



## **Pension & Health Benefits Committee**

California Public Employees' Retirement System

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### **Agenda Item 7**

October 20, 2015

**ITEM NAME:** Dependent Eligibility Verification Project Closeout

**PROGRAM:** Health Benefits

**ITEM TYPE:** Information

#### **EXECUTIVE SUMMARY**

The Dependent Eligibility Verification (DEV) project has concluded verifying eligibility for dependents enrolled in a health plan sponsored by the California Public Employees' Retirement System (CalPERS). This agenda item reviews results from the project's Amnesty Phase and the five State cycles of the Verification Phase; summarizes results from the four verification cycles for public agencies and schools; and, identifies comprehensive project outcomes.

#### **STRATEGIC PLAN**

This agenda item supports Goal A: Improve long-term pension and health benefit sustainability by ensuring high quality, accessible and affordable health benefits.

#### **BACKGROUND**

In March 2012, the CalPERS Board of Administration (Board) approved the DEV project as part of the 21 Health Benefits Purchasing Initiatives. The purpose of the DEV project was to ensure all dependents enrolled in a CalPERS health plan met CalPERS' eligibility criteria; to prevent members and employers from having to pay health care costs for those who do not qualify.

The Health Policy Research Division (HPRD) convened a stakeholder group and held meetings on two separate occasions (September 2012 and February 2013) to provide information and solicit feedback on the direction of the project. After much collaboration with stakeholders, HPRD drafted regulations, which became effective February 2013, granting the Board the authority to provide amnesty (during a specified period of time) to employees and annuitants who would voluntarily identify dependents who did not meet the definition of an eligible dependent. Those dependents would then be removed from coverage on a prospective basis.

Therefore, the first phase of the DEV project, the Amnesty Phase, began on March 26, 2013. In May 2013, HPRD, through the formal request for proposal process, selected HMS Employer Solutions (HMS) to conduct the project's next phase, Verification, which started on July 26, 2013.

Due to the large volume of subscribers and dependents, the Verification Phase occurred over nine cycles:

- State: July 26, 2013 – July 31, 2014 (5 cycles)
- Public Agencies: June 2, 2014 – January 30, 2015 (3 cycles)
- Schools: December 2, 2014 – March 31, 2015 (1 cycle)

## **ANALYSIS**

### ***Disenrollment Figures***

During the Amnesty Phase of the DEV project, as reported to the Pension & Health Benefits Committee (PHBC) at the November 2014 meeting, 4,851 subscribers voluntarily removed 6,722 dependents. This translated into savings and claims cost avoidance of more than \$41 million to CalPERS and our employers.

During Verification, each subscriber with at least one dependent enrolled on their health plan was required to provide specific supporting documentation based on dependent type (e.g., spouse, domestic partner, child, parent-child relationship). In the first five verification cycles, which included State agencies, a total of 8,940 ineligible dependents were disenrolled. State agency disenrollments and the resulting estimated savings in excess of \$64.7 million, consisting of employer premium contribution and claims cost avoidance, were reported to the PHBC in the November 2014, DEV Project Update.

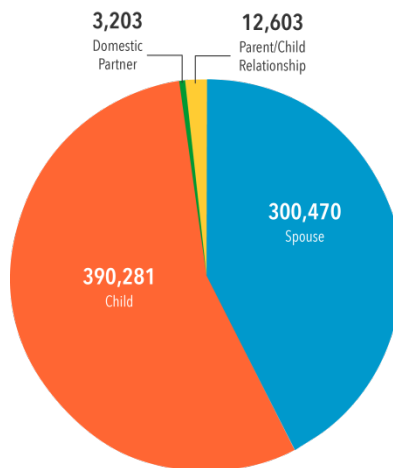
It should be noted that since we last reported the enrollment and savings figures to the Board, the disenrollment numbers have experienced some fluctuation due to subscribers providing adequate documentation to their employers *after* their verification cycles had concluded. As such, a number of previously disenrolled dependents were re-enrolled, or their disenrollment transactions were rescinded. After recalculating to incorporate these changes, the updated total ineligible dependents disenrolled for the State population is 8,379. Thus, the estimated savings resulting from final disenrollments among the five State cycles totals over \$60 million.

