Cost Control Strategies for Complex Benefits Administration

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The California Association of Health Plans' Issue Brief from June 2012 reports some startling realities behind health care in America. Health spending in California, which tripled between 1991 and 2009 to over $230 billion, is expected to more than double before the end of this decade, to $552 billion a year by 2020. That will add up to nearly $15,000 a year in health care costs for every Californian.

These costs are compounded by culprits like poor eligibility management and absence and disability costs. Health care reform has added complexity and uncertainty to the benefits administration landscape. It has becoming increasingly difficult for organizations to target savings in benefits administration to ensure good benefits delivery while maintaining or reducing costs and staying compliant. Three primary issues and proposed solutions are outlined below.

Problem: Poor Eligibility Management

Business has come to a point where most organizations, private and public, have either already conducted a Dependent Eligibility Verification Audit (DEVA) or are planning one. In light of new ERISA legislation and changes to the definition of dependent eligibility, it's important to regularly verify dependent eligibility.

A fiduciary's primary responsibility is to run the plan for the exclusive benefit of participants and eligible beneficiaries. ERISA requires fiduciary responsibility: employers must ensure that plan dollars are used for the sole benefit of employees and their eligible dependents. This means, by extension, that employers are duty-bound to ensure that everyone enrolled in the plan is actually eligible.

Solution: Dependent Eligibility Verification Audits

Due to ERISA requirements, a yearly dependent eligibility audit makes tremendous sense to ensure that only those eligible for the benefit plan are enrolled. Additionally, an audit assists many employers in cutting financial waste. Removing ineligible parties from the roster better serves those who are eligible.

Best practices for conducting a DEVA:

- Allow adequate response time. A DEVA requires a response unlike, say, passive enrollment. It also requires proof of eligibility. Gathering the necessary documents represents an inconvenience for employees, but 100 percent compliance is essential, so allow 60 days to respond. This also benefits organizations, as it allows time to send multiple messages that explain why an audit is being conducted and why it's important. Employees don't typically respond to the first communication, so multiple messages over a period of weeks greatly increase the likelihood of 100 percent response.
- Customize the communications. If the majority of your employees have families, for example, focus on the documents required to prove eligibility for children.
- Clarify the consequences of non-compliance. Communicate that the audit is not an opportunity for the organization to kick people off the plan; it is a mechanism to ensure all eligible dependents do receive coverage. Mention that you are bound by ERISA to manage the fund for everyone's benefit. You may even consider offering an amnesty period for employees to self-report if they know or suspect that a dependent is no longer eligible.
- Make responding as convenient as possible. Establish a call center, either in-house or with your benefits administration vendor, where employees can call any time with questions. Enable employees to respond in a variety of ways: by mail with a prepaid envelope, by faxing documents or by uploading them to an online portal. There are different types of documents required for each type of dependent, so make these details very clear. Create a process that is as easy as possible for your population to comply.

Problem: Absence and Leave Costs

Sick time, vacation, FMLA, military leave, jury duty—each has its own regulations and restrictions. Absence and leave management can be complex and time-consuming. The U.S. Department of Labor reports that three to five percent of employees nationwide are absent on any given day, and that absences cost companies about $100 billion per year. Approximately $21 billion of that comes from FMLA compliance alone. Mercer reports that the direct costs of absences equals 12.2 percent of payroll. Yet most organizations do not track the costs of absences.

FMLA compliance costs companies an estimated $21 billion per year, yet the DOL reports a misuse rate of 25 percent for all FMLA leaves. That means companies spend about $5 billion more than they need to each year. In addition, inconsistent application or simple clerical errors can result in disgruntled employees and even lawsuits. Fear of litigation coupled with lack of understanding or incomplete training lead to over-entitlement. There's far too much at stake, both for the employee and the employer, to not track and measure this important employee benefit category.

Solution: Automated Absence Management to End Over-Entitlement

Because of the cost and risk inherent in absence and leave management, an automated, centralized system is a critical solution. Workforce planning and productivity improve dramatically as absence information is collected, administered and evaluated, freeing managers to focus on the core business and minimizing the impact of absence on the organization. Organizations that effectively manage absences stand to save tens of thousands to millions of dollars, depending on the size of their workforce, as well as the legal fees and settlements that could result from lawsuits.

