
West Virginia Public Employees Insurance Agency (PEIA)



**Employee Reconciliation and Dependent
Eligibility Verification Audits
2009 - 2010**

Final Report

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Submitted to:

**Jason A. Haught, CPA
Chief Financial Officer
Public Employees Insurance Agency/
Retiree Health Benefits Trust Fund
601 57th St., SE, Suite 2
Charleston, West Virginia 25304-2345**

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EXECUTIVE SUMMARY

The West Virginia Public Employees Insurance Agency (PEIA) contracted with Healthcare Data Management, Inc. (HDM) to conduct an Employee Reconciliation Audit (ERA) and a Dependent Eligibility Verification (DEV) audit for the PEIA's health insurance, life insurance and dependent life insurance plans to confirm the eligibility of policyholders and their dependents. HDM subcontracted Public Consulting Group, Inc. (PCG), to perform the DEV audit. The audits were conducted through a series of five waves which began in October 2009. For the ERA, various forms of correspondence were distributed to solicit payroll documentation from 726 State entities and participating agencies that provide insurance coverage for over 89,000 employees. In addition, a direct mailing to over 45,000 retirees was completed to determine their status and the eligibility of any dependents. For the DEV audit, the eligibility of over 126,000 West Virginia PEIA policyholder dependents from more than 800 State and municipal agencies was verified. HDM/PCG required 72,785 PEIA subscribers to submit verification documentation proving the eligibility of each of their dependents.

As a result of the audits, 67 employees/policyholders and 11,633 dependents were found to be ineligible for insurance coverage.

Audit Objectives

- Identify any policyholder (employee or retiree) and dependent currently enrolled in insurance coverage that did not meet the eligibility criteria and remove them from participation.
- Communicate audit purpose, deadlines, and compliance requirements to West Virginia employees, retirees, and dependents.
- Establish and operate a dependent eligibility customer service center to field employee, benefit coordinator, and dependent questions and/or concerns.
- Collect and retain verification documentation proving the eligibility of policyholders and dependents.
- Confirm employee/policyholder eligibility through a review of payroll records of State and municipal entities and participating agencies.
- Compare submitted documentation with plan eligibility requirements to identify ineligible dependents.
- Identify any policyholder (employee or retiree) and dependent currently enrolled in insurance coverage through PEIA
- Report audit results and findings to PEIA throughout the audit.
- Identify and analyze PEIA savings resulting from the audit.

Audit Methodology

ERA

For the ERA, HDM obtained a data file from PEIA that contained detailed records of all policyholders who were enrolled in PEIA benefit plans during the audit period. In a series of five waves, letters and emails were sent to either the entities that employed the policyholders or, in the case of the fifth wave, directly to the policyholders who were retirees, surviving spouses or surviving dependents. The time period used for employment verification purposes was for one month's payroll and the months varied depending on what 'wave' the agency was included. The first four waves followed a similar process. Letters were sent to the Benefit Coordinators and Heads of the Agencies requesting various demographic information for each employee/policyholder. Follow-up emails were sent to the agencies who did not respond within the required time period. Phone calls were also made to the Benefit Coordinators as necessary. Once the data from each agency was received, a data base with the policyholders was created and this was compared to the file received from PEIA. As a result of the data comparison, a listing of employees was identified as having no payroll data for the period being audited. These listings were first sent to the Benefit Coordinators to provide an explanation why the employee was not on the payroll records. Once those responses were received, a final list of employees/policyholders no longer on the payroll was sent to PEIA for further investigation.

DEV Audit

For the DEV audit, PCG coordinated a series of outgoing mailings, e-mails, and phone calls to inform policyholders and dependents of the audit purpose, document submission deadlines, subscriber rights and responsibilities, and compliance requirements. PCG offered multiple eligibility-proving document submission options to PEIA subscribers, including mail, Web submission, fax, and email, to ensure the audit process was as convenient an experience as possible for PEIA subscribers. PCG supplemented these outreach and document submission efforts by offering a dependent eligibility customer service center, staffed by dedicated, trained dependent eligibility specialists, to address any questions and/or concerns PEIA subscribers, dependents, and agency benefit coordinators had. PCG offered reporting services to PEIA administrators and agency benefit coordinators upon request, in addition to submitting regular audit updates and reports.

To better serve PEIA's subscribers and dependents, PCG divided the audit population into five (5) waves, the first four (4) of which were comprised of active employees. With the exception of the fifth wave, which incorporated additional verification documentation options for retirees, each wave was conducted nearly identically with very similar communications schedules and documentation submission timelines.

Audit Activities

ERA

The first two waves were comprised of non-state agencies. The first wave was used as a pilot and involved 33 agencies covering 1,983 policyholders. The second wave included 494 agencies and 11,452 policyholders. In the first two waves, six agencies were found that no longer participated in the PEIA insurance program. All remaining agencies complied with the data requests.

The third and fourth waves were comprised of State agencies and County Boards of Education, respectively. There were a total of 199 agencies and Boards of Education involved in these waves that covered 75,708 policyholders. Replies were received from 100% of the agencies and Boards of Education for these two waves.

