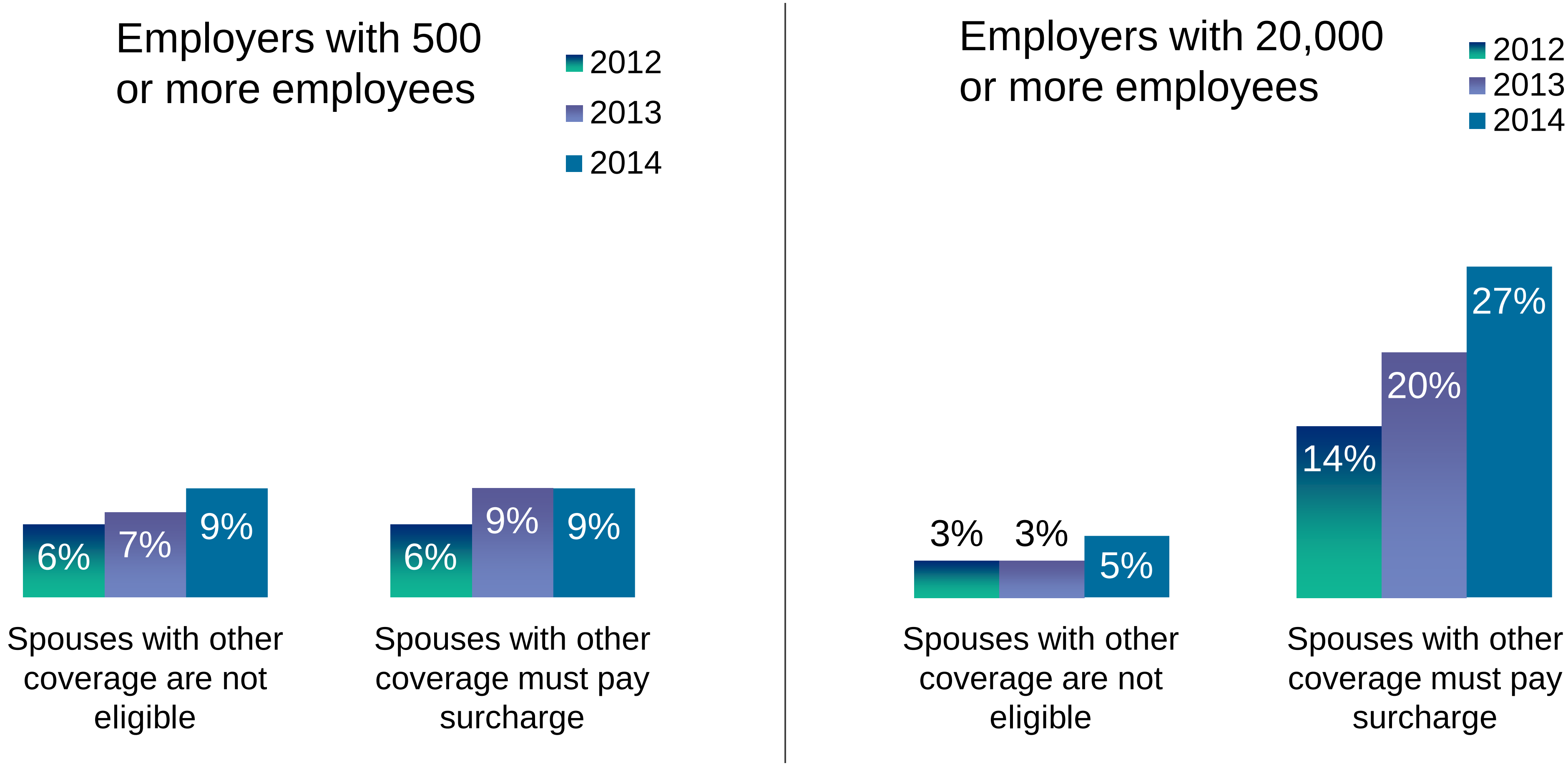
U.P.S. to End Health Benefits for Spouses of Some Workers

By STEVEN GREENHOUSE AUG. 21, 2013

"Since the Affordable Care Act requires employers to provide affordable coverage, we believe your spouse should be covered by their own employer – just as UPS has a responsibility to offer coverage to you."[1]

1. From UPS Working Spouse Eligibility FAQ dated 7/15/2013; https://kaiserhealthnews.files.wordpress.com/2013/08/ups-spousal-coverage.pdf

