

SAGE ABRA



Paperless Benefits Management
Strategies: Containing Costs and
Complexity on a Budget

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software

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Introduction

With healthcare premiums still on the rise, small and midsized businesses continue to search for new ways to contain costs without sacrificing benefits. This guide highlights recent trends in employee benefit costs and discusses the unique challenges faced by small and midsized businesses in the wake of escalating healthcare costs. We'll explain some of the current strategies for cost containment, including alternative healthcare plans, eligibility audits, and wellness initiatives.

We'll also show you how technology can help you reduce benefits administration costs. Paperless benefits management solutions offer one of the fastest, most effective ways to reduce the cost and complexity of benefits administration. These solutions include:

- Benefits Management Software
- Online Benefits Enrollment Portals
- Carrier Connectivity Solutions

Why would a software company write a guide that doesn't promote its own products? Because we've discovered that the more people know about the value of paperless benefits management, the more likely they are to choose Sage Abra HRMS benefits management solutions from Sage Software. An informed professional usually ends up being our customer, so we have a vested interest in sharing information with you.

Health Benefits Costs Continue to Rise

Consider these statistics:

- The cost of employee health care coverage shot up by 87% from 2000-2006.¹
- Over the same period, workers' earnings rose by 20% and inflation by 18%.²
- The percentage of U.S. firms offering health benefits fell from 69% in 2000 to 60% in 2005.³
- Medical expenses for a family of four in 2006 averaged \$13,382.⁴
- Companies spent an average of \$7,744 per employee on health insurance in 2006.⁵

¹ Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2006 Annual Survey*.

² Larry Lipman, "Cost of Health Insurance Slows, Still Twice Inflation Rate," Cox News Service, September 27, 2006.

³ Heidi Whitmore, Sara R. Collins, Jon Gabel and Jeremy Pickreign, "Employers Views on Incremental Measures to Expand Health Coverage," *Health Affairs*, Vol 25, No 6, 2006.

⁴ Leah Carlson Shepherd, "Analysts drill down on health care cost drivers," *Employee Benefit News*, September 1, 2006.

- Employees contributed \$1,576 toward premiums and spent another \$1,489 out of pocket.
- 54% of employees say that health benefits are more important than higher wages.⁶
- 69% of workers fear increased out-of-pocket health care costs in the next three years.⁷
- 22% of top performers list health benefits as one of the top three reasons to leave a company.

Over the last decade, the cost of the U.S. health care system has grown at an astonishing rate. Health insurance premiums have increased annually, most often at double-digit rates. Many factors contribute to the escalating costs, including state-of-the-art testing and treatments, new prescription drugs, an aging population, increasing longevity, unhealthy lifestyles, fraud, and litigation. Regardless of the causes, there is a universal effect—employers and workers both struggle to contain health insurance costs.

Will There Be Relief in 2007?

If there is any good news in employee benefits trends, it is that the year over year increases in healthcare costs appear to be moderating somewhat. According to Hewitt Associates research, the average increase in healthcare premiums in 2006 was 7.9%, compared to double digit increases for several preceding years. Further, they project a 7.7% increase in premium rates for 2007.⁸ Other analyst estimates vary a bit, but generally agree that healthcare costs in 2007 should rise slower than 2001–2005.

While premium increases of less than 8% per annum are welcome relief, the fact remains that current increases remain well above the rate of inflation. That trend is unsustainable, as it eats into the bottom-line as well as employees' expendable income.

HIPAA

Studies of the U.S. healthcare system show that a large portion of healthcare expenses simply pays for all of the administrative effort—in short, the paperwork. In a major effort to reduce the cost of healthcare through increased efficiency, the Health Insurance Portability and Accountability Act of 1996 (HIPAA) contains a section titled *Administrative Simplification*. It requires the creation of (and compliance with) national standards for electronic healthcare transactions. These standards promote consistency, efficient administration and security to ensure the privacy of employee health data.

⁵ Hewitt Associates, "Hewitt Associates Data Reveals Lowest U.S. Health Care Cost Increases in Eight Years," November 14, 2006.

⁶ American Payroll Association, "National Payroll Week 2006 Survey: Getting Paid in America," 2006.

⁷ Watson Wyatt, "Most Workers Fear Higher Costs, Reductions in Health Benefits, Watson Wyatt Surveys Find," September 2006.

⁸ Hewitt Associates, November 14, 2006

HIPAA regulations are driving health insurance carriers to automate and standardize communication of patient health data with health care providers. Although HIPAA standards do not apply to employers, insurance carriers are increasingly requiring employers to communicate employee plan enrollment data electronically, too. It is important for businesses to keep this in mind when selecting insurance carriers and evaluating new business processes or technology that involve employee benefits data.

