

# How to Harness the Power of Benefits Outsourcing



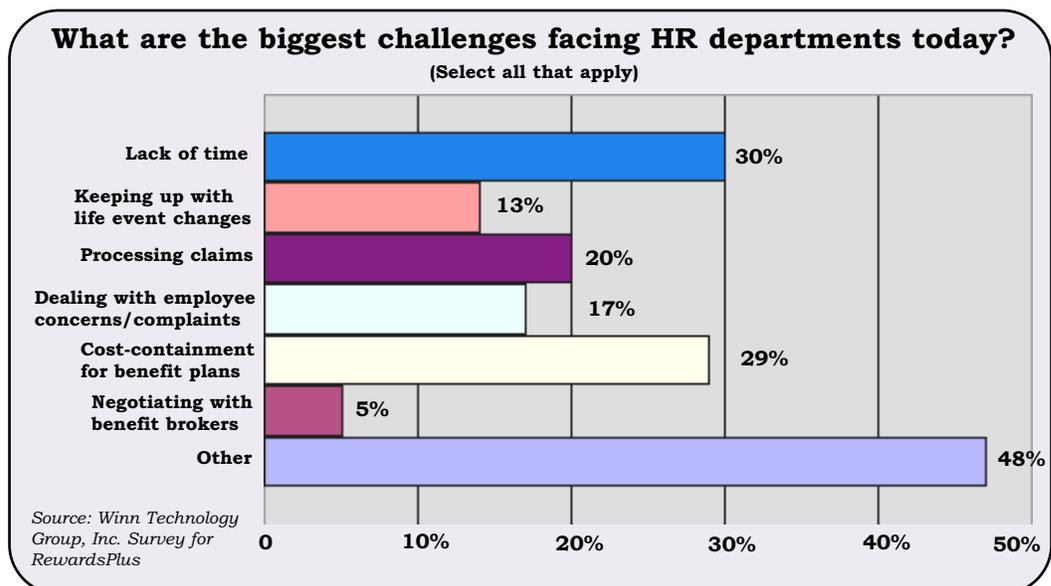
by Bruce Shutan

After several consecutive years of double-digit health care insurance premium increases and an overflowing alphabet soup of regulatory provisions, employee benefit plans have become increasingly complex and time-consuming to administer. The proverbial \$64,000 question HR and benefit professionals need to be asking is how much longer can they possibly afford to put off outsourcing these functions at a time when automated solutions in the marketplace offer considerable advantages.

There's no cookie-cutter answer for success, but certainly the most logical place to start is a meaningful determination of how much time is being devoted internally to these labor-intensive chores. Only then will organizations be able to quantify their return on this hugely important investment in the future of human capital.

Areas ripe for examination will include managing the open-enrollment process, post-enrollment changes, data feeds to multiple insurance carriers and benefits communication, as well as the cost of printing and distributing written materials. When investigating which avenue to pursue, employers ultimately will select one of the following scenarios:

- **Do nothing.** Maintaining the status quo may make sense for smaller employers or organizations that don't spend much time managing HR and benefits administration, have few employee changes and are generally pleased with their existing solution. Not changing may be tolerable if the conclusion is that these tasks aren't expected to pose significant manpower challenges down the line. But with benefit plans that are becoming increasingly complex coupled with greater pressure to cut benefits costs and improve customer service, this option is the least viable.
- **Build internal system.** Another approach is to design a proprietary system from scratch. Deciding to tap internal information technology (IT) resources for a home-grown solution will hinge on the strength of an organization's technical expertise and comfort level on sharing



