

Outsourced Benefits Administration: Separating Fact from Fiction

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During the past 10 years, the term “outsourcing” has become generically associated with negative (and frequently erroneous) connotations, including images of job losses, questionable quality, and sub-par service.

This misconception has been further exacerbated by the media, as newspapers and newscasts continually focus on only the negative impacts of outsourcing. From the recent news of lapses in product quality and safety in products produced in China to the dramatic shots of closed factories in some parts of North America, the sensational nature of some reports have contributed to shaping many of the negative opinions of outsourcing.

With these pervasive images and reports in the public domain, there is a tendency to paint all outsourcing engagements with the same brush. The truth, however, is that some—if not most—outsourcing engagements can yield significant and positive results, particularly in the world of benefits administration.

Today more than ever, human resource (HR) departments are being asked to do more with less. The current economic climate is forcing organizations of every size and every industry to reduce costs and, given that employee benefits and employee compensation are typically two of the largest cost centers, HR teams are being charged with the task of coming up with some solutions. Health and welfare benefits administration can be a time-consuming and tedious process that can place an enormous burden on an already overworked HR team, so outsourcing this critical function can both reduce costs and improve the benefit experience for employers and employees alike.

This article aims to shed some light onto outsourced benefits administration, to separate fact from fiction and to identify why this practice could help an organization to achieve its cost reduction goals while improving the overall experience for employees.

SETTING THE STAGE: TODAY'S ECONOMIC CLIMATE

When you contemplate today's business environment, all roads begin and end with the economy. Throughout 2008 and early 2009, global stock markets have been on something of a roller coaster ride. The Dow Jones Industrial Average, for example, will see huge spikes one day, then massive sell-offs and profit-taking the next.

Within a short range of time, the Dow's 52 week high was well above 13,000 and the low was below 7,500. The wild swings are incredible and have created a huge ripple effect throughout all business and consumer sectors.

Much of the current problem is rooted in the real estate market bottoming-out during 2008, but few predicted the level of damage that would be done to banks and financial institutions. As credit markets dried-up, we read headlines that would have seemed unimaginable a year earlier as some of the biggest names in finance filed for bankruptcy or were acquired at fire sale prices. Even those banks that have survived are attempting to secure government “bailout” funds, creating an economic climate that has not been seen in the United States for decades.

SOME RELUCTANCE IN THE MARKETPLACE?

Benefits are a very personal and critical part of the overall employee experience, so it is understandable why there may be some apprehension. However, as health care costs continue to rise and as HR teams are tasked with an increasingly long to-do list, we anticipate that the number of companies that will outsource benefits administration will rise as well.

Recent market data provided by industry analyst group NelsonHall seems to support this same assumption, projecting that health and welfare benefits administration will experience a compound annual growth rate of roughly 16 percent through 2011. However, conflicting data indicate that there may be a bit of a disconnect.

DISSECTING THE DISCONNECT

Say the word outsourcing in the United States and Lou Dobbs, the former anchor at CNN, is the first individual who comes to mind on the topic. Many of his discussions largely focused on offshore outsourcing, but onshore outsourcing sometimes has been guilty by association.

Another item that may contribute to negative and erroneous connotations about outsourcing is that most individuals have had at least one bad experience in dealing with outsourcing and that can certainly help to influence opinions. Technical support calls requiring a seemingly endless array of “press 1, press 2” interactions only to end with a conversation that did not resolve the issue is a common complaint of consumers. The truth of the matter, however, is that a significant portion of outsourcing—specifically in the area of HR outsourcing—happens onshore and is used to extend the capabilities of an existing HR organization, not necessarily to replace headcount.

First of all, outsourcing benefits administration activities could help organizations take advantage of capabilities that are either offered in-house on a limited basis or not offered at all due to expenses on other priorities of the HR team. An online enrollment system for example—and all of the opportunities for process improvement that comes along with that—can be made available. Call center services, benefits communications teams, and “best-practice” implementation strategies are all parts of a comprehensive, full-service outsourced benefits administration strategy and all can help meet cost reduction goals that are mandated by the CFO.

As a result of gaining access to these expanded resources, companies can also improve the overall quality of the benefit experience for their employees. For those organizations that run a 24/7 operation or those that simply want to offer assistance

to employees during nights and weekends as well as during office hours, leveraging an on-shore, HR-focused employee support center that is fully conversant with the organization’s specific employee benefit options can actually provide better service than the employer could on its own. Additionally, online decision support tools can help employees select benefit plans and saving strategies that are best for them. Best-practice based communication and education programs can create a better-informed workforce and drive plan participation and many other extended services are available from a comprehensive outsourced benefits administration provider.

To better describe the advantages of benefits outsourcing and, more importantly, to use real-world examples to separate fact from fiction, let’s shed some light on commonly-held misconceptions.