Midsized Businesses Especially Challenged

In addition to reducing the bottom-line, rising benefits costs negatively impact midsized businesses in unique ways. Many midsized businesses experience higher insurance premium increases than larger corporations. This may be partly due to the fact that they have less purchasing power than large enterprises. In fact, companies with fewer than 200 employees experienced higher premium increases (8.8%) than their larger counterparts (7.0%) in 2006.⁹

Benefits factor heavily into employees' decisions to remain at a firm, and a weak benefits package discourages talented candidates during recruiting. In order to remain competitive, businesses must find ways to offer attractive benefits packages while containing rising costs. And that makes the role of the benefits administrator increasingly challenging.

In order to recruit and retain top talent, most midsized companies offer a variety of benefits plans. It is not unusual for the benefits manager to work with seven to nine different benefits plans from three or more carriers. With resources stretched thin, it is difficult to find the time or budget to implement new cost containment strategies.

Benefits Cost Containment Strategies for Midsized Businesses

As companies offer broader range of employee benefits, and combat the rising health insurance costs, the HR department must grapple with increasingly complex and time-consuming cost containment strategies. Some of these strategies include adopting new health plan designs, starting wellness initiatives, conducting eligibility audits, and frequently changing carriers.

Frequent Carrier Changes

Changing carriers is probably the most frequently used cost containment strategy for midsized businesses. Midsized businesses find themselves in a multi-year buying cycle for core insurance benefits. In the first year, benefits managers shop

⁹ Kaiser/HRET Survey of Employer Sponsored Health Benefits, 2006.

comparatively for affordable insurance plans. Carriers may dramatically under-price first-year premiums in order to win new business. In that first year, everyone is happy—the employer enjoys a reasonable rate and the carrier gains a customer. But, the symbiosis is temporary. Subsequent carrier renewal quotes raise premiums substantially, often by 25–35%.¹⁰ The benefits manager has to begin shopping for better rates again. While this strategy helps to hold down costs in the short term, it also creates additional administrative costs.

Alternative health plans

New health plans that emphasize employee accountability for medical costs have been the subject of much interest to employers. Known collectively as “Consumer Directed Health Plans” (CDHP), these plans generally pair a high deductible health insurance plan with an employee directed health savings option (HSA, HRA). The premiums for these high deductible health plans are lower than for HMO and PPO plans. Some plans enable employees to roll-over unused tax-free funds to save for future unanticipated healthcare costs. Some employers contribute to the employee health savings accounts to help defray the higher deductibles.

According to the 2006 Kaiser/HRET Survey of Employer-Sponsored Health Benefits, only 4% of all companies currently offer a high deductible health plan with savings option. While some experts expect consumer-directed plans to revolutionize health care, others are more skeptical. New health care plan designs have successfully lowered costs in the past, only to see the trend reverse. For example, in the 1990s, Health Maintenance Organizations (HMOs) became the model for cost cutting and containment. Companies flocked to managed care to contain escalating health care premiums. However, employees tended to reject HMOs when given a choice, and in 2007, the forecasted increase in premiums for HMOs is higher than that predicted for PPOs.¹¹ Could high-deductible, consumer-driven plans suffer the same fate in the future?

Wellness Initiatives

Employers are looking for ways to maintain healthy employees and manage disease in those who are already ill. Wellness initiatives encourage workers to maintain a healthy diet, exercise, seek preventative care and avoid smoking. For example, many employers pay a portion of health club dues in exchange for employee commitment to exercise. Disease management programs aim to help chronically ill employees avoid expensive complications. These programs usually involve regular consultations with nurses or educational specialists. An example would be routine follow-up with diabetics to monitor blood glucose control and medication compliance.

¹⁰ Robert Young, “Group Health Insurance Bid Rates: How They Can Be So Enticing That First Year And What HR Professionals Can Do To Strengthen Their Roles in the Process,” *SHRM White Paper*, May 2006.