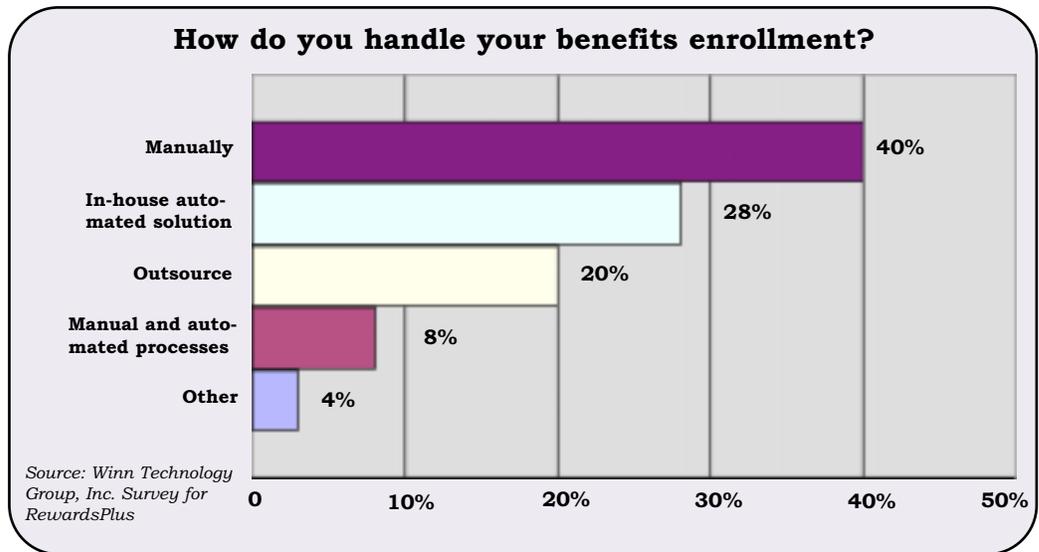
## How to Harness the Power of Benefits Outsourcing

employee data with third parties. Some employers decide not to outsource because they have serious concerns about identity theft and privacy of their employee data. These fears would be justified if employers partner with a questionable service provider that lacks the necessary firewall and encryption technology to prevent unauthorized entry into the system. Still, there are several clear disadvantages. To wit: few employers have a core competency in benefits automation. Even those with no shortage of technology whizzes in the workforce would rather focus on making widgets than administering employee benefits and free up IT staff for more strategic projects. Another issue to consider is that this approach often involves a hefty time commitment and price tag.

- **Buy software.**

For organizations that want to maintain total control over the employee data they collect without investing in their own internal IT resources, there's always the option of purchasing off-the-shelf software or a solution that is included as part of an HRIS or payroll system. While the price may be right in some circumstances, consider that periodic system upgrades and additional hardware may drive up the cost over time. Also, if the system does not automatically send data to carriers, consider that the process of managing data feeds may require a significant time commitment. Indeed, once information is collected, an employer may be required to go through the labor-intensive process of extracting data from the system, sending it to each of its carriers in an acceptable format and reconciling data discrepancies on an ongoing basis. It's also worth noting that software may limit customization and future development, as well as the ability to automate the sending of post-enrollment benefits data changes to multiple carriers. Other disadvantages may include long implementation timeframes and the absence of benefits communication tools.

- **Outsource.** A growing number of employers are embracing an outsourced solution, which usually includes a combination of application software and services, in order to save on time and money. Proponents of this approach have argued in recent years that the application service providers who manage an employer's outsourced needs offer clear advantages over the enterprise resource planning tools software providers have made available. They include access to the most up-to-date technology without the need for continuous software updates or costly license fees, as well as the ability to outsource the process of ongoing data exchange with multiple carriers and HRIS/payroll systems. There's also a



high level of expertise and customization that can be used to manage the implementation process on behalf of the employer as well as a shorter implementation timeframe. Knowing that theft of data and/or the hardware or servers that host the data pose the biggest threat to proprietary employee information, the employer needs to have a comfort level that the service provider and their hosting partner provide the highest degree of both physical and virtual security, at least equivalent to any carrier who may already possess this data.

### Key research

Judging from a survey of more than 1,100 senior-level HR professionals and other key executives conducted by Winn Technology Group, Inc. for RewardsPlus in 2004, there appears to be an urgent need for employers to take more aggressive action where HR and benefits

## How to Harness the Power of Benefits Outsourcing

administration is concerned.

The survey suggests two of the biggest challenges HR and benefit professionals face are lack of time and too much paperwork at organizations with 500 or more employees. Nearly one-third of all respondents mentioned these two areas.

One surprise is the extent to which manual enrollment and post-enrollment processing are still in place, particularly at a time when the promise of automation is well within the grasp of many employers – even smaller organizations that have benefited from the deployment of technologies that have trickled down market in recent years. For example, 40% said they still do manual processing of benefits enrollment whereas only 28% have in place an automated solution and 19% have outsourced the work. Similar numbers were reported for post-enrollment tasks.

Then again, this explains why industry practitioners are so pressed for time. Labor-intensive duties include copying and filing enrollment forms as well as passing along the data to multiple insurance carriers that

### Real-World Applications

**W**hen evaluating outsourced solutions, it's important for prospective buyers to evaluate the experience of their peers. Several case studies involving customers of RewardsPlus, a leading provider of benefit management solutions, offer compelling insight into the outsourcing process.