The fifth wave consisted of a direct mailing to 45,203 retirees. The purpose of that wave was to confirm the status of the retirees and the eligibility of any dependents.

A total of 726 State entities and participating agencies and 134,346 employees/policyholders were involved in the five waves for the ERA.

DEV Audit

PEIA's eligibility requirements were complex and depended upon a number of conditions and qualifications. PCG designed a customized eligibility audit plan to address PEIA operations, employee enrollment, and dependent eligibility, helping PEIA prevent the filing of erroneous claims, improve the renewal process, and identify ineligible dependents.

PCG planned and executed the following tasks in performing a dependent eligibility audit of PEIA subscriber dependents:

1. PCG conceived and executed a communications and outreach plan, alerting policyholders and agency benefit coordinators of the audit:
 - PCG mailed **72,785 customized introductory packets** to PEIA subscribers.
 - PCG mailed **38,485 customized reminder packets** to PEIA subscribers.
 - PCG mailed **22,575 customized pending letters** to PEIA subscribers.
 - PCG mailed **16,224 customized appeal/decision letters** to PEIA subscribers.
 - PCG sent **822 human resources introductory emails**, informing WV human resources personnel of the audit, the audit's compliance requirements, and the key deadlines/dates.
 - PCG sent **822 customized human resources compliance emails**, informing WV human resources personnel as to who in their agency had not fully complied with the audit.

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- **PCG made 10,149 outgoing phone calls** to noncompliant policyholders at various stages throughout the audit.
2. PCG worked with policyholders to collect documentation proving the eligibility of their dependents. In preparing for the project, PCG customized an SQL-based technology platform to ensure the accurate and secure collection of policyholder documentation.
 - **PCG received and processed 56,738 mailed packets** from PEIA policyholders.
 - **PCG received and processed 15,624 faxed packets** from PEIA policyholders.
 - **PCG received and processed 3,738 emailed packets** from PEIA policyholders.
 - **PCG received and processed 743 uploaded packets** from PEIA policyholders.
 3. PCG reviewed all submitted documentation to determine and report on the status of employee dependents.
 - **PCG conducted 72,785 reviews** of eligibility-proving audit documentation submitted by PEIA policyholders.
 - **PCG ruled on the eligibility status of 126,087 dependents** based on PEIA's plan eligibility requirements and policyholder audit compliance.
 4. PCG established and ran the project's customer service call center, regularly fielding more than 800 inquiries per day while advising employees of their rights and responsibilities in complying with the audit.
 - From October 2009 – December 2010, PCG staffed 5 dedicated, trained dependent eligibility customer service specialists and a dependent eligibility customer service supervisor.
 - **PCG received 59,405 incoming audit customer service calls.**
 - **PCG made 10,149 outgoing phone calls** to noncompliant policyholders at various stages throughout the audit.
 5. PCG maintained precise reporting standards, providing PEIA with weekly audit compliance updates, ad-hoc reporting, and periodic summary reports.
 - PCG provided PEIA with **56 weekly audit updates.**
 - PCG authored **four (4) Wave Results Reports.**
 - PCG ran **regular, complex data queries** at PEIA's request.

6. PCG, in cooperation with PEIA, reenrolled those ineligible subscriber dependents who submitted adequate documentation after the audit deadline.
- PCG reenrolled 3,442 dependents or 21.2 percent of the total number of dependents who were originally ruled to be ineligible.

Audited Subscriber Population

PCG audited 72,785 PEIA subscribers with at least one (1) dependent. The subscriber population exhibited the following attributes:

- **Plan Type:** 90.0 percent of audited subscribers were covered by Family plans and 10.0 percent were covered by Employee+Child(ren) plans. 82.8 percent of audited subscribers had health insurance compared to 17.2 percent who had only dependent life coverage.
- **Employment Status:** 75 percent of audited subscribers were active employees, while 25 percent of audited subscribers were covered retirees or survivors.
- **Location:** Audited PEIA subscribers were spread throughout West Virginia, although Kanawha, as home to Charleston, was the most prominently audited County:
 - **Kanawha** – 12.3 percent of audited population (8,983 subscribers)
 - **Monongalia** – 5.6 percent of audited population (4,046 subscribers)
 - **Cabell** – 4.8 percent of audited population (3,513 subscribers)
 - **Out of State** – 4.7 percent of audited population (3,392 subscribers)
 - **Raleigh** – 4.0 percent of audit population (2,920 subscribers)
 - **Other (<4.0%/county)** – 68.6 percent of audit population (49,931 subscribers)

Audited Dependent Population

PCG audited 126,087 West Virginia PEIA subscriber dependents. The dependent population exhibited the following attributes:

- **Relationship Type:** Of the 126,087 audited dependents, 47.4 percent (59,737) were children and 52.6 percent were spouses (66,350).
- **Age** (as of 1/1/09): 9.4 percent of audited dependents were over 65 years of age, 21.5 percent were 50-64, 14.5 percent were 35-49, 15.0 percent were 19-34, and 39.7 percent were 0-18.
- **Plan Type:** Of the 126,087 audited dependents, approximately 14.1 percent (17,809) had only dependent life coverage while 85.9 percent (108,278) had medical coverage.