Similarly, re-enrollments and rescissions processed after the cycles ended resulted in changes to the final four cycles, which included more than 1,000 public agency and school employers. Upon reconciling the re-enrollment transactions, as of September 1, 2015, the total number of dependents removed from coverage from cycles six through nine, comes to 3,181. Estimated savings and claims cost avoidance achieved from these disenrollments total nearly \$20 million.\*

### ***Overall Project Outcomes***

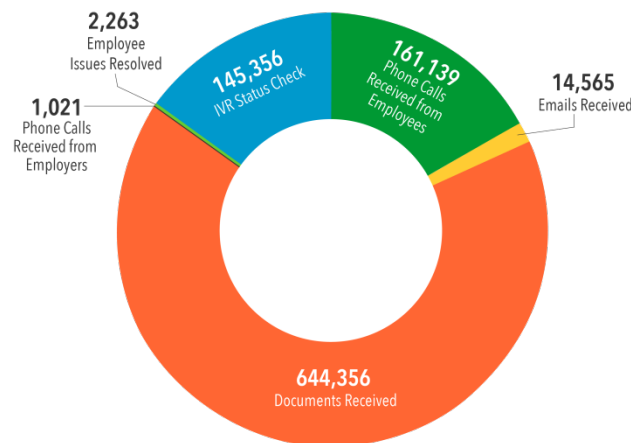
In all, the DEV project touched a total of 354,944 subscribers and 706,557 dependents. Natural born children and spouses comprised nearly 98 percent of all dependents included in the project.

\*Estimate calculated using hypothetical 70/30 contribution formula, based on the State rate. Actual Public Agency/School savings unknown; contributions vary widely by employer.



Communication played a key role in the success of this project. HPRD staff worked closely with HMS to develop and distribute more than one million letters and emails. The overall response rate for DEV communications was 94.6 percent.

Throughout the nine verification cycles, HMS received more than 644,000 documents, answered more than 162,000 phone calls from subscribers and employers, received more than 14,500 emails from CalPERS members, and resolved more than 2,200 issues. HPRD staff collaborated with HMS to resolve many of these issues, and personally responded to hundreds of questions, complaints, and concerns from both members and employers.



In sum, both the Amnesty and Verification Phases of the DEV project yielded a total of 18,282 ineligible dependents being removed from CalPERS health coverage, or 2.6 percent of the entire project's dependent population.

### **BUDGET AND FISCAL IMPACTS**

Savings and claims cost avoidance, resulting from the DEV project's cumulative disenrollments from the Verification and Amnesty Phases, are estimated to be almost \$122 million. Staff has calculated a 31:1 return on investment for the DEV project.

As reported to the PHBC in August 2013, HPRD utilized existing resources to implement the Amnesty Phase of the DEV project. Project team salaries and benefits were reported to be an estimated \$324k for the period of May 2012 through July 2013. Combining this number with the totals from the remaining months of the project, the comprehensive internal project team costs for the period of May 2012 through June 2015 come to approximately \$1.16 million in staff salaries and benefits, for the entire length of the project.

## **BENEFITS/RISKS**

There are no identified risks associated with this informational item. The primary benefits resulting from the DEV project are the overall savings from employer-paid premium contributions, estimated claims avoidance (based on an average of \$4,421 annually per dependent), and reinsurance fee avoidance due to removing ineligible dependents from coverage. Specifically, the savings are broken down as follows:

<b>State Cycles (1-5)</b>	<b>Savings</b>
Total Party Plan Change Savings net Re-Enrollments	\$22,706,328
Estimated Claims Cost Avoidance	\$37,043,559
Affordable Care Act (ACA) Reinsurance Fee Avoidance	\$ 527,877
<b>Total Estimated Savings from Cycles 1-5</b>	<b>\$60,277,764</b>

<b>PA/School Cycles (6-9)</b>	<b>Savings</b>
Total Party Plan Change Savings net Re-Enrollments*	\$ 5,579,220
Estimated Claims Cost Avoidance	\$14,063,201
ACA Reinsurance Fee Avoidance	\$ 139,964
<b>Total Estimated Savings from Cycles 6-9</b>	<b>\$19,782,385</b>

Another benefit of this project is a related effort by HPRD to implement regulations that clarify health enrollment eligibility standards for Parent-Child Relationships. Implementing these regulatory changes could result in significant ongoing savings in health care costs and contributions by the State and contracting agency employers.

\*Estimate calculated using hypothetical 70/30 contribution formula, based on the State rate. Actual Public Agency/School savings unknown; contributions vary widely by employer.

**ATTACHMENTS**

Attachment 1 – Dependent Eligibility Verification Project: Final Statistics and Cumulative Savings

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