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COUNTY HEALTHCARE PLAN ELIGIBILITY LOOPHOLES

Are All Reported Dependents Eligible for County Healthcare Plans?

Summary

Contra Costa County pays more than \$105 million a year for healthcare benefits for its employees, retirees, and their eligible dependents. The County does not require verification of dependent eligibility and this creates a loophole that exposes the County to fraud, abuse, and potentially higher healthcare plan costs.

The County does not require employees or retirees to attest to the accuracy of enrollment information. And even though the County has a reimbursement policy, it does not have a procedure to secure reimbursement from employees or retirees for costs associated with the delivery of services to ineligible enrollees.

The effect of the dependent eligibility loopholes is that the County and taxpayers could be saddled with avoidable costs resulting from the higher premiums charged by healthcare administrators and insurance carriers to cover the cost of services provided to ineligible healthcare plan participants.

The problems resulting from the lack of dependent eligibility verification and a reimbursement procedure are compounded by the fact that the County's Human Resources department relies on an aging, inflexible healthcare eligibility administration system. The system does not allow employees or retirees to make authorized, on-line updates to their personal information such as address changes, or to easily find answers to frequently asked questions about their healthcare plan coverage. The system also does not allow for convenient ad hoc report generation by the Human Resources department.

The complete report is available on the Contra Costa County Grand Jury web site:
www.cc-courts.org/grandjury.

CONTRA COSTA COUNTY GRAND JURY REPORT 0703

COUNTY HEALTHCARE PLAN ELIGIBILITY LOOPHOLES

Are All Reported Dependents Eligible for County Healthcare Plans?

**TO: Contra Costa County Board of Supervisors
Contra Costa County Administrator**

BACKGROUND

Contra Costa County (“County”) allocates a significant portion of its annual operating budget (over \$105 million per year) to cover the cost of providing medical and dental (“healthcare”) benefits to its active employees, retirees, and dependents.

The County makes a variety of healthcare plans available to its employees, retirees, and their eligible dependents. Under the terms of Memoranda of Understanding with several collective bargaining units (labor union locals), as well as enabling resolutions by the Board of Supervisors on behalf of management and non-union employees, retirees, and eligible dependents, the County pays an average of 86.5% of the monthly premiums for their healthcare plans. Employees and retirees pay, on average, the remaining 13.5%.

The County’s Human Resources (“HR”) department is responsible for enrolling participants in County healthcare benefit plans and for verifying that enrollees are eligible, and that they remain eligible. The department also is responsible for processing updates to eligibility records such as the addition of new dependents and the deletion of dependents that are no longer eligible.

The HR department reports that a requirement is under consideration, however, currently the department does not have a requirement or a procedure to verify eligibility. The HR department also does not have a procedure to verify reported dependents. And while the County has a policy requiring reimbursement “for all costs associated with the delivery of medical or dental services to an ineligible person,” the HR department does not have a procedure to secure reimbursement.

Additionally, while the search for a replacement system is reportedly under consideration, currently the HR department relies on an aging, inflexible healthcare eligibility administration system to record, manage, analyze, and report on eligibility data for the County’s more than 28,300 employees, retirees, and dependents.

The lack of dependent eligibility verification procedures, combined with an inefficient eligibility system, creates a potential for fraud and abuse. As a result, the County and taxpayers could be liable for the additional expense resulting from the higher healthcare premiums attributable to ineligible dependents.

FINDINGS

1. The County contracts with, and is billed monthly by, healthcare plan administrators and insurance carriers on either an “individual” (employee or retiree only) or “family” (employee or retiree plus dependents) basis. The County pays one monthly insurance premium amount per plan for employees and retirees with no dependents (“individual”) and another negotiated monthly rate for employees and retirees with dependents (“family”), regardless of the number of dependents reported per family.
2. Based on representative monthly data (September 2006), the County pays healthcare insurance premiums averaging \$8.8 million per month--over \$105 million annually. Employee and retiree premiums average \$1.37 million monthly—over \$16.4 million annually.
3. Based on representative data (September 2006), the County maintains combined medical and/or dental plan eligibility records for approximately 7,800 employees, 4,200 retirees, 330 surviving spouses, and 16,000 reported dependent spouses, children, and domestic partners.
4. The County contracts with its healthcare plan administrators and insurance carriers on a “fully-insured” basis. Under this financial arrangement, healthcare administrators and carriers are responsible for all costs in excess of the premiums collected from the County during a specified contract period. The negotiated premiums include anticipated costs for the benefits, administrative costs, and a profit for the administrators and carriers.
5. Each year, healthcare plan administrators and insurance carriers audit premiums and benefits paid, and increase premiums for subsequent years if benefits paid in the prior year exceeded premiums received.
6. County healthcare plan participation is available to “eligible dependents.” Eligible dependents are defined as legal spouses, qualified domestic partners, unmarried children under the age of 19 for whom the employee or retiree has legal responsibility, and children under the age of 25 that, according to IRS regulations, are more than 50% dependent on the employee or retiree, and who are anticipated to be claimed as dependent children on the employee’s or retiree’s income tax return. Eligible dependents between the ages of 19-25 need not be full-time students to be eligible to participate in the healthcare plans. Disabled children over the age of 19 are also eligible to participate provided their disability occurred

prior to their reaching the age of 19, and that they also are dependents as defined by IRS regulations.

