

Position Paper

Ten HR Administration Cost-Reduction Strategies for Tough Economic Times

Alison Borland, Hewitt Associates
Karen Frost, Hewitt Associates
Mike Wright, Hewitt Associates



About the Authors

Alison Borland, Retirement Outsourcing, Product Development and Strategy Leader Alison Borland leads product development and strategy for Hewitt's Retirement Outsourcing business. She uses her expertise and knowledge of the marketplace to develop and implement unique solutions to support Hewitt clients in their efforts to help their employees achieve retirement success. Having spent more than a decade helping organizations navigate the challenges and risks associated with retirement income and postretirement welfare programs, she has a particular focus on defined benefit and defined contribution strategy and design. Alison holds a bachelor's degree in mathematics with a minor in French from Vanderbilt University. She is a Fellow of the Society of Actuaries and an Enrolled Actuary.

Karen Frost, Health and Welfare Outsourcing, Product Development and Strategy Leader Karen Frost is product development leader of the Health and Welfare Benefits Outsourcing Group. She's responsible for growing and innovating Hewitt's Health and Welfare Outsourcing service through new features, functionality, services, and markets. With more than 20 years of experience in health and welfare benefits administration, Karen serves as a companywide resource on all health and welfare benefits administration issues. Her broad experience in health and welfare administration includes project management, systems development and implementation, quality assurance, client management and consulting, and training. Karen earned a bachelor's degree in business and French from Lake Forest College and a master's degree in business administration from the University of Chicago. She's also a Certified Employee Benefits Specialist.

Mike Wright, HR Outsourcing Sales and Product Development Leader As the global leader of Hewitt's HR Outsourcing Sales Group, Mike Wright is responsible for driving sales and revenue growth through new and expanded client relationships for the key areas of Hewitt's outsourcing business: large-market benefits outsourcing, mid-market benefits outsourcing, HR point solutions, and HR BPO. Having been with Hewitt since 1982, he's well-known for developing strong client relationships and helping Hewitt clients develop long-term strategies for HR delivery. Mike is an expert at working through complex issues with clients and creating solutions that address business needs. He holds a Bachelor of Commerce degree from the University of Manitoba and is an Associate of the Society of Actuaries.

In the wake of recent global economic turmoil, business leaders are focusing more intently on the bottom line, redefining priorities based on current realities. Those unfortunate realities include lower stock prices, rising unemployment, and fewer growth opportunities. For most companies, the immediate priority is clear: Implement cost reductions across the board.

As an HR leader, chances are good you've already received the senior management directive to reduce expenses while maintaining the high level of quality and service that your people have come to expect. With many HR organizations already strapped for resources, your challenge is to identify the reductions and investments that will yield the largest immediate savings and future returns. That's no small feat.

A New Mind-Set

Today's economic environment requires a new mind-set. "Nice-to-have" products and services are being jettisoned. Even necessities are being scrutinized with a critical eye toward performance and value. While reducing HR costs is a challenge in the current environment, the mandate to reduce costs has created a burning platform for HR, opening up new opportunities that may not have been available in the past.

To help get your arms around some of the cost-reduction opportunities available to you through HR administration, we've compiled a list of ten strategies designed to maximize your outsourcing relationship and help you get the most from your HR administration investment. A few of these strategies may be new to you. Others you may have already implemented. Whether or not you have an existing outsourcing relationship with Hewitt, by executing even some of these strategies, your company could easily save

10–20 percent on overall benefits costs, and a portion of broader HR delivery costs. And by doing so, you and other HR leaders can help lead the cost-reduction discussion in your organization.

1. Control Plan and Eligibility Expenses

For most companies, identifying the overpayment of claims (commonly referred to as "leakage") is one of the most promising areas for cost reduction, potentially resulting in millions of dollars in savings. Managing the eligibility data for multiple health plan carriers requires HR/benefits staff to report and reconcile data with each health plan regularly. Unless you've conducted an eligibility audit recently, you're undoubtedly providing benefits to ineligible individuals. Given that more than half of all health care costs come from spouses and dependents, that can add up over time, resulting in higher health care costs. Conducting a dependent audit and eliminating those ineligible for benefits can reduce health care claim costs from 4 to 8 percent.

