

Employee Benefit Plan Review

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Focus On... IN THESE ECONOMIC TIMES

Evaluating Benefits Administration in a Down Economy

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To some, “outsourcing” is a dirty word, filled with nefarious connotations. They envision a third-world child slaving 14 hours a day for sub-sustenance pay in a hostile work environment, replacing an American job. Unfortunately, as soon as some people hear the word outsourcing, this prejudice impairs their ability to look at outsourcing with an open mind.

Actually, we are surrounded by outsourcing. When we go out to eat, we outsource shopping for food, cooking and cleaning up. When we get an oil change, we outsource our vehicle maintenance. When we take clothes to the cleaners, we outsource doing laundry. And many, many companies outsource multiple functions, ranging from custodial, cafeteria management, shipping and printing to hosts of other services. Outsourcing allows companies to more clearly focus energy on core competencies.

Outsourcing employee benefits administration is increasingly a topic of discussion. For medium to large companies, outsourcing these functions can be a smart decision during any economic climate. During challenging economic times, the reasons to evaluate benefits administration and outsourcing are even more compelling.

Outsourcing offers both economic and

non-economic advantages. Companies often find they can measure costs, adapt benefits more quickly to take advantage of changes in the market place and offer employees more robust benefits support by outsourcing. And, to some companies’ surprise, an organization has MORE control of benefits strategies, program details and policies when they outsource. This article will review key strategic and functional issues in benefits administration and the advantages of outsourcing.

WAYS TO HANDLE BENEFITS ADMINISTRATION

Companies are faced with several options relating to administering benefits:

- Paper enrollment;
- Internal systems to manage enrollment;
- Purchased or leased hardware and software;
- Leased access to a third-party provider’s solution; and
- Outsourced benefits administration.

Some companies mix these options for different aspects of their benefits program. How benefits are most effectively and efficiently administered is a function of several variables, which are discussed in this article.

BENEFITS ADMINISTRATION RESPONSIBILITIES

The responsibilities associated with benefits administration are manifold in today’s environment, even for smaller companies. Timing is the first issue. Employees have to be able to enroll for benefits when they are first eligible, they need to be able to make changes when they have qualifying life events and they need to be able to make changes each year during the open enrollment period.

Reporting and bookkeeping follow. Enrollment and changes have to be sent to the carriers. Deductions have to be sent to payroll. Required notices have to be distributed to employees. Carriers have to be paid. Reports have to be made available to accounting so benefits costs are entered into the employer’s financial records.

COMPLICATIONS OF BENEFITS ADMINISTRATION INCREASE EXPONENTIALLY

A small employer with one plan, a single carrier, the same employee deduction strategy for all employees and limited employee turnover faces a relatively simple benefits administration challenge. However, as the factors involved in benefits administration become more complex, a sophisticated approach is required. Some of these issues include:

Employee Demographics

How many benefits-eligible employees are there? What is the employee turnover rate? Are there peak hiring times? How many locations does the employer have? Who is responsible for enrolling employees at various locations, and are all parties consistent with each other in terms of administrative practices? How many different classes of employees are eligible for unique deductions? How many different payroll cycles? Do all employees have the same length of service requirement for benefit eligibility? Are there union employees with bargained benefits and deductions? Are employees fluent in English? Are there employees with “grandfathered” coverage?

Benefits

How many plans are offered? Are there multiple offerings to employees (such as an HMO and PPO)? Do plan offerings vary based on location, union, job class, full or part time status, length of employment, or other factors? How do the carriers handle premium charges for partial months of coverage? How do the carriers define eligible dependents? Are there state variations in eligibility? What steps are in place to make sure benefit enrollment is correct against employee elections?

Logistics

Who sends out enrollment material? How is enrollment material kept current with plan changes? How is the person sending out material notified of employee changes? How are employees notified of processed enrollment changes, when additional information is required before an enrollment change can be processed or when coverage is not available as requested? How are enrollment and enrollment changes transmitted to the respective carriers? If an employee does not return enrollment when first eligible, how is core coverage affected? How are employee inquiries handled and are inquiries recorded for future reference?

