Benefits Administration Benchmarking Study
An analysis of what under-automation is costing companies

Over the last decade, bswift has spoken with thousands of companies about how they administer and manage employee benefits. The phrase most often heard is “we have a system for that.” But why is it that some companies fare much better in terms of accuracy and efficiency than others? It’s because “having a system” is not necessarily the same thing as “automation.” If there’s one factor that’s consistent among the myriad systems and processes that we’ve evaluated, it’s the variance in automation levels.

Naturally, bswift wanted to find out what these variances in automation levels represent in terms of the bottom line. Although most systems are capable of providing automation, the additional cost for upgrades and configuration required to achieve full automation are cost prohibitive. But what is under-automation costing companies? What level of accuracy is being forfeited? What is forsaken in expenses and operating profit? Misplaced or underutilized resources? General efficiency?

We conducted the landmark bswift “Benefits Administration Benchmarking Study” on the state of automation in benefits administration in 2010 to answer these questions. In addition to providing an industry overview on the level of automation being used, the study revealed a significant cost advantage associated with fully automated processes.

Report Key Findings

- “Having a system” is not the same as “automation.”
- 92% of respondents have some kind of system or system module to support benefits administration.
- Of those respondents with a system:
  - 45% do not offer any online enrollment options for New Hires.
  - 55% use a manual update process for Life Event enrollments.
  - Only 32% have a system in place to automatically cancel coverage when a dependent reaches the plan’s maximum age.
  - Only 30% leverage their carriers to accept self-billing; 40% manually reconcile paper invoices against system records.
- Total savings of $19.07 PEPM can be realized through the accuracy and efficiency of complete automation.
Who Participated
Over 100 firms participated in the Study; their sizes ranged from under 500 to over 15,000 employees. 22% of the companies had less than 500 employees; 20% had 501-1,000; 22% had 1,001-2,500; 20% had 2,501-5,000; 10% had 5,001-10,000; 4% had 10,001-25,000; and 2% had over 25,000. We focused our analysis on those organizations with 500 to 15,000 employees.

The companies’ use of technology ranged from completely manual to ERP modules to “best-in-class” Benefits Administration software solutions. Questions about automation were formulated using the following definition:

**automation:** The use of programmable logic in concert with information technology to control processes, reducing the need for human intervention.

How Automated is Benefits Administration Today?

Within the 500-employee to 15,000-employee size category, the majority of respondents (92%) have some kind of a system or system module to support benefits administration.

Given our focus, we analyzed in detail those 500-to-15,000-employee organizations with an existing system in place. The results follow.

New Hire Enrollments

**New Hire Communication**

While all respondents indicated that they communicate benefit plan information and enrollment procedures to employees during on-boarding or other orientation sessions, few organizations have any automated method to alert employees that their enrollment periods are beginning or ending.

In terms of management, only 10% of administrators reported that they received automated notices for new hires who had not yet enrolled. The majority of organizations (53%) need to run a report, while 37% do not do any monitoring of new hire elections.
Only 34% of respondents leverage full employee self-service for New Hire enrollments; a whopping 45% do not currently offer any employee self-service enrollment options for New Hires.

For benefits fully paid by the employer (e.g., Basic Life Insurance), a majority of respondents (67%) indicated that their systems automatically created an election. However, a significant number of employers (33%) indicated that this was either a partially automated or completely manual process.

The majority of employers (55%) use a manual update process for Life Event enrollments.
For the study, “status change” events were identified as company-triggered events such as change in position or location that require employees to update their elections. Managing employee status changes was found to be a largely manual process: Over 75% have no automated process for alerting employees, 67% reported that changes are made manually, and almost 75% required manual termination of “old” elections.

While the majority of employers indicated that they have an ongoing process for verifying dependents (e.g., checking birth certificate), many organizations conduct this process upon claim submission by a carrier. However, waiting until after the date-of-service to communicate dependent eligibility to the employee has the potential to create ill will toward the employer. And those companies who have no verification process could be over-spending by millions of dollars. According to CFO Magazine, 5% of total health plan costs can be saved simply by enforcing eligibility rules.

The “age out” process for dependents remains a heavily manual process today. Only 32% of employers have systems in place to automatically cancel coverage when a dependent reaches the health plan’s maximum age (e.g., 26). Only 10% have automated alerts to notify employees of a dependent’s loss of coverage.
Only 30% of companies are leveraging their carriers to accept self-billing. Even though manually reconciling a paper invoice against what is in the system is one of the most time-consuming benefits administration activities, almost 40% of companies are still using this archaic process.

Only five of the ten benefit activities studied are fully automated by over half of the responding companies. And even the critical processes, such as EDI feeds (the transmission of eligibility data to carriers), remain manual for many organizations. The enrollment processes beyond Open Enrollment — New Hires, Status Changes, and Life Events — remain heavily manual. The least automated activity is New Hire Alerts; less than 10% of companies have automated Alerts in place to notify employees of their New Hire enrollment process and deadlines.
The True Cost of Partial Automation

