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How the wrong benefits administration system can hinder efficiency and put your organization at risk

AND WHAT TO DO ABOUT IT



INTRODUCTION

It is not an easy time to be a human resources professional.

THE 2010 PASSAGE OF THE AFFORDABLE CARE ACT (ACA) brought additional reporting, disclosure, and notification requirements. Workload, administrative costs, and compliance risk for human resources teams increased. This legislation only compounded the complex reporting, disclosure, and fiduciary requirements associated with the Employee Retirement Income Security Act (ERISA).

With more information to file, there is now more room for error. And, only adding to the pressure, fines increased too. In early 2016, the cap on penalties for failure to file a required information return with the IRS doubled from \$1.5 million to \$3 million—with no cap if the failure can be proved intentional.¹

If today's political climate is any indication, there are no signs that the benefits administration landscape is going to get less complex any time soon.

But, with the right benefits administration system, things can get easier.

Many human resource professionals recognize this fact and are exploring ways to automate processes to reduce the need for manual data entry and reporting. For some, this means upgrading their benefits administration system to gain better automation capabilities. For others, it is a complete transformation from an old paper-based system.

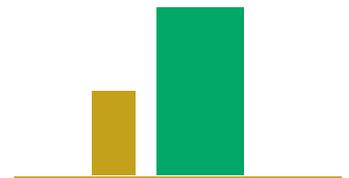
The problem: Many human resource professionals don't know enough about the options available to choose the right benefits administration system for their organization. As a result, human resources departments sometimes default to using the benefits administration functions in their payroll system or human capital management (HCM) platform. Sometimes, this choice is the right one, but often it is not—particularly when critical functions cannot be automated.

A hasty decision when selecting benefits software can lead to significant costs in both time and money. With implementation of some larger systems taking close to one year, the trickle-down effect of choosing incorrectly can be enormous in terms of wasted energy and resources.

So, how is an organization to know which technology solution is the right fit?

For starters, by knowing its options.

By reading this white paper, you will see why defaulting to an HCM platform for benefits administration may open a window to more errors. You will also learn about the features available in standalone systems, an alternative to HCM systems. Finally, you will know what questions to ask as you begin to evaluate new benefits administration systems.



THE CAP ON PENALTIES for failure to file a required information return with the IRS doubled from \$1.5 million to \$3 million in 2016.

In its 2016-2017 Human Resources Systems Survey, Sierra-Cedar found “HR Systems Strategy” to be the second highest technology initiative of those surveyed, second only to “Business Process Improvement.”²

TWO PRIMARY TYPES OF SYSTEMS

Although there are numerous benefits administration systems available, most of them fall into one of two categories: those that are part of a comprehensive HCM platform, and those that stand alone.

HCM Systems

HCM systems encompass the entire employee lifecycle—from recruiting to onboarding, employee records, benefits administration, talent management, and more. Because administrators can access all areas of human capital management through a single sign-on, HCM systems streamline workflow and eliminate redundant data entry.

There are downsides, however.

In keeping with the old cliché, “jack of all trades, master of none,” the various modules of these single sign-on systems are rarely best of breed. While HCM systems are strong in areas such as payroll and time administration, few are as robust as they should be when it comes to managing employee benefits administration. Consequently, employers must make do with manual processes and Excel spreadsheets that are inefficient and leave them open to a wide margin of error.

As an example, most HCM systems do not include the ability to generate either a list-bill or a self-bill where premium is a factor of a number (e.g. the premium calculation is \$0.10 per \$1,000 of coverage). Accordingly, when it comes time each month to provide carriers detailed information on insurance premiums by benefit type (life, disability, and some voluntary coverages), it must be done manually.



TIP:

Work with your benefits advisor to determine if your HCM system is exposing your organization to risk by requiring workarounds and manual processes.

Billing options defined:

List-Bill—The carrier submits the bill to the employer. Although the responsibility of adding and removing employees and coverage information is on the carrier, the employer must be able to pull accurate reports from its system to correctly reconcile payments.

Self-Bill—Using a predetermined set of standards, the employer submits the bill to the carrier along with payment. The responsibility of adding and removing employees and coverage information lies firmly with the employer.

Not to say an HCM system can never be an effective benefits administration tool—some have much stronger benefit administration modules than others. It is merely a matter of knowing what features your company wants and performing the due diligence necessary to arrive at the best solution.

Standalone Systems

Unlike an HCM system, a standalone benefits administration system will not fully integrate with other areas of human resources management. But, while it will not help with time and attendance tracking or talent management, a standalone system does what it does extremely well, automating functions that often remain manual in a more holistic HCM solution.

Standalone systems can automate functions by:

- **Supporting true bill reconciliation**—Instead of manually calculating premiums for self-bills and list-bills each month, the standalone system automatically calculates premiums each month, providing a detailed billing statement for the employer. This helps identify any payroll discrepancies and yields fewer mistakes.
- **Integrating defined contributions**—This functionality is increasingly more important as employers adopt the defined contribution model, allowing the employer to contribute a set amount towards an employee’s health care and the employee to choose the plan that works best for them. Standalone systems have the flexibility to support whatever contributions each employer wishes to make.
- **Recognizing wash rules**—Standalone systems can automatically understand and apply each carrier’s wash rules, or governing factors that determine the premium if an error is made. Because wash rules can vary from carrier to carrier or state to state, it is easy for human resources managers to make errors during the reconciliation process without the automation afforded by the standalone system.
- **Enabling voluntary coverage plans**—While most HCM systems only manage pre-determined coverage, standalone systems have the flexibility to facilitate any number of options for employees, including critical illness, cancer, whole life, pet insurance, and more. This functionality is essential, as employers want to offer more choices to employees to help with recruitment and retention.

