Do You Need

Benefit Administration Software?

by Wes Steele
February, 2019
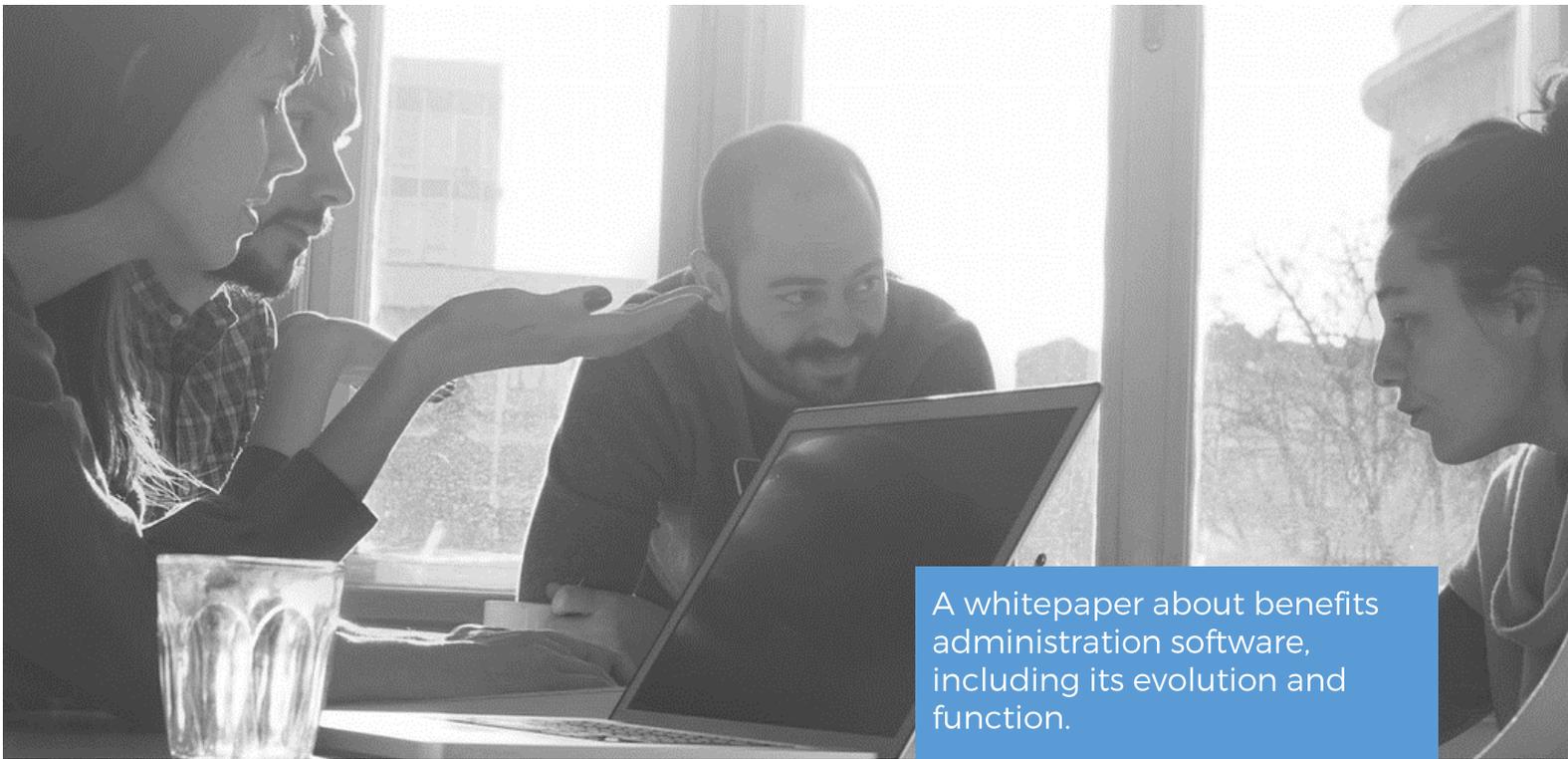
A whitepaper about benefits administration software, including its evolution and function.

A discussion about whether benefit administration software should be considered by employers with certain characteristics.