¹¹ Hewitt Associates

Preventative wellness initiatives and disease management programs provide a logical approach to cost containment, since the chronically ill consume a greater share of resources:

Average Health Care Cost Per Individual	Percentage of Plan Participants	Percentage of 2004 Health Care Costs
<\$1,500	72%	11%
\$1,500–\$9,999	24%	40%
>\$10,000	4%	49%

Source: Watson Wyatt¹²

A recent survey asked employers to choose three programs they believed could best lower healthcare costs. Sixty-seven percent selected preventative health initiatives, and another 44% chose disease management programs for chronically ill employees.¹³

Eligibility Audits

One source of unnecessary cost to employers comes from leaving ineligible employees and dependents on the health insurance plan. This happens more than you may think; a child reaches the age of majority or graduates from college, or an employee changes marital status. Extra enrollments can also occur because HR lacks appropriate systems to ensure the removal of employees who leave the company. Employee failure to notify HR of life event changes or HR failure to accurately update the carrier's enrollment records often result in the company continuing to pay premiums for participants who no longer meet eligibility requirements.

Some businesses address these issues with eligibility audits that require employees to provide documentation of dependent status. Eligibility audits such as this remove an average of 5% of the names on the rolls.¹⁴

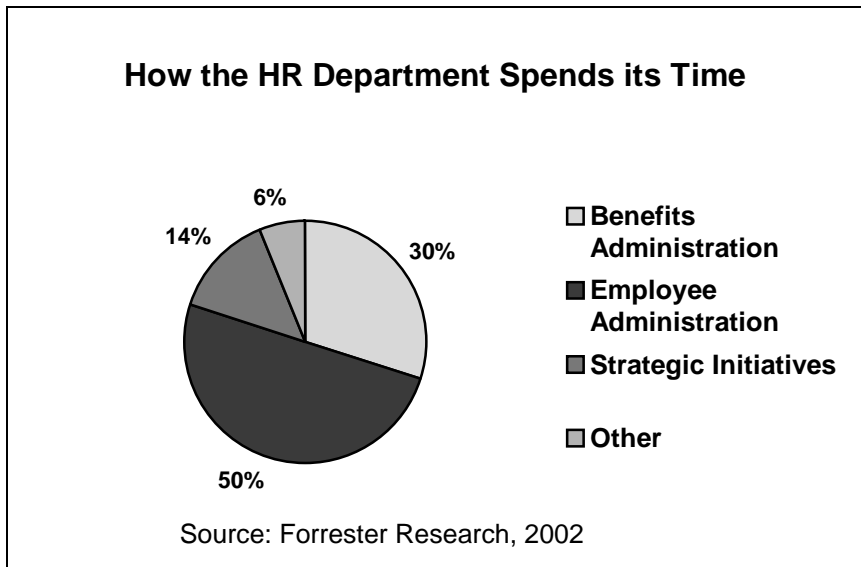
¹² Watson Wyatt, "Financial Incentives Alone Unlikely to Curb Health Care Cost, Wayston Wyatt Says," April 24, 2006.

¹³ Bradford J. Holmes, "Employers prefer pre-emptive strikes against health costs," *Employee Benefit News*, August 2006.

¹⁴ Carolyn Hirschman, "Exams for health plans: to rein in health coverage costs, employers are checking up on the efficiency of their plans," *HR Magazine*, January 2005.

How Cost Containment Strategies Impact Benefits Administration

According to Forrester Research, HR staff members spend a majority of their time on routine administration, rather than on more productive, strategic initiatives. Benefits administration alone consumes as much as 30% of an HR department's time. And when you look at the increasing complexity involved in benefits administration, it is easy to understand why.



In the most commonly employed strategy—frequently changing carriers for competitive premium rates—benefits managers spend much more time shopping and negotiating for new benefits plans. After setting up new plans, companies absorb re-enrollment costs. All employees must complete a positive enrollment with the new carrier(s), rather than a negative enrollment that would enable them to simply review and update their benefit elections. On top of that, HR and IT must create a whole new set of enrollment data communication links and procedures to match the new carrier processes.

Adding new types of health plans or wellness initiatives may help contain costs in the long-term. But these initiatives increase benefits administration complexity and costs by creating new plans to manage. And, additional carriers translate into more sets of unique data requirements with their associated enrollment tracking and reporting issues.