#### ZC Sterling

Managing paper-based data exchanges for seven different employee-benefit carriers providing more than two-dozen group health, dental, disability and life insurance plans proved to be an administration nightmare for ZC Sterling, a leading provider of outsourced insurance, real estate tax and customer-care solutions for the mortgage industry based in Atlanta, Ga.

But senior vice president of human resources Don Sather dreamed of better days ahead and certainly found it with RewardsPlus' RealLife Benefits<sup>SM</sup> platform in time for the 2004 enrollment involving 1,200 employees. "I've been to the mountain top, as they say, in terms of appreciating what automation and superior HR products can do from an operational efficiency and employee-education perspective," he reports.

Featuring a comprehensive suite of professional services and Web-based applications that reduce the amount of time spent on benefits administration, RealLife Benefits was fluid enough to accommodate ample time for testing and post-enrollment validation of data integrity. It also seamlessly supported the company's single-slot payroll deduction for voluntary benefits in addition to a customized set of core benefit offerings, as well as COBRA and FSA administration, and data feeds to multiple carriers.

Results included a significant reduction in administrative lag time and exposure to incorrect claims, saving ZC Sterling significant annual expenses in the \$90,000 to \$130,000 range.

#### Magellan Health Services

Magellan Health Services sought to arm its nearly 4,300 employees with enough comprehensive information to make informed choices during the 2004 open-enrollment season without the employees having to seek assistance and tie up valuable internal resources.

Major selling points of the RealLife Benefits platform included simplicity, reliability, functionality and customization. "We were looking for a site to contain all of our benefits information so employees would have one-stop shopping," explains director of benefits Mary Guarnieri. She notes how the tool's intuitive nature meant employees who work for the nation's leading behavioral health and employee-assistance company didn't require much hand holding in learning to access their information.

Her staff also benefited from several clear advantages. Prior to implementing the system, employee data searches were confined to Social Security numbers involving somewhat cumbersome payroll and human resource information systems, whereas now she can quickly and easily track information based on first or last name, worksite or other means.

This capability has come in handy considering Magellan employees are spread across 20 major locations and oftentimes would leave Guarnieri and her staff voice mails with incomplete information whenever there's a change in benefits coverage.

Magellan realized substantial savings largely because RealLife Benefits enabled the company to bring back in house (and streamline) bill processing and other labor-intensive tasks that were previously performed by a third-party administrator.

As a result, Guarnieri hopes to engage her staff in more strategic projects. "We're beginning to find the time to do some fun and important stuff featuring employee walking clubs and healthy eating initiatives to help combat obesity," she says. The ability to implement more creative plan designs that offset soaring health care costs is heightened when organizations like Magellan are able to harness the flexibility of automated solutions that are carrier independent. (*cont'd*)

## How to Harness the Power of Benefits Outsourcing

must input the information, which also raises the prospect for human error.

Part of this resistance to change is cultural and part of it is fear of the unknown. There's also a misconception in the marketplace about automated solutions for HR and benefits administration requiring a time-consuming implementation. Employers who have already implemented benefits technology know this simply is not the case.

### Vendor selection

Employers that decide to shop for an outsourced solution will find a crowded market full of both behemoth and boutique providers offering bundled or unbundled HR and benefit services, which can be overwhelming when a request for proposal is circulated.

But the trend is clearly toward fewer vendors and better information, according to Jay Whitehead, founder of the Human Resources Outsourcing Association and publisher of *HRO Today* in Fairfield, New Jersey. "The world is going to one-stop shopping," he says, adding that niche players will struggle in this business unless they offer a larger suite of services that include, but are not limited to, administration of health and welfare benefits, payroll, HR, training, recruiting management "and the entire food chain surrounding human capital management."

Here are 10 cogent points to consider when examining the pros and cons of each outsourcing service provider:

**1. Centralized data.** The most superior systems will be able to aggregate employee benefits information from multiple core and voluntary benefits carriers into a centralized database.

### Real-World Applications (cont'd)

#### ATMI

Time was of the essence at ATMI for whom RewardsPlus designed, implemented and launched an employee benefits portal in less than 90 days. When ATMI made the decision to shift brokers and carriers, they also lost access to their broker-sponsored benefits portal. While the broker's portal had not worked particularly well, being faced with creating an effective means of benefits communication and enrollment at this late date was not a task that the ATMI team was willing to undertake.