In the past, companies have operated on the honor system when it came to registering dependents. The common thinking was that the cost of a few ineligible dependents being added to the rolls each year was less than the cost of validating each new dependent. With health care costs continuing to increase an average of 7 percent each year, that is no longer the case.

At a recent Hewitt outsourcing client conference, a number of clients told us that they had always wanted to conduct a dependent audit but couldn't get buy-in from senior management. Now, due to economic pressure, they have the license to move forward. In

response to high demand from companies seeking help with this process, Hewitt recently introduced a stand-alone dependent audit service.

Moving from the honor system to a full-scale audit, however, requires cultural sensitivity and proactive communication support. A recent Hewitt study showed that when paired with robust communication, most employees respond favorably to a dependent audit and employer efforts to cover only eligible family members.

Pension Savings

On the pension side, there are two primary potential areas for savings. The first is to identify those who have account balances that fall below mandatory cash-out limits and distribute the payments, thus reducing administration costs. The second is to identify retirees who may be deceased but still receiving benefits. Often, employers can be unaware of retiree deaths and continue to pay pension benefits for a period of time. To minimize the overpayment error, we recommend working with the Social Security Administration on a biannual basis to verify that the people currently receiving pension benefits should be receiving them. Identification of deceased retirees can reduce inactive liabilities by 3 percent.

Following Through

Recently, Hewitt helped a large health care client eliminate more than \$18.5 million from plan costs by identifying ineligible participants. A retailer saved more than \$4.1 million per year by eliminating ineligible retirees from health plan files. The key with both health care dependent and pension audits is to have the resolve to drop those not eligible for benefits from the plan. Going through the audit process but failing to follow through does not result in any meaningful cost savings.

2. Manage Absences and Disability

Another prime target is the reduction of hard and soft costs associated with employee leaves of absence (LOAs) and disability claims. If not tightly managed, both can negatively impact productivity and generate unplanned costs through overtime and temporary labor expenses.

At issue is the fact that very few companies have centralized and integrated leave and disability management programs due to complex business structures and geographically dispersed workforces. In most cases, responsibility for managing LOAs falls to the discretion of the employee's manager, creating wide discrepancies between business units and geographic regions, not to mention significant business risk.

Without a centralized and standardized process, companies are unable to determine the full cost of LOAs to the organization. Uniformly managing the process from the initial leave to return to work can generate a 10–20 percent decrease in lost productivity.

Similar issues surround managing short- and long-term disability. Many administrators fail to regularly review long-term disability (LTD) claims for return-to-work or closure opportunities, resulting in unnecessary costs.

Gain Control of Leaves and Disability Claims

The easiest way to tighten management around LOAs and disability is to hire a third party. This takes the discretion away from the manager and requires employees to report a leave to the objective third party and receive the support they need related to the leave. Working with your provider, you can:

- Automate the delivery of LOAs and disability management to employees;
- Reduce unnecessary cost;
- Manage durations;
- Improve compliance; and
- Mitigate the potential for absence abuse.

3. Improve Coordination With Medicare

Disabled employees can cost employers 200 percent or more of active health care costs. Tighter coordination with Medicare and shifting to Medicare primary status can save 25 percent or more of health care costs for these individuals.

Moving disabled employees to Medicare primary status creates its own administrative challenges. Disabled employees are eligible for Medicare after 24–30 months of disability. Currently, however, many of these employees are not moved to Medicare primary status at the appropriate time, resulting in additional health care claims costs for the employer (which should be covered by Medicare).

Employers often have a full-time leave coordination manager who should be managing this process for those on disability. If you work with an outside disability manager, now is a good time to ensure that they're doing this for you and to review your contract for service level agreements (SLAs) on moving disabled employees to Medicare.

If employees are not moved to Medicare when they become disabled, it can result in claims overpayment.

In addition, Medicare conducts an annual review to determine whether they mistakenly made payments that should have been paid by employers. Through a Voluntary Data Sharing Agreement with Medicare, your provider can help administer an alternate program to prevent the audit, saving time and money.