Plan Funding/Financial Reporting

Are plan costs for certain groups of employees allocated to different profit centers? For self-funded coverage, how are claims costs allocated to different profit centers? How many carrier invoices are there to match against enrollment, and how is it verified that payments and any adjustments are processed correctly?

Compliance

How is COBRA handled? Are records maintained so the employer can show COBRA administration consistent with government regulations? Who makes sure required notifications are distributed? Who makes sure state and federally required benefits and benefits eligibility are integrated into the plans? Who processes Qualified Domestic Relation Orders?

With all these complications, it is easy to see how a human resources (HR) department can end up so consumed with transactional issues that strategic planning gets neglected. How can HR spend time evaluating a wellness initiative when there are 60 union employees in Utah complaining their deductions do not match their union contract, a couple dozen employees calling every week because their dentists cannot verify dental coverage, the southeast regional director wants a report of expenses for budgeting, and new Florida employees are getting enrollment forms from last year?

ELEMENTS INVOLVED IN ADMINISTRATION

All the preceding problems and requests fall under benefits administration. Consider some of the key functional areas and concomitant responsibilities.

Enrolling New Employees

Even the seemingly simple task of getting a new employee enrolled for benefits has far reaching responsibilities and complications. A manual process requires someone to:

- Identify that the new employee is eligible;
- Determine which benefits are offered and the date coverage starts;
- Compile a package outlining the appropriate benefits and deductions;
- Deliver the package to the employee;
- Review enrollment after completion for completeness and accuracy (often times there are several forms when there are multiple plans);
- Process the form with each carrier (and later audit to verify the carrier actually processed the enrollment correctly);
- Notify payroll of any employee deductions (and whether the deductions are pre- or post-tax); and
- Notify the employee that enrollment is completed.

Accommodating Life Event Changes

Throughout the year, when employees have qualifying life events, the plan has to provide for enrollment changes. The plan must accept enrollment changes consistent with a change in:

- Dependent status;
- A court-ordered change;
- Marriage;
- Divorce;
- Change in spouse’s employer-provided coverage; and
- Other midyear events.

Changes have to be authenticated, processed with carriers and payroll has to be notified of new deductions.

Changes in Eligibility

Throughout the plan year, employees may change their employment status in a manner that affects benefits eligibility. Changes in compensation may entitle an employee to higher coverage (such as a core life and AD&D benefit equal to one times annual income). A part-time employee might accept an offer of full-time employment. An hourly employee might be promoted to a management position. The new position may be offered different benefits, have dissimilar deductions for the same enrollment and the employee may change pay cycles. All of these variables have to be integrated as part of processing changes in eligibility.

Open Enrollment

New plan parameters (carriers, benefits and contribution changes) have to be communicated. Employees have to be allowed to make new enrollment elections (ideally while being reminded of their current elections). Annual required notifications have to be distributed. Additional staffing is necessary to handle an influx of employee questions relating to open enrollment. Life event change requests occurring during open enrollment have to be handled. New employee deductions have to be provided to payroll. Changes in enrollment have to be communicated with carriers. Generally, benefit confirmation statements are distributed so employees can see that their requested enrollment has been processed. There may be evidence of insurability for voluntary coverage enrollment, which has

to be processed, monitored and handled as approved. Employer costs have to be provided to accounting.

As an additional complication, large employers often have multiple open enrollment periods, based on union agreements or other reasons.

COBRA Administration

Newly added insureds must be sent COBRA eligibility notices. Terminated insureds must be allowed to enroll for continued coverage, subject to rigid notification timelines. COBRA insureds must be notified of open enrollment opportunities. COBRA premiums have to be collected, processed, and melded in with corporate premium/claims funding. Eligibility has to be monitored. Clear records of compliance must be maintained.

Union Contracted Benefits

Employers with union-negotiated and yet still employer-administered plans often have to handle specific requirements regarding benefits eligibility, enrollment, and contributions. Often, these provisions fall outside the employer's normal requirements. New union contracts have to be interpreted, changes in benefits and deductions modified accordingly, and sometimes employees have to be offered a special open enrollment.

