

# WHITE PAPER

## **STREAMLINING BENEFITS ADMINISTRATION: OUTSOURCING VS. IN-HOUSE MANAGEMENT**

## INTRODUCTION

Fifty years ago, company benefits often were limited to two weeks vacation and a modest pension at retirement. Today, benefits administration incorporates a host of employee incentives, including medical and dental coverage, 401(k) plans, vacation days, sick time, PTO, and maternity leave. What's more, employers now must manage numerous regulatory considerations, such as determining employee eligibility under the Patient Protection and Affordable Care Act (PPACA) and the Consolidated Omnibus Budget Reconciliation Act (COBRA), and the tax implications of matching contributions to company retirement plans.

All of these changes have placed a heavy burden on employers as it relates to benefits administration, with many businesses choosing to outsource part or all of the responsibility to third-party vendors. Other companies elect to keep benefits administration in-house, often out of a desire to maintain control over the process. As tax and health care laws continue to change, however, increasingly complex compliance issues will force many mid-size and larger firms to decide whether outsourcing part or all of their benefits administration makes smart business sense.

Managing benefits in-house and outsourcing the administration both have inherent trade-offs. Determining the best course of action requires a thorough evaluation of a company's current operational practices, as well as the available technology tools and changing legal landscape. An objective assessment of existing resources, investments, and long-term goals, combined with a careful look at a prospective vendor's offerings and expertise, can help employers and brokers clearly determine whether an outsourced provider will make a positive impact for the business.

## BENEFITS ADMINISTRATION DEFINED

Simply put, benefits administration involves creating and managing benefits for a company's employees. But, in today's business environment, these administrative tasks are increasingly complex. Company management first must determine which types of benefits to offer and to what level. For example, most large and mid-size firms provide two weeks' paid vacation annually; however, an employee often must be with the organization for at least six months before they become eligible to use part or all of their vacation time. Likewise, some companies may allow employees to carry over vacation days to the next calendar year, whereas others have a "use it or lose it" policy. And, while some businesses offer more vacation time for employees who have been with the firm for several years, others apply the same vacation perks across the board, regardless of tenure.

In addition to determining which benefits to offer, a company must train employees in how the benefits work and how to enroll. Depending on the company's size and resources, this process may involve an employee filling out necessary paperwork and an administrator entering the data into a computer system, or employees may be able to enroll using a Web-based portal that includes more robust reporting tools for company management.

Beyond vacation time and sick days, large and mid-size firms frequently offer a host of other incentives to employees as a means of improving productivity and retention. Benefits packages may include medical, dental and vision plans; life and disability insurance; IRA or 401(k) accounts with company matching; childcare; flex-time; tuition reimbursement; and numerous other types of incentives. Keeping these benefits programs running smoothly may be the work of one individual, or may require an entire department, depending on the size of the business and the benefits that are offered.

What's more, the cost of compliance can place a heavy burden on business owners, particularly for small and mid-size companies. Regulatory costs for the typical U.S. firm is about \$161,000, and the cost per employee more than \$8,000, according to a Small Business Administration report.<sup>1</sup> This cost of federal regulation equals 19 percent of payroll expenditures for the average U.S. business, the report notes.

## INSOURCING VS. OUTSOURCING

Because of the complex nature and rising cost of benefits administration, many businesses have begun to outsource some or all of the administrative tasks to third-party providers. In fact, benefits administration outsourcing (BAO) grew at a rate of more than 6 percent in 2013, with Health & Welfare (H&W) outsourcing increasing more than 10 percent over the previous year.<sup>2</sup>

"Thanks to advances in the Internet arena, SMB executives don't need to worry about whether a

### MANAGING BENEFITS

Benefits administration can quickly become challenging for firms to manage in-house, because of the complexities of tracking and reporting. For example, with vacation and sick days, an administrator will need to add approved days off to an employee's account throughout the year, in accordance with the company's defined process. The administrator then must maintain accurate records of time the employee has been absent and coordinate with the payroll department to ensure that the employee is paid for approved time off or that his or her paycheck is adjusted appropriately for unpaid leave.

