

Mini-Guide: Dependent Eligibility Audits

A dependent eligibility audit is a voluntary compliance process for employers to verify the eligibility of dependents enrolled in their benefits plan. The audit may reveal dependents that are not eligible for coverage based on the plan's eligibility requirements. Performing a dependent eligibility audit may provide cost savings for employers and employees. Performing this type of audit requires strict adherence to relevant laws such as the [Affordable Care Act](#) (ACA), the [Health Insurance Portability and Accountability Act](#) (HIPAA), the [Consolidated Omnibus Budget Reconciliation Act](#) (COBRA), and the [Employee Income Security and Accountability Act](#) (ERISA). Employers should also review applicable state and local laws.

A few examples of ineligible dependents are:

- Divorced spouses
- Non-qualifying domestic partners
- Children who exceeded the maximum age requirements
- Children affected by custody agreements
- Non-qualifying stepchildren
- Deceased dependents

Planning the Audit

To execute a successful and efficient audit, an employer should consider creating a written policy. The first consideration may be when to audit. An audit can be done at any time, but completing an audit before the benefits renewal date may be more efficient. The following steps may assist in the planning process:

1. Review the current [plan documents](#), the Summary Plan Description (SPD) documents, the insurance carriers' contracts and rules, and any other employee communications that describe dependent eligibility to confirm alignment and compliance with applicable laws. Ensure the plan document clearly explains how and when an enrolled dependent can be removed from coverage. When the various documents are not aligned with the plan documents and a change to the plan is needed, adjustments should be made to the plan documents accordingly and communicated to employees with a restated SPD or a Summary of Material Modification document. For fully-insured plans, it may be beneficial to compare your records to the carrier's coverage records for discrepancies.
2. Establish a timeline for the audit (e.g., 30 or 60 days).
3. Create a concise document describing the plan's dependent eligibility for use during the audit process and for timely reviews of employee documentation.
4. Determine whether the audit will be performed on the entire population with enrolled dependents or a nondiscriminatory select population to gauge whether a full-scope audit is needed.
5. Determine what types of documentation are acceptable to substantiate eligibility (e.g., birth certificates, marriage certificates, divorce decrees, court orders) and whether you will reimburse expenses related to an employee obtaining copies.
6. Create a process for employees to appeal a decision of ineligibility.

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7. Create clear communication materials to distribute to employees announcing the upcoming audit, the purpose of the audit, the required documentation types needed, the submission process, discrepancy follow-ups, and all timelines. It may be helpful to include that failing to return sufficient documentation for an unsubstantiated dependent could result in the termination of the dependent's coverage with no COBRA continuation availability.
8. Establish a secure system for collecting and retaining documentation provided by employees. Whether the system includes online or physical delivery, ensure the process adheres to all applicable privacy regulations.
9. Determine who will conduct and oversee the audit. This may be internal staff members or a third party.
10. Train the audit team by providing the plan's eligibility rules, documentation requirements, the review process, and any other tools used for the process.
11. Create a plan and schedule for ongoing monitoring (e.g., on an annual basis).

Audit Process

Once the planning process is complete, the following steps may be used for conducting a dependent eligibility audit:

1. Communicate to employees, before the audit begins, providing all relevant information, processes, and contact information should they have questions.
2. Collect and review employee documentation against the plan's dependent eligibility rules.
3. Communicate results to each employee. Provide detailed communication to employees who have ineligible dependents explaining the next steps, including forthcoming COBRA or mini-COBRA (uncommon) documents. Keep in mind, [ACA rescission of coverage](#) rules prohibit removing a covered individual from medical coverage retroactively except for fraud or misrepresentation. Disenrollment after an audit is generally on a prospective basis and requires providing advance notice to the individual.
4. If requesting employee documentation to be provided on paper via mail, include a postage-paid envelope with the request.
5. Follow up with employees who have not returned their required documentation.
6. Send COBRA or mini-COBRA (uncommon) notices as applicable. Generally, removing an ineligible dependent does not trigger a COBRA event.
7. Perform disenrollment of ineligible dependents with the broker or carrier.
8. Debrief with the audit team for results of the audit, opportunities for updating plan documents with clearer and more concise eligibility rules, process efficiency, and updates to future audit processes.

Two of the most important aspects of a dependent eligibility audit are communication with employees and adherence to legal requirements. Communicating frequently and in advance helps keep employees informed and improves timely participation. Employers may consider discussing audit plans with a legal advisor.