Finding a comprehensive solution that was both broker and carrier independent was important, not just to meet the immediate need but to allow ATMI the flexibility they desired for the future. "We just couldn't afford to be tied to a solution that inhibited our ability to design and select benefits plans," notes benefits analyst Cindy Fusco. Despite several last-minute content changes to the benefits package just prior to enrollment, RewardsPlus' project managers kept the semiconductor industry supplier "on schedule and delivered a superior, seamless and intuitive benefits portal," comments Fusco.

In the firm's high-producing environment, this new portal has more than met the needs of ATMI's 500+ employees who demand flexibility and instant information. One-stop shopping was essential and RealLife Benefits stepped up to the challenge by delivering core, voluntary and work-life benefits in a single easy to access portal. "Our employees can get everything they need in one place from enrollment to plan descriptions to the ability to make life event changes," Fusco says. "Moreover, we achieved a superior transition experience for our employees due to the effectiveness of the portal and the outstanding service provided by the RealLife Benefits Client Service Center."

"With all our data in a single system, ATMI is finally at a point where we can trust the data and we are highly confident that life events are being processed according to our business rules, allowing us to meet our COBRA compliance requirements in a timely manner," Fusco notes. But perhaps one of the most valuable contributions was customized reporting capabilities, which saved considerable time in terms of Fusco not having to request and wait for an internal report to be created, updated and e-mailed. "I can now get my own real-time reports when I need them," she says, "which helps me make decisions and take action without unnecessary delays."

- 2. Independent platform.** A platform that is independent – not tied to any carrier or HR system – will provide you with the most control over your data and offer maximum flexibility for the future.
- 3. Data exchange.** Systems should have the ability to manage the data exchange with multiple carriers, which will save HR significant time and conserve valuable IT resources.
- 4. Data access.** Employers should have the ability to access employee data and reports in "real-time" rather than having to rely on service providers for information.
- 5. Post-enrollment.** Systems should be able to automate post-enrollment activity involving key life events and communicate those changes to multiple benefit carriers.

## How to Harness the Power of Benefits Outsourcing

- 6. Ease of use.** The technology should be user-friendly and easy to implement and operate as opposed to requiring a specialized team several months to implement or support the solution.
- 7. Customer support.** Highly responsive technical support should be available for both employees and the entire HR and benefits team.
- 8. Customization.** Systems should be readily configured to meet a client's specifications, providing a meaningful level of customization to handle increasingly complex administrative needs.
- 9. Multiple enrollment options.** Multimedia technology that offers both Web-enabled and telephone-based enrollment capabilities will provide an enrollment option for segments of employee populations that do not have access to the Internet.
- 10. Service provider performance.** Service providers should have a proven track record over a number of years with a variety of client types and offer performance guarantees involving call center response times, system uptime and the ability to seamlessly interface with current leading HRIS and payroll solutions and of course any needed insurance provider.

### Transitional issues

When making the transition to HR and benefits outsourcing, organizations must be mindful that their employees will require time for adjustment to the cultural change, and as suggested earlier, solutions also should include telephone-based enrollment.

At organizations that for the first time have moved from manual processing to automated solutions, the significant change in strategy may feel like an automobile accelerating from 0 to 60 in a matter of seconds. And from a cultural standpoint, it will require careful explaining to employees about why the new system was implemented and how it works. Progressive employees will be delighted with the move forward and the improved access to information.

The atmosphere obviously will differ for employers that have already made a change but have decided to shop around for a new automated solution. Many of these organizations have found that they no longer can justify the high cost of upgrading off-the-shelf software packages or solutions developed in house that have clear

limitations in the areas of customization, file transfers and benefit communications – all of which vendors that provide outsourced services commonly assume for their clients.

Before a service provider is brought on board, it's critical to outline a project timeframe and to determine whether to begin using the system prior to open enrollment, during open enrollment or at the end of the enrollment period. When planning, employers should take steps to ensure a smooth transition from the old process to the new system. While many employers prefer to introduce a new system in time for annual open enrollment, they can launch a benefits automation solution at any time during the year.

The planning process should also allot time to train HR staffers. They need to learn how to work the new system and develop a comfort level with its ease of use and benefits so that they can be advocates of the new system and encourage wide employee acceptance. It helps to estimate these training costs for when the time comes to measure return on investment.