<sup>1</sup> "The Impact of Regulatory Costs on Small Firms," by Nicole V. Crain and W. Mark Crain, SBA Office of Advocacy, September 2010.

<sup>2</sup> "Benefits Administration Outsourcing (BAO) Annual Report 2014: Benefits in Alternate Paths," Everest Group, May 2014.

process can be outsourced, but rather who is the best vendor to outsource it to,” noted Michael Salem, co-founder and CEO of PSA software developer Vorex, Inc., in an interview with Inc. magazine last fall.

## THE BENEFITS OF INSOURCING

Other companies prefer to keep administration in-house, generally to maintain more control over the process. Managing benefits internally can ensure that companies stay more involved with their employees and provide decision makers and upper management with easy access to key data. Other considerations include protecting data privacy by keeping all documentation in-house, and minimizing the time needed to make changes or fix errors. In many cases, however, a company’s decision not to outsource administrative functions is borne out of a concern that it would be more costly to use an outside service provider rather than internal staff, or the fear that using a third-party would make the process more difficult or cumbersome.

Although keeping benefits administration in-house can provide an employer with a greater sense of control over the process, companies also face the risk of lost productivity if an employee with a key administrative role becomes sick or leaves the firm. Likewise, an employee could misuse or distribute sensitive, private information, putting the organization in jeopardy both legally and financially. Taking these and other risks into consideration can help employers better determine whether managing benefits in-house or partnering with a third-party service provider is in the best interest of the company.

Industry surveys indicate that larger companies are more inclined to outsource their benefits administration, and that firms of all sizes mostly outsource highly technical services or those that have significant compliance requirements, such as:

- 401(k) Administration
- COBRA Administration
- Flexible Spending Account (FSA) Administration

The changing regulatory requirements surrounding the Patient Protection and Affordable Care Act also are leading more and more businesses to outsource

### EMPLOYER SHARED RESPONSIBILITY

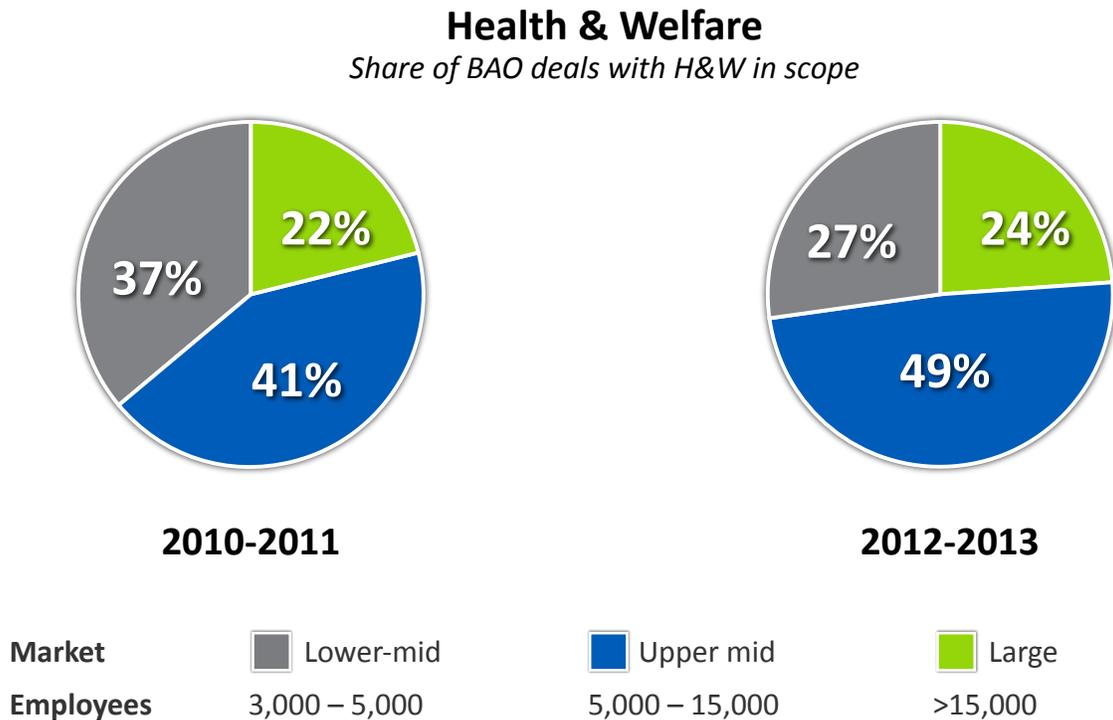
To be subject to the Employer Shared Responsibility provisions for a calendar year, an employer must have employed during the previous calendar year at least 50 full-time employees or a combination of full-time and part-time employees that equals at least 50. For example, an employer that employs 40 full-time employees (that is, employees employed 30 or more hours per week on average) and 20 employees employed 15 hours per week on average has the equivalent of 50 full-time employees, and would be an applicable large employer.

