THE HIDDEN COSTS OF UNRECONCILED EMPLOYEE BENEFITS: EMPLOYEE PREMIUM RECONCILIATION, A CFO'S GUIDE

BY DOUG DEVLIN

Employee benefit premium reconciliation has historically been a universally thorny issue, not only for PEOs but for any company sponsoring or administering employee benefit plans. With benefit administration knowledge spread among several departments, vendors and carriers; finance can lead the organization in coordinating a cross functional process that involves payroll, benefits and accounts payable. In today's cost-sensitive environment, CFOs must treat reconciling employee benefit premiums with the same financial discipline as applied to payroll taxes and other vendor payables.

The costs for not solving carrier invoice discrepancies are premium overpayments or what is referred to as "benefit leakage." Equally problematic but less common are conditions where payroll deductions for premiums are over withheld causing violations of Department of Labor rules which prohibit plan sponsors from borrowing plan assets. Leakage is hiding in plain sight in the general ledger that may eventually require adjusting entries to balance with reality, can be difficult to support, something most CFOs desperately want to avoid.

UNDERSTANDING THE RECONCILIATION PROCESS

The simplest form of premium reconciliation process starts with comparing payroll records with the invoice from an insurance carrier to validate that premiums have been completely collected but not over collected. While on the surface this may sound straight forward, complexities soon emerge.

Aligning plan names between various systems, matching people with the same name, no or partial unique employee identifiers on the invoice or missing employee data can make even the most experienced Excel guru cry for cross functional help. Most teams spend the vast majority time manipulating data rather than solving root cause issues and implementing fixes. Given that correction windows for carrier discrepancy that typically only lasts for 60-90 days, monthly reconciliations become inevitable to recapture premiums, which almost always are in favor of the carrier.

Data Collection. Aggregating enrollment data from HCM systems (e.g., PrismHR, isolved), payroll deductions and employer contributions, COBRA remittances, and carrier invoices is the first step.

Comparison and Matching. Cross-verifying invoice line items against payroll deductions and employer contributions for a coverage period for each plan on an invoice at the employee level is next. When available, a rule-based matching engine will speed the monthly process.

Discrepancy Identification. Being able to classify mismatches such as:
- Rate Differentials: Billed rates vs. contractual rates/notice periods.
- Terminations in Transit: Termed employees still billed.
- Enrollments in Transit: New hires/changes not yet active at the carrier.
- EOI Gaps: Premiums billed where Evidence of Insurability is missing/denied.

Finding Resolution. Finding setup errors, correcting eligibility rules, adjusting invoices and filing for recovery credits will be part of the process. Keeping track of individual issues and resolutions with a cross departmental team in software that everyone has access to will be as critical as finding any issues.

REASONS FOR WRITE-OFFS

Write-offs are inevitable. From rounding differences between premiums that end in odd numbers not evenly divisible into payroll deductions cycles or similar adjustments from partial-month collections for employees transiting on or off the carrier invoice. Documentation and developing consistent policy adherence are critical process steps. Categorizing timing lags, manual setup errors or vendor setup issues will all be lessons

learned and a cost of doing business, however, the key is to track, categorize and avoid these costs from becoming a reoccurring expense theme and build policies into your operating procedures.

WHY BENEFITS TEAMS NEED HELP AND HOW FINANCE CAN LEAD

Benefits teams juggle implementations, enrollments, compliance, and employee support and may not traditionally have financial reconciliation experience. Deep monthly tie-outs can expose process gaps and consume scarce cycles that require follow up documentation. As stewards of financial accuracy and internal controls, CFOs should own the cadence, KPIs, and tooling to turn reconciliation into a finance-grade control instead of a best-effort HR task.

LEGAL PRECEDENTS THAT UNDERSCORE MONTHLY RECONCILIATION

Searching legal archives is easier today than ever, a search of billing discrepancy from common AI engines list cases between employers and carriers abound. In an analysis of litigated premium discrepancies, the average premium discrepancy was more than $7 Per Employee Per Month (PEPM) and ranged from $0.34 to $19 PEPM.

Courts have repeatedly spotlighted the same operational failures—billing for ineligible individuals, collecting premiums when coverage isn't in force, or changing rates without contractual notice. Each is preventable (or quickly discoverable) with disciplined monthly reconciliation. While errors large enough to litigate can occur infrequently, the impact can be material, hence the ounce of prevention.

SOLUTIONS FOR EFFECTIVE RECONCILIATION

Automation and Software Tools. Software tools can greatly enhance the reconciliation process, but most reconcili-ations are born in Excel. As a starter tool, Excel can work but quickly becomes difficult to follow, audit, train, maintain

and debug. Specialized reconciliation tools exist but these tools are not a panacea. Before these tools can be effectively used, consider some baselines for setting up a reconciliation program.

Essentials for Setting Up a Successful Program

Integrate systems. Link HCM, payroll, and carrier feeds/portals; normalize rate tables and plan metadata.

Define exception rules. Rate variance thresholds, EOI pending/denied, transit windows, COBRA aging, class/tier outliers.

Standardize cadence. Monthly payroll to invoice to payment tie-out; controls on lookbacks and wash rules for late credits.

Assign ownership. Finance owns cadence/KPIs; Benefits owns the data inputs; IT owns connectors. Create internal SLAs.

Measure outcomes. Track PEPM recovered, % premium at risk, exceptions per 1,000 lives, DSO on carrier credits.

STEP-BY-STEP GUIDE FOR CFOS

Assess current state. Inventory carriers, invoices, and write-offs for the last 12–24 months; quantify recurring categories (rate, transit, EOI, COBRA).

Stand up a pilot. Choose two high-volume medical carriers + one ancillary line; implement automated ingestion and exception rules; run parallel for one cycle.

Close the loop. Require recovery documentation (credit memos, corrected bills) and root-cause remediation (EDI fixes and SOPs).

Expand and codify. Roll out to all carriers; embed controls in close calendar with sign-offs; include in internal audit scope.

Report to leadership. Quarterly dashboard with exception trends, PEPM recovered, and risk commentary tied to fiduciary exposure.

> *Benefits teams juggle implementations, enrollments, compliance, and employee support and may not traditionally have financial reconciliation experience.*

WHAT MONTHLY RECONCILIATIONS CAN PREVENT

It's typical for CFOs to compare recurring controls and software on a PEPM basis. While you may have your own data on historical premium write-offs, carrier invoice discrepancies can quickly create a material impact especially for PEOs that are processing significant premium volumes as compared to a PEOs typical balance sheet capitalization.

With the number of systems, plans and vendors and complex systems and offerings that all require manual configuration, it's no wonder errors creep into benefit plan administration systems from all parties. Creating repeatable and scalable processes and systems that can validate the final carrier invoice output timely as invoices arrive is an important step for anyone responsible for the administration of employee benefit plans. CFO's can take the initiative and lead to expose these hidden benefit leakage costs with a cross-functional team and create a robust process as part of their financial control environment. ■

Doug Devlin is a former chair of NAPEO's accounting practices committee.

DOUG DEVLIN

Chief Executive Officer
Tabulera, LLC
Pleasanton, CA