

# A Total Benefits Strategy Is a Valuable Approach in HR Outsourcing

*Jeff Miller*

It's a given that employees value their benefit packages as key components of their work/life experience, but for both employees and employers, there's more to the picture than merely acknowledging the importance of benefits. Increasingly, employers need to know how the members of their workforce view their benefit offerings—indeed, the perceived value of various benefits may change over time—and how the management and administration of those benefits may affect employee satisfaction and engagement in a positive or negative manner. Clearly, a successful benefits strategy can play a major role in recruiting and retention efforts, as well as improving employee attitudes (and well-being) and driving strong business results.

The role of employee benefits has evolved significantly from the time when new hires were simply told of their health insurance, pension, and other benefit options almost as an afterthought to employment. As health-care costs have soared and cost sharing has become the norm, and as defined-benefit (DB) plans have been replaced by defined-contribution (DC) plans, the employee-benefit landscape has become a more complex terrain. For both employer and employee, managing benefits is a challenge that requires a strategic approach and access to specialized resources.

Not surprisingly, an outsourced solution for benefits administration has become a

strong option for organizations. An approach that meets this challenge is total benefits outsourcing (TBO). A TBO solution answers employers' need for expert, fully capable, and technologically robust administration of benefits while addressing employees' need for comprehensive educational programs, decision-making tools, and self-service resources.

The benefits of TBO—which is best defined as an integrated approach, typically consolidating DB, DC, and health and wellness administration services with a single outsourcing provider—are becoming more evident to employers. In fact, TBO is one of the fastest-growing segments in the HR outsourcing market, and industry analysts forecast significant growth over the next few years. It's a trend driven by the increasing complexity and cost of managing and delivering benefits, and it is further propelled by a desire to provide a better and more comprehensive benefits experience for employees as a means of attracting and retaining a trained and qualified workforce in an increasingly competitive market.

On the most basic level, a TBO strategy creates economies of scale by bundling multiple benefits services with one vendor. Employers can outsource administrative, transactional, and employee support functions traditionally done in-house, allowing HR personnel to be redeployed to address more strategic issues. From the employee

perspective, the integrated communications and resources of a TBO provider—which can include a benefits Web portal, self-service resources for benefit election, retirement-plan allocation, and decision-making tools—can provide a higher quality of service.

Beyond simplifying administration, TBO also offers strategic solutions. Many organizations are dealing with such complex issues as the potential freezing of their DB plans, adding health savings accounts, increasing DC plan participation, and rising retiree medical costs. With an experienced administrative partner, a TBO strategy can begin to address this complexity.

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## WHAT EMPLOYEES VALUE

For employers, a first step in reassessing their approach to benefits administration should include understanding the value employees place on their employer-sponsored benefits, and how they make use of them. Mercer's latest research in this area is the 2007 *Mercer Workplace Survey*<sup>™</sup>, a proprietary study conducted for Mercer's outsourcing business to track employee attitudes and behaviors around their company-sponsored retirement and health-benefits plans. The study is based on a national cross-section of 2,246 employees who participate in their company's 401(k) plans and health plans, and it has been conducted since 2004.

The results underscore the great importance that most employees place on their company-sponsored benefits. Notably, seven in ten agree that benefits are "one of the reasons I work where I do." More than 60 percent agreed with the statement, "My benefits make me

feel appreciated by my company." And 90 percent of participants disagree with the statement, "My benefits don't matter much to me."

Yet, the survey also shows that when it comes to understanding the features and choices in their retirement and health plans, about 30 percent of employees still find it difficult to understand their 401(k) plans, and nearly 40 percent find it difficult to understand their health plans. So while benefits are highly valued, for many employees the benefits experience can be frustrating, undermining the best efforts of employers to deliver a compelling and motivating benefits package.

These statistics suggest that the level of employee satisfaction with benefits programs can have a significant impact on a company's talent-management strategies. A TBO solution can play an important role, especially if it provides employees with an integrated, comprehensive view of their benefits and provide the necessary educational programs, decision-making tools, and decision-support resources delivered across all mediums, including online, through a full-service call center as well as in print and onsite.