Source: Internal Revenue Service

administrative functions related to employee health care plans. Formidable compliance challenges include tracking part-time and full-time employee status under the Employer Shared Responsibility provisions, as well as nondiscrimination testing for health plans (although the effective date for the latter mandate has been delayed indefinitely). Many organizations are also seeking outside guidance and expertise to ensure compliance with employee benefits-related provisions under the Sarbanes Oxley Act of 2002 (SOX), such as blackout period reporting, ERISA reporting, and securities trading restrictions.

## THE BENEFITS OF OUTSOURCING

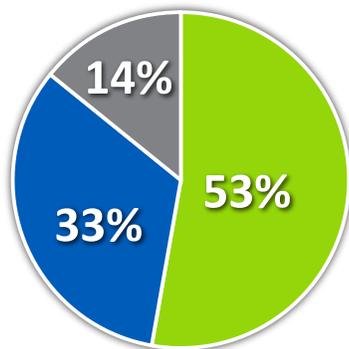
The mutable nature of compliance issues has made outsourcing benefits administration increasingly attractive for employers of all sizes. In addition, technological innovations, such as online platforms and cloud-based services, have made it easier and more cost effective to implement an outsourced solution. A recent industry report revealed a significant jump in outsourcing Health & Welfare benefits administration and pensions, particularly among mid-size firms with 5,000 – 15,000 employees.



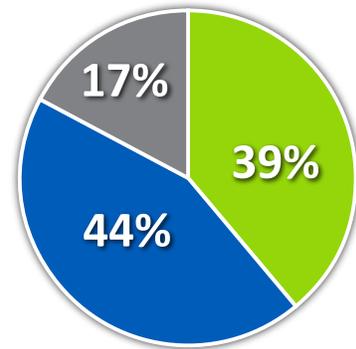
Source: "Benefits Administration Outsourcing Annual Report 2014: Benefits in Alternate Paths," Everest Group, May 2014.

## Pensions (DB/DC)

Share of BAO deals with DC or DB in scope



2010-2011



2012-2013

<b>Market</b>	 Lower-mid	 Upper mid	 Large
<b>Employees</b>	3,000 – 5,000	5,000 – 15,000	>15,000

Source: “Benefits Administration Outsourcing Annual Report 2014: Benefits in Alternate Paths,” Everest Group, May 2014.

“The implementation of the Affordable Care Act in the United States has had a major impact on H&W as employers of all sizes sought help dealing with mandatory auto-enrollment and increases in employee coverage requirements and compliance as well as communication needs and administrative burdens,” noted Rajesh Ranjan, vice president of the Everest Group, an advisory and research firm on global services, which conducted the study.

Although some employers believe that outsourcing is too expensive, in reality they often can realize a cost savings by reducing in-house administrative staff and the need for continual training and education on new products and regulatory requirements. Not only can employers leverage the expertise and broader capabilities of an outsourced benefits administrator as relates to different carriers and legislation, they can also allocate internal talent and resources to focus on strategic initiatives that drive company revenues.

