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Finding the Best Way to Outsource Benefits

By Joanne Sammer, October 2004

The benefits outsourcing market has matured in recent years, and so has the approach many companies take to establish and manage outsourcing arrangements. With more options available in the marketplace, companies are picking and choosing which activities to keep in-house and which to outsource based on their own needs, rather than the dictates of the market. And they are looking closely to make sure potential outsourcing partners can meet those needs. There is no one-size-fits-all in benefits outsourcing.

The Road to Success

According to a **Watson Wyatt Worldwide** study of 315 companies, 86 percent use a combination of insourcing and outsourcing to create an administration infrastructure that meets their needs, and these companies tend to be satisfied with the results. They maintain certain services in-house, usually those that involve the greatest amount of employee interaction, when it makes sense to do so. The survey found that a majority of companies outsource the administration of flexible spending accounts and COBRA benefits, while nearly all handle the administration of the Family and Medical Leave Act in-house.

Of course, finding the right partner is just the first step in a successful outsourcing relationship. How companies manage that relationship over the long term will largely determine its success. Here are some ways to ensure a positive outcome.

Find the right fit. When William M. Bird and Co., a flooring distributor with 270 employees based in Charleston, S.C., decided to outsource its benefit administration, it wanted an outsourcing partner that would provide a smooth transition

for employees uneasy about change. "We have operations in seven states and 14 benefit plans, but it was the employees in our largest locations who were most uneasy about outsourcing," says Robby Marion, SPHR, the company's HR director. "They were used to having someone on site to answer their questions, while employees in smaller locations were used to handling things remotely."

To ensure that its outsourcing partner would fit with its family-friendly culture, the company looked for a firm that was willing to engage with employees over benefit matters. "Without that cultural fit, the outsourcing relationship might not move in the right direction or fulfill the company's expectations of what level of service should be provided to employees," says Marion, who eventually chose Charlotte, N.C.-based HR XCEL as the company's outsourcing partner.

Set goals and performance expectations. Before embarking on a benefits outsourcing arrangement, a company should:

- Clearly identify what it wants to get out of the relationship.
- Identify the performance metrics necessary to achieve those goals.

For instance, if a goal is to improve service levels to employees, establish metrics covering areas such as the amount of time required to respond to and resolve employee questions and problems. If a goal is to validate benefits data and improve accuracy and completeness, the performance metrics for the outsourcing partner should reflect that. However, performance metrics also should evolve as the outsourcing relationship matures and the client company meets and changes its goals.

Communicate the change. When companies outsource any function, employees tend to become uneasy. So plan to

communicate proactively to make them as comfortable as possible. "Don't underestimate the change employees will feel," Marion says. William M. Bird & Co. had to manage its outsourcing transition for three or four months until employees got used to dealing with the outsourcing partner. "I don't think you can over-communicate about outsourcing," he adds.

This open communication can also yield benefits. Because employees tend to have a good perspective of how the outsourcing relationship is functioning on a day-to-day basis, they can provide important insight into problems and opportunities for improvement.

Revisit the relationship regularly. As the outsourcing relationship matures and employees become more adept at managing their benefits online, companies should revisit their outsourcing relationships and fees on a regular basis. In some cases, it might make sense for companies to negotiate outsourcing agreements based on usage trends and other data gathered over time, particularly if employee needs or the size of the employee population have changed. Even if a company is in the middle of an outsourcing contract, it can still reopen negotiations to try to reduce fees or obtain better terms. Companies can also negotiate shorter contracts or contracts that have built-in terms for renegotiation.

In the end, a successful outsourcing relationship boils down to two things. "You have to believe that the outsourcing partner will do what they promise within the accepted expense structure," says Marion. And the outsourcing partner needs to be willing and able to change as the company's benefit strategy changes.

At UGS, Benefits Outsourcing Saves the Day

Sometimes outsourcing can help a company deal with significant problems or upheavals. Earlier this year, Electronic Data Systems Corp. (EDS) decided to sell its Unigraphics Solutions software division, which employed 3,000 workers, to a private equity firm. The deal's timing left the newly independent company, christened **UGS Corp.**, with just two months to develop a benefits program from the ground up.

Given this time constraint, the company opted to completely outsource benefits administration rather than try to hire and train an entire benefits staff, says Peter Olson, SPHR, UGS's director of global HR operations based in Minneapolis.

Adding to the challenge was the fact that UGS "has no center of gravity," says Olson. "We have a lot of small areas of operations throughout the country rather than one main location, which requires an enormous commitment to set up networks and vendors for each area."

When choosing an outsourcing partner, Olson obviously had to look for one that could get a benefit programs up and running within two-months. Beyond that, his objective was to find a firm that could provide service that would be as seamless as possible. The company insisted that the benefits web site and call center be branded as the UGS Benefits Service Center, and that employees be able to speak to an actual person when they contact the center. Beyond that, Olson says he looked closely at service issues, potential outsourcing partners' hours of operation and data management capabilities.

UGS chose Workscape as its outsourcing partner and developed short-term contracts with the same health care providers and networks that UGS had used when it was part of EDS. This stopgap measure was designed to carry the benefit program through to the end of the year, giving UGS more time to develop a permanent benefits program. However, that approach also requires the outsourcing partner to manage the transition to new providers and networks twice in less than 12 months.

The chief goal during the changeover to the new outsourcing partner was to minimize the disruption for employees. After all, the last thing the workforce needed was to have problems with the benefit program in the wake of a change in ownership. UGS wanted to allow employees to continue their current health benefits without enrolling in a new program or making new elections unless they chose to do so – postponing the new enrollment process until the permanent benefits program is put in place.

UGS was able to develop an outsourcing arrangement that met its needs in large part because the company took the time to identify and articulate those needs clearly.

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