

## Outsourcing Benefits Means Outsourcing Risk: The Rewards in Outsourced Benefits Administration

By Daryl Ashley, Workscope

2006 Employee Group Insurance		Monthly R
Optional Life		(per \$1,000 of cover)
Ages < 25		\$0
25 - 29		\$0
30 - 34		\$0
35 - 39		\$0
40 - 44		\$0
45 - 49		\$0
50 - 54		\$0
55 - 59		\$0
60 - 64		\$0
65 - 69		\$1
70 - 74		\$2
75 & >		\$3
Dependent Life		Monthly R
Spouse	Child(ren)	
\$10,000	\$2,000	\$1
\$25,000	\$2,000	\$3
\$50,000	\$2,000	\$4
\$75,000	\$10,000	\$10
\$100,000	\$10,000	\$13
	\$2,000	\$0
	\$10,000	\$1
Long Term Disability		Monthly R
		(per \$100 of month)
50%		
60-23%		

Human resources departments are accustomed to being buried in an avalanche of annual benefit enrollment forms and plan documents. Business fluctuations aside, this scenario rarely gets better, and in today's highly regulated business environment, it's only getting worse. Unfortunately, this means valuable HR resources are diverted almost daily to address benefits transactions, plan questions and required reports instead of focusing on more strategic (and, from a career development standpoint, potentially more interesting!) initiatives.

As a result, many organizations have chosen to selectively outsource their benefits administration function to a trusted provider that can leverage its investment in technology, people, and processes to manage all aspects of the benefit enrollment and administration processes. In doing so, these savvy organizations have also outsourced a huge headache: the ever-escalating risks associated with complex compliance regulations, such as HIPAA, Sarbanes-Oxley, and whatever else might be looming on the horizon. While the initial force for outsourcing is

usually interested in saving time and money, as well as improving service delivery, organizations are rapidly learning that it is outsourcing that can mitigate the risks associated with the benefits administration process.

The concept of mitigating risk through outsourcing isn't a new one. For example, in the financial services industry, managing risk through outsourcing is commonplace. Financial institutions know that the increasingly global nature of their businesses, as well as the high volume of time sensitive transactions, repeatedly open the door to risk. Basel, an international committee of banking supervisory authorities and central banks, which is drafting new rules for capital requirements at banks, provides a solid definition of risk as *the loss resulting from inadequate or failed internal processes, people and systems*. Such losses are monetary in nature, whether direct monetary losses or fines resulting from compliance violations. Therefore, rather than to attempt to monitor and comply with a growing list of regulations, banks have learned that outsourcing is an important part of their risk management framework.

Human Resources needs to take a page from the lessons learned by the financial services sector. While each organization is the best judge of what functions they should either selectively or entirely outsource to properly manage risk, to effectively make such a decision, here are several of the questions worth considering:

- Does your company already have an enterprise risk management program in place and, if so, how does HR fit into that plan?
- If HR is responsible for mitigating organizational risk on a department level, who owns the accountability for this program?
- What are the points of exposure created by your benefits administration program? Wherever possible, quantify the probable damages if even one violation occurs in a calendar year.
- In addition to processes, what are the potential risks that could result from your technology-based solutions? From your staff's knowledge or lack of knowledge of the latest regulations?
- What are you giving up in

order to attempt to manage benefits administration-related risks internally? Seek to quantify this in terms of costs as well as other resources.

- What quality control measures are in place to manage integrity of third-party vendor data, and can you quantify the exposure, for example, associated with incorrect eligibility and coverage?

As you can see, managing the risks associated with benefits administration can be enormously complex and far-reaching. Even if you assembled a risk management committee today to start to oversee this function, within a short time, that committee would wind up spending night and day just to keep up with ever-changing rules and regulations. Additionally, since your business decision-makers expect access to information to quickly identify risk with drill-down capabilities, it's the rare organization that can effectively

commit the resources to comprehensively run such a program in-house and meet such executive information requests.

That's not to say that there aren't some naysayers that say that outsourcing benefits administration has inherent risks. The confusion is that most of these risks (often hyped by the media) resulted from offshoring or similar multi-faceted outsourcing trends. By making sure you're working with a well-established outsourced benefits administration provider – one that is also willing to map risk to service level agreements – the probability of such an issue is vastly diminished.

Mitigating your benefits administration risks by outsourcing delivers a multitude of desirable results: cost savings, operational improvements, new HR services, scalability and expertise. And at the end of the day, it'll deliver something else: a good night's sleep knowing your compliance issues are covered!

## ABOUT THE AUTHOR



Daryl Ashley (daryl.ashley@workscape.com) is the senior vice president and general manager of Outsourced Benefits Administration at Workscape. He is responsible for Workscape's Outsourced Benefits Administration business unit, overseeing product and services strategy, sales and account management, solution development, implementation and service for clients. Earlier in his career, he was a founding member of a newly formed benefits administration product line for another vendor and ran the New York-based health and welfare consulting practice for an actuarial consulting firm. He frequently writes on the latest benefits topics and has been published in *Compensation and Benefits Review*, *Benefits & Compensation Solutions* and *Employee Benefit Plan Review*. He holds a bachelor's degree in economics from Middlebury College.