AUDIT RESULTS

ERA

As a result of the ERA, 67 employees/policyholders were identified as ineligible to participate in the insurance programs offered by PEIA. The determination was based on the lack of payroll records for the period being audited or, in the case of the retirees, their responses, or lack thereof, to the verification letters sent. The chart below summarizes the results of each wave.

	Waves 1 & 2	Wave 3	Wave 4	Wave 5	Total
Agencies Audited	527	143	56	N/A	726
Employees/Policyholders Audited	13,435	36,887	38,821	45,203	134,346
Ineligible	44	13	9	1	67

DEV Audit

From November 2009 to December 2010, PCG audited 72,785 PEIA employees and retirees accounting for 126,087 dependents over the course of five (5) staggered waves. Following each wave's deadline to submit verification documentation, disenrollment files were submitted to PEIA which identified members who failed to comply with the audit and/or were ruled to be ineligible. PCG confirmed the following ineligibility rates upon submission of the original disenrollment files to PEIA. *Please note:* no dependents reported to be ineligible due to the ERA, per agency benefit coordinators, and/or per PEIA reports are included in any of the audit results reported here.

Dependent Ineligibility – Original Disenrollment/Deadline Files

	Wave 1	Wave 2	Wave 3	Wave 4	Wave 5	Total
Dependents	2,173	12,256	42,973	49,456	19,229	126,087
Ineligible Dependents	349	1,635	6,053	6,737	1,490	16,264
% Ineligible	16.1%	13.3%	14.1%	13.6%	7.7%	12.9%

At the conclusion of each wave, following the deadline to submit verification documentation, PEIA subscribers were allowed to “appeal” the pending disenrollment of his/her dependent(s) by submitting the required documentation in compliance with the audit’s requirements. PCG agreed to process member appeals and submit reenrollments to PEIA throughout the audit at no charge. PCG processed 3,442 successful member appeals and regularly submitted data files to PEIA identifying newly eligible dependents requiring reenrollment. Additionally, PEIA fielded

reenrollment requests/appeals directly from policyholders that PCG was not privy to, resulting in an additional 1,189 dependent reenrollments. The “PEIA Direct Reenrollments” figure represents these cases. At the conclusion of the audit, PCG confirmed the following ineligibility rates resulting from reenrollments/appeals and according to the data files submitted to PEIA.

Dependent Ineligibility – Following Reenrollments/Appeals Submissions

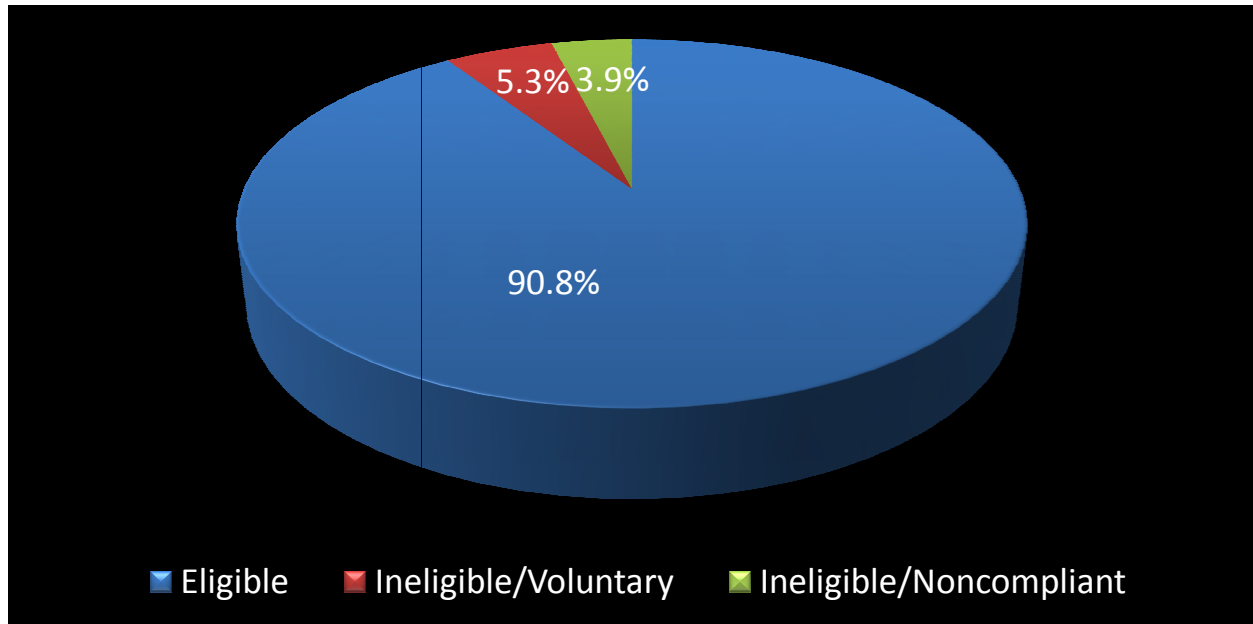
	Wave 1	Wave 2	Wave 3	Wave 4	Wave 5	Total
Dependents	2,173	12,256	42,973	49,456	19,229	126,087
Ineligible Dependents - Originally Disenrolled	349	1,635	6,053	6,737	1,490	16,264
PCG Reenrollments	16	219	1,203	1,883	121	3,442
PEIA Direct Reenrollments	58	345	488	40	258	1,189
Final Ineligible Dependents	275	1,071	4,362	4,814	1,111	11,633
Final % Ineligible	12.7%	8.7%	10.2%	9.7%	5.8%	9.2%

At the conclusion of PCG’s dependent eligibility audit, following all reenrollments / appeals submissions, PCG had identified **11,633 ineligible dependents**, accounting for **9.2 percent of all audited dependents**.