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CHAPTER I: BACKGROUND

Introduction

In the year 2004, most companies enrolled health insurance open enrollments on paper. At the time, that made sense! Why?

First, there were not a lot of employee benefit systems that executed online enrollment well. The technology was in its infancy. The systems that did exist were most often rigid in their rules, and the employee experience was clunky and sometimes downright painful. Have a plan or eligibility structure with complicated rules? You were often sunk before you even got started.

Second, systems were expensive to purchase and manage in 2004. Why? Commonly, benefits enrollment systems were part of a full payroll and HRIS package, which means they were an enterprise level software. Often, employers would need to build and maintain rules in their systems, which is a heavy lift for the technology departments at most corporations.

What Changed?

Part of what changed was a natural maturation of the market. It's easy to forget today, but even *GOOGLE* was founded as recently as 1998. Inevitably, as software technology development matured, software was developed to fit a variety of business needs. This technology explosion was not unique to benefits. Think about Salesforce, Amazon, EBay, etc. Think about the "App" explosion on Android and Apple marketplaces.

The proliferation of benefits technology into the marketplace was predictable, if only because software technology proliferated many aspects of our daily life over the same time period.

Regulatory Environment Also Contributed

Natural market maturation was not the only factor that led to the proliferation of benefits technology. Regulation also played a major factor.

The Affordable Care Act passed congress in 2010. Major provisions went into effect in 2014. Before the Affordable Care Act, offering health insurance and having an open enrollment period was *optional* for employers of all sizes. The Affordable Care act changed the game by mandating that large corporations offer full-time employees affordable, minimum essential coverage; or face substantial fines.

Affordable Care Act Has Ripples Beyond the Obvious

Clearly, the Affordable Care Act created an environment where more employers offered more coverage to more people. But it did more than that.

Consequences of the Affordable Care Act included:

1) Forcing employers to carefully consider the monthly cost of an employee only coverage on the health plans they offer, or else risk facing enormous fines for charging too much,

2) Forcing employers to carefully consider who is a full-time and who is a part-time employee, or else risk face enormous fines for not offering coverage to full-time employees,

3) Forcing employers to complete employee-by-employee reporting with challenging instructions, and to produce and distribute accurate individual statements. Failure means facing enormous fines for non-compliance, and

4) Forcing larger employers to complete electronic filing with the IRS. Completing that filing requires a TCC#. That means that filing either requires a third party, or requires representatives of an employer to be responsible for the filing. Failure to file results in… you guessed it … employer fines.

The complexity required to manage the Affordable Care Act is causing pain in employers' Benefits, Finance, Human Resources, and Payroll departments. When you have new pain, the market finds new solutions. Enter the Benefit Administration System revolution.

CHAPTER II: FUNCTIONS OF BENEFITS ADMINISTRATION SOFTWARE

WHAT IS BENEFIT ADMINISTRATION SOFTWARE

During CHAPTER I: BACKGROUND, we discussed how the market came to be ready for benefit administration software, and how the market has evolved to have affordable software solutions for employers. This chapter discusses the functions of benefit administration software.

Benefits Administration software is an employer system of record for employee benefits participation by employee and dependent; by plan and benefit provider; by employer and employer contribution. A good benefits administration software will always have the ability to feed and report employee participation data to outside companies and software; including but not limited to health insurance, dental insurance, life insurance, disability insurance, and payroll software.

Common functions of benefit administration software includes:

EMPLOYEE ELIGIBILITY MANAGEMENT:
Be sure the employee sees only the benefits for which they are eligible. Automate management of life insurance age ups, and dependent age offs.

Define employees into job classes such as Executive, Salaried, Hourly Full-time, Hourly Part-time. You may also divide groups deeper if there are variations of benefits within those classifications. On average, an employer has 5 – 20 job classes. Typically, bargained employers and employers with location-specific eligibility will have more; and non-bargained employers and will have less.

EMPLOYEE CONTRIBUTION MANAGEMENT:
Goes hand in hand with employee eligibility management. In addition to having different plans they may be eligible for, some employees may also pay more or less depending on their job, tenure, location, etc.

Additionally, you may have spousal surcharges or carve outs where the answer to a gate keeper question drives whether an employee is eligible for a particular rate.