Many of the advantages of delegating benefits administration to a third-party service provider are common among employers of all sizes, while others are specific to large or mid-size firms. The gains that companies realize from outsourcing include:

- Ensuring compliance with PPACA, COBRA, SOX, and other legislative mandates
- Reducing the cost of administration
- Freeing up internal resources to focus on the core business

- Improving data accuracy and security
- Employing robust reporting tools
- Having outside support for employee training and enrollment
- Accessing timely educational and informational materials

Partnering with an outsourced service provider for benefits administration can help companies minimize the risk of incurring fines and penalties because they failed to meet compliance reporting requirements, and alleviate the burden on internal staff to stay constantly abreast of changing legislation. In addition, some providers offer integrated services for other HR activities, such as payroll processing, to make it easier to transfer data in real time and improve cost efficiencies.

#### A MOUND OF PAPERWORK

The U.S. Department of Labor enforces more than 150 federal laws affecting in excess of 10 million employers. An outsourced benefits administrator can reduce the paperwork involved and help ensure companies meet compliance standards for federal, state and local regulations.

## SELECTING AN OUTSOURCING PROVIDER

In choosing an outsourcing provider for benefits administration, employers should vet vendors carefully and ensure that their services meet their organization's specific needs. A service provider that offers flexible and scalable solutions for different size companies can be an ideal fit for smaller and mid-size firms that may need expanded capabilities as their business grows, while larger organizations may gravitate toward an outsourced provider that offers a broad array of services under one roof. In some cases, a vendor with a national presence can meet both needs. For example, BenefitMall®, an employee benefit provider headquartered in Dallas, TX, offers payroll solutions, insurance products, HR consulting, and PPACA support, among other services, and can custom-tailor its solutions based on an employer's size, budget, and internal capabilities.

Here are a few key considerations for finding an outsourced benefits administrator:

**Expertise** – Is the service provider active in the industry and knowledgeable about the latest carrier products and legislative requirements? Does the company follow administrative best practices and have expertise in areas such as strategic plan design?

**Experience** – Does the company have a track record of success as a third-party administrator and a reputation for exceptional customer service? Has the vendor worked with similar sized employers in the past, or those with comparable support needs?

**Objectivity** – Does the vendor represent multiple carriers and channel partners? Administrators

with a national presence can customize their solutions and offer objective advice on the best strategies for the implementation and management of employee benefits.

**Efficiency** – Does the agency offer an online solution that does not require employers to install and manage complex software? Does it provide online enrollment options for employees and comprehensive reporting tools for management to analyze key data?

**Data Security** – Does the provider have multiple data and operating locations to ensure that sensitive employee information is secure and back-up systems are in place? Systems should be password protected and data encrypted during transfer.

**Compliance Capabilities** – Does the vendor comply with existing laws and regulations and offer alternative solutions when permitted under the legislative parameters? Does the company provide employers with updates on regulatory changes or offer informational materials and educational opportunities, such as webinars?

Given that the complexities surrounding compliance issues are a key driver of outsourcing benefits administration, employers should also look for a service provider that delivers comprehensive compliance support. For example, BenefitMall offers brokers and employers complimentary access to allCheck, a simple-to-use online tool to help advisors and employers understand health care reform and how PPACA can impact their business. This type of support can help speed the implementation of new processes when regulations change and reduce the risk of compliance reporting errors.

#### A GROWING TREND

Nearly 85 percent of businesses outsource at least part of their HR functions, according to a 2013 report in The Fiscal Times.

Finding an outsourcing provider that leverages the latest technologies with its service offerings can also help employers save time and money while improving employee retention. BenefitMall EmployerFocus™ is a Web-based solution that lets employers easily manage company benefits, employee data, and contributions; produce reports (including ACA compliance); and post news, links, and documents directly to the online portal to help employees make benefits decisions. Employees have quick access to their most important information and can view and manage their benefits elections with just a few clicks.

## FUTURE TRENDS IN BENEFITS ADMINISTRATION

For many employers, outsourcing some or all of their benefits tasks likely will become increasingly attractive in the next three to five years, in large part due to the complexity of health care reform legislation. The continued rollout of legislative mandates under PPACA and the ever-changing nature of tax law underscore the need for employers to seek expert counsel, and to have appropriate tools and systems in place to meet new compliance standards without delay.