Auditing Enrollment, Paying Carriers and Cost Accounting

Carrier enrollment records must be matched against the employer's records to ensure the right employees are enrolled for the appropriate level of coverage. Carrier invoices have to be audited, retroactive changes and charges have to be verified, and premiums paid. Then, costs of coverage have to be separated by employer and employee portion, and lastly by company profit centers. For self-insured coverage, profit centers are often assessed a "premium" based on target funding, and that accounting has to be completed.

Recording Employee Questions and Answers

Keeping a good record of inquiries and responses can save a lot of time and expense, while reducing corporate liability. If an employer tracks questions and finds many employees have the same questions, the employer can make changes in information packages highlighting these areas of concern,

or consider plan changes, if appropriate. It is important to record employee questions and answers and to document timely and appropriate responses. If an employee later challenges an answer, good records can demonstrate that the information provided to an employee was correct.

There are often spikes in employee calls, not just during open enrollment periods, but also when there are surges in hiring activity and at the end of plan years. After enrollment changes are submitted to the carrier, audits are required to ensure enrollment has been handled correctly.

TASKS ASSOCIATED WITH ADMINISTRATION

Distribution of Enrollment Material

During open enrollment, an employer has to distribute material outlining plans (typically highlighting changes from the prior plan year, providing benefit summaries, and announcing new employee contribution levels), ensuring that employees get material that outlines their specific benefit eligibility when there are variations in plan offerings to different groups of employees.

During the plan year, an employer has to identify new hires and employment changes, and send enrollment material to newly eligible employees and those who have a change in eligibility based on a change in employment class.

Processing Eligibility

Throughout the year, eligibility changes have to be tracked, enrollment material compiled and distributed, enrollment elections received and handled, and employee eligibility questions fielded.

OTHER RESOURCES NEEDED FOR ADMINISTRATION

IT Hardware, Software and Staff

How an employer chooses to handle benefits administration will have a significant impact on the required initial investment and ongoing costs of hardware, software and support staff. Should a large employer decide to develop and support its own platform, the initial investment can easily run into millions of dollars plus hundreds of thousands each year. Even "canned" solutions can cost nearly the same to support as in-house solutions, as they often require onsite IT support and hardware.

Compliance

An employer needs to know that benefit administration is accomplished in a way that meets federal, state and even regional compliance regulations. An employer has to monitor new regulations, then interpret and implement appropriate changes, as required.

ADVANTAGES OF OUTSOURCING BENEFITS ADMINISTRATION

Cost Savings

A primary motivator in moving benefits administration is to save money. A complete comparison will show that, in most cases, the economics alone can drive a decision to outsource. The other advantages just make the case for outsourcing more compelling. "Current" costs in a comparison go far beyond the HR department's payroll. "Hidden" costs include:

- Training;
- Consulting costs to monitor changes in benefits regulations;
- Underutilization of staff when time is spent answering employee questions instead of managing higher level HR duties;
- IT time programming, supporting and managing internal administration;
- Software and hardware costs;
- Management time reviewing proposed new initiatives and processes; and
- Infrastructure costs (phones, computers, space, furniture, etc.).

Another hidden cost is accounting time—resources devoted to:

- Processing carrier invoices;
- Auditing enrollment;
- Tracking retroactive adjustments;
- Allocating expenses to profit centers;
- Preparing financial reports; and
- Answering budget-related questions.

A third-party can assume all of these duties.

An even more subtle hidden cost is the cost of mistakes. Examples include erroneous duplicate coverage (i.e., an employee is enrolled in two medical plans), failure to timely terminate coverage, and failure to catch an enrollment error.

Focus On...

“Minor” enrollment mistakes can have major financial implications. Failure to properly administer COBRA processes can have severe financial consequences. Employee time spent trying to work their way through benefits issues takes time away from the employee’s job. And employee dissatisfaction with his or her benefits packages hurts employee morale and reduces productivity.

