

4 Major Trends

Impacting Benefits Outsourcing

BY JOE ANGIONE

Today, the success of benefits outsourcing depends heavily on new technology to provide web-based access to best choices, convenient enrollments, and immediate updates to changing program provisions and entitlements.

But is webification bringing a higher degree of commoditization to the selection of health and life insurance offerings? Has fast spreading self-service taken an important human element out of the benefits-administration process? And is all this leading to fewer good choices, and more cost for employees? Finally, are health plans financed through employee savings accounts causing "adverse selection" to take the profit out of traditional healthcare coverage?

Four major trends shaping the administration of insurance benefits may be perceived as carving out new opportunities for outsourcing to deliver needed programs, or could be seen as possibly chopping away at the quality of benefits and the control carriers and employers would like to have over the viability of this important HR function

Inherent in the HR outsourcing concept is that it enables an employer using the latest technology to conveniently connect the company and its employees to independent providers who offer needed products and services that are the best-in-class. Along with

this comes a streamlining of the administration function and more cost-effective operations. Modern HR outsourcing prides itself on delivering these advantages. But what has the growth of self-service done to the quality of health-benefits plans? Are choices as good as they were before? How have the soaring costs of healthcare affected enrollments, employee attitudes and loyalty? Are employee-savings-account-financed health plans about to end the reign of managed care programs? Let's take these ideas one at a time.

1 Employee Self-Service: Anything you might want to buy today, you can find online where, with a few clicks of your mouse, you've purchased a new computer, a used car, a cell phone, CDs or a vacation. Many benefits providers are no different in how they market and serve clients. But, in opting for online access to information and enrollment, they are making actual human contact with a service person less available. Is this good?

The act of purchasing is changing. It's less and less of an in-person activity where you get to feel the merchandise, play with the buttons, or kick the tires. Low prices, shopping convenience, and instant availability are more important than ever. However, there is a

growing feeling that this simplified purchasing behavior may ultimately be damaging to employee loyalty. The concern is that webification of benefits could sometimes lead to commoditization in pricing and service offerings, thereby leading employees to make hasty choices from among a poor set of options.

But, Maurice Scafe, director of professional services at Workscape, a Framingham, MA-based provider of benefits-administration solutions, feels that commoditization isn't fueled by self-service, and that instant online access to benefits plans offers distinct advantages to employees, employers and to the HR department "Self-service reduces the amount of time it takes an employee to complete a transaction, and this generates a high degree of satisfaction. There's often little or no paperwork to fill out, submit and wait for responses. Self-service reduces the number of people who have to "touch" these transactions. There's no human interaction, when none is required, thus freeing up HR specialists to work on other, more complicated, issues that do demand a human involvement.

"There's nothing that leads me to believe that self-service paves the way for commoditization," continues Scafe. "Instead, automation improves an employee's chance of obtaining full access to all the benefits infor-

mation necessary to make the most intelligent decisions. Access to the Web also makes vital information highly portable, bringing it wherever a decision has to be made. And since the content of a benefits plan is embedded within the application, there's always an easy way to measure one's decision against the provisions of the plan."

2 Changes in Choice: The simple fact is that the more choices a company offers in any aspect of its business, the more costly it is to administer those choices. There are fewer choices among the insurance benefits being offered by many companies, large and small. But there's no evidence to believe that more is better.

Relative to those who offer health insurance plans there aren't many employers who provide group life insurance. Today, the great bulk of life insurance decisions is left to employees who are as likely to hop on the Internet to shop for term or other types of life coverage, as they are to locate the best CD and credit card rates or home mortgage terms.

On the other hand, health insurance coverage is best and most economical when purchased through an employer's group plan. "But the time is nearly over when the typical employer, including the largest firms, can provide multiple health plans at multiple price levels," notes Workscope's director of strategic communications, Deirdre Moore. "With the surging costs of treatments and procedures, the need to invest in expensive new equipment, and the outrageous increases in medical mal-practice insurance, health coverage for employees has to be very basic with options held to a minimum."

