



STATE OF WISCONSIN
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CORRESPONDENCE MEMORANDUM

DATE: October 26, 2010
TO: Group Insurance Board
FROM: John Vincent, Director
Office of Internal Audit
SUBJECT: Random Sample Dependent Eligibility Verification Pilot Project

This memo is for informational purposes only. No Board action is required. However, the Department would appreciate the Board's support of the Random Sample Dependent Eligibility Verification Pilot Project.

At the August 24, 2010, meeting, the Group Insurance Board (Board) was advised of the Department's interest in conducting a Random Sample Dependent Eligibility Verification (DEV) Pilot Project. This memorandum provides additional background and information on the Department of Employee Trust Funds (ETF) plan related to this project.

Background

An agency-wide risk assessment was completed prior to the development of ETF's 2009-2011 Audit Plan. During that process, the Division of Insurance Services identified the potential risk of having ineligible dependents enrolled in the State of Wisconsin Group Health Insurance Program and the Wisconsin Public Employers Group Health Insurance Program (herein Program). The Program covers more than 240,000 state and local government employees, retirees, and their dependents. It is the largest non-federal health insurance program in the state, with annual health care expenditures of over \$1.3 billion.

Participants in the Program may choose either an individual health insurance plan or a family plan. A family plan allows a participant to include eligible dependents as covered individuals under the chosen health plan. Eligible dependents are defined by state statute, Wis. Stat. § 40.02(20), and administrative rule, ETF 10.02(2)(b). A periodic comprehensive audit of dependent eligibility is considered a best practice and is routinely conducted by many public and private systems to reduce unintended health insurance liability. These audits are designed to verify the eligibility of dependents

Reviewed and approved by Rhonda Dunn, Executive Assistant.
Rhonda Dunn 10-27-10
Signature Date

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covered by an employer's health plan. The immediate and long-term savings gained from these comprehensive audits can be substantial. To date, a comprehensive audit has not been conducted on the health insurance programs administered by ETF.

Discussion

The random sample DEV will be a relatively small project; the goal is to provide ETF with a reasonable assessment of whether ineligible dependents are an issue with the Program. Approximately 1,000 of the 135,000 dependents in the Program would be randomly selected. The results of this pilot project will be shared with the Board at its June 7, 2011, meeting to determine whether a more comprehensive audit would be an effective use of Public Employee Trust Funds resources and result in benefits that exceed the cost. We believe that initiating this project is not only a good administrative practice, but also aligns with the Board's fiduciary responsibility to ensure that only eligible dependents receive benefits under the Program.

Current Eligibility Criteria

The complete definition of "Dependent" appears in the Uniform Benefits contract that is published in the *It's Your Choice: Reference Guide (Guide)* and distributed annually to members. The *Guide* also contains "Frequently Asked Questions," which includes a section on questions regarding dependent eligibility. The *Guide* is available on ETF's Internet site and either a paper copy or an electronic copy was distributed to all participants in the Program.

Current Documentation Requirements and Verification Process

The majority of applications to add a dependent do not require documentation. Attachment A provides more specific information on when documentation is required.

Additionally, health plans verify annually, as necessary, the eligibility status of insured adult children who are disabled. Health plans have also conducted an annual questionnaire to verify the eligibility of insured adult children. However, this process is being discontinued in 2010 because it is no longer deemed necessary due to the federal Patients Protections and Affordability Act that has broadened the eligibility criteria of adult children.

When there may be reason to believe that an insured dependent may not be eligible, ETF works with the employer to research the facts and request any necessary documentation. Additional information on this process is provided in Attachment A.

Authority to Conduct the DEV Project

The Board and the Department Secretary have the authority to conduct a DEV project through the following provisions of the Wisconsin Statutes.

- Wis. Stat. § 40.01 (2)
The public employee trust fund is a public trust and shall be managed, administered, invested and otherwise dealt with solely for the purpose of ensuring the fulfillment at the lowest possible cost of the benefit commitments to participants, as set forth in this chapter, and shall not be used for any other purpose.
- Wis. Stat. § 40.03 (2) (h) and (m), the Secretary
(h) May request any information from any participating employee or from any participating employer as is necessary for the proper operation of the fund.

(m) Shall have all other powers necessary to carry out the purposes and provisions of this chapter, except as otherwise specifically provided by this chapter.
- Wis. Stat. § 40.03 (6) (d) the Board
(d) May take any action as trustees which is deemed advisable and not specifically prohibited or delegated to some other governmental agency, to carry out the purpose and intent of the group insurance plans provided under this chapter, including, but not limited to, provisions in the appropriate contracts relating to:
 1. Eligibility of active and retired employees to participate, or providing the employee the opportunity to decline participation or to withdraw.
- Wis. Stat. s. 40.03 (6) (j)
(j) May contract with the department of health services and may contract with other public or private entities for data collection and analysis related to health maintenance organizations and insurance companies that provide health insurance to state employees.

In addition, each participant is provided with the *It's Your Choice: Reference Book*, which includes the following information:

- No person, other than a Participant, is eligible for health insurance benefits.
- The Department may at any time request such documentation as it deems necessary to substantiate Subscriber or Dependent eligibility. Failure to provide such documentation upon request shall result in the suspension of benefits.

Plan of Action to Conduct the DEV Pilot Project

A multi-phased project plan is the best-practice method for conducting the DEV pilot project. It is anticipated that the project would start in 2011, and will take three months to complete – from planning through final reports. Through a series of communications and required action items, employees of a randomly-selected dependent(s) will be guided through the dependent validation process. During the process, and following current procedures, ineligible dependents could be identified and removed. It should be

noted that employees may be responsible for any employer-paid contributions to and benefits rendered by the plan for ineligible coverage. At the Board's February 2011 meeting, details and specific information on the full plan, each phase, and the communication plan will be presented.