Dependents were either voluntarily disenrolled by the policyholder or disenrolled because of noncompliance, as described below:

1. **Noncompliance** – Policyholder did not return all of the required documentation to prove dependent eligibility and/or policyholder did not respond to PCG’s request for verification documentation.
2. **Voluntary Disenrollment** – Policyholder voluntarily requested the removal of his/her dependent(s) from coverage upon receiving PCG’s audit communications.

Post-Audit Dependent Status

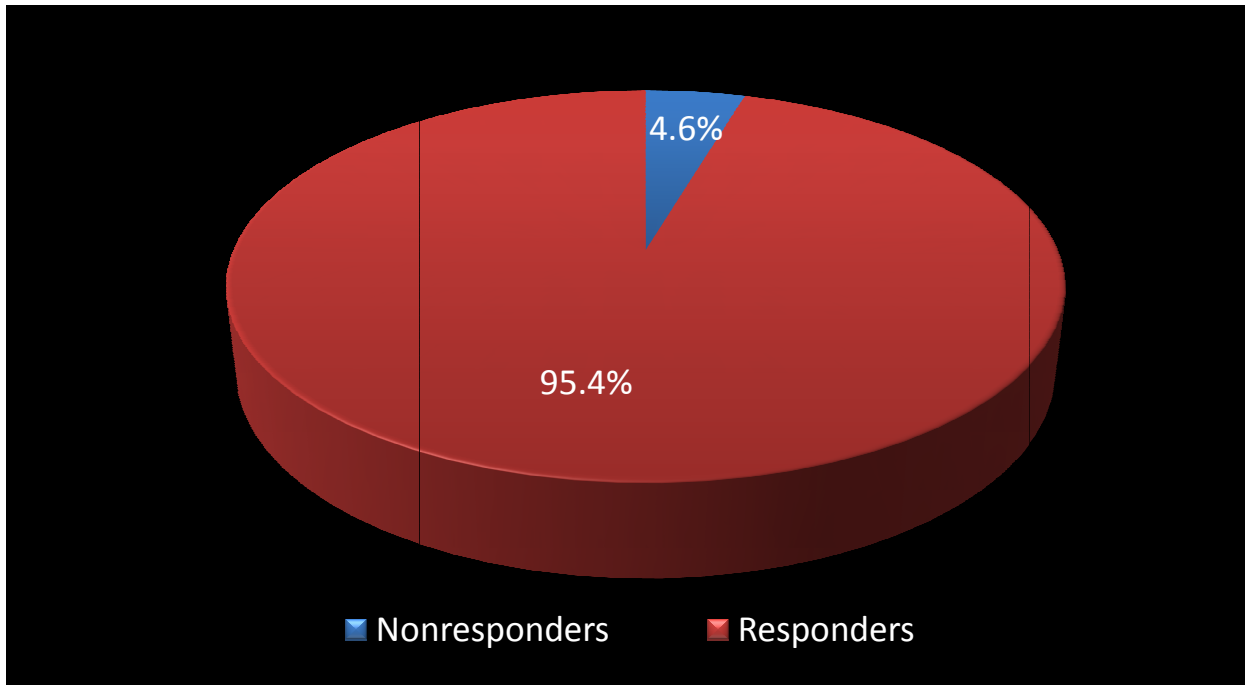


Of the 11,633 ineligible dependents, 6,668 (57.4 percent) were voluntarily disenrolled and 4,955 (42.6 percent) were disenrolled because of noncompliance.