4. Go Green!

As benefit plan designs become increasingly complex and as people of all ages grow more accustomed to conducting business and communicating over the Internet, there's a significant opportunity to move all employee communication online. Many companies have already done so—but for those who have not yet made the move, the transition to online communication can save companies as much as 50 percent in communication costs (not to mention the saving of trees).

The fact is that from printing to postage, print communication is expensive. And the more complex the plan, the more it costs to communicate in print. For example, multiple versions of print materials can increase printing and mailing costs by 25 percent or more. Housing all communication online eliminates these costs.

Personalizing Online Communication: Empowering Informed Decision-Making

It's not just about the money, however. Instead of creating and managing multiple versions of a print communication piece, online communication allows employers to personalize communication on an individual level, populating data fields with information meaningful to the employee. In addition, online communication enables powerful decision-support and modeling tools that help employees make better-informed decisions. Some companies have found that providing materials on only paper actually increased call center activity by Millennials who didn't read them or by others who misplaced them.

There has been a steady migration toward online communication over the last decade. In 2008, across Hewitt's clients, 82 percent of employees now enroll for benefits online, young and old alike. Even with such wide adoption, there has been a persistent fear that moving online could alienate certain employee groups. At one time, that was a perfectly legitimate concern. However, as the workforce consists of more Millennial generation members—who have never known a world without the Internet or cell phones—there's growing evidence that employees today actually prefer to be engaged through electronic communication. From Facebook to Twitter, the younger generation communicates online, and we're seeing a significant increase in online usage by mature employees who don't want to be left behind.

Hewitt recently migrated a large telecommunications company's union population to online enrollment, allowing participants to request printed kits if they preferred. In the first year, the number of kits requested dropped to 6 percent of the original 90,000, and then to less than 2 percent in the second year. The move resulted in

Keys to Effective Online Communication

- Minimize paper statements
 - Provide print statements on demand only
 - Reduce mailing frequency (as possible)
- Encourage employees to sign up for online EOBs and negotiate fee reductions with health plan carriers
- Communicate online
 - Company intranet
 - Benefits portal
 - High-impact e-mails
 - Flash or multimedia content
- Maintain plan content online
 - Online summary plan descriptions (electronic consent)
 - Forms library
- Audit communication approach to identify streamlining opportunities
- Engage employees by matching communication preferences to delivery vehicles

savings of \$300,000 in printing and fulfillment costs and nearly \$200,000 in postage per year. Satisfaction with online enrollment remained at more than 90 percent.

5. Maximize Use of Tax-Advantaged Benefits

Here's a relatively simple, but often overlooked, idea that reduces costs for employers and employees alike: Get employees to take better advantage of the flexible spending accounts (FSAs) and Health Savings Accounts (HSAs).

Everyone knows that when used correctly, FSAs and HSAs provide a tax benefit for employees. Unfortunately, they're significantly underutilized. According to Hewitt data, health care FSA enrollment averages

20 percent. Dependent care FSA participation averages just 5 percent, and only 6 percent of employees enroll in High-Deductible Health Plans (HDHPs) with HSAs, when available.

Why? Typically, it's because either employees don't fully understand how they work, or they have some fear around the "use it or lose it" component of the plans. What some employers tend to forget, however, is that increasing participation in FSAs and HSAs can result in immediate tax savings for companies as well.

Employee contributions to FSAs and HSAs are not subject to FICA and other employment taxes. Every dollar that goes into a tax advantaged (up to the Social Security wage base) results in a 7.65 percent FICA tax savings right off the top. That may seem small, but it can really add up!

For example, an average employer with 4,000 participants and \$4,000,000 in FSA or HSA contributions would save more than \$300,000 in FICA tax. By increasing contributions by 10 percent to \$4,400,000, they would be able to take advantage of an additional \$30,000 in FICA savings. In addition, increasing HDHP enrollment can result in significant health care cost savings beyond the tax savings associated with HSA contributions. Moving the needle in increasing FSA and HSA participation comes down to more robust communication tools that help employees understand the value of the plans and feel more confident about their health care cost estimates. Most people can predict their basic health care costs in a given year. It's a matter of providing the appropriate tools and calculators to help employees make

...increasing participation in FSAs and HSAs can result in immediate tax savings for companies as well.

informed enrollment decisions.