Gaining access to the skills and knowledge of a third party, as well as ensuring quality and lowering costs, are the primary drivers of outsourcing benefits administration and other HR tasks, according to a 2009 survey by The Chartered Institute of Personnel Development. In an increasingly competitive market environment where businesses large and small are leveraging the efficiencies, expertise, and technology platforms offered through outsourced providers, organizations that choose to keep a tight rein on benefits administration internally may find themselves outpaced in annual revenue growth. In fact, an analysis of HR spending shows that organizations that manage health & welfare benefits, payroll, and other HR functions in house using a locally implemented or hosted software solution spend 18 percent more on administration than companies that outsource these functions.<sup>3</sup> Moreover, businesses that outsource multiple HR tasks to a single vendor save more than 32 percent annually on average over companies that use multiple vendors or an internal team using “best of breed” processes and technologies.<sup>4</sup>

In addition to the cost efficiencies, an outsourced benefits administrator can provide the dedicated staff and industry expertise to stay on top of legislative and regulatory changes and ensure employers meet corporate reporting requirements. As health care costs continue to increase, a third-party service provider also can offer brokers and employers alternative options for company benefits, such as wellness programs and defined-contribution plans, to attract higher quality candidates.

Recent technological developments, such as cloud-based servers and mobile devices, have made it easier and more cost-effective to use an outsourced solution for benefits enrollment and administration. Continuous innovations in these areas and the growing adoption of online

### HELP FOR EMPLOYEES

An industry survey indicates that 56 percent of employees believe they overspent by up to \$750 per year because they made a mistake in choosing their health care plan.

Source: 2012 AFLAC Workforces Report

<sup>3</sup> “The hidden reality of payroll & HR administration costs,” Pricewaterhouse Coopers, January 2011.

<sup>4</sup> *Ibid.*

tools will empower companies to leverage automated solutions provided by outside vendors to streamline benefits tasks and improve data accuracy and timely reporting.

## CONCLUSION

The challenges and responsibilities associated with benefits administration are as varied as the companies that offer employee incentives. Larger organizations have leveraged the time and cost efficiencies of outsourcing back-room operations since the 1980s and over the years have continued to expand the scope of administrative tasks they delegate to third-party service providers. More recently, improvements in Web-based platforms and increasingly complicated compliance mandates have led more and more small and mid-size firms to explore the option of outsourcing benefits administration, as well.

Although many firms still choose to manage at least part of the benefits enrollment or administration functions in-house to maintain control over the process and stay involved with employees, a growing number of businesses recognize the advantages of outsourcing. By partnering with a trustworthy vendor that has expertise in benefits administration, employers can reduce their back-office workload, ensure compliance with tax and healthcare regulations, reduce their total benefits spend, and empower internal staff to focus on mission-critical business functions, such as employee acquisition, training and retention, as well as strategic initiatives for business growth.

## ABOUT BENEFITMALL

BenefitMall® is a national provider of employee benefits, payroll, HR and employer services. Headquartered in Dallas and founded in 1979, BenefitMall works with a network of more than 20,000 brokers and CPAs to deliver payroll, HR and employee benefits to more than 200,000 small and medium-sized businesses.

Combining efforts with our Trusted Advisors, we help employers identify and provide the best benefits solutions for their employees, ranging from medical and dental plans to accurate and timely payroll. We serve as a single source for your payroll and benefit data management and provide the additional security of easier health care compliance. Our knowledgeable and innovative employees are respected in their industries for providing legendary customer service and building extraordinary relationships.

We partner, serve and deliver value to:

- **Brokers** by providing leading products, tools and knowledge enabling them to design comprehensive benefits packages for small to medium-sized employers.
- **Accounting Professionals** by delivering accurate and timely payroll to their clients.
- **Carriers** by providing the nation's largest General Agency distribution.
- **Businesses Owners** by delivering the nation's largest portfolio of benefit and payroll products and services supported by a network of trusted advisors and designed to support health care compliance.

For more information about our products and services, visit [www.benefitmall.com](http://www.benefitmall.com).

