



Why the Public Sector Should Outsource its Benefits Administration

A 10-Question Guide to Help You
Avoid Surprises



In today's rapidly evolving job market, employee benefits must be front and center.

In fact, today's governmental organizations invest on average **35% to 43%** of their overall compensation spend on employee benefits.¹ And for good reason: 87% of them rank **recruiting and retention** of personnel qualified for public service as a top issue.²

This investment overshadows all other industries.

Although the public sector invests more in employee benefits than any other segment of our economy, 14% of HR pros who work in government still say their benefits package **isn't competitive**.² Meanwhile, the private sector enjoys the flexibility of expanding or contracting their benefits to meet the expectations of a rapidly evolving job market.

From the employees' perspective, **57%** consider benefits a major factor in selecting a new job.³ And, **73%** believe the right benefits increase loyalty to their employer.⁴

Overwhelmed HR teams need a partner

As the public sector competes for talent with the private sector and vice versa, benefits have become more complex than ever. Now, administering those benefits is just as important as the benefits themselves.

In fact, **6 in 10** employers say they are "overwhelmed" with the complexity of managing benefits programs.⁵ And among governmental organizations, a mere 17% say their current human resources management system is **meeting their business needs**.⁶



57%
of employees
consider benefits
a major factor
in selecting a
new job.

1 Employer Costs for Employee Compensation, U.S. Bureau of Labor Statistics, 2019

2 Workforce Trends Survey, Center for State and Local Government Excellence, 2019

3 5 Job Trends to Watch in 2016, Glassdoor, 2016

4 17th Annual US Employee Benefit Trends Study, MetLife, 2019

5 Benefits Complexity Overwhelming Employers, National Association of Plan Advisors, 2017

6 HR Systems Survey, Sierra-Cedar, 2019

Public sector investment projected to rise

According to the Sierra-Cedar Survey of HR Systems, 40% of governmental organizations plan to **increase their spending** in HR systems in the next two years.¹ When considering benefits administration technology, today's HR teams have a lot of options. To help you narrow down your choices, it helps to understand the two basic models of benefits delivery.



Insourcing: In this model, the organization relies heavily on internal resources to manage the entire benefits administration process, from enrollment to customer service. Most often, the technology used in this model is a basic benefits module that is tacked on to the organization's existing human capital management (HCM) or enterprise resource planning (ERP) software.



Outsourcing: In this model, people, processes and technology are all handled by a third party. Also called a "point-solution" or "best-in-class" benefits administration platform, the technology is robust and the services are tailored to suit each organization's unique needs and culture.

From a cost perspective, the price tag for an outsourced solution may, at first, seem larger than that of setting up an insourced solution. Organizations who insource, however, must make additional investments in staffing, and often must turn to consultants for the ongoing maintenance of their platform. Outsourced solutions, by contrast, have a more predictable and budget-friendly cost structure.

As such, organizations face a fork in the road. Before they decide which vendor to use, they must first decide which sourcing model works best for them.

If your organization is leaning toward an insourced model, this white paper poses 10 questions you should ask yourself, your peers, your IT department, your procurement department and your CFO before you start your search.

¹ HR Systems Survey, Sierra-Cedar, 2019



Public sector organizations leaning toward an insourced model should carefully consider the 10 questions in this guide.

1 What's my projected total cost of ownership throughout the contract?

As HR budgets struggle to keep pace with other business priorities, the decision to insource or outsource often comes down to cost. This is why insourced solutions seem so attractive at first glance; it's hard for a CFO to say no when your existing HCM or ERP offers a basic benefits administration module at little or no cost. Unfortunately, CFOs typically lack a direct line of sight into the day-to-day work of benefits professionals, which prevents them from seeing the entire picture and the downstream impact of insourcing.

With contracts for benefits administration solutions often spanning two, three or even five years, you need to make sure your CFO understands the long-term impact of selecting one platform over another. Start the conversation with a set of scenarios in which you **estimate the total cost of owning a solution during the full term of the contract** after hiring additional staff, borrowing resources from your IT or legal departments and/or paying consultants. Also make sure to research the costs of selecting a solution that may put your organization at risk for financial losses due to security breaches or employee experiences that negatively impact your talent retention efforts.

2 What services do I need?

Any search for benefits administration technology and services starts by determining what's in scope. First, break down your benefits administration processes into their component parts. Most organizations can identify around 20 separate tasks in health and welfare administration, let alone ancillary benefits services.

Then, ask yourself which components you can accommodate internally (e.g., enrollment, fulfillment, etc.) and which you'd need assistance with (e.g., COBRA administration, FSA administration, system design, etc.). If the solution you're considering can't accommodate your needs, **tell your CFO how much funding you'll need** for additional vendors, specialized staff or consultants.



How will I deliver these services?

After identifying your scope of work, consider how each service will be delivered. Take FSA administration, for example. While an insourced solution may include the integration of FSA data and streamline some of your team's administrative work, this benefit means very little if you don't have a way to communicate it to employees or provide them with the tools (e.g., a mobile-friendly portal) that allow them to engage with and appreciate it.

Make sure you have a **full understanding of your members' experience** and how that impacts your team downstream. When public sector organizations outsource their benefits administration to professionals, it conveys they truly care about the employee experience, which has a big impact on retention. Insourcing, on the other hand, often results in employee dissatisfaction and unwanted inquiries to your staff who must try to make it right. Worse, poorly delivered benefits might result in employees making decisions that are not the right fit for them, their covered dependents or you.

Who will build and maintain my platform?