Strong standalone systems also offer decision support, enabling employees to determine which of the available benefits plans best meet their needs. This tool is gaining importance as more employers are offering multiple plans, including higher deductible options.



► TIP:

Document the functions you and your team are currently performing manually. Compare these against the capabilities offered in a standalone system and calculate potential time saved.

The Cost of Manual Processes

Manual process can be expensive for companies. bswift has determined that by moving from completely manual to fully automated processes, a 4,400 person organization could save over \$1 million annually. The chart below outlines the savings.

A 4,400-PERSON ORGANIZATION

with an average cost of
\$26 per hour for an administrator,
\$50 per hour for an IT professional, and
\$25 per hour for an employee,

could save
\$8.31 per employee per month (PEPM)
 in **efficiency-related** savings by switching
 from manual to fully automated processes

On top of that,
accuracy-related
 savings were calculated at
\$10.76 PEPM



KNOWING WHAT'S RIGHT FOR YOU

Regardless of whether you are leaning towards a holistic HCM system or a standalone benefits administration solution, there are two important steps that can help you avoid the costly mistake of choosing, or staying with, the wrong system.

1. Defining your benefits system requirements—

Enlist the help of your benefits advisor to document what you need your system to accomplish, paying special attention to manual processes that you would like to automate.

2. Evaluating the systems—

Review your options carefully, making sure to evaluate how each system can support the needs of your business today and in the future.

Defining Your Requirements

Workflow processes and software requirements can vary from one company to the next. It is, therefore, very important to take the time to define and document the benefits administration system features that are most important to your organization.

To get started, review your current workflow and internal process. Identify tasks where you see room for improvement and look for manual processes you'd like to see automated. In addition, document areas where integration with carrier systems could reduce redundant data entry and reduce the probability for errors.

As you work to document your requirements, consider what you need on both a macro and micro level.

On a macro level

- What is your timeline?
- What is your budget?
- How dynamic do you need your benefits enrollment platform to be?
- Do you need to be able to integrate your primary system with carrier systems?
- What complexities in your benefit plans make them hard to administer today?
- What are your payroll integration requirements?
- Do you need the system to administer 401k and retirement plans?

On a micro level

- Do you want a system that can automatically generate a list-bill or self-bill that is accurate?
- Do you want a system that will support voluntary benefits such as critical illness, hospital indemnity, or even pet insurance?
- Do you want a system that supports true bill reconciliation?

Asking yourself questions like these will help you firm up your list of requirements—which will be invaluable as you start evaluating systems.



► TIP:

Consider not only the features you know your company wants, but also the actions and tasks your team must perform to operate efficiently and minimize costly errors.



Evaluating Systems

Once you list your system requirements, it's time to evaluate your options. Be sure to consider the different systems available on the market, the vendors, the implementation timeline, and the training offered. The evaluation process is a good time to bring in your benefits advisor for advice.

6 Steps to Selecting the Right System

- Compare your requirements against the capabilities of different systems on the market.
- Determine if you want an HCM or a standalone system.
- Create a short list of systems and providers that could be a good fit for your company.
- Be sure the providers support employers like you (size, requirements, industry).
- Send out your RFP.
- Get references and check credentials to vet vendor reputation.

CONCLUSION

Though the regulatory landscape around human resources reporting is becoming more complex, there are an increasing number of benefits administration systems available to help make a human resources professional's job easier. Organizations that fully understand their options when seeking a new benefits administration system will be better poised to eliminate reporting mistakes, operate more efficiently, and reduce their compliance risk.

TIP:

Don't be swayed by trendy features you'll never need or use. Focus on the core functionality necessary to automate processes and eliminate risk. In addition, make sure the benefits administration system is backed by exceptional customer service and support.

Acknowledgements

This white paper was produced with contributions from the following benefits administration professionals.



Jamie Hawkins, President and CEO of Benefit Technology Resources, LLC, a benefits consultant for Assurex Global

Hawkins founded Benefit Technology Resources, LLC (BTR) in 2008. BTR is now one of the largest independent human resources technology consulting firms in the country, specializing in the selection, implementation, and management of human resources technology software for ACA compliance, benefits administration, HRIS, payroll, time keeping, talent management and on-boarding platforms.



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Assurex Global is the world's largest privately-held commercial insurance, risk management and employee benefits brokerage group. The company operates as an exclusive Partnership, supported by more than 100 of the world's most respected and successful insurance brokers.

¹Haab-Tallitsch, K. (n.d.). Penalties Doubled for Affordable Care Act Reporting Noncompliance. Retrieved March 27, 2017, from <http://amwestbrook.com/about/news/penalties-doubled-affordable-care-act-reporting-noncompliance>

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