Response Rate

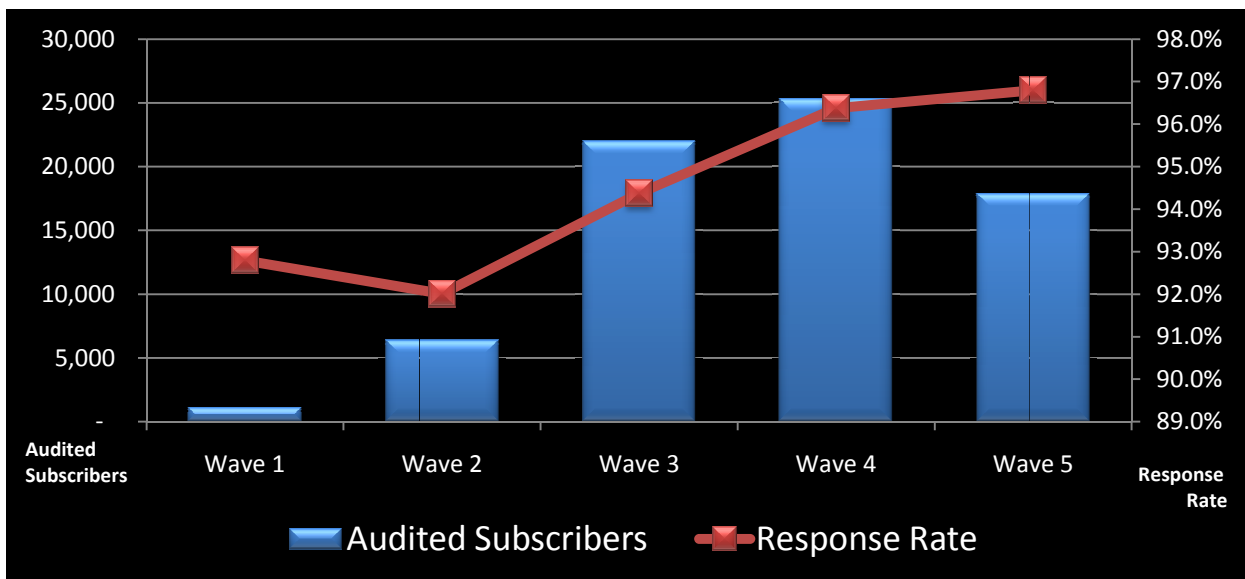
PCG received a response from 95.4 percent of all policyholders during the audit timeframe. PCG made more than 10,000 follow-up phone calls to ensure that non-responders were aware of the audit's compliance requirements and deadlines. Non-responders received, at minimum, three (3) follow-up letters, two (2) follow-up phone calls, and two (2) reminders sent to their agency benefit coordinators.

Audit Response Rate



PCG's response steadily improved throughout the audit period, culminating in a 97 percent response rate during Wave 5.

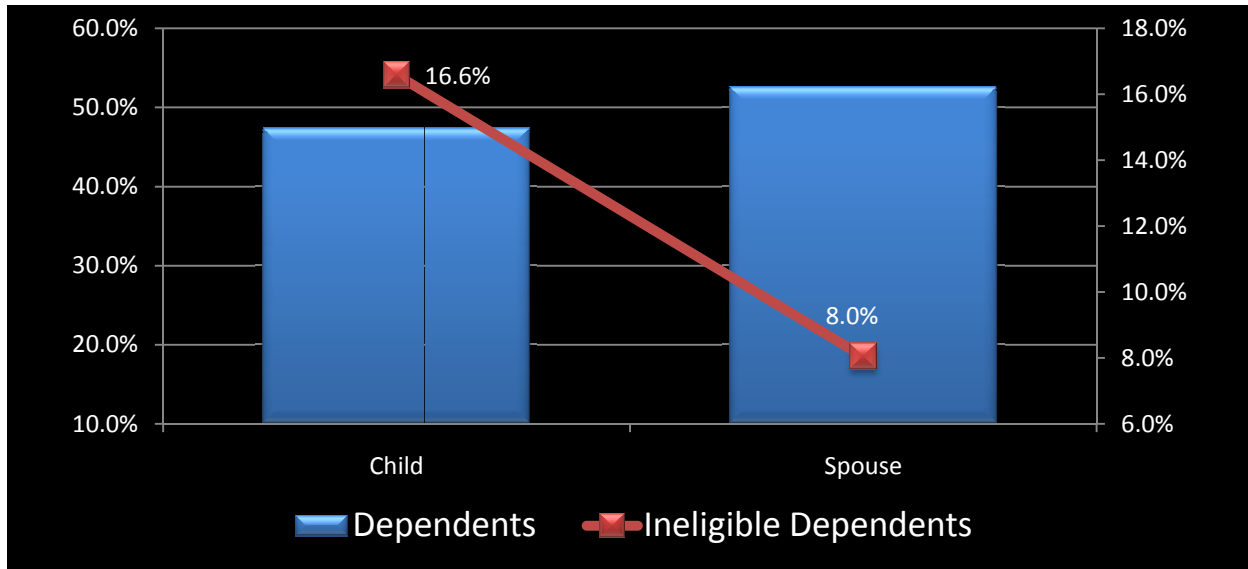
Audit Response Rate by Wave



Dependent Type

While there was a nearly even number of child and spouse dependents (47 percent vs. 53 percent of total dependents, respectively), 16.6 percent of child dependents were found to be ineligible compared to only 8.0 percent of spouse dependents.