MYTH #1

Too Personal, Too Critical

One common myth is that employee benefits—particularly health care benefits—are far too personal and too important to trust to a third party. Because benefits extend beyond just the individual employee and reach into the health and well-being of their families, it is rightly viewed as a critical and emotional area where work and home life intersect. As a result, some organizations feel that the benefits process is far too important to be handled outside of the four walls of the office.

The truth, however, is that by moving toward an outsourced solution provider for benefits administration, organizations will often *improve the responsiveness* to employee questions and thereby improve satisfaction. With an outsourced model, the organization that is providing the coverage is 100 percent dedicated to responding to the questions and concerns of the employees—helping them, resolving their issues, and providing

other services such as explaining the nuances of different benefit options. Their attentions are not divided as can often happen with in-house resources simply because today more than ever, HR teams have much more on their “to-do” list.

MYTH #2

Only for the “Big Guys”

Another common misconception is that outsourcing only makes sense for larger companies, as they are the organizations that have the scale necessary to make it successful. However, it is not the size of the company that determines whether or not an outsourced benefits administration model is the right fit—it is more a question of what the company is trying to accomplish.

For example, there are organizations of 3,500 employees with incredibly complex business rules associated with their operations. Similarly, there are much larger organizations that are less complex. So ultimately the decision about outsourcing needs to revolve around understanding the employer’s business goals. Organizations considering outsourcing need to ask the fundamental question, “What are we trying to achieve?” Typical questions to be answered include:

- Are you trying to increase enrollment in a specific subset of benefit offerings?;
- Are you trying to encourage additional savings in flexible spending accounts?; and
- Do you want to get a more automated process that frees up the time of HR staff members so they can get to work on the million other things on their to-do list?

Knowing the goals and objectives is the right place to start, but it is also important to note that there are providers that have the right mix of technology and services to help employers achieve those goals—even for relatively small organizations.

Another central point to remember during this process is that effective outsourced benefits administration is about much more than just taking an application. That is the easy stuff. Success is determined by the services and practices that are part of the entire process that helps to make the difference. Figure 1 is a snapshot of the breadth and depth of services that are available via a comprehensive and strategic outsourcing partner that should be considered.

MYTH #3

It's Broken

There has been some negative press during the past couple of years detailing how some very large, very visible, and very costly (to the tune of hundreds of millions of dollars) HR outsourcing engagements did not work out as well as the purchasing company had expected. This has led some to believe that the model itself is somehow flawed—that it does not work and that it jeopardizes the employee experience.

The truth, however, is that taking a holistic approach can actually create impressive results for employees and employers alike on many levels. Success or failure is largely dictated by an organization's ability to understand the goals they're trying to achieve, ensure that the provider is in step with helping to achieve those goals, and that achievement toward these goals can be measured. This philosophy and practice lends itself very nicely to a data-centric approach.

Data-centricity can, at its most basic level, be reflected in two areas: Those resources that are employee-facing, designed to help individuals make better decisions; and those resources that are employer-facing, designed to help companies identify enrollment patterns, saving behaviors, and the like.

Employee-Facing Resources

With the rise in popularity of Consumer-Directed Healthcare Plans

(CDHPs) or high-deductible plans, decision support tools are proving to be an excellent way to help individuals determine which plan is best suited to their personal and financial needs. These tools enable employees to evaluate plans based upon projected utilization of health care services, cost calculators help them to determine how much money to deposit into flexible spending accounts, and other applications arm them with the information they need to make informed decisions. Another interesting resource available through a comprehensive outsourced benefits administration provider is the online Health Risk Assessment—the tool that enables employees to answer multiple questions related to their own personal health and lifestyle conditions to identify risk areas or areas for overall health improvement. This can include recommendations for wellness programs to adopt, information on how to manage diseases (such as diabetes), smoking cessation, and more, all designed to help employees become more aware of their own personal health situation and get into a healthier lifestyle.

Employer-Facing Resources

Data-centricity from an employer standpoint means having access to reporting and analysis tools that managers and HR personnel will need to gain true insight into the behaviors and patterns of their employees. Robust analysis tools, for example, can provide insight into which plans are being utilized by different segments of the employee population, how decision support tools are being utilized and by whom, how employees are leveraging other resources—such as health risk assessments—and how all of those items are interconnected.

Taken together, this insight and understanding enables organizations to be much more impact-full in their approach, and more prescriptive in their recommendations on things such as plan design, plan variety,

how plan options are communicated, and more.