EMPLOYEE DEMOGRAPHICS MANAGEMENT:
Track employee data such as phone number, address, emergency contacts, and more. Keep a list of dependents associated with a particular employee.

Keep birthdate information, which is useful for tasks such as dependent age offs and life insurance reductions at older ages.

EMPLOYEE BENEFIT ENROLLMENT:
Enable the employee to go online with their computer, tablet, or smart phone in order to make their benefit elections. Some tasks may be allowed during open enrollment (such as enrolling), whereas others may be allowed all year round (such as address updates).

LIFE EVENT MANAGEMENT:
Provides one database for employees to update benefits in the event of job changes, spouse job changes, marriage, birth, adoption, etc. Typically, the allowable changes an employee makes for life events are sent on a data feed to applicable benefit vendors and payroll.

DEPENDENT ELIGIBILITY MANAGEMENT:
Provides a database for employee to collect and store dependent documentation data. On a typical self-funded health plan, it is not uncommon to find that 5% of dependents enrolled are not eligible for the plan.

BENEFICIARY MANAGEMENT:
Provides a database for an employer to store life insurance beneficiary information. Provides an easy way for employees to keep their beneficiaries up to date.

RECORDKEEPING:
Store historical forms, such as signed Benefit Verification Summaries. Have a record of the sessions when employees logged into the benefit system and completed applications. Store files tied to an employee's personnel record. Keep track of what an employee and their dependents were enrolled in, both presently and in the past.

HOURS TRACKING AND LOOKBACK:
Track hours worked and report hours in Look Back Reporting. Monitor trends for who is averaging 30 hours per week for both Initial and On-going Measurement Periods.

REPORTS:
Pull an employee census, current enrollment reports, employee activity reports, payer reports for participation by vendor, etc.

BILLING TOOLS:
Run your own self billings and list billings.

FILE FEEDS:
Send weekly (or other frequency) feeds to your medical insurance, dental insurance, vision insurance, COBRA provider, payroll company, etc. to share up to date eligibility and deduction information to benefit companies and other systems that need it.

ACA REPORTING:
Run reports that pre-fills your 1095-C and 1094-C forms. Accurately code lines 14, 15, and 16 on 1095-C without manually handling. Easily check the data in the forms with a sortable Excel document where you can evaluate exposure to IRS penalties. File ACA reporting and corrections electronically with the IRS.

CHAPTER III: FACTORS TO CONSIDER BEFORE INSTALLING SOFTWARE

We all love things that make our lives easier! Push button starts and proximity keys for your car. Automatic lock buttons on your key fob. Having a stove in your house instead of cooking over fire every day.

Is it any wonder that benefits administration software is taking off? It means the Benefits Coordinator can input to one database rather than four. It means employees can enroll themselves online. It means we don't have to read handwriting, and that mandatory fields cannot be left uncompleted. It means doing less manual tasks, and greatly reducing the potential for human error. It means messaging consistency to employees, and it simplifies compliance with regulations.

BUT, LET'S PUMP THE BRAKES! Just because it makes sense in a lot of situations doesn't mean it's right for EVERYONE!!

Employers have a multitude of factors that go into day-to-day benefit administration and management. Those factors also lead to the question a company's CFO is so often interested in: Does Benefits Administration Software have a positive <u>ROI</u>.

The factors that impact whether you need Benefits Administration software are:

<u>EMPLOYEE COUNT</u>:
How many employees do you have? 1,000+? 500 – 999? 250 – 499? 100 – 249? 50 – 99? Less than 50?

<u>EMPLOYEE TURNOVER</u>:
Higher turnover means processing terminations and new hires more frequently. Lower turnover means more stability and a lower overall Benefits Department workload.

<u>FREQUENCY OF PROMOTIONS AND DEMOTIONS</u>:
How often do your employees go from full-time to part-time, or vice versa? Do you have a strategy or hiring a lot of variable hour employees, and if so, how are you tracking their hours?

<u>HEALTH PLAN FUNDING</u>:
Whether you are fully-insured or self-insured impacts the complexity of your ACA reporting, and therefore has an impact on need for a benefits system.