6. Optimize Outsourcing Delivery Solutions

Outsourced HR/benefits administration represents a large portion of the overall HR budget. When you need immediate cost reductions, it makes sense to look to your outsourcing provider for help. Optimizing outsourcing services results in reduced compliance risk, improved ability to react quickly, and reduced costs through automation.

It could be that your current delivery model does not reflect the immediate cost savings priority. Duplicative technology may exist, or participants may have multiple HR and benefits access points without integration to drive smarter decisions.

The point is that the current economic climate has encouraged employers to rethink the way they deliver HR services to employees. For example, under the current cost-reduction directive, the arduous task of moving paper beneficiary forms online could be worth the investment in the long run. Many companies are also taking a critical look at their delivery model. Companies that have traditionally provided call center access to a live person from 8 a.m. to 7 p.m. are reviewing call volume and reducing availability hours to cut costs, based on the data. Others are rethinking whether their retirees have to speak with a native English speaker when they call with questions. Your outsourcing

HR Delivery Optimization Checklist

- New processes
 - Solicit new beneficiary designations online
 - Improve HR data quality
 - Automate manual processes
 - Implement and expand employee self-service
- New delivery model
 - Optimize call center hours
 - Vary level of call center support by population
 - Require employee self-service (when available)
 - Streamline business/processing rules
 - Streamline/reduce channels to lowest cost
 - Outsource low-value or stagnant programs to lower-cost solutions (e.g., frozen pension plan)

provider can help you prioritize potential solutions.

7. Achieve Health Plan Migration Goals

It should come as no surprise to anyone that health care costs continue to rise at a rapid rate each year. To save costs, employers often need employees to move from Plan A to Plan B. In general, most employees are reluctant to change health plans and tend to overinsure due to risk aversion.

In the past, companies have been more likely to use a carrot approach, but the current economic environment has increased employer willingness to look at other options. Your health care consultant can help you achieve your cost-saving goals, with

Plan Migration Checklist

- Create a benefits portal
 - Personalized portal that provides easy access to all benefit information and connection to programs
- Create a Total Rewards portal
 - Personalized portal that demonstrates the total value of compensation and benefits
- Take control of enrollment
 - Communicate, communicate, communicate
 - Require active enrollment
 - Set default to low-cost option or no coverage
 - Provide online tools
 - Guide participants online or via counseling
 - Provide incentives for enrolling

many companies experiencing savings of 5 percent or more.

8. Pay Retirement Fees From the Plan Trust

We've been talking a lot about potential savings in health care, but retirement plan administration holds potential cost savings as well. Like health care, the cost of providing retirement benefits is rising (although not as fast), and 401(k) fees have been under increased scrutiny. While some employers choose to pay for plan administration out of pocket, ERISA allows for costs associated with the ongoing administration of the plan to be paid from the plan trust. Currently, 58 percent of mid- to large-size companies already pay for all administration expenses from the plan trust, while 42 percent pay at least some out of pocket. For those 42 percent who do not currently share costs with participants, there's an opportunity for 100 percent cost savings by beginning to pay for administration from the trust. For large compa-

nies, the savings can be in the millions of dollars per year.

The current economic climate has made this a viable strategy in lieu of layoffs. In many cases, employers combine the administration fee pass-through to participants with a move to institutional funds, which are significantly less expensive than retail offerings. Combined, the dual solution can be cost-neutral or even less expensive overall for participants. Obviously, this change requires disclosure and communication to employees, notifying them of the fees associated with administration. Combining the news with a move to institutional funds makes for a more positive message.