Automation’s Impact on Efficiency
In order to assess the financial impact of automation on efficiency, bswift constructed an “average” 4,400 employee organization using 2009 transaction volume data from ten bswift clients. bswift then used an Activity-Based Costing methodology (see below for details) to estimate the total costs of manual processes, as compared to fully automated processes. The assumptions include an average cost of $26 per hour for an administrator, $50 per hour for an IT professional, and $25 per hour for an employee.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Cost per Activity/Transaction</th>
<th>Total Cost per Activity/Transaction</th>
<th>Annual Cost per Activity/Transaction</th>
<th>PEPM By Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Admin</td>
<td>EE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notifying New Hires</td>
<td>$19.50</td>
<td>$19.50</td>
<td>$8,303</td>
<td>$0.15</td>
</tr>
<tr>
<td>New Hire System Set-Up</td>
<td>$9.10</td>
<td>$9.10</td>
<td>$3,875</td>
<td>$0.07</td>
</tr>
<tr>
<td>New Hire Enrollment</td>
<td>$28.60</td>
<td>$31.25</td>
<td>$25,485</td>
<td>$0.47</td>
</tr>
<tr>
<td>Monitoring New Hires</td>
<td>$24.70</td>
<td>$24.70</td>
<td>$10,518</td>
<td>$0.20</td>
</tr>
<tr>
<td>Auto Enrollments</td>
<td>$9.10</td>
<td>$9.10</td>
<td>$3,875</td>
<td>$0.07</td>
</tr>
<tr>
<td>Open Enrollment</td>
<td>$20.80</td>
<td>$13.75</td>
<td>$155,032</td>
<td>$2.88</td>
</tr>
<tr>
<td>Status Change Elections</td>
<td>$28.60</td>
<td>$18.75</td>
<td>$19,788</td>
<td>$0.37</td>
</tr>
<tr>
<td>Life Event Elections</td>
<td>$28.60</td>
<td>$15.00</td>
<td>$19,164</td>
<td>$0.36</td>
</tr>
<tr>
<td>Monitoring Dependent Eligibility</td>
<td>$15.60</td>
<td>$15.60</td>
<td>$3,323</td>
<td>$0.06</td>
</tr>
<tr>
<td>Dependent Eligibility Updates</td>
<td>$31.20</td>
<td>$31.20</td>
<td>$6,646</td>
<td>$0.12</td>
</tr>
<tr>
<td>Age Change Updates</td>
<td>$28.60</td>
<td>$28.60</td>
<td>$16,690</td>
<td>$0.31</td>
</tr>
<tr>
<td>Salary Change Updates</td>
<td>$28.60</td>
<td>$28.60</td>
<td>$144,789</td>
<td>$2.69</td>
</tr>
<tr>
<td>Terminations</td>
<td>$23.40</td>
<td>$23.40</td>
<td>$14,097</td>
<td>$0.26</td>
</tr>
<tr>
<td>EDI Processing</td>
<td>$166.50</td>
<td>$166.50</td>
<td>$15,964</td>
<td>$0.30</td>
</tr>
<tr>
<td></td>
<td>$447,550</td>
<td>$8.31</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The total annual transactional costs that could be saved by moving from completely manual to fully automated processes amounted to $447,550 or $8.31 Per Employee Per Month (“PEPM”).

Automation’s Impact on Accuracy: $10.76 PEPM
In 2009, a before-and-after study of bswift clients who converted from manual to automated benefits processes revealed eligibility-related inaccuracies of $10.76 PEPM prior to automation.\(^1\) Continuing to pay for ineligible dependents and terminated employees were a big problem for companies that did not have automation around monitoring, alerting, and removing ineligibles.

\[
\text{$8.31 \text{ PEPM in Efficiency Savings}} \ + \ \text{$10.76 \text{ PEPM in Accuracy Savings}} \ = \ \text{$19.07 \text{ PEPM in Total Automation Savings}}
\]

\(^1\)Forrester Consulting, Total Economic Impact of bswift Benefits Automation, May 2009
Other Impacts
The costs of not being fully automated go well beyond financial figures. If a new employee comes from a “high tech” company to one with manual or semi-automated processes, not only does it negatively impact the “employer brand,” but it also effects initial employee engagement and productivity. In addition, tedious administrative tasks and re-work such as data entry errors, post-enrollment adjustments, and payroll deduction errors add to the HR department’s and employee’s overall workload, stress, and dissatisfaction.

The Win-Win of Automation
While almost all companies have “a system” for benefits administration, the real question lies in how that system can support a company’s implementation of fully automated processes in a cost-effective manner. A truly automated process not only produces hard savings, but it also results in happier, more engaged, and informed employees who make better health care decisions — an immeasurable benefit to any company.

Health Care Reform Makes Automation a More Difficult Challenge
While all parties involved would like to simplify the administration of health care, the reality is that the recent enactment of health care reform (e.g., PPACA legislation) makes this challenge of simplifying and automating more difficult. Whether we are talking about the administration of Dependent Eligibility, Wellness Incentives, Consumerism or the Affordability and Health Exchange provisions in the new world, the reality is that health care continues to become more complex all the time. These rapid changes — driven by both the private and public sectors — make the challenge of automation a “moving target” and one best served by agile technology focused on the task.

About bswift
Based in Chicago, bswift offers software and services that streamline HR and benefits administration. More than 5,000 companies tap bswift's state-of-the-art Software-as-a-Service (SaaS) technology and Business Process Outsourcing (BPO) solutions to significantly reduce administrative costs and time-consuming paperwork, making life easier for HR staff and employees alike. To learn more, please contact us at:

bswift
224 N. Des Plaines
6th Floor
Chicago, Illinois 60661
1.877.9.BSWIFT (1.877.927.9438) or 312.261.5750
info@bswift.com