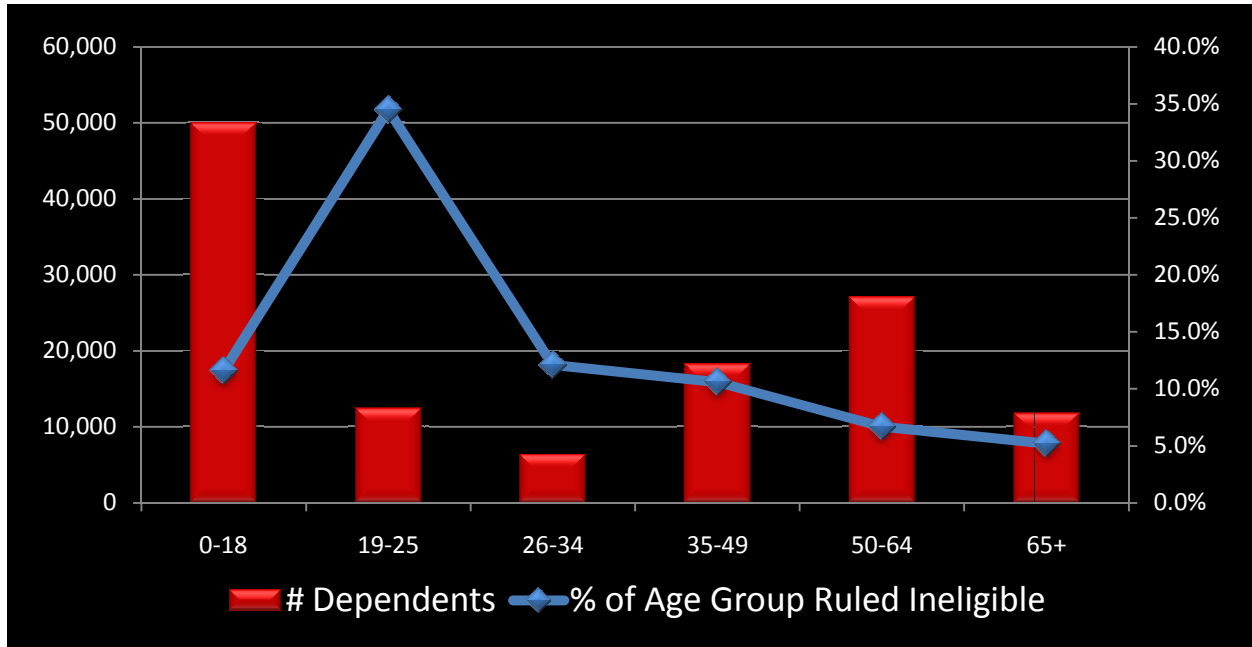
Dependent Type vs. Ineligibility



Dependent Age

Of the 126,087 PEIA dependents included in PCG’s DEV review, nearly 50 percent were 25 years of age or younger, accounting for 66.2 percent of ineligible dependents. While only 9.9 percent of dependents were between the ages of 19 – 25, 34.5 percent of this demographic was ruled to be ineligible, accounting for 28.2 percent of all ineligible dependents.

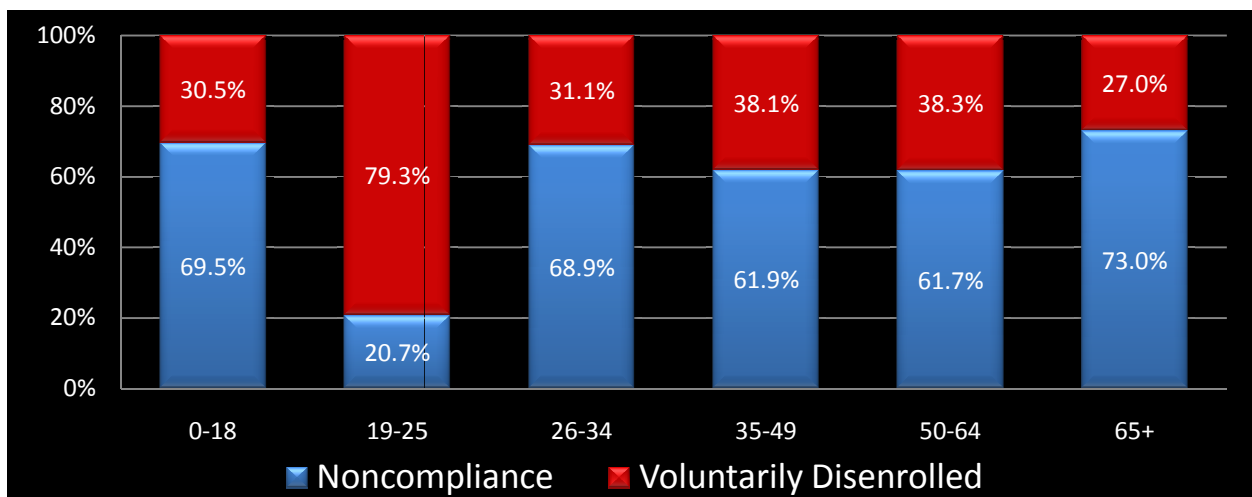
Dependent Age vs. Ineligibility



Ineligibility Reason

Policyholders with dependents between the ages of 19 – 25 were considerably more likely to voluntarily disenroll their dependents than those policyholders with dependents of other ages.