During all phases of the project, safeguards will be enforced to ensure the Department and the selected vendor have proper controls and processes in place to protect employee data as required by the *Health Insurance Portability and Accountability Act (HIPAA)* and other government regulations.

Conducting the DEV pilot project requires specific expertise, experience, and sufficient staffing resources. The Department does not have sufficient staff or expertise in-house. Therefore, an external company with experience conducting confidential benefits-eligibility audits will be retained.

The following introduces each expected phase, with a brief summary, which will be firmed-up during the planning phase.

1. Planning Phase – During this phase, aspects of the project are defined and documented, e.g., communications plan, timeline, required documents, processing standards, and data preparation.
2. Verification Phase – During this phase, employees with a randomly selected dependent(s) will be asked to provide specific documentation to verify the eligibility of the enrolled dependent(s). A series of letters would be sent, along with a direct follow up segment.

Before the Verification Phase would start, it will be important to provide an advance notice to all employees about the project. This communication to all employees will serve to announce the project and that a dependent may be randomly selected. In addition, this notice may encourage employees to assess the eligibility of their dependents. The personalized notification letter may provide the following:

- Explanations on the purpose of the project, guidelines to protect confidentiality, the name and experience of the company hired to conduct the project, and instructions on contacting the vendor's call center in case they have questions.
- Information on which dependents are legally eligible and a list of the individuals currently enrolled under the employee's coverage.
- A list of valid documentation needed to verify all dependents, such as a birth or adoption certificate, marriage license, etc. *(Please note that under current law certain documents, e.g., marriage license, birth certificate, etc., cannot be copied, therefore, only certified originals can be provided.)*

- A clear statement of the consequences of keeping ineligible dependents enrolled.

During the Verification Phase, the following sequence of communications will be sent to employees with a randomly selected dependent(s).

- Day 1 – Letter identifying the randomly selected dependent(s) and specific documents required, as well as answers to frequently asked questions.
 - Day 15 – Letter with the same packet of information to those who do not respond to the first letter.
 - Day 25 – Final notification letter and direct calls to non-respondents.
3. Completion Phase – Upon completion of the Verification Phase the project will be formally closed, with project results compiled, analyzed and reported to the Board. In addition, steps will be taken for the proper storage and destruction of documents collected during the project.

Communication Strategy

Development of a comprehensive communications plan will be a critical component of a successful DEV pilot project. The more communication provided, the higher the response rate we would expect. The communication strategy will be a two-prong approach.

1. General Communications – In an effort to begin getting the word out on this planned project, information was added to the Department's website and the following was included in the September issue of the *It's Your Benefit* newsletter.

Be Sure Your Covered Dependents Are Eligible

*Plans are underway for an audit of listed dependents to determine if there are covered dependents who are ineligible for the health insurance program. Therefore, check that your dependents are still eligible and remove those who are no longer eligible. **Your failure to remove ineligible dependents may result in you being responsible for premium and claims payments.** For information on dependent eligibility criteria, see the Frequently Asked Questions section of your 2011 *It's Your Choice: Decision Guide* or the Uniform Benefits definition of dependent, found in your *It's Your Choice: Reference Guide*.*

2. Detailed Communications – The communication plan will employ a variety of tactics to provide a detailed and consistent communications flow of information to the selected employees, and to provide notification to interested groups.
- Written Correspondence – Several letters will be sent to employees with a randomly selected dependent(s) during the Planning and Verification phases.
 - Support Tools, e.g., website, call center, email, etc.

- Written communications and/or presentations to key employee groups, e.g., State government leadership, labor leaders, annuitant groups, human resource and payroll/benefit groups, etc.
- An *Employer Bulletin*, issued to all employers (both state and local governments) that participate in the Program, providing information on the project and to answer as many questions as possible.

I will be available at the Board meeting to answer questions.

Attachment

Current Documentation Requirements

ETF requires documentation when a subscriber submits an application adding a dependent due to:

- Adoption or placement for adoption,
- Legal ward relationship,
- National Medical Support Notice,
- Paternity acknowledgement,
- Creation of a domestic partnership,
- Loss of eligibility for other coverage, and
- Loss of employer contribution for other coverage.

Documentation is not required when a subscriber is adding a dependent due to marriage, birth (unless the subscriber is not married to the mother), or when the dependent is a stepchild or child of a domestic partner.

Process to Investigate Insured Dependent Eligibility

When there may be reason to believe that an insured dependent is not eligible, ETF works with the employer to research the facts and to request documentation, as necessary. If the facts and available documentation indicate the insured dependent is not eligible, the dependent's coverage is terminated.

Retroactive premium adjustments are made when family premium was paid but it is determined there were no eligible dependents. The contract allows for retroactive premium refunds up to six months of premium paid, except in cases such as fraud and material misrepresentation that have no time limit. Health plans will reprocess claims that have been paid during the period for which the insured dependent has been determined to be ineligible and payment will be recouped as allowed by the health plans' contracts with their providers. ETF will follow its policy to recoup any claims paid through the Pharmacy Benefits Manager for the ineligible dependent(s). ETF will refer the matter to the subscriber's employer for possible employment action and may also refer the matter to the District Attorney for prosecution.

The contract provides an appeal process in which the Group Insurance Board can limit the subscriber's coverage to the Standard Plan. The appeal process has not yet been utilized.

ETF staff estimate that there are typically less than ten contracts that are identified each year that list ineligible dependents and coverage for those dependents is terminated. This does not include those situations that are identified and handled only by the employer.