

## viewpoint

### HOW TO OUTSOURCE BENEFITS ADMINISTRATION

Most companies outsource at least some of their employee benefits administration. And many of America's largest employers have vowed to turn over all benefits administration to outside services. New research by Watson Wyatt Worldwide indicates employers can achieve the best results with a balance between insourcing and outsourcing.

Mark Rapier, Office Practice Leader, Technology Solutions, at Watson Wyatt Worldwide in Southfield, Mich., explains the findings.

#### **What do companies expect to achieve by outsourcing?**

They are looking for a combination of lower costs, greater transaction accuracy and improved employee satisfaction. Yet a study we did in 2002 about the state of technology used by Human Resources showed most companies that did outsource benefits administration were unable to document improvements in any of those areas.

That led us to conduct a new survey in 2003, *Sourcing Approaches for Benefits Administration*, that focused upon how companies handle benefits administration. Employers that follow a blended approach seem to be the best at achieving their goals.

#### **What do you mean by blended approach?**

High-performing companies outsource the management of HR data and such functions as payments for claims and retirement benefits. They tend to retain direct employee interaction processes such as handling questions about coverage, eligibility or vacation time. But many are struggling with whether to cede policy decisions to a third party.

#### **What benefits administration activities are companies most likely to outsource?**

For health and welfare plans, the functions most likely to be outsourced are open enrollment and the administration of FSA and COBRA benefits. For pension administration, benefit calculations, data maintenance and payment processing are the most-often outsourced activities.

Nearly half the midsize and large companies we surveyed say their HR administration is "equally sourced: or "mostly outsourced," and about the same proportion expects to outsource HR administration more over the next two or three years. Only 3% of the surveyed companies plan to do more insourcing.

#### **How do companies handle direct employee interaction?**

The larger ones are adopting centralized HR service centers to provide employees with full and consistent information about benefits. About 25% of the 315 companies we surveyed have such centers, and larger companies are twice as likely as smaller companies to have one.

Centers are especially important for companies operating in many states. They also are helpful for companies with significant employee turnover, since every change in the employee population creates a benefits transaction.

#### **Are there special challenges for the manufacturing sector?**

We found that manufacturing in general tends to have much more complex administrative issues. That is certainly true for companies in the auto industry. On average, manufacturers have four plans to administer vs. two for U.S. business overall.

#### **What is your advice to companies who already outsource benefits administration?**

It's probably time for them to reassess their programs. Many companies set up formal relationships with outsourcing companies several years ago. But the market has changed dramatically since then.

It makes sense for companies to see if they are getting the results they intended. What was a good decision then may not be best today. In any case, it's a good idea to validate where you are.

#### **How can Watson Wyatt help the assessment and management process?**

We offer a unique blend of knowledge about HR in general, the auto industry in particular and the technological tools available to manage HR data and administer health, welfare and benefits programs. We help companies create and manage effective HR technology strategies and administrative plans, including the ability to host the enabling technologies they need.

Watson Wyatt has powerful software tools such as BenefitConnect and PensionPath that give companies great flexibility in determining what they prefer to outsource and what they choose to manage themselves.

*To learn more about how Watson Wyatt can help your company assess and manage its HR strategy, contact Mark Rapier in Southfield, Mich., at (248) 358-7756 or [mark.rapier@watsonwyatt.com](mailto:mark.rapier@watsonwyatt.com).*