Dependent Age vs. Ineligibility Reason



Waves 1-5

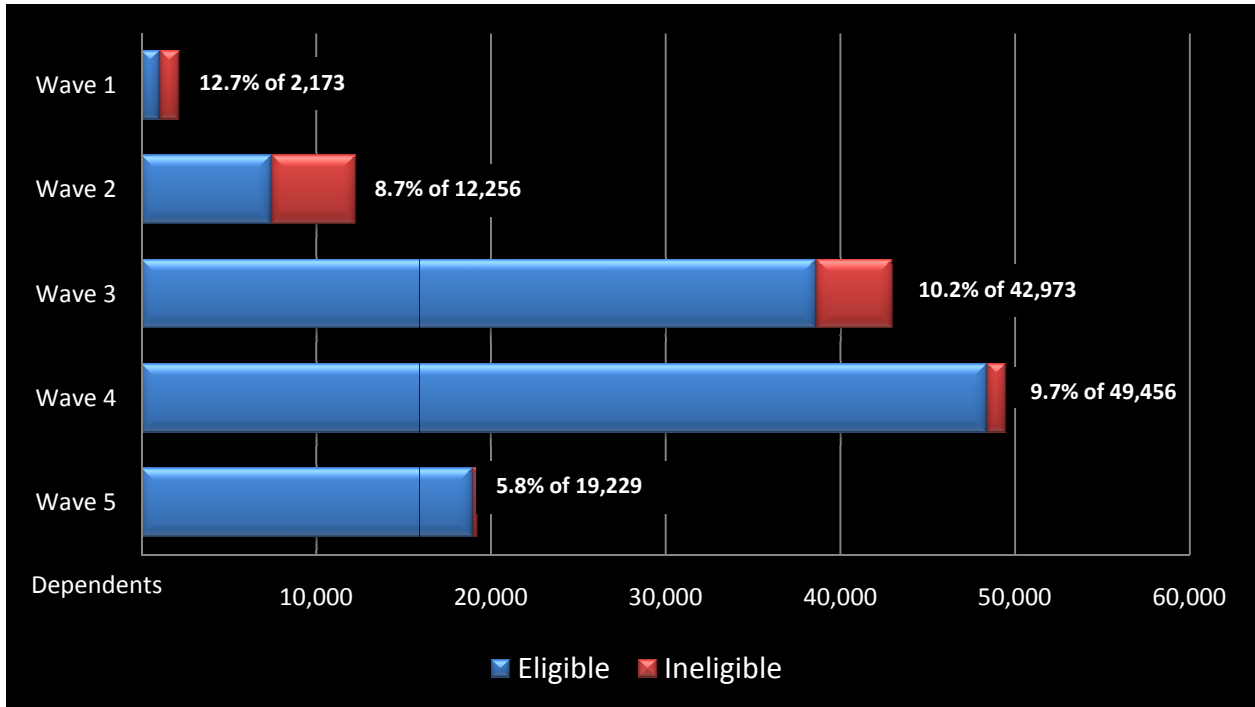
PCG conducted five (5) audit waves, beginning on November 1, 2009, with a sample audit of 1,110 PEIA subscribers. A summary of the five (5) waves is as follows:

Dependent Ineligibility by Wave

	Wave 1	Wave 2	Wave 3	Wave 4	Wave 5	Total
Dependents	2,173	12,256	42,973	49,456	19,229	126,087
Ineligible Dependents - Originally Disenrolled	349	1,635	6,053	6,737	1,490	16,264
PCG Reenrolled Dependents	16	219	1,203	1,883	121	3,442
PEIA Direct Reenrollments	58	345	488	40	258	1,189
Final Ineligible Dependents	275	1,071	4,362	4,814	1,111	11,633
Final % Ineligible	12.7%	8.7%	10.2%	9.7%	5.8%	9.2%

PCG saw compliance and response rates improve throughout the audit. Compliance rates improved significantly, going from 12.7 percent ineligibility in Wave 1 to only 5.8 percent ineligibility in Wave 5.

Compliance by Wave



RETURN ON INVESTMENT

Per HDM’s contract with the PEIA, compensation is based on the estimated total member population of 260,445 members (i.e. subscribers plus dependents) PEIA submitted to PCG in the original data files. The per member audit fee is \$2.87.

Original Data File – Member Policies

	Wave 1	Wave 2	Wave 3	Wave 4	Wave 5	Total
EEONLY	873	5,043	14,862	13,472	27,304	61,554
EEWDEP	1,110	6,409	22,026	25,349	17,899	72,793
Total Policies	1,983	11,452	36,888	38,821	45,203	134,347
Dependents	2,170	12,258	42,977	49,462	19,231	126,098
Total Policies + Dependents (Members)	4,153	23,710	79,865	88,283	64,434	260,445

PEIA’s total audit fee for the 2009-2010 West Virginia Dependent Eligibility Verification engagement is \$747,477.15 (260,445 members x \$2.87/member).

Assumptions and Calculations

- Of PEIA’s 72,785 policies with at least one (1) dependent, 12,524 (17.2 percent) policies covered only Dependent Life while 60,261 (82.8 percent) policies were for Health and/or Health + Life coverage.
- *PCG assumes that the number of total dependents and ineligible dependents per Dependent Life policy is similar to the number of total dependents and ineligible dependents covered by Dependent Health and/or Dependent Health + Life policies. With 72,785 total policies covering 126,087 dependents, PCG assumes that each dependent policy maintains an average of 1.73232122 dependents.
- Therefore, 12,524 distinct Dependent Life policies (no Health) can be estimated to cover 21,696 dependents while 60,261 Dependent Health and Dependent Health + Life policies are estimated to cover 104,391 dependents.
- Therefore, of the 11,633 dependents found to be ineligible, PCG estimates that 82.8 percent (9,632) were covered by Health and/or Health + Life while 17.2 percent (2,001) of ineligible dependents were covered by Dependent Life only coverage.
- 66 percent (6,376) of dependents covered by Health and/or Health + Life were 25 years of age or younger while 34 percent (3,256) were over the age of 25.