Mercer case studies bear this out. For example, a major manufacturer and worldwide supplier of automated identification and data-capture equipment with more than 2,700 employees worldwide and four U.S. locations had been administering its health and benefits programs internally. The company's goals were to (1) partner with an outsourcing provider to gain administrative efficiencies within the HR department and (2) support employees by providing an expanded array of resources to help them become more educated and self-reliant health-care consumers while increasing the use of self-service tools. To meet the client's goals, Mercer developed a customized self-service enrollment Web site with decision-support

tools, a fully staffed call center to field employee questions, and a highly customized communications campaign. The latter featured postcards announcing open enrollment dates and educational resources mailed directly to employee homes, workplace posters reinforcing the ease of online enrollment, clickable intranet banners promoting enrollment, customized information sheets mailed to employees to encourage thoughtful election of benefits, and e-mail communications from internal HR contacts.

The solution made an impact. Almost all employees (90 percent) chose to enroll in the benefits program online. Call-center volume decreased 29 percent from the prior year, indicating the communications program had been successful in helping employees to understand the choices in their plan and feel comfortable about the choices they made for themselves and their families. The internal benefit team was thus able to focus more on strategic benefit-plan design and less on resolving employee-service issues.

## ASSESSING RETIREMENT PROGRAMS

One part of many TBO strategies is total retirement outsourcing (TRO), which combines DC and DB administration services. Significantly, the confluence of the recently enacted Pension Protection Act and anticipated new Department of Labor regulations affecting fee disclosures in DC plans is leading many plan sponsors to assess all aspects of their retirement programs.

Changes in the retirement landscape naturally invite confusion and uncertainty. Many employees use 401(k) plans as their primary retirement vehicle (especially as DB plans become less common), but they still need encouragement to save and help in making intelligent investment decisions. The Pension

Protection Act sanctions the use of automatic enrollment and automatic contribution-rate increase features, leading many plan sponsors to create more user-friendly plan options and make life-cycle funds the default investment. (Asset allocations automatically adjust in life-cycle funds, becoming more conservative as an employee's expected retirement date approaches.)

At the same time, anticipated new Department of Labor regulations are expected to mandate increased disclosure to participants of fees paid by plans, whether for investment management or administrative services. To help protect themselves as fiduciaries, many plan sponsors are reviewing the fees they are paying. Meanwhile, for participants, the

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increased fee disclosure rules could increase confusion and hesitation about investing in the plan.

These new layers of complexity should motivate companies to consider the benefits of a TBO arrangement with an outsourcing partner that has deep experience in retirement administration and a business model driven by providing high levels of service to both plan sponsors and participants. These services should include the expertise of unbiased professionals who work with employers to select appropriate investment options with no ties to proprietary investment products: unbundled, transparent pricing, the size and flexibility to offer scalable solutions; high-quality employee communications; and high-impact employee communication and education programs.

## OVERCOMING EMPLOYEE INERTIA REGARDING RETIREMENT

The move to effective management and delivery of retirement benefits in this new environment requires more than just business logic and the desire to have an outsourcing firm do the hard work. Organizations need to overcome employee inertia when it comes to joining today's retirement plans, and the trend toward automatic enrollment and other plan features represents a major step in helping employees become better prepared for retirement. Fortunately, that tide is rising.

According to the July 2007 Survey of Retirement Plan Sponsors conducted by the Employee Benefit Research Institute (EBRI) and Mercer, automatic enrollment is gaining in popularity and may soon become the norm

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for DC plans. The survey, which covered 163 respondents and was limited to organizations that sponsor DB plans in addition to DC plans, found that 66 percent have either already adopted automatic enrollment or are currently considering adding this feature. While that's good news on one hand, employees also need to consider whether these automatic enrollments are in an appropriate (prediversified) fund and at an appropriate deferral level with provisions for increases over time.