Most important is that employers need to clearly communicate the process shift to employees. Communications may be sent via email or snail mail and should include the reasoning behind this decision, how long they can expect the online enrollment to take and what information employees should have on hand as they begin their enrollment such as the Social Security numbers of dependents. Support in the form of a call center or help desk should be established to ease the transition and field employee inquiries.

One final recommendation is to gather employee feedback in a post-enrollment survey and incorporate suggestions for improvement in the next enrollment cycle. Each of these steps will help ease the transition to a new system and better manage expectations.

### Conclusion

Employers face a huge mountain of tactical work in response to rising health care insurance premium costs as well as increased complexity in employee benefit plan administration. In an effort to save money on benefits administration and time on manual processing, many organizations ponder the decision to transition to technology.

At the end of the day, they're pushing too much paper when this time can be better spent making more strategic contributions that meet overall business

## How to Harness the Power of Benefits Outsourcing

objectives. The same can be said about employees who should be spending more time making informed decisions about their benefits and less time enrolling in their plans.

Organizations that stand still will more than likely miss out on a tremendous opportunity to realize operational efficiencies, while those that commit to building their own internal solutions will be on the hook for quite a bit of time and money. Software customers will continue to

voice their frustration about having to pay for system upgrades that offer limited customization.

But those that decide to outsource their HR and benefits administration surely will reap the advantages of passing labor-intensive tasks on to a team of experts so that they can concentrate on more strategic issues.

*Bruce Shutan is a Los Angeles-based freelance writer who has been covering the HR and employee benefits industry since 1988.*

### **RewardsPlus: Leading the Way for Benefits Automation**

**R**ewardsPlus is a leading provider of benefits management solutions and architect of RealLife Benefits<sup>SM</sup>, an innovative platform featuring a comprehensive suite of professional services and Web-based applications designed to help employers reduce the amount of time and money spent on benefits and benefits administration. The seamless movement of information through data exchange interfaces has proven to be a significant differentiator for this proprietary technology. A single-source approach to data management speeds the delivery of files to multiple carriers and other systems, as well as simplifies the coordination of processes and problem resolution.

Key services include a benefits communication and enrollment Web site that may be branded with an employer's logo and customized to include summary plan descriptions, side-by-side plan comparisons, eligibility rules and information about the benefits implications resulting from life-status changes. An employee messaging system automatically generates and distributes all required benefit-related notices in electronic or hard copy format. These notices confirm benefit plan elections following annual open enrollment or life-event periods and remind employees about the close of open enrollment or if special actions are required. Displaying multiple years of benefits information online can help employers substantially lower costs associated with the printing and distribution of employee benefits communications.

RealLife Benefits includes a one-stop, self-service portal where employees and their families can not only view benefits information but also enroll online in both core and voluntary benefit programs at their convenience. Other options include telephone enrollment and assistance from a client service representative.

The system also includes a benefits administration component that automates many labor-intensive tasks, helping manage life events, update dependent information, monitor employee enrollment, enroll on behalf of employees, print management reports, generate billing statements, and review audit and transaction reports. This tool features a detailed transaction log that provides administrators with a real-time audit trail of all HR, employee and automated benefits updates.

Sophisticated data-transfer technology provides for the efficient, accurate and secure exchange of HIPAA-compliant file transmissions between the employer, carriers and other involved parties. Data can be readily integrated with most existing HR and payroll systems, preserving valuable internal IT resources in the process. Employers can reap hefty rewards from the single database that, when coupled with highly effective data transfer technology, has the potential to eliminate claims and premium payments for uncovered employees and dependents. Process improvements are inherent in this system, for instance aged-out dependents are now identified and can be addressed before claims exposure takes place.

Professional services include an experienced team of sales and account managers who handle from start to finish all details pertaining to system implementation, maintenance, updates, training, hosting and ongoing management.

With RealLife Benefits, employers can enjoy a new level of freedom and independence from the confines of being attached to a single carrier, HRIS or payroll system. The flexibility of this platform allows an employer to partake of any new plan design or concept without concern for how it might be administered or communicated. With nominal switching costs, the employer expands their negotiating power with their current carriers.

RewardsPlus is poised to handle the growing number of employers that have embraced outsourced solutions – an industry megatrend that is changing the landscape of benefits administration. Proponents of this approach, which usually includes a combination of application software and services, point out that advantages include access to the most up-to-date technology without the need for continuous software updates or costly license fees, as well as the ability to easily make changes and exchange data with multiple carriers and HRIS/payroll systems. Other benefits include a high level of expertise and customization that can be used to manage the implementation process.



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