Per-Dependent Costs

- PEIA reports that the average annual cost per-dependent for Dependent Life only coverage (no health) is \$42.09.
- PEIA reports that the average annual cost per-dependent for Health and/or Health + Life policies for dependents over the age of 25 is \$4,174.20 (\$347.85 per member per month x 12 months).
- PEIA reports that the average annual cost per-dependent for Health and/or Health + Life policies for dependents under 25 years old or younger is \$1,359.96 (\$113.33 per member per month x 12 months).

Therefore, the estimated return on investment from PEIA’s 2009-2010 Dependent Eligibility Verification as follows:

Return on Investment

Final Number of Ineligible Dependents	11,633	Annual Cost/Dependent	Total Year 1 Cost
Health + Health & Life Coverage (82.8% ineligible dependents)			
Ineligible Dependents ≤25 years old	6,376	\$1,359.96	\$8,671,104.96
Ineligible Dependents >25 years old	3,256	\$4,174.20	\$13,591,195.20
Total Health + Health & Life Dependent Year 1 Savings	9,632		\$22,262,300.16
Life Coverage Only (17.2% ineligible dependents)			
Ineligible Dependents	2,001	\$40.92	\$81,880.92
Total Year 1 PEIA Savings			\$22,344,181.08
Total HDM/PCG Fee			\$747,477
PEIA Year 1 Return on Investment			29:1

HDM/PCG is pleased to have saved PEIA approximately \$22,344,188 in Year 1 and to have provided PEIA with a Year 1 return on investment of approximately 29:1.

Patient Protection and Affordable Care Act (PPACA) R.O.I. Implications

2010's Patient Protection and Affordable Care Act permitted dependents to remain on their parents' insurance plan until their 26th birthday without requiring dependents to live with their parent(s), be married, be a student, and/or be classified as a dependent on a parent's tax return.

At PEIA's request, this requirement was not incorporated into HDM/PCG's dependent eligibility review. Of the 126,087 audited dependents, 9.9 percent were children between the ages of 19-25 who may have been impacted by the PPACA's expanded dependent inclusion stipulations. At the conclusion of the audit, PCG had ruled 4,008 dependents from this demographic to be ineligible. Many of these dependents may seek reenrollment in the next year considering the PPACA's expanded dependent eligibility criteria. As such, PEIA's return on investment may change.

Return on Investment - 19-25 Year Old Demographic

Ineligible 19-25 Year Olds	4,008	Annual Cost/Dependent	Total Year 1 Cost
Ineligible 19-25 Year Olds Health + Health & Life Coverage	3,319	\$1,359.96	\$4,513,195.90
Ineligible 19-25 Year Olds Life Only Coverage	689	\$40.92	\$28,209.27
Total Savings from 19-25 Year Old Age Group			\$4,541,405.16
Total Savings from All Other Age Groups			\$17,802,775.92
Total Year 1 PEIA Savings			\$22,344,181.08

Considering this potential reenrollment of 19-25 year olds, PEIA's Year 1 return on investment is subject to change, as illustrated in the following table.

Return on Investment with 19-25 Year Old Reenrollment

	Return on Investment	Total Year 1 Savings
Less 25% 19-25 Year Old Reenrollments per PPACA	27:1	\$21,208,829.79
Less 50% 19-25 Year Old Reenrollments per PPACA	26:1	\$20,073,478.50
Less 75% 19-25 Year Old Reenrollments per PPACA	24:1	\$18,938,127.21
Less 100% 19-25 Year Old Reenrollments per PPACA	23:1	\$17,802,775.92

POST-AUDIT RECOMMENDATIONS

HDM/PCG recommends that PEIA consider the following actions and activities following our 2009-2010 ERA and DEV audit: 1) *bi-annual affidavit-only audit* and 2) *requiring verification documentation upon enrollment*.

Bi-Annual Affidavit-only Audits

Given the fact the HDM/PCG's just-completed dependent eligibility review yielded 42.6 percent of all ineligible dependents being voluntarily disenrolled, HDM/PCG would recommend a bi-annual (alternating years with the bi-annual 19 – 26 year old audits) affidavit-only audit, which would be a fraction of the cost (approximately 15 percent) of a full audit while yielding a substantial amount of the savings (potentially up to 42.6 percent) of a full audit.

Dependent Enrollment Verification Documentation Requirements

To ensure that all newly enrolled dependents are eligible, HDM/PCG recommends that PEIA require subscribers to present verification document for their dependent(s) during PEIA's enrollment period. HDM/PCG recommends policyholders be required to send one (1) form of documentation showing the relationship-establishing event (e.g., marriage, birth) took place, and a second form of documentation showing that 2) the relationship is still intact. This will ensure that the claimed dependent relationships still exist as originally confirmed on birth certificates, marriage licenses, and other relationship-establishing documentation.