Understanding Total Plan Cost

The first step is having a detailed understanding of your total plan cost. Employers should calculate the total costs associated with their 401(k) plans to identify savings potential and reduce fiduciary risk. According to Hewitt research, only 60 percent of companies have tried to calculate their total 401(k) plan costs. Understanding total plan cost enables employers to quantify and prioritize additional

Opportunities for Cost Sharing (percentage of employers pay)

- Administration fees (42)
- Loan fees (16)
- Audit fees (79)
- Investment consulting (71)
- Communications (74)
- Qualified Domestic Relations Order (QDRO) fees (52)

cost-sharing opportunities.

9. Manage Risk and Administration Error

Managing HR compliance and administration is a difficult and highly specialized process requiring highly trained staff. Most HR departments were once deep reservoirs of institutional knowledge. As HR organizations reduce staff, less knowledgeable people often end up doing the work. As a result, mistakes occur, resulting in employee relations issues, tax issues, or increased costs. Or worse yet—all of the above.

Given the complexity of administration and continued legislative changes, the best way to minimize mistakes (and their associated costs) is to work with benefits and compliance experts, implement their best practices, and outsource administration. By doing so, companies can improve accuracy and compliance and minimize costly mistakes, liability, and participant complaints.

10. Consolidate and Manage HR Suppliers/Streamline HR Administration

As an HR leader, you most likely began your career in HR because you wanted to help your company and its people succeed together. And on a good day, you get to do exactly that. But that's not all you do. Now, you also have multiple vendors providing a variety of important HR services to your team and employees. At one point, you may have been under the impression that hiring these vendors would free you and your team to focus on strategy and helping people succeed again. Now, your day consists primarily of managing and coordinating multiple suppliers. This is not your area of expertise and not what you had in mind

when you entered HR in the first place.

Sound familiar? It's a common scenario for HR professionals—especially for those in businesses that have grown organically or by acquisitions over time. One of the most cost-effective solutions is to partner with a vendor management expert to take on that contract management responsibility for you. As an expert at managing suppliers, the provider can help you:

- Analyze your current HR supply base for appropriate sourcing strategies;
- Leverage spend by category to consolidate suppliers;
- Apply leveraged spend with specific supply types;
- Eliminate contract variances; and
- Negotiate/track performance metrics.

In the process, a professional manager can help you achieve a 10–20 percent cost reduction and establish performance metrics for each vendor. In many cases, the savings achieved more than pay for the cost of the professional management service itself.

One of the greatest benefits of outsourcing vendor management is that in most cases, your selected provider can help you move to achieve savings quickly. If you haven't outsourced in the past, professional vendor management can be an excellent entry point.

Streamlining HR Administration

The same approach holds true for HR administration. Your current structure has evolved over time, but is it driving the behavior you want? Maybe you still have large amounts of paper going out, maybe you have too many access/distribution channels, or perhaps you still have nonstandard practices and policies. Your outsourcing provider can help you reduce or eliminate high-cost channels, identify the

most efficient channel, and leverage the platform to drive the desired behavior.

Conclusion

Clearly, these are challenging times for all businesses, but with this challenge comes the opportunity for HR to lead, improve efficiency, and reduce costs. As your outsourcing partner, Hewitt is here to help you maximize the value derived from your HR administration investment during these uncertain economic times. In the short term, we can work with you to identify immediate cost-saving strategies and determine which ones will be most applicable in your organization, resulting in an action plan to achieve results this year. Over the long term, we can help you develop ongoing cost-management strategies that leverage these ideas and our deep outsourcing expertise.

For more information on reducing HR administration costs, contact your Hewitt relationship manager or e-mail [**peoplesolutions@hewitt.com**](mailto:peoplesolutions@hewitt.com).

www.hewitt.com

About Hewitt Associates

Hewitt Associates (NYSE: HEW) provides leading organizations around the world with expert human resources consulting and outsourcing solutions to help them anticipate and solve their most complex benefits, talent, and related financial challenges. Hewitt consults with companies to design and implement a wide range of human resources, retirement, investment management, health management, compensation, and talent management strategies. As a leading outsourcing provider, Hewitt administers health care, retirement, payroll, and other HR programs to millions of employees, their families, and retirees. With a history of exceptional client service since 1940, Hewitt has offices in 33 countries and employs approximately 23,000 associates who are helping make the world a better place to work. For more information, please visit **www.hewitt.com**.