A third-party specializing in benefits administration is positioned to provide better overall services than an employer can provide for itself, because the third-party can spread the cost of resources across its client base. Because the third-party focuses on administration, issues that might arise infrequently for an average employer are routine for the third-party administrator, so the third-party administrator can address the issue more efficiently and effectively.

Access to the Latest Technology

A third-party benefits administration specialist can devote resources to developing and supporting advanced technology, while spreading development cost across many clients. As an example, a few years ago, automated phone enrollment was the leading edge enrollment method; today, phone systems are being replaced by Web-based enrollment systems. The cost of developing and supporting these two enrollment capabilities are less of a factor for a third-party who can use the changing technology for many clients.

Access to Expertise

A third-party benefits administrator’s ability to know, interpret and implement state regulations is invaluable for multi-state employers. For example, an Arizona-based employer may not know that an ex-spouse of a Massachusetts resident may, in certain situations, be entitled to maintain group coverage.

A current “hot button” topic is the recently enacted COBRA regulations. Certain employees who previously declined COBRA enrollment are to be given another chance to enroll. Certain COBRA premiums will be subsidized by the government. An employer who tries to work through this internally will have to invest far more time and money than one who turns to a third-party.

Better Staffing—Minimizing Problems with Absences and Employee Turnover

Staffing for absences is also less of an issue.

An employer with one person who knows the intricacies of COBRA administration has a problem if that person suddenly is off work for a month. The third-party has many knowledgeable employees, so the absence of one such employee will not adversely impact operations.

Every staff experiences turnover and an HR staff can be especially vulnerable when a person who holds history and understands processes is out on leave or terminates. A third-party administration is in a far better position to quickly fill a void than a single employer.

Enhanced Employee Enrollment Experiences

HR departments pride themselves on offering services that make the employer look good. No one wants employee confusion, problems and the resulting turmoil that flows from errors. Outsourcing provides employees broader access to decision support tools such as expanded service center access, Web-based enrollment tools and access to benefits information (plan documents, claim forms, carrier phone numbers, etc.) in ways that do not require internal staff support.

Improved Ability to Manage Peak Demands

During open enrollment and other periods of high activity, a third-party benefits administrator is far better positioned than an individual employer to allocate additional trained resources. Because employers have differing open enrollments and peak enrollment periods, the third-party’s staffing needs can be met by permanent, trained employees, instead of an employer trying to make do with existing staff or bringing in (and trying to train) temporary employees.

Recordkeeping

Third-party benefits administrators have sophisticated methods of recordkeeping. Call logs are maintained to allow the employer to review issues. Phone calls are often recorded, providing absolute evidence when an employee claims misinformation was provided. Mailings can be bar-coded and scanned to establish a record of delivery. COBRA compliance is similarly documented.

Control

Outsourcing is about conducting benefits administration in the most efficient, economical and mistake-free way possible. Employer control is enhanced through formal quality control and compliance systems, consistency in applying policies and programs, and access to the most advanced benefits platforms and programs.

Plan options and decisions, right down to how benefits and deductions are communicated to employees, are always at the discretion and control of the employer. Overall, an employer will be better able to fine-tune its benefits and policies, and thus be in better control of its benefits programs.

Core Competency

Absent outsourcing, an HR staff has to devote time, staff and money to manage administration. A real danger of not outsourcing is that an employer ends up paying more attention to the day-to-day administration of benefits at the expense of devoting efforts to growing the company. Outsourcing benefits administration allows an employer to focus time and resources on running its core business.

LEASED OR PURCHASED SOFTWARE SOLUTIONS AS AN INTERMEDIATE STEP

Most employers choose to buy or lease a benefits administration solution instead of trying to develop their own system. This approach has advantages over a totally in-house solution, but also has limitations.

Leased and purchased solutions (at least initially) offer up-to-date technology, but often require ongoing expenditures for updates. Also, although a hosted system may reduce the need for in-house IT support, it still leaves the employer to figure out how to train HR employees to get the maximum benefit from the solution. Many times, when a company uses such a solution, it is comparable to driving a car in first gear; no one knows how to shift gears to drive and to get better efficiency! Often, even leased or purchased systems require in-house hardware and IT support.