7. The HR department is responsible for the administration of healthcare plan eligibility policies, the maintenance of eligibility records, and the monthly reporting of eligibility information to healthcare plan administrators and insurance carriers.
8. The HR department relies on employees and retirees to enroll dependents. This is accomplished through the use of either an “Open Enrollment Change Form” or “Health And Dental Plan Enrollment Form.” The latter specifies that, outside of annual open enrollment periods, employees and retirees are responsible for timely notification regarding the addition of eligible dependents; i.e., within 60 days of a qualifying event such as marriage or childbirth.
9. The “Open Enrollment Change Form” and “Health And Dental Plan Enrollment Form” also serve as the method by which employees and retirees are expected to report that dependents are no longer eligible. However, neither form obligates employees and retirees to report dependent deletions within any specified period.
10. Neither the “Open Enrollment Change Form” or the “Health And Dental Plan Enrollment Form” require employees or retirees to attest, by means of a signature, and under penalty of perjury, to the accuracy of the enrollment or deletion information they provide to the HR department.
11. The HR department does not verify that dependents reported during the enrollment process meet eligibility requirements for participation in the County’s healthcare plans or that they remain eligible.
12. The County’s “2007 Employee Benefits Information and Open Enrollment Guide” includes the following policy statement: “It is against County Policy for an employee to enroll ineligible persons as dependents; to do so may subject the employee to disciplinary action as well as the obligation to reimburse the plan for all costs associated with the delivery of medical or dental services to an ineligible person.”
13. The HR department does not have a procedure to secure reimbursement from employees or retirees of all costs associated with the delivery of medical or dental services to an ineligible healthcare plan enrollee.
14. The HR department does not require all of its healthcare plan administrators and insurance carriers to verify by means of quality assurance “self-audits” or external audits that all the County’s healthcare plan contract provisions are being met; i.e., eligibility determination, plan coverage limits, customer service expectations, etc.

15. The healthcare eligibility benefits administration computer system, installed in 1989, does not allow for automated, self-service inquires and information updates by eligible employees, retirees, and dependents. The system's limited flexibility also does not allow the HR department to easily generate the ad hoc reports necessary to help analyze eligibility data.
16. The HR department hopes to replace its aging healthcare benefits administration system. Qualified data processing system vendors will be given the opportunity to submit proposals for a new system to meet the County's requirements.

CONCLUSIONS

1. The County's "fully-insured" contracts with healthcare plan administrators and insurance carriers do not protect the County or taxpayers from future premium increases that could include a factor to recover any past financial losses or to guard against any future financial losses associated with ineligible dependents.
2. The HR department does not have a procedure for verifying the initial and on-going eligibility of reported dependents, for requiring employees and retirees to attest to the accuracy of enrollment information, or for requiring timely reporting of dependent deletions. Therefore, the County is at risk for potential fraud and abuse, and any healthcare plan premium increases attributable to the ineligible dependents.
3. The lack of a procedure to secure reimbursement from employees and retirees for enrolling ineligible dependents means they are not held accountable for their actions and that there is no deterrent to future misrepresentation by other employees or retirees. As a result, the County remains open to potential fraud and abuse since it could be paying monthly insurance premiums for ineligible enrollees.
4. The HR department's aging healthcare eligibility system is not an adequate tool to allow the department to act effectively on behalf of the County or the thousands of employees, retirees and dependents it serves. Its 1980's-era design means that it is an increasingly inflexible and inefficient means to record, manage, analyze and report on important personnel data. Further, the system does not allow employees and retirees to easily access medical and dental plan information or to make authorized changes to their personal information.
5. Many large group healthcare plan purchasers like the County require their plan administrators or insurance carriers to periodically verify by means of self or outside audits that all their contractual requirements relating to plan eligibility, coverage limits, and customer service are being met. Such a requirement appropriately places the responsibility on administrators and carriers rather than the purchasing group and its enrollees to document their performance.

RECOMMENDATIONS

The 2006-2007 Grand Jury recommends the County Board of Supervisors and County Administrator take the following steps to ensure more accurate administration of employee, retiree, and dependent eligibility related to the County's healthcare benefit plans:

1. To verify the legal status of all reported dependents at the time of enrollment, require that employees and retirees provide appropriate documentation in the form of original or certified copies of marriage licenses, domestic partner certification, birth certificates, adoption court orders, and court custody orders.
2. At the time of enrollment, require employees and retirees in any of the County's healthcare benefit plans to attest to the accuracy of the information they are providing by means of a signature, under penalty of perjury, on the enrollment form.
3. Require that employees and retirees report dependent deletions in a timely manner, but in no case later than 60 days following a change in their IRS dependent status; i.e., the employee or retiree is no longer responsible for more than 50% of the enrolled dependent's support.
4. Within one year of this report, the HR department should verify the eligibility of all dependents currently enrolled in the County's healthcare plans requiring the same documentation as detailed in recommendations 1 through 3, above.
5. Thereafter, the HR department should verify the status of dependents already enrolled, annually, requiring the same documentation as detailed in recommendations 1 through 3, above for whom appropriate documentation was not previously secured and/or copies of which are not on file.
6. Consistent with the County's policy, establish and implement a procedure for securing reimbursement from employees and retirees for all costs associated with the delivery of medical or dental services provided to an ineligible enrollee in the County's healthcare plans.
7. Within one year of this report, complete the data processing system vendor screening process in preparation for the purchase and installation of a healthcare eligibility administration system to replace the County's aging, inflexible system.
8. Require all health plan administrators and insurance carriers to complete annual administration quality assurance self-audits and/or external audits, at their own expense, with reports to the Human Resources department to ensure that all the County's contractual obligations are being met; e.g., eligibility verification, plan coverage limits, customer service, and performance levels.

REQUIRED RESPONSES

Findings:

County Administrator: 1-16

Contra Costa County Board of Supervisors: 1-16

Recommendations:

County Administrator: 1-8

Contra Costa County Board of Supervisors: 1-8