



Actual Cost Savings for Outsourcing Benefits Administration

Outsourcing has not always been regarded in a positive light. Entering the business scene in 1989, outsourcing provided many early adopters with an opportunity to turn to offshore development to handle information technology at a less expensive rate. Despite criticism for shipping American jobs to other countries, companies persisted in adopting outsourcing as part of their regular business model. "The important thing about outsourcing or global sourcing is that it becomes a very powerful tool to leverage talent, improve productivity and reduce work cycles," Azim Premji, Chairman of Wipro Limited, explains.

In recent years, outsourcing has become an innovative strategy to grow a company, as it allows the organization to focus on its core mission, while simultaneously saving the company money, time, and staff resources, as well as offering large returns on investment. As Michael Corbett, Chairman of the IAOP, says, "Challenges create opportunities. Outsourcing service providers are very aggressively examining their products and services to create greater value and increase market share in these times. Companies are recognizing they need to use this as an opportunity to strengthen relationships with their partners because each one of those partners will make them a better company."

A good rule of thumb is to outsource a business' weaknesses so that leadership can focus on their company's strengths and goals. When evaluating business functions, leadership should consider company resources to determine which will provide the highest return on investment.

One of the main business functions that companies outsource is benefits administration. Typically, the burden of benefits administration is shouldered by human resource departments. With a plethora of responsibilities, including changing legislation, incorporating diversity and inclusion in the workplace, and assisting leadership and employees alike, removing the burden of benefits administration from HR staff frees them up to focus on the company's culture, mission, and its people.

Considerations for Outsourcing Benefits Administration

When taking outsourcing into consideration, every organization must examine the benefits of each potential partner and the needs of their own workforce. Understanding these key elements will help companies find the ideal outsourcing partner. Because every organization is different in terms of workforce size and eligibility requirements, businesses need to realize that benefits administration is not a "one-size-fits-all" approach. One survey found that the top two challenges facing benefits departments by a wide margin are compliance with benefits laws and regulations (72.6%) and rising health-care costs (51.9%).¹

In addition to providing benefits expertise, benefits administration firms have the processes, systems, and technology to save management time and money while providing them the ability to focus on other business functions. By outsourcing benefits administration, including employee-data management, companies experience greater freedom and avoid security and financial hardships, especially in the areas of liability and compliance, technology expenses, and salary expenses. "An outsourcing increase is a positive thing for benefits departments," says Julie Stich, Research Director at the IFEBC. "Benefits staff are working smarter and more efficiently by choosing the mix of outsourcing, co-sourcing and insourcing that's right for them."²

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Liability and Compliance

One of the primary concerns for businesses is maintaining ACA, ERISA, HIPAA, and COBRA compliance. In fact, nearly three out of four employers say that compliance is the biggest issue their benefits departments face.³ Because these laws are intricate and frequently change, there are myriad pitfalls that present great financial risk. With the potential of millions of dollars in fines as well as being vulnerable to lawsuits, companies need the assurance of remaining compliant at all times.

ERISA violations can cost up to \$110 per day, and excise tax penalties can be levied at \$200 per day. Because benefits administrators are tasked with keeping employees' personal information safe, they must ensure that all HIPAA regulations are followed. Any breach can spell a huge financial disaster because a HIPAA violation alone can cost up to \$1.5 million. In fact, in 2018, several companies faced steep HIPAA penalties:⁴

- Fresenius Medical Care North America paid \$3.5 million for multiple compliance failures that resulted in five personal health information breaches.
- University of Texas MD Anderson Cancer Center paid a penalty of \$4.3 million for a lack of electronic encryption that led to the disclosure of nearly 35,000 patients' personal health information.
- Anthem, Inc. settled for a \$16 million fine for a data breach of 78.8 million records.

Claims processing can also cause compliance headaches. An improperly processed claim often leads to a host of issues for both participants and the employer. Additionally, terminated employees who are not removed from coverage leave the employer responsible for the premium and any claims incurred before the error is caught.

With steep fines that pile up before companies are even aware of their noncompliance, the costs that come from outsourcing offer peace of mind and outweigh the risks. Outsourcing benefits administration and the gathering of all applicable data required to prove compliance is often the best course, especially for small businesses. Companies who handle benefits administration offer a layer of protection and provide the expertise, systems, and processes to handle this responsibility.

Technology Expenses

Building and maintaining technology requires a variety of ongoing expenses. Using web-based, SaaS benefits administration technology gives companies the freedom of not having to maintain the technology in-house and delivers significant cost savings. Furthermore, web-based technology can offer the added benefit of employee self-service.