ELIGIBILITY COMPLEXITY:

For example, is every employee either Hourly, Salary, or Part-time? And is their benefit plans and employee contributions EXACTLY the same as everyone else within that classification? Or, do you manage executives differently. Do you have bargaining groups with special rules. Do you have grandfathered provisions for employees hired before a certain date. Do you have old billings for employees that signed up for a benefit back when you were still offering it. Do you buy some job titles more life and disability insurance than other job titles.

NUMBER OF BENEFIT PROVIDERS:

Let's suppose you offer a variety of employee benefits: medical, HSA, FSA, dental, vision, life, disability, critical illness, accident, and hospital. How many benefit providers do you use in total to offer those products? More than 3?

VALUE OF FLEXIBILITY:

We talked about factors that impact benefit complexity above. How would it impact you if those factors changed? What if you implemented a spousal surcharge? What if your employees organized? What if you doubled your employee count, or made an acquisition? What if you went from 3 benefit providers to 5 providers because it saved the company $150k/year? What if you went from fully-insured to self-insured unexpectedly due to a bad fully insured health plan renewal?

CHAPTER IV: SCENARIOS

SCENARIO A – LARGER COMPANIES (500+ EMPLOYEES)

Employers with over 500 employees always have a need for Benefit Administration Software. You would very rarely, if ever, see an employer this size implement software and say:

- We're considering going back to paper, or
- Leaving paper administration was a mistake.

One thing for employers this size to be aware of – not all benefit administration software has the same capabilities, cost, and connectivity, and implementation effectiveness.

Just because we all agree that you need a system does not mean your work is over – now you need to evaluate which system is right for you!

SCENARIO B – MID-SIZE EMPLOYERS (250 - 500 EMPLOYEES)

Employers that employ 250 – 500 employees have options. There is a huge variation of eligibility complexity within groups this size, leading to varying levels of need for solutions. Some companies this have one or two job classes, only two benefit providers, and two highly competent employees in the benefits department that have the department running like a fine-tuned machine. Other companies with between 250 – 500 employees have a level of complexity that would make General Motors blush.

This size company is the most dangerous when considering Benefit Administration Software. Why? Because they often can get by with no technology, assuming nothing changes. And since they don't need it right now today (they are getting by), they may be likely to delay or avoid the decision to install technology.

What are some of the bad things that can happen when a company with 250 – 500 employees delays or avoids technology?

- Person in charge of ACA Reporting leaves the company or has a health issue; leaving an employer reeling on how to be compliant.

- Person in charge of ACA Reporting is not perfect (none of us are, right?), and they make mistakes coding forms; leaving the employer vulnerable to penalites or audit time-related expense.

- Mistakes measuring who is a full time employee makes employer potentially liable for a 7-figure fine (what business owner with a company this size can afford that?).

- Employer purposefully keeps their rules simple and avoids tools such as using multiple plans, carriers, and cost control mechanisms such as spousal surcharge – costing an employer potential ROI of different strategies

- Amount of overtime and staffing levels paid to benefits and finance professionals utilizing duplicate and manual efforts exceeds the amount of money that would've been invested in software, costing a lost ROI opportunity

Despite these cautionary words of warning, there are still some companies in this size group that could (perhaps even should?), forgo installing software. So how do we determine who absolutely needs software, and who is a candidate to consider forgoing it? Refer to the infographic in *Appendix A* and examine which quadrant best describes your company.

SCENARIO C – SMALLER EMPLOYERS (150 - 250 EMPLOYEES)

Employers that employ 150 – 250 employees have the most variability. Eligibility rules may be simple, or they may be complex. Employer may be fully-insured, or may be self-funded. They might have few benefit companies they work with, or they may have many.

Employers this size have it tough because they may feel a need to be treated as a large company, but by many parties (technology companies, benefit companies, consulting companies) they may still be viewed as a small to mid size company. This creates a challenge because this size company needs the most guidance on whether to install a system, and what type of system to install.

The types of challenges employers this size face include questions such as:

- Will all my benefit providers accept a data feed,

- Is the juice worth the squeeze – is it worth going through implementation and data feed set up based on the actual amount of time I will save, and

- How can I identify a provider that can affordably and reliably service a company my size?