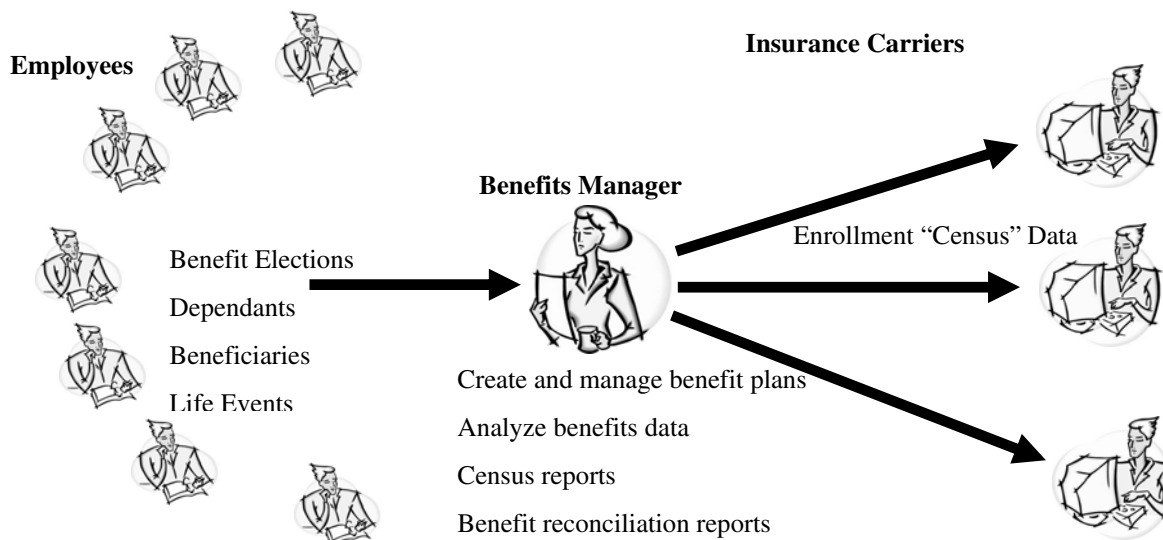
Eligibility audits in a paper-based system can be slow and painstaking. To catch clerical errors made during data entry, you must begin your eligibility examination with

the original paper enrollment forms. Without some form of automation, a thorough eligibility audit might take more time than the savings can justify.

As you can see, cost containment strategies can increase administrative costs. So, where can midsized businesses find relief? The answer may be found in more efficient HR technology.

Reducing Benefits Administration Costs with HR Technology

Many businesses are turning to benefits administration software, online benefits enrollment portals and carrier connectivity solutions to streamline and automate benefits administration and reduce internal operating costs.



Current technology has the power to reduce complexity and increase productivity in the HR department. Instead of distributing and collecting paper benefits enrollment packages, HR empowers employees to make benefits selections online, reducing the possibility of clerical errors. That data is automatically routed to the centralized HR system, with the benefits manager approving enrollments in a fraction of the time. Enrollment data is transmitted electronically to the carriers by way of carrier connectivity services. This automation makes it easy to send regular updates to every carrier, further reducing the chance of costly premium overpayments, missed enrollments, or ineligible plan participants.

By moving from time-consuming paper-based benefits administration to efficient electronic systems, HR saves time that can be better used to implement cost containment strategies or focus on strategic recruiting, retention, or training objectives.

Benefits Management Software

The first step to more efficient benefits management is the adoption of an HR solution with integrated benefits administration functionality. An HR solution significantly reduces the amount of time your HR staff spends bogged down on routine paperwork. It also accurately tracks and calculates the cost of your benefits plans.

Using HR software, you can quickly create accurate savings and insurance plans. Easy-to-use solutions will feature benefit plan set-up interviews that take you step-by-step through the entire process. After you set up your benefit plans, you'll be able to track plans, define eligibility criteria, and automatically calculate employee, dependent, and employer premiums. Your HR system provides a centralized core database for all of your employee enrollments in every plan.

By reducing administrative overhead, these solutions save time, increase accuracy, and reduce costs.

- ✓ **Increases Efficiency** – HR systems automate core benefits management, saving you time to concentrate on other tasks. Once employee data is entered, it is available throughout your HR system, so you don't have to duplicate your work.
- ✓ **Centralized Administration Saves Time** – By gathering all employee data into a single, centralized database, you can easily access any information you need about any employee's benefits. Instead of relying on a variety of systems, spreadsheets, and paper files to manage benefits, you have all the data you need in one location.
- ✓ **Makes Reporting and Forecasting Easy** – HR software allows you to run company-wide reports to analyze enrollment statistics. You can compare prior years' histories to determine the best mix of benefits for your company's objectives. You can also accurately forecast future company benefits costs.
- ✓ **Controls Costs through Billing Reconciliation** – Because an HR system can quickly summarize the number of participants enrolled in any benefits plan, it can also calculate your expected premiums so you can catch any billing errors from your carriers.