Organizations with only a few hundred employees and who offer relatively few benefits may, in fact, want to consider insourcing their benefits administration. The larger your organization is and the more complex your benefits are, however, the less likely a one-size-fits-all approach will work for you. Because the functionality of HCM- or ERP-based benefits modules is so basic, any customizations to your platform will likely have to be completed by an HR tech consultant. Before you go down the path of insourcing, find out what your consultant would charge to simply get your platform ready for the first day of annual enrollment.

Then, consider any mid-year changes that may become necessary, such as making a tweak to a life insurance plan, or responding to new file feed requirements from your vendors. This is fine if you or your IT team has the technical expertise required. If not, **get a quote on the hourly rates a consultant would charge** for mid-year changes.



When governments outsource their benefits administration to professionals, it shows they care about the employee experience.

Will my platform support my future benefits strategy?

As health care costs continue to increase and utilization trends emerge, the biggest wins you can make are in the plan design itself. **The last thing you want is a platform that won't support your future cost-savings efforts** because it lacks flexibility or would be too costly to reconfigure each year.

Some changes, like introducing a high-deductible health plan, may already be on your radar. Remember to consider other possible changes as well. To stay competitive, will you need to add more voluntary benefits like identity theft protection, pet insurance, student loan consolidation, or long-term care insurance? And what will happen if you were to change carriers altogether, as in the case of life or long-term disability? Will your selected platform be able to accommodate these changes while meeting the needs of grandfathered beneficiaries and retirees?

Who will train my staff and maintain documentation?

Nobody knows the impact of turnover better than HR professionals. If you've ever lost a team member during annual enrollment, you know the implications—you and your team must work longer hours, morale declines and missteps during "go-time" can cause problems for the remainder of the plan year.

The more benefits administration services you decide to handle internally to support an insourced solution, **the greater the need for an agile and well-educated team** supported by ongoing training and robust process documentation. This is especially true if you have created a call center to service your employees throughout the plan year. In this environment, every day is "go-time."

What compliance issues should I consider?

Organizations who insource agree to **take on additional fiduciary risk** when it comes to compliance requirements associated with HIPAA, the ACA and dozens of other regulations. Before you insource, consider everything this entails, from the staff, to the technology, to the facility where benefits administration will take place.

Also remember that governmental regulations are anything but predictable. As compliance issues grow more complex at the city, state and federal level, make sure the legal and compliance experts within your organization have the bandwidth to help you navigate this territory. If not, ask your CFO for additional resources or consider an outsourced solution supported by experts who work on compliance issues every day.

What other factors should I consider in creating an internal service center environment?

The service centers of today look nothing like those of five or even three years ago. In the benefits space especially, the drive to reduce healthcare spend, create operational efficiencies and maintain compliance has resulted in significant investments in technology.

It's no surprise. Failure to verify dependents with tools such as document imaging, for example, can result in paying large and unnecessary claims. Or, failing to capture the details of a call can result in missteps, costly rework and frustration among your team members.

To ensure you're meeting your leadership's expectations for accuracy, timeliness and employee experience, **consider the cost and implementation timeline of the technology you'll need** to run an efficient and effective service center. Examples include technology to help you manage cases, record calls, build and maintain a staff knowledge base, generate reports, conduct business analytics and securely image and store documents.



The drive to reduce healthcare spend, create operational efficiencies and maintain compliance has resulted in significant investments in technology.

What's my potential vendor's available technology and what's on their roadmap?

HR is constantly being asked to do more with less. Fortunately, machine learning and artificial intelligence are helping reduce the burden of the day-to-day activities associated with benefits administration.

When considering an insourced solution, ask vendors about the technology they have in place to make you more efficient, which features are included and which components are available as buy-ups.

Also, learn as much as you can about **where each vendor is headed with their benefits administration technology**. Find out how it compares to other vendors, including outsourced best-in-class point-solutions.

How dedicated is the vendor to employee benefits in the public sector?

When going to market for benefits administration technology and services, this can be one of the most important questions governmental organizations should ask in their RFP. Find out the **percentage of each vendor's revenue that is attributed to benefits administration**, and learn as much as you can about their history in serving public sector organizations. Make sure they can serve the highly complex environment of the public sector and that they have invested considerably in understanding how to best serve governmental organizations.

If benefits administration is not one of your vendor's core competencies, you may be exposing yourself to risk for long-term ownership of the platform. The less dedicated they are to benefits administration, the less likely they are to invest in the kind of changes you need to be efficient and competitive with your benefits offerings. Worse, they could sell off or phase out the benefits administration portion of their business, leaving you to maintain the platform yourself through expensive consultants.



Learn more

As HR budgets continue to be stretched, it's easy to gravitate toward solutions that appear to have a lower initial price tag. When considering new technology and services, it's natural to focus on the perceived savings in the first year after adoption.

Unfortunately, not all governmental decision-makers have a direct line of sight into the work you do every day to help achieve your organization's business goals. **And, unless you educate yours, he or she won't be able to predict the downstream impact to your team of selecting one solution over another.** For yourself and for your team, you must become an advocate for the total cost of owning all the HR technology you purchase.

For many HR professionals, the best place to start is the proverbial fork in the road. Well before you decide to use Vendor A or Vendor B, you need to determine whether your organization is ready to take on the responsibilities of insourcing or if your capacity is better suited toward an outsourced model. **To learn about both, watch our on-demand webinar "Building Your Benefits Dream Home" at Businessolver.com/resources.**



You must become an advocate for the total cost of owning the HR technology you purchase.





Market-Leading Benefits Technology
+ Innovative, High-Touch Services

businessolver.com