SPOUSAL SURCHARGE PREVALENCE



Source: 2014 Mercer National Survey of Employer-Sponsored Health Plans

SPOUSAL SURCHARGE
PREVALENCE BY INDUSTRY

	Bio-tech 500+	Financial Services 500+	Govern-ment 500+	Health Care 500+	High-tech 500+	Manu-facturing 500+	Services 500+	Wholesale /Retail Trade 500+	National 500+	National All
Make spouses ineligible for coverage if other coverage is available	4%	9%	3%	17%	8%	12%	6%	5%	9%	6%
Impose surcharge on coverage for spouses with other coverage available	17%	15%	5%	12%	13%	14%	4%	8%	9%	1%
Median monthly surcharge amount ($)	$83	ID	ID	$108	$100	$100	ID	ID	$100	ID

Source: 2014 Mercer National Survey of Employer-Sponsored Health Plans. ID = Insufficient Data to allow for probability sampling.

SPOUSAL SURCHARGE
GENERAL CONSIDERATIONS

Why would an employer consider a spousal surcharge?

- Easy philosophical argument
- Spouses drive plan cost – typically 100% to 125% the cost of an employee
- Offset additional costs due to the ACA
- Reduce the cost of coverage for those without other employer-based options

What type of employer should consider a spousal surcharge?

- High level of spousal enrollment
- Low-to-market employee contribution requirements for spouse coverage
- Rich-to-market benefit value

SPOUSAL SURCHARGE
ADMINISTRATIVE CONSIDERATIONS

- Generally administered on the honor system via an affidavit
  - Employers using online enrollment will add a screen for the affidavit
  - Employers using paper enrollment will have an additional form to manage
  - All employers will have another deduction to manage
- Employers may want to consider dependent eligibility audits to track the accuracy of the affidavit approach
- Employers need to decide how these assertions by employees will be monitored and the consequences of providing false information (i.e. subject to termination of employment, etc.)
- Some employers would prefer to collect certification from the spouse's employer
  - No way to legally require the other employer to provide certification
  - Increases the administrative burden

SPOUSAL SURCHARGE
COMPLIANCE CONSIDERATIONS

Compliance item	Comments
Affordable Care Act	• The ACA does not prohibit spousal surcharges or eligibility restrictions • A spousal surcharge could cause loss of grandfathered status • Simplified reporting options for ACA reporting on the 1095-C/1094-C are only available if spouses are offered coverage. A spouse eligibility restriction may disqualify an employer from being able to use the 98% offer method, for example.
HIPAA	• Loss of coverage triggers a HIPAA special enrollment • Under a carve-out (no coverage for spouses with access to other coverage), the spouse's employer must allow a mid-year enrollment • A surcharge does not trigger a HIPAA special enrollment
COBRA	• Loss of coverage under a carve-out is not a COBRA qualifying event
State law	• Employers with insured plans should be aware of state insurance laws that may preclude the strategy • Many states have marital status discrimination laws that could come into play for non-ERISA plans (gov't and church plans). ERISA would preempt application of such laws to other employer plans.
Discrimination issues	• No federal agency or court has found spousal eligibility restrictions unlawful under ERISA or the federal tax code
Plan documentation	• Introduction of a surcharge or removal of eligibility for working spouses should be reflected in plan documents and SPDs

SPOUSAL SURCHARGE
SAMPLE FINANCIAL MODELING

Assumptions	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Monthly surcharge	$25	$50	$75	$100	$125	$150
Enrolled spouses	500	500	500	500	500	500
% of spouses with other coverage [1]	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%
Number of spouses eligible for surcharge	131	131	131	131	131	131
% of eligible who will pay surcharge [2]	90%	80%	75%	70%	65%	60%
Number of spouses who pay surcharge	118	105	98	92	85	79
% of eligible who will drop plan	10%	20%	25%	30%	35%	40%
Number of eligible who will drop plan	13	26	33	39	46	52
2014 monthly cost for spouse coverage [3]	$502	$502	$502	$502	$502	$502
Illustrative contribution for spouse coverage	$50	$50	$50	$50	$50	$50
Net employer cost for spouse coverage	$452	$452	$452	$452	$452	$452
Surcharge income	$35,000	$63,000	$88,000	$110,000	$128,000	$142,000
Savings due to dropped spouses	$71,000	$141,000	$179,000	$212,000	$250,000	$282,000
Total savings estimate	**$106,000**	**$204,000**	**$267,000**	**$322,000**	**$378,000**	**$424,000**
Total employees	1,000	1,000	1,000	1,000	1,000	1,000
2014 monthly cost per employee [4]	$927	$927	$927	$927	$927	$927
Percent cost savings	**1.0%**	**1.8%**	**2.4%**	**2.9%**	**3.4%**	**3.8%**

Notes:

[1] BLS Current Population Survey April 2015: 47.7% of married couples are dual-income; 2014 Kaiser Family Foundation/HRET Employer Health Benefits annual report: 55% of employers offer health benefits.