Organizations have two broad choices: acquire absence management software or outsource the function. Outsourcing holds the obvious advantage of handing over this detailed and complex sector of HR to experts who already have all the necessary infrastructure in place. HR staff can focus on other priorities and play a more strategic part in the organization's future. Some organizations also choose to outsource segments of their absence and leave management while handling the rest in-house.

Whether you choose to handle absence management in-house, outsource it, or do a combination of the two, here are best-practice features to look for.

- Integration with payroll: Ensure that all the good data collected and calculated can get through to your payroll process.
- Eligibility verification: As referenced earlier, about one quarter of FMLA leaves alone are misused, so it's critical that your system automatically and accurately calculates current balances and eligibility for absences and leaves of all types.
- Automatic regulation updates: Absence management is a dynamic field, with regulations, definitions and laws changing constantly. Make sure the solution you choose keeps current to keep you compliant.
- Automated form/letter generation: Continue to streamline the absence management process with a system that generates all the necessary letters and notifications.

Problem: PPACA Legislation

The Patient Protection and Affordable Care Act (PPACA) expects that most workers will receive coverage through their employers, and Congress has created a system of subsidies and penalties to encourage this. The legislation eliminates lifetime caps on benefits, requires large employers to provide workers with insurance, covers young adults up to age 26 on a parent's policy, subsidizes low- and moderate-income employees, and supports preventive health care.

The comprehensive nature of this reform will induce benefit re-designs, increased administrative and compliance costs, eligibility rules restructuring, increased taxes and health insurance exchange management.

Organizations will need to update and fine-tune their operations to meet compliance requirements set by the legislation.

Solution: Update Support, Reduce Complexity

The key to improving benefits administration in light of this new legislation is to contemporize support while reducing complexity. Modifications to systems, communications and support infrastructure are continuously needed to keep pace with the changing landscape. An effective and efficient solution is to reduce the costs of supporting benefits by driving communications, support and enrollment activities to high-tech and high-touch employee self-service solutions supported by a call center.

Informed, dedicated benefits administration is critical as employer-based benefits are increasingly transitioning to subscriber-focused benefits. As employees bear a greater financial responsibility, they will want to be well-informed, so acting as a benefits educator is key. Educate employees about what benefits they are eligible for and what resources they have to make decisions. Provide an online information portal and a call center to address specific questions.

One area that consumers could use education about is wellness initiatives. Preventative care is a cornerstone of the new healthcare legislation, and benefits administrators are recognizing the need to integrate with voluntary insurance carriers and assist with wellness initiatives. Getting employee buy-in on health screenings can provide the data needed to craft customized wellness programs. Healthier employee groups can lead to both a reduction in claim costs AND lower premiums—saving your organization as well as your employees money.

To meet these many challenges, consider outsourcing all or part of your benefits administration function. The Everest Group's Benefits Administration Outsourcing (BAO) Annual Report 2011 reveals that in 2011, the global BAO market witnessed a growth of 12.5 percent to reach $5.4 billion in annual revenue. This growth has been spurred in the U.S. by the sharp rise in benefit costs, healthcare reform legislation and increasingly complex compliance requirements—all of which contribute to greater employer costs. The move toward BAO is a move toward cost savings. Technology innovation and global outsourcing have increased the value proposition of BAO as well, making it well worth considering as a valuable business partner.

About Secova

Secova is an acronym for "**Se**rvice is Our **Co**re **Va**lue". Headquartered in Newport Beach, CA with offices spread globally, Secova provides customized solutions for the administration of employee benefits and human resources. Enrollment technology, 24/7 call center, eligibility management, and billing management are a few of the services offered by Secova. Since its inception, Secova has worked with Fortune 500 companies, mid-size corporations, multi-employers, and state/local governments.

Secova's solution whether dealing with large clients or otherwise centers around its unique ability to bring together the objective and subjective elements of High Tech + High Touch to provide the perfect fit for the client both, as an employer and an employee. We accomplish this by focusing on our operating philosophy of "Engage, Empower, and Ensure" and by leveraging our 3Ps: People, Process, and Platform.