When a company manages technology internally, significant overhead for enrollment and benefits-related tasks is incurred. For example, companies that rely on manual processes, such as filling out forms, encounter increased costs when it comes to physically entering the forms in a database. When these companies switch to web-based systems, they offload the majority of manual tasks for more streamlined solutions. In just a few clicks, employees can learn about their options, enroll in benefits, add their family members to coverage, and upload supporting documentation such as birth and marriage certificates. Turning to web-based systems saves both employees and HR time, so they can focus on other things.

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Salary Expenses

Handling benefits administration responsibilities often requires full-time subject matter experts on staff. These time-consuming tasks necessitate a dedicated team that can ensure compliance, manage processes and claims, and handle any issues as they arise. Employees who are not sufficiently trained can put the company and employees' personal information at risk, leading to costly mistakes. Expecting HR staff or managers to assume benefits administration responsibilities places a huge burden on their time and their ability to perform other necessary job functions and limits their ability to connect with the employees they serve. This burden can cost business owners in a multitude of ways.

According to Glassdoor, the average annual salary of a human resource employee is \$63,162.⁵ The Employer Costs for Employee Compensation Survey study discovered that benefits cost the average employer \$21,726 annually per employee,⁶ leading to a combined annual cost of nearly \$85,000 per HR employee. By turning this cost into savings through outsourcing, companies can capitalize on the expertise of benefits administration companies while alleviating the weight on HR staff.

For small companies in particular, this savings makes a big difference. Lena Smith, the HR manager at Cannon Construction Inc, shares, "[Our company is] small enough that HR is all in my office, along with a payroll manager, as we do payroll in-house. Outsourcing alleviates the need for us to bring in an HR administration person, which we otherwise would have had to do."⁷

Outsourcing benefits administration functions gives HR staff more time and opportunity to focus on other important tasks. It also eliminates the need to bring on additional in-house staff to take over these responsibilities. Hiring subject matter experts is costly, and in the event of turnover, companies lose the business acumen of their expert(s). Not only will companies save on salary and benefits expenses, but they will also save the time and expense that would be spent hiring and training a new subject matter expert.

Overall Cost Savings of Benefits Administration Outsourcing

When looking closer at the cost savings of outsourcing benefits administration, several studies offer detailed insight. The results of one study by Sourcing Analytics in 2015⁸ revealed that, on average, the cost per employee with outsourcing is less than the cost of performing benefits administration in-house (\$165 vs. \$199). Additionally, the average cost per employee when outsourcing while utilizing an employee call center for support is less than the cost of outsourcing without the call center (\$151 vs. \$182), suggesting that providing employee support is essential to companies.

Another study⁹ took into account the total operating costs of each HR staff member. The resultant calculation showed a median cost of \$100,000, with an upper- and lower-quartile range of \$132,275 and \$73,100, respectively. Large company (1,000 employees+) costs per HR member are less (\$86,428) than small companies (1-249 employees) at \$111,110 and mid-sized companies (250-999) at \$95,909. These figures also differ by industry type. These costs are in addition to the expenses of recruiting, training, managing, and attrition with an average of over \$5,000 per employee, according to the Society of Human Resources Management (SHRM).

Each study shows that smaller to mid-size companies can reap the rewards to outsourcing HR functions like benefits administration and allow a smaller in-house HR staff to focus more on employees. Not only will leadership have more of a bandwidth to focus on essential business tasks, but they will also have the confidence that these important functions will be managed correctly.

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Summary

Overall, outsourcing benefits administration is generally less expensive than in-house administration. The preference when outsourcing is to use web-based, employee self-service technology that includes call center services for maximum support. The key is to choose the right company that offers a combination of intuitive technology, expertise, and exceptional support in order to build a long-term partnership.

Sources

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² <https://humaninterest.com/blog/outsourced-hr-employee-benefits-administration/>

³ Corporate Benefits Departments: Staffing and Operations, International Foundation of Employee Benefit Plans, <https://www.ifebp.org/bookstore/corporate-benefits-departments/Pages/default.aspx>

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⁵ https://www.glassdoor.com/Salaries/human-resources-salary-SRCH_KO0,15.htm

⁶ <https://www.benefitspro.com/2019/01/28/benefit-costs-broken-down-into-the-numbers/>

⁷ <https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/benefits-outsourcing-up.aspx>

⁸ http://sourcinganalytics.com/reference_material/Benefits%20TCO%20Whitepaper.pdf

⁹ <https://www.gocgo.com/blog/the-financial-impact-of-hr-outsourcing-vs-additional-staffing>

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