Meanwhile, other 401(k) plan options are emerging. The EBRI-Mercer survey also found that well over one-third of plan sponsors have already added or are planning to

add Roth 401(k) accounts to their DC plans. (Contributions to a Roth 401(k) account are made on an after-tax basis, and withdrawals are tax-free, provided the individual is at least 59½ and the account has been held for five years or more.)

Clearly, there are now more opportunities for employees to take advantage of retirement options, but that still presents an employee education challenge, since the proliferation of choices has been observed to prevent employees from choosing at all. Effective employee communications—with simple and action-oriented messages—are every bit as crucial as transactional efficiencies and expertise. Fortunately, they are one of the components of a successful TBO arrangement.

Again, Mercer case histories bear this point out. For example, a leading apparel manufacturer with 1,000 employees sought to increase its DC plan participation by 10 percent, boosting diversification and participation metrics by leveraging the launch of "ready-mixed" investment portfolios as well as combating "automatic enrollment inertia" by encouraging participants to increase deferrals beyond the default percentages.

Utilizing a range of best-practice communication approaches across all mediums—brochures, enrollment postcards, meetings, and educational workshops—the company experienced encouraging results: a 9 percent increase in overall plan participation; increased contribution rates and investment allocation changes; and more than 15 percent of participants electing a ready-mixed portfolio.

Mercer has noted similar results in other companies. A 30,000-employee manufacturer of home appliances saw a 90 percent increase in participation in a single ready-mixed fund, with a large percentage of employees also increasing contribution rates.

These cases indicate that as challenging as these changing times are, plan sponsors seeking to attract and retain top talent must remain focused on their primary strategy: to ensure that their benefits programs provide a competitive advantage. Together with an administrative partner, plan sponsors can capitalize on the opportunities these changes afford and help their employees become better prepared for retirement.

## CHOOSING AN APPROPRIATE PARTNER

If the evidence shows that employee satisfaction with benefits packages is important to talent management, and if benefits management, communication, and administration may be best served by the integrated approach exemplified by a TBO solution, then organizations must consider what specific advantages a potential benefits outsourcing partner can bring to the table.

On a fundamental level, the TBO provider should offer deep, holistic benefits expertise across all benefits domains. This means more than just administrative expertise, which is a given in TBO terms, but also the ability to provide strategic and consulting leadership as well. It's not an accident that such mile-wide, mile-deep capacity is a typical characteristic of a global outsourcing organization with a solid rooting in human-capital and management consulting, actuarial and investment expertise, and dedication to continually improving technology platforms for the delivery and administration of benefits services.

Such technical resources are crucial and include capabilities for managing and maintaining employee records and data. From the employee perspective, a TBO partner should also offer resources that can encourage

higher levels of employee participation and satisfaction in self-management of benefits—retirement savings calculators, for example, and other decision-making tools. A TBO provider should be able to offer automatic enrollment and automatic deferral-increase programs for retirement plans, integrate retirement and health data with outside vendors, and provide such important service as health-care claims analysis.

The provider must also offer integrated resources to educate and motivate employees efficiently across multiple channels: Web-based and print communications, call-center support, and employee self-service solutions. In addition, the ability to measure and report qualitative and quantitative results is vital to any organization's assessment of not only the effectiveness of its benefits strategy, but also of the ongoing impact and return on investment

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of the TBO partnership. And finally, the clear value of having a single point of contact in the coordination and management of so many bundled services cannot be overstated.

Based on internal Mercer research from 2006, with senior executives responsible for evaluating and selecting providers of HR administration service, three key selection criteria for outsourcing partnerships have emerged, with high percentages of participating executives rating the following as "absolutely or very important" in selecting an outsourcer:

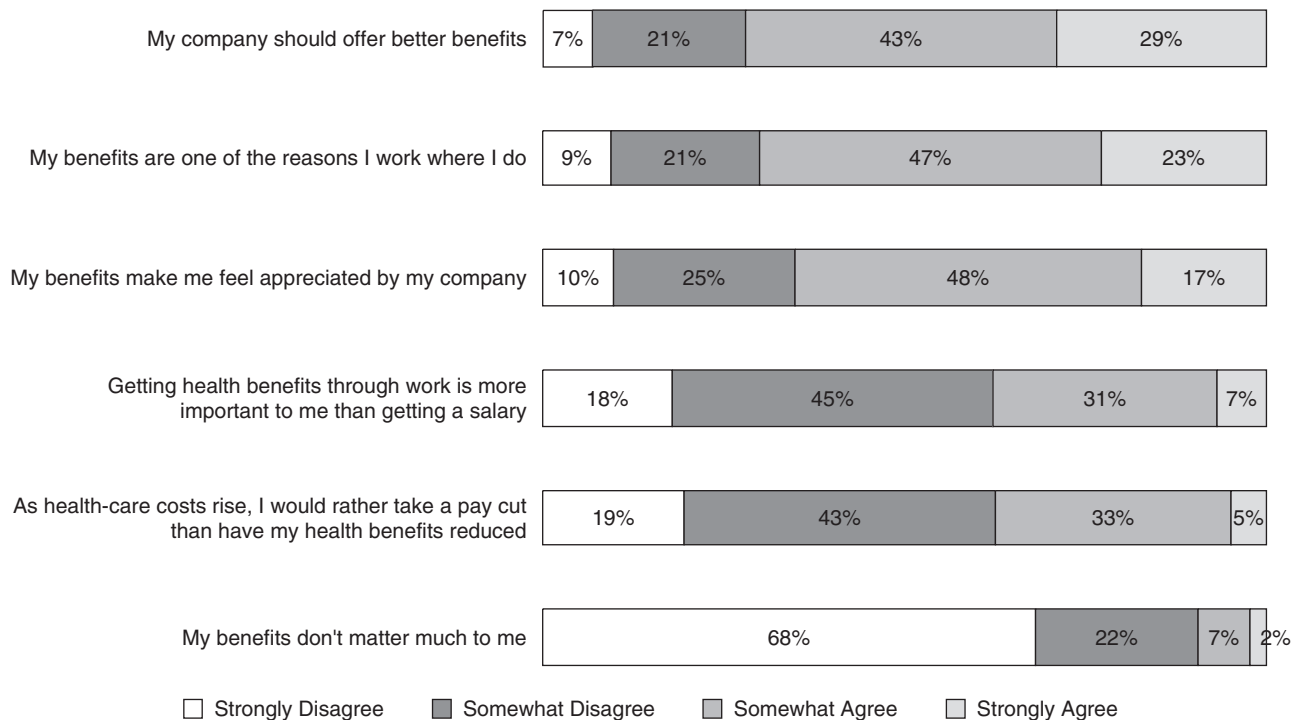
1. The ability to coordinate services through a dedicated relationship management team (84 percent);

2. Offers products and services highly customized to organizational needs (72 percent); and
3. Offers highly cost-effective benefit solutions (71 percent).

At the same time, the TBO relationship is more than the one-way offloading of transactions to an outsourcing partner. The best TBO partnering is a superhighway of sorts—from employer to outsourcing partner and back to the employees, who should expect timely and well-targeted communications. The result is a more motivated, more engaged workforce that views its benefits packages as a measure of employer commitment and hope for the future.

The TBO model presents an opportunity for organizations that have handed off only pieces of their benefits management to out-sourcers. As they examine TBO, they may come to see how an experienced provider can create greater efficiency, consistency, and cost savings while delivering the customized, high-quality communications and education programs that not only guide employees in their benefit choices, but also provide tools to help them fulfill retirement goals. TBO is about many things, but mainly it's about total service, better service, and true partnering as firms strive to fulfill their value propositions for their employees.

How much do you agree or disagree with the following statements?



Once again this research documents the crucial importance of benefits in participants' constellation of concerns; seven in ten agree that benefits are "one of the reasons I work where I do" (although even more would like better benefits). Ninety percent of participants disagree with the statement that "my benefits don't matter much to me."

**Exhibit 1. Perceptions of Benefits**

Source: 2007 Mercer Workplace Survey™.

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