Ultimately, each company must answer these questions for themselves. Good questions for employers this size to ask when selecting a benefits platform include:

- What percentage of clients of the software provider have less than 500 employees,

- Can the software provider build data feeds to your current list of providers based on current levels of participation, and

- Can the software provider describe the service and support to be expected during the implementation process, and the process of updating plan rules at renewal time?

Do you need more information to decide if software is the right thing for your company with between 150 and 250 employees? Refer to the infographic in *Appendix A* and examine which quadrant you most relate to as a company.

CHAPTER V: CONCLUSION

Benefit Administration Software has come a long way since 2004. In addition to maturation of the software development in general during that time, the onerous requirements of the Affordable Care Act have been a huge driver in the maturation of solutions based software.

Management and administration professionals in various departments at employers across America now have software readily available, and at a more affordable price than ever.

The software helps Benefits, Finance, and Payroll departments automate many functions and avoid tedious manual and duplicate entry. This outcome is desired by employers of all sizes.

Despite that, there are some employers that are not ready to pull the trigger on Benefits Administration technology, and that is OK. If you have over 500 employees, there is no time like the present. If you have 150 – 500 employees, consider the complexity of your plans, contribution structures, reporting needs, and objectives before making a decision to install Benefits Administration software. You may find reference to *Appendix A* helpful in this decision.

For those considering Benefits Administration software for larger companies (over 500 employees), ask questions about file feed setup times and ability to handle complex rules. Ask about decision support, apps, mobile optimization, and data integrations.

For those considering Benefit Administration for smaller companies (less than 250 employees), ensure that your partnering provider has experience with smaller companies. Ask questions about file feeds, and how the service cycle will support you long-term.

One thing that can be certain – Benefit Administration software is here to stay. Very rarely, if ever, do you see companies make the decision to go electronic to only later go back to paper.

As HR Managers, CFOs, and Benefits Professionals are moving around from employer to employer; professionals are taking their forward thinking mind sets with them and installing technology at their new employers. It won't be long until a vast majority of employers with over 150 employees all have benefits technology.

APPENDIX A

Tool to help companies with 150 – 500 employees decide whether Benefit Administration Software is needed

Overall, Which Quadrant Best Describes You Better?		
Self Insured	Considering Becoming Self Insured	Fully Insured
We hire and terminate enough employees each year that I would consider it a substantial task	Rule variations exist that dictate who is eligible for what benefits, and how much the pay for them	We have very simple rules. We have 3 or less job classes. i.e. Hourly, Salary, and Executives
We have an employee in our benefits department whose expertise and company process knowledge would be very difficult to replace	We want to allow for the flexibility to grow employees, acquire companies, or differentiate employee contributions in the future	Adequate ACA Reporting processes are in place
The last time we updated beneficiaries was when employees were hired	We currently have, or want the flexibility to price shop and have multiple benefit carriers	Even if it costs us a little more, we value the simplicity of having less carriers
You would like your employees to better understand the true cost of their benefits	Consistent communication is important	We are not concerned with our benefits growing increasingly complex over time because we fight to keep things simple
Interested in reducing the possibility of mistakes by human error	Would like my Benefits Department thinking strategically more so than spending time on data entry	We prefer to continue status quo as long as possible
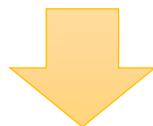
You identify with factors that make Benefit Administration software valuable, and you would likely be satisfied long-term installing it.

You value stability, and prefer processes as they are. Software may yet prove valuable to you in the future, but you're not ready yet.

ABOUT THE AUTHOR

Wes Steele is President of Steele Benefit Services.

Steele's organization supports the online employee benefit enrollment, employee benefit education, and Affordable Care Act compliance needs for medium and large size employers.

During his career, Mr. Steele has worked as a Consultant with a Big Ten university, multiple publicly traded companies, and several national brands.

Wes is an avid sports fan and enjoys coaching his two daughters, especially in basketball.

ABOUT STEELE BENEFIT SERVICES

Steele Benefit Services provides professional benefits communication, enrollment, and administration services to companies with between 150 and 20,000 employees.

The company manages the installation of administration technology to eliminate paper forms and manual data entry, while simplifying the entire end-to-end process. Steele replaces the dread of an overwhelming company-wide open enrollment processes with streamlined service options that include on-site employee meetings, online employee self-service enrollment, and call center enrollment support.