[2] Based on Mercer estimates

[3] 2014 Kaiser Family Foundation/HRET Employer Health Benefits annual report, assumes spouse cost equal to single premium

[4] Average PPO cost per employee from the 2014 Mercer National Survey of Employer-Sponsored Health Plans

SPOUSAL SURCHARGE
CASE STUDY

Situation

- A forest products industry employer with 1,000 employees was facing significant cost pressure in 2010 due to the economic downturn
- Low-to-market contributions and high dependent enrollment fed a belief that they being “cherry picked” by working spouses

Approach

- Ultimately, through discussions with senior leadership the spousal surcharge was approved at the $100 per month level, referred to as the “working spouse coverage fee”
- An attestation process was added to the online system during open enrollment

Activities

- In addition to a number of other changes that were being considered and ultimately implemented, multiple scenarios for a spousal surcharge were considered ranging from $25 to $50 per month
- Mercer conducted analyses to estimate both the projected income from those remaining on the plan and paying the surcharge as well as the claims cost savings for any spouses dropping coverage
- At the $50 surcharge level, Mercer estimated that 23 of 240 spouses estimated to have other coverage available would drop coverage, with the remaining 217 paying the surcharge, for projected annual savings of $160,000

Outcomes

- An estimated number of 71 spouses were dropped from coverage at open enrollment, well above expectations (likely driven by the higher surcharge amount than what was modeled) for an estimated annual savings of $475,000[1]
- In the first four years of the surcharge, an average of about 40 employees with spouse coverage paid the $100 surcharge for total annual income to the employer of $48,000

1. Savings assumes that spouses dropping coverage had cost equal to the average cost for a spouse prior to the surcharge. If the spouses dropping coverage had cost equal to 20% of the average, the annual savings was $95,000.

SPOUSAL SURCHARGE
LONG TERM UNINTENDED CONSEQUENCES?

- Study examined cost data from Truven Health Analytics MarketScan® Commercial Database, and included claims data for 317,180 couples (634,360 individuals) with continuous coverage through an employer in 2011
  - Spouse cost of $6,609 was 22% higher than employee cost of $5,430, though all but 7% of that difference was due to gender, age, and general health status
  - Employers subsidize employee coverage more than family coverage (82% vs. 71% subsidy)
  - Total spending for a married couple was $12,039, with the employer funding $4,095 toward spousal coverage
  - Total cost for employee coverage was $5,430, with the employer funding $4,453
  - If the spousal surcharge practice became more widespread and caused employees to drop off their spouses' plan and enroll on the employer's plan, for each dropped spouse replaced be a covered employee, the employer would experience a cost increase of just under $400

Source: The Cost of Spousal Health Coverage, by Paul Fronstin, Ph.D., EBRI, and M. Christopher Roebuck, Ph.D., RxEconomics, Employee Benefits Research Institute Notes January 2014 Vol. 35, No.1. http://www.ebri.org/pdf/EBRI_Notes_01_Jan-14_SpslCvg-RetPlns.pdf

DEPENDENT ELIGIBILITY VERIFICATION
WHAT IS IT?

- A Dependent Eligibility Verification (DEV) is an audit of the dependents currently enrolled on an employer’s benefit plan
- Typically includes a third-party provider asking employees to provide documentation that proves their relationship to the dependents enrolled on the plan
- Upon receipt of valid documentation, the vendor verifies that the relationship meets the definitions of eligible dependents under plan guidelines
- A DEV is normally conducted on spouses, domestic partners, children, or any other dependents included in the summary plan description or other plan documents

DEPENDENT ELIGIBILITY VERIFICATION
WHY CONDUCT A DEV?

