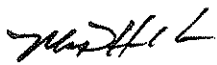


COUNTY OF MILWAUKEE
DEPARTMENT OF HUMAN RESOURCES
INTER-OFFICE COMMUNICATION

DATE : February 13, 2012

To : Chairman Lee Holloway, County Board of Supervisors

FROM : Matthew Hanchek, Benefits Administrator – Department of Human Resources 

SUBJECT: **Report from the Benefits Administrator, Department of Human Resources, requesting authorization for a 3-year contract for Dependent Eligibility Audit Services.**

Issue/Background

The 2011 operating budget tasked the Employee Benefits Division, with assistance from the Department of Audit, with developing and releasing an RFP for an external administrator to conduct dependent eligibility audits on the County's behalf.

The RFP followed the procedures outlined in chapter 56.30 of the Milwaukee County code of ordinances, and the successful bidder is required to comply with the disadvantaged business enterprise (DBE) policy defined in CFR 49 Part 23 and 26 and Chapter 42 of the Milwaukee County Ordinances.

Although this RFP was delayed by a number of legislative changes throughout the year, the RFP was published at the end of 2011, and the selection process was completed in January 2012. A review panel including representatives from Employee Benefits, the Department of Audit, DAS Fiscal, and County Board Staff was assembled to establish criteria and scoring, and to identify finalists for onsite presentation of proposals. The review panel selected Health Management Solutions (HMS), Medbill Management, and Buck Consultants as finalists.

Finalist Review Process

Finalists were given one hour to present their best and final proposal to the review panel. Additional time was also allotted to each to provide time for questions and answers from the Panel. At the conclusion of all presentations, the Panel reviewed the results of each finalist, and reached unanimous consensus that the proposal by Buck Consultants was the superior bid.

Buck Consultants

Buck Consultants are primarily known for their work as the County's pension actuaries, but they demonstrated an impressive depth of experience with dependent verifications. Buck's dependent audit services have been exclusively used to verify Aetna's entire fully-insured book of business,

and the approach has been successfully applied at a wide range of public and private sector employers. Buck demonstrated a strong focus on minimizing the employee disruption throughout the audit process, and they were the only firm to provide dependents terminated from County coverage with assistance in identifying alternative coverage. Buck will continue post-audit verification of new dependents on a per individual basis.

Buck was the only proposal to advocate verification of the entire dependent population, including Medicare. Per Buck's experience, while the Medicare population is more challenging to verify, it is a worthwhile endeavor as it typically identifies a number of unreported divorces and legal separations within the population.

The proposed price for the initial audit is \$92,875. While this was the highest overall initial audit price, it is not a direct comparison as the Buck audit would cover the entire population. On a per person audited basis the pricing is comparable to the other finalists.

Recommendation – Amnesty

Offering amnesty to employees as a part of the audit process is generally considered a best practice, but it is certainly not required. All three finalists were consistent in their recommendation for providing employees with an amnesty period in coordination with the eligibility audit.

Although process varied between vendors, under an amnesty period, employees would typically receive clear explanation of the eligibility rules and notice that an audit of dependents will be taking place in the near future. The employees would be asked to self-report any covered dependents who do not meet the coverage criteria. Effectively, the employees are given an opportunity to drop ineligible dependents from their coverage without fear of punitive action by the County, or attempts to recoup claims or COBRA premiums.

Per the finalists, audits with an amnesty period generally see better response rates and employee participation than audits conducted without amnesty. Also, the ultimate goal of an eligibility audit is to remove ineligible dependents from a plan to prevent future costs. Eligibility audits are not typically geared toward aiding in the recovery claims costs that have already been incurred.

As a practical matter, health care reform prohibits the county from a retro-active rescission of an employee's coverage, except in cases of deliberate abuse. This significantly limits our ability to rescind payments for previously paid claims, or charging a retro-active COBRA premium, as most ineligible dependents removed are the result of unintentional non-compliance.

Adhering to Buck Consultants' best practice of providing amnesty and prospectively removing any ineligible dependents from coverage is recommended.

Disadvantaged Business Enterprise (DBE)

Buck Consultants has submitted a statement of good faith effort that has been approved by Milwaukee County's Community Business Development Partners (CDBP). Buck will continue to work with the CDBP to ensure sustained compliance with the County's DBE goals.

Financial Implications of Dependent Eligibility Audit

The initial audit would incur an expense of \$92,875. This cost would be reflected in the County's 2011 medical plan expenditures under org. 1950 – non-departmental fringe benefits. Per Buck Consultants' estimate, the Audit would be expected to result in 4% – 6% of covered dependents removed from the plan. Buck estimates that the resulting annual net savings would be between \$798,000 and \$1,241,000, due to claims not being paid for these individuals (See Attachment A). However, as the Audit would not be completed until after mid-year, any 2011 savings estimates would be proportionately reduced based on the time the audit was completed. All savings from this initiative would be reflected in the annual health plan costs.

Following the initial audit, Buck Consultants would continue to be engaged with Milwaukee County for ongoing "maintenance" of the County's verified dependent population. As such, Buck would validate any newly added dependents following the same process as the initial audit. This would be billed as a flat fee of \$17 per audited individual. Based on 10% turnover, this would amount to approximately \$3,000 quarterly following the initial audit project.

In addition to the maintenance, the County should also require updated documentation of spouses and partners every 2 – 3 years. This process, combined with the new dependent maintenance would prevent the need to complete another full audit project in the future.

Requested Board Action

The Benefits Administrator, Department of Human Resources is seeking approval to execute a 3-yr contract with Buck Consultants for a one-time initial audit of covered dependents for \$92,875, and ongoing verifications of newly added dependents at a rate of \$17.00 per individual audited. This contract would be effective through 12/31/2014.

It is also requested that the board of supervisors authorize the Department of Human Resources to coordinate an amnesty period under this project, consistent with the best practices recommended by Buck Consultants.

Attachment A

Buck Consultants' Annual ROI Projection:

	Projected Range			
	1%	4%	6%	8%
	Estimated Ineligible Dependents Removed			
Spouses/Partners	37	150	224	299
Children	56	224	337	449
Total Ineligible Dependents	93	374	561	748

	Estimated Annual Savings			
Spouses/Partners	\$136,000	\$555,000	\$828,800	\$1,106,300
Children	\$84,000	\$336,000	\$505,500	\$673,500
Total Annual Savings	\$220,900	\$891,000	\$1,334,300	\$1,779,800
Initial Audit Cost	\$92,875	\$92,875	\$92,875	\$92,875
Annual Net Savings	\$128,025	\$798,125	\$1,241,425	\$1,686,925

* Note: Annual savings based on estimated \$3,700 per spouse and \$1,500 per child.