A Rising Interest in Outsourcing Benefits Administration

CFO research

Prudential

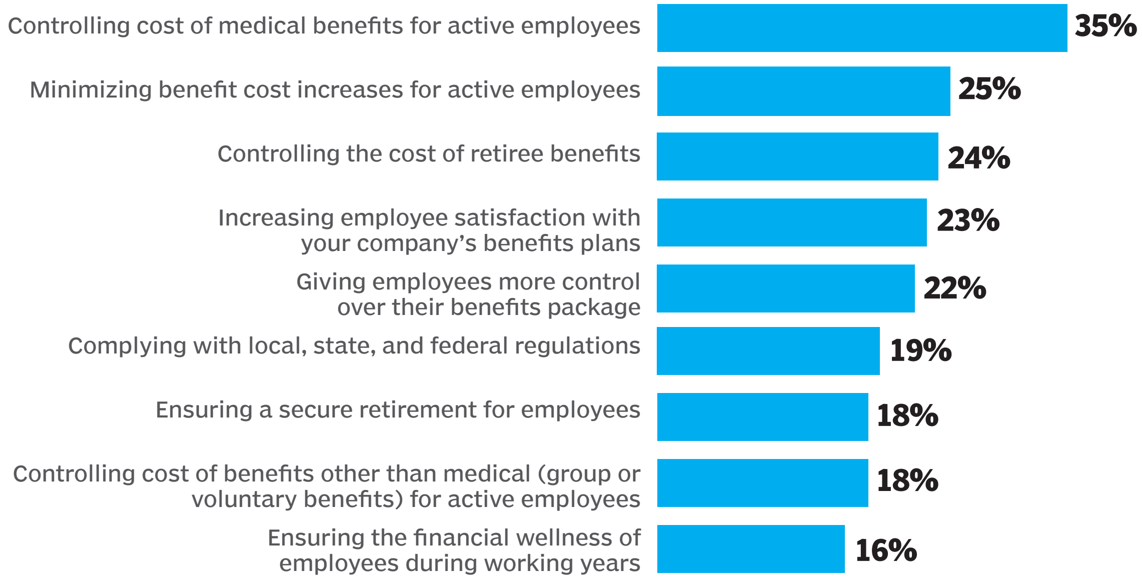
Finance executives continue to view the design of benefits offerings as an important part of their companies' financial and human resource management strategies, according to the latest annual survey of finance executives conducted by CFO Research, in conjunction with Prudential Financial, Inc. This year's survey also suggests that, as companies look for ways to focus more on the strategic value of benefits planning and less on the time-consuming administrative aspects, they are more likely to consider the advantages of outsourcing some parts of benefits administration.

As in previous years, respondents in the current survey largely agree on the value that a good benefits program can have for their businesses. A majority (63%) say that employee satisfaction with benefits is important for their company's success, and 65% believe that employee benefits are critical to attracting and retaining employees.

At the same time, the fact remains that the cost of benefits programs continues to rise steeply—especially for health and medical benefits. Controlling the cost of medical benefits for active employees is the top benefits-related priority for the finance executives in the survey, selected by 35% of respondents. In second place is minimizing benefit cost increases overall (25%). Notably, nearly one-fifth of the respondents (19%) say that complying with local, state, and federal regulations with their benefits programs is a top priority. (See Figure 1.)

FIGURE 1

Which of the following are your company's top priorities for its employee benefits programs over the next year?



Other options that received less than 15%: managing the increased administrative burden, optimizing benefits across retirement and group insurance, managing employee absences/leaves, selecting best-in-class employee benefits from multiple carriers, consolidating employee benefits with a single carrier, moving benefits to a private exchange, managing employee benefits globally, and other.

TABLE 1
How is your company managing the following compliance challenges?

	Outsource to insurance carrier	Outsource to other vendor	Considering outsourcing
ACA reporting and other regulatory requirements	10%	16%	20%
Americans with Disabilities Act requirements	11%	16%	13%
Family Medical Leave requirements	10%	15%	13%
Local or state leave mandates	4%	13%	17%

For healthcare programs, companies expect that federally-mandated provisions under the Patient Protection and Affordable Care Act (ACA) will increase costs for administration, and potentially require new technology investments as well. Finance officers remain committed to finding ways to control the new costs better and to manage the increasing complexity of the regulations. A director of finance at a financial services firm writes in the survey, “Healthcare is the number one concern right now. The cost is steadily rising and becoming harder and harder to manage with the onset of the ACA. Sometimes it feels like you are drowning in regulations.”

One approach to managing the rising costs of healthcare and non-healthcare benefits involves giving employees more control over their benefits packages, allowing them to customize coverages to suit their particular situations. One of the most widely employed cost-saving strategies noted by respondents (30%) was to replace some employer-paid benefits with voluntary benefits.

A company also can change the way benefits are provided in order to reduce complexity, streamline processing, and lower administrative costs. For example, a controller at a large manufacturer writes that one of his company’s highest priorities will be “standardization of benefits across multiple businesses in North America.”

Overall, 28% of respondents will try to consolidate benefits with fewer carriers and vendors, while 18% expect to change carriers or vendors outright.

In line with these strategies for getting out from under the burden and cost of benefits administration and regulatory reporting, many companies are turning to outsourcing for a variety of benefits programs. (See Table 1.) Respondents express the strongest interest in outsourcing management of the ACA. Nearly half (46%) report either that they have already outsourced reporting and regulatory compliance for the ACA to their insurance carriers or to other vendors (26%), or that they are at least considering it (20%).

The interest in outsourcing extends beyond the management of new ACA requirements. Four in ten respondents (40%) also are either outsourcing, or considering outsourcing, administration of requirements for the Americans with Disabilities Act (ADA). Approximately the same number of companies (27%) are already outsourcing ADA compliance as are outsourcing ACA reporting.

Similar numbers currently outsource Family Medical Leave requirements (25%) or are considering doing so (13%). Although fewer respondents report outsourcing local or state leave mandates (17%), equally as many (17%) would consider it.

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About the Survey

This year marks the sixth annual survey that CFO Research has conducted with Prudential Financial, Inc. The surveys provide insights into finance executives' current thinking on their companies' retirement and benefits programs. This year's results are based on survey responses of 180 finance executives, most of whom (78%) work at large U.S. companies with more than $1 billion in annual revenues. All of the companies in the survey also have defined benefit (DB) plans with more than $250 million in assets; 31% have between $1 billion and $5 billion in assets, and an additional 31% have more than $5 billion in assets.

Research Sponsor's Statement

"The survey results echo what we are hearing from our clients and valued producer partners as interest in outsourcing the administrative and regulatory burden of benefits programs, particularly in the area of absence and leave management, continues to grow. Due to the increasing complexity, many companies would rather outsource than build and maintain the expertise in house."

Jake Biscoglio
Vice President, Prudential Group Insurance

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