- Plan administrators must act solely in interest of plan participants and beneficiaries – the “exclusive benefit” rule
- Ensure consistent definition of “dependents” in ERISA plan documents, SPDs, enrollment materials
- Reduce employer claim cost by ensuring benefits are paid only for eligible dependents per plan definition
- Fulfill internal audit requirements and plan fiduciary obligations – fiduciaries risk violating exclusive benefit rule when paying benefits to individuals not meeting plan eligibility rules.
- Sound financial management of the plan

DEPENDENT ELIGIBILITY VERIFICATION
POTENTIAL RETURN ON INVESTMENT

COST SAVINGS

3%–8%

Average number of dependents found ineligible

$3,000

Average annual cost for each ineligible dependent

SAMPLE SAVINGS ESTIMATE

- Employer with 1,000 employees, 1,000 dependents on plan
- DEV results in removal of 30 to 80 dependents from plan coverage
- Annual gross savings of $90,000 to $240,000

DEPENDENT ELIGIBILITY VERIFICATION
ALTERNATIVE APPROACHES

Approach	Project Scope	Timing	Comments
Document verification	• Document Verification for all employees covering dependents • Includes amnesty when a dependent is deemed ineligible	• Four months to complete	• Generally results in a high number of dependents dropped • Comparable ROI to full service in a shorter timeframe
Document verification (full service)	• Same as above, but preceded by an amnesty phase	• Six months to complete	• Most comprehensive and complete approach • Generally results in the highest ROI
Sample document verification	• Same as full service, but document verification for a subset (15-30%)	• Six months to complete	• Less disruptive to employee population • Phase 1 fosters trust between company and employees • Slightly reduced ROI when compared to the full service approach
Amnesty only	• Employee certification • Includes amnesty when a dependent is deemed ineligible	• Three months to complete	• Least disruptive to employee population • Fosters trust between company and employees • Reduced ROI when compared to other service offerings

DEPENDENT ELIGIBILITY VERIFICATION
ALTERNATIVE APPROACHES

Approach	Project Scope	Timing	Comments
Ongoing verification	• Document Verification for all new hires covering dependents • Includes amnesty when a dependent is deemed ineligible	• Two to three months to complete per cycle	• Designed to mirror the Document Verification approach • Maintains plan compliance after project based work • Alleviates HR team of monitoring dependent eligibility
Appeals	• Document Verification for those who did not respond and/or failed the verification request	• One month to complete	• Recommend terminating dependent coverage for all non-verified dependents after initial verification • Incentive for employees to respond is to reinstate dependent coverage

DEPENDENT ELIGIBILITY VERIFICATION
BEST PRACTICES

- Discuss up front and have a plan for how to deal with partial and non-respondents…and be prepared for the worst case scenario
- Partner with a well-established and reputable vendor partner…and be wary of contingent-based audits, as it creates perverse incentive for the vendor to maximize ineligible dependents
- Allow sufficient time for planning, internal training, communication to employees
- Educate management and HR team on the process and the rationale for the audit so that consistent messaging is provided to any employee questions and concerns
- Allow for multiple communications to employees (e.g. pre-audit introduction, mid-way reminder, final reminder) and use multiple communication modalities if possible

DEPENDENT ELIGIBILITY VERIFICATION
CASE STUDY

Situation

- An employer with 850 employees and 1,600 dependents on plan was interested in a dependent eligibility verification to fulfill fiduciary obligations and ensure they were appropriately covering dependents on the health plan

Challenges

- Dispersed population, many in rural locations, created some challenges for administration and communication

Approach

- Mercer conducted the dependent eligibility verification for the employer, leveraging our DEV team out of Iowa City
- The process included:
  - Personalized, hands-on approach to project management
  - Paperless verification process
  - Online capabilities for amnesty and document submission
  - DEV website in both English and Spanish
  - Detailed, concise, personalized employee communications (2,682 outbound communications)
  - Automated outbound calls
  - Toll-free call center in English and Spanish to answer employee questions (859 calls received)
  - Coverage assistance services provided to any removed dependents to help them find alternative coverage

Outcomes

- 3.6% of dependents were voluntarily removed by the employee as ineligible
- 2.7% of dependents had verification fail due to missing or insufficient documentation
- 2.5% of dependents had no documents submitted due to no response
- Based on an average annual cost per dependent of $3,000, removal of the 57 dependents resulted in savings to the plan of $171,000 annually for an ROI of almost 5 to 1
- Potential additional savings of $339,000 if the incomplete and non-responsive dependents were removed from coverage

QUESTIONS?

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