But, today's more limited range of health-care choices should not be construed as poor choices. "The employee's online access to plan information, and the decision-making guidance delivered via the Web, promotes greater awareness and understanding of health coverage options and results in fewer misconceptions and mistakes," adds Maurice Scafe.

3 Smaller Employer Contributions to Premiums: It was only a few months ago that 14,000 employees of the General Electric Company, one of the nation's

largest employers, struck because the company lowered its contribution to healthcare premiums. The workers went out to protest the GE-imposed increases in their health insurance co-payments that were said to cost the average employee as much as an additional \$400 annually. The employees' union, IUE-CWA, argues that, while GE is shifting about \$40 billion in healthcare costs on to the backs of workers, the company has racked up \$16 billion in profits during 2002.

The action taken by GE to pass on more health costs to workers isn't unique. In 2001 and 2002, companies, across the board, increased workers' monthly healthcare premiums an average of 27 percent for single coverage, and 16 percent for family coverage. Adding a note of confusion and bad feeling to these actions is the fact that, while employee contributions to healthcare premiums were on the increase, profits of HMOs and health insurers rose 25 percent in 2001, according to NYC-based Labor Research Associates.

Many unions see the American health-care system as broken and in serious need of repair. But, shifting more of the cost burden to workers isn't the fix healthcare needs. At GE, strikers have sent a strong message that they will not permit hard-won health benefits to be taken away. More than 70 percent of unionized companies now participate to some degree in medical care benefits.

4 Competition from Consumer-Driven Healthcare: Are managed healthcare systems on the way out? Consumer-driven healthcare programs may be the movement that pushes HMO-style coverage into the background. With employers tightening up on their contributions to health coverage, and employees angered about having to pick up more of this cost, relief has to come from somewhere. And that somewhere seems to be employee-savings-account-financed health coverage.

One of the leaders in developing this kind of coverage is Definity Health, a provider of health-benefits programs that give employees greater choice and responsibility for their health decisions. Driven by the need to control health costs, preserve options and ensure top-quality care, Definity empowers employ-

ees through a plan that has them pay for their healthcare services out of a personal care account (PCA), which the employer funds with a predetermined amount for each employee. Account funds unspent at year end are rolled over for the employee's use the next year. If an employee has to spend more than is in his or her PCA, then additional coverage is provided after a deductible is met.

"Only three years ago, most insurance carriers were saying that consumers weren't ready to become involved in managing their own healthcare," reports Chris Delaney, Definity's director of marketing. "But, today, they've changed their tune. Every major health-insurance carrier has, and is aggressively promoting, this type of health plan."

Delaney thinks consumer-driven health care is having a very positive impact on the insurance industry. "It's pushing innovation in a very big way."

Some critics of this type of coverage argue that it works well for the young and healthy, but may work badly for the sick and elderly, who require heavy expenditures for drugs and treatment. HMOs fear these plans because they may draw healthy people and their profitable premiums away from the HMO.

According to Definity's Chris Delaney, this doesn't appear to be happening. "Adverse selection isn't surfacing among our plan members. We currently serve more than 50 clients who have over 170,000 workers enrolled. This membership doesn't skew to the young at all. Instead, it skews toward middle-age people with large families.

"However, we are, initially experiencing a slight skew away from people who are ill," notes Delaney. "But, our experience covers only a relatively short time. If you're chronically ill, are you going to migrate to a new health plan in the first year? Probably not. We have a large national aggregation of health-care providers, and anyone who could be covered under a traditional managed-care plan can be covered under our plan."

Each of the four trends in benefits administration fits with the HRO concept. Each challenges the HR department to innovate and to look outside the organization for best-in-class services. Each thrives on customization that providers, aided by new ideas and new technology, can bring to the table. **HRO**