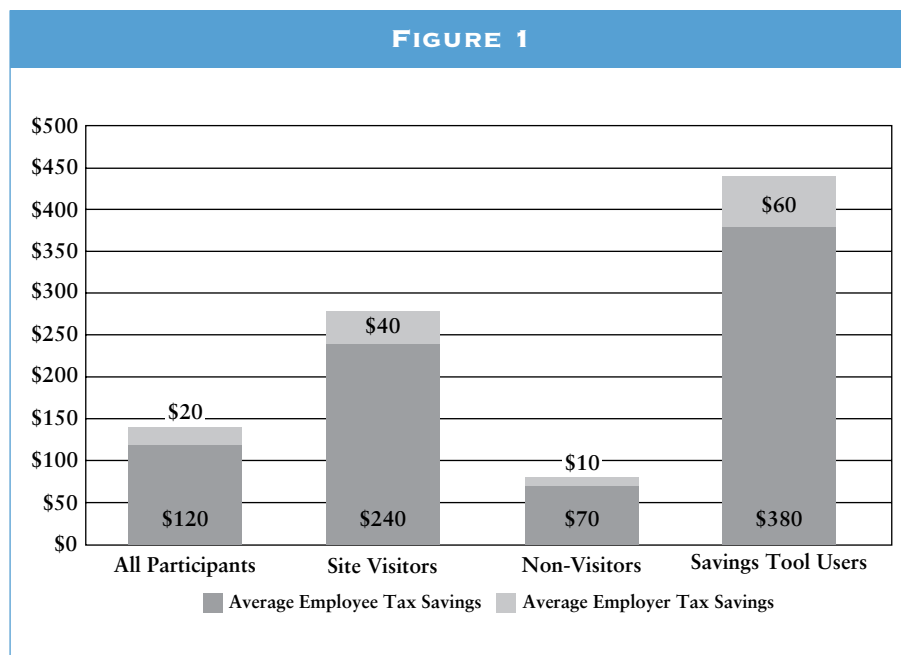
This data-driven approach enables employers to drive the behaviors they would most like to see within their employee base, as well as achieve financial and enrollment goals in a very proactive way.

MYTH #4

The “Technology Handcuffs”

A common misconception is that outsourcing locks employers into one specific vendor—that it is an “all-or-nothing” approach to HR solutions. The truth is that the best outsourcing relationships work well because the outsourcing provider can fully accommodate the unique needs and goals of the businesses they serve. Of course, if organizations are looking for recommendations on best-practice approaches as well as a full array of applications and services, the outsourced provider should be able to deliver. However, the ability to fully integrate the benefits process with other systems within an IT infrastructure is critical to success. A benefits administration provider needs to exchange data with health care carriers, payroll systems, and other third parties, so it should also have the flexibility to share data and communicate with other applications that may already be in-house as well.

A prime example of how the right solution—and the right solution provider—can help to actually tie together disparate systems into a single location comes in the form of an HR portal. HR-focused portals exist in a place between the all-encompassing, tough to implement, expensive to maintain enterprise portals, and the simple “portal in a box” solutions that are little more than link farms. These HR-focused portals serve as a one-stop-shop for everything an employee may need to interact with from an HR perspective, even if those services are provided by multiple vendors.



Having the ability to enter a single username and password combination and access multiple resources—such as 401(k) information from an investment provider, pay stub information from a payroll provider, check elections, and benefits coverage—is particularly powerful. These portals can also serve as a great communication vehicle that HR personnel can maintain on their own with little to no IT intervention. So the right outsourced provider will not only fit within existing IT environments, but can even improve how those services are accessed.

MYTH #5

Elusive Return

There is a misconception that outsourcing the benefits administration portion of the HR workload requires a great deal of “heavy lifting” and that the return is tough to quantify. The truth is that results can be measured in both measurable and anecdotal ways (such as employee satisfaction ratings and ad-hoc employee quotes).

Again, success or failure is largely rooted in the strength of the relationship between employer and

benefits administration provider. Understanding the employer’s goals and what they’re trying to achieve, then setting reasonable expectations, should all be part of the vetting process. Back-end analysis and reporting tools should also be able to provide a powerful way to evaluate the enrollment process and identify areas for improvement.

The examples in the chart represent actual cost savings and process improvements based on the total and average cost savings of each employee who participated in a FSA, what other tools and resources they used during the enrollment process, and how it all rolled-up to generate substantial tax savings for employee and employer alike. This example demonstrates how individuals who used online enrollment tools were substantially more likely to participate in FSA accounts and—by comparison—generated a more significant constituent saving.

It is this level of insight that, quite simply, separates those organizations that treat benefits enrollment as a transaction and those organizations that view it as a strategic opportunity to drive change and generate tangible results.

CONCLUSION

Despite the preconceived notions and sometimes negative connotations surrounding mere mention of the term “outsourcing,” the benefits of leveraging an outsourced benefits administration provider can deliver significant cost savings and process efficiencies to organizations of any size and in any industry—but, there first must be clear alignment between company goals and the benefits administration provider’s activities.

Properly implemented, however, an outsourced benefits administration provider can help to:

- Improve interactions and provide greater service for employees;
- Adapt to and enhance current business processes and market conditions;
- Deliver openness, flexibility, and extensibility to accommodate changes in the business; and
- Provide measurable and demonstrable results. 🌟

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