Another risk of buying or leasing is the cost of a bad decision. If a leased or purchased solution does not accommodate the company’s objectives or needs, it can be very expensive to change systems without another large up-front investment.

Finally, there are limitations within any

specific solution. For example, does the solution allow an employee to elect different coverage levels for different benefits (i.e., single dental and family medical)? Can the solution be easily customized to fit a company's accounting and related reporting systems? How easy is it to add new company divisions or change profit centers? How well does it handle multiple employee locations, different classes of employees or multi-state tax record keeping and reporting?

WHAT CAN AN EMPLOYER EXPECT FROM OUTSOURCING BENEFIT ADMINISTRATION?

A third-party benefits administrator can assume many and varied responsibilities to strengthen an employer's benefits program administration. Broad areas of administration and some of the functions handled within each include:

Strategic

- Work with the employer to set up employee communications and Web access;
- Starting with the employer's benefits and deduction strategy, help create "event" packages (initial eligibility, change in eligibility, open enrollment, loss of coverage), forms, confirmation statements, required notices and other plan material; and
- Establish timelines for projects (open enrollment, new employee enrollment, plan changes, etc.).

Procedural

- Eligibility maintenance, including identifying eligibility and changes in eligibility through data transfers (from payroll or other systems);
- Enrolling employees (Web-based, phone enrollment and if needed, paper enrollment options);
- Maintaining records of dependent enrollment;
- Offering employee self-service portal with secure access to employees' personal enrollment elections and contributions, plan summaries, documents, instructions on how to file

claims, carrier links, company announcements, etc.;

- Manager self-service portal (access to manager's employees' enrollment and summary data, costs, deductions and documents); and
- Processing Qualified Medical Child Support and Qualified Domestic Relation Orders.

Accounting

- Feeding payroll deductions;
- Financial reporting to cost centers, regional managers and corporate;
- Ad hoc reports to assist the employer in monitoring enrollment, plan costs, utilization and other variables; and
- Consolidating fixed costs, billing one amount to the employer and paying carriers.

Recordkeeping

- Confirmation of dates of communications (open enrollment material, benefit confirmations, mandated notifications, etc.);
- Employee elections;
- Employee inquiries and responses;
- Life insurance beneficiary designations; and
- Carrier enrollment changes (paper or electronic feeds).

Vendor Data Transfers

- Sending changes in enrollment to carriers;
- Verifying carrier records against enrollment; and
- Auditing carrier invoices and reconciling variances.

Compliance

- Documented dissemination of required notifications;
- HIPAA/COBRA administration;
- Advise employer of possible non-compliant benefit administration; and
- Answer generic compliance questions.

Communications

- Fulfillment (printing and distributing enrollment guides, enrollment confirmation statements, notices, etc.);
- Call Center operation, to answer employee and manager questions regarding benefits and eligibility, assist during enrollment period and escalate issues with carriers; and
- Manager-specific information and reports.

SUMMARY

Full benefits administration outsourcing eliminates the need for software, hardware and dedicated IT support, reduces staffing, improves delivery and enhances an employer's ability to manage benefits administration. HR staff is free to focus on strategic HR functions, instead of being consumed by administrative issues.

Outsourcing is not for everyone. But after weighing the headaches, resource needs, financial risks, expense and increasing liability of in-house operations, many employers are turning to outsourcing. For these employers, channeling valuable HR resources into something that is ultimately not their core business function does not make sense.

Many companies want to focus their energy on growing their businesses, not managing them. In-house benefits administration represents a level of inefficiency, distraction and risk that they can avoid, particularly during an economic downturn. At a time of economic uncertainty, companies need not keep chasing after and investing in the latest and greatest software, programs and Web support. Employers can enhance employee loyalty and confidence through a well-run benefits administration that features outstanding accessibility, responsiveness and fairness.

When companies of all sizes realize they can pass the vast majority of these responsibilities onto an expert and save money in the process, the question is not, "Why?" Rather, it is, "Why not?" ●

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