Online Benefits Enrollment

Online benefits enrollment portals enable employees to enroll in benefit programs, review their benefits data, and report life event changes over the Internet or company

intranet. These systems eliminate or reduce the need for paper enrollment packets, saving time and money. An online benefits enrollment portal integrated with the core HR/benefits software also eliminates the need for manual data entry by HR staff. About one-third of U.S. businesses have already created benefits portals for employees. Larger companies have led the way, with nearly 50% already using online benefits enrollment, while about one-quarter of companies with fewer than 1,000 employees have made the move.¹⁵

Employees manage their own benefits using a personalized Web browser-based, self-service system. During open enrollment, employees are prompted to choose plans based on automatic eligibility criteria and can compare costs and coverage of their current elections with new offerings. They enjoy instant access to online information, including plan documents and links to carrier Websites. Throughout the year, employees can also make changes to reflect life events. Easy access by employees to their benefits information reduces call volume to HR while raising employee satisfaction levels.

Online benefits enrollment reduces cost and complexity in the following ways:

- ✓ **Shortens the Enrollment Cycle by up to 50%** – By eliminating the need to create, distribute, and collect forms, an online open enrollment process can accomplish in 2–3 weeks what can take 6–8 weeks or more in a paper-based system.
- ✓ **Eliminates Manual Data Entry** - Your benefits administrator can review and approve online enrollments in as little as one minute per employee. Paper based systems can take as much as 10 minutes per employee to re-key data into the system.
- ✓ **Reduces or Eliminates Data Errors** - Enabling employees to enter their own data into the system drastically reduces clerical errors. Mandatory data fields can ensure that employees turn in complete data. Accuracy impacts the bottom line of benefits costs.
- ✓ **Reduces Call Volume to HR for Questions** – Online benefits portals provide employees with instant access to information they need without calling HR.
- ✓ **Eliminates the Cost of Paper Packets** – Moving your benefits enrollment process online allows you to save on the materials, postage, and personnel costs associated with assembly and distribution of paper enrollment packets.
- ✓ **Saves Time in Monitoring and Tracking** – At any time during an open enrollment period, an online solution can show the status of each employee in the process. Reminders to employees can be delivered automatically by e-mail.

Carrier Connectivity Services

Under HIPAA regulations, insurance carriers are required to be able to accept electronic transactions for health plan enrollment and disenrollment. Although HIPAA

¹⁵ Matthew Brown, Clair Schooley, and Paul Hamerman, "Employee portals show healthy, but slowing growth," *Employee Benefit News*, November 2006.

does not require employers to submit enrollment data electronically, many insurance carriers are requiring their customers to switch to electronic submissions in order to contain their own costs. This trend will likely continue, so it is important for businesses to automate connectivity to their carriers. Unfortunately, this is easier said than done. That's because collecting and communicating the data often requires help from IT, and carriers have different required data elements and formats for the information they need.

A carrier connectivity solution securely automates communication of employee benefits enrollment data to your specific insurance carriers. This allows you to meet carrier requirements for electronic submissions without dedicating HR or IT resources to this recurring task. Pulling the necessary information directly from your HRMS, the carrier connectivity service properly formats the data according to each carrier's requirements, and submits your files electronically based on each carrier's schedule requirements. After submitting your initial census file, regular change files keep your carrier updated about your employees' life event changes, ensuring accurate, timely data and correct premium billing.

Increased accuracy forms a compelling reason to adopt a carrier connectivity solution. Manual communication with carriers can result in error rates of up to 40%, but carrier connectivity solutions can reduce these errors significantly. This helps your company avoid mistakes ranging from:

- Incorrect names, identifying information, or addresses
- "Missed enrollments" for employees that opted for benefits but failed to get added
- Overpayments to carriers for employees or dependents who are no longer eligible.

Other ways that carrier connectivity services help benefits administrators to eliminate complexity and reduce costs include:

- ✓ **Greater Flexibility** – You'll be able to switch carriers or add new carriers and benefits plans without worrying about cumbersome data connectivity issues.
- ✓ **No Time Required from Your IT Staff** – Most mid-sized businesses have limited IT resources. With a carrier connectivity service, your IT staff does not need to program and maintain customized carrier data links.
- ✓ **Supports Multiple Electronic Formatting Requirements** – Without a carrier connectivity service, you may end up working with multiple custom electronic formats, including spreadsheets, ASCII text files, XML and EDI. The carrier connectivity service is responsible for knowing your carriers' requirements, creating test files, and submitting each new data file in the proper format(s).
- ✓ **No Paper Forms to Submit** – As more carriers require electronic data submission, some will institute additional processing fees for companies that submit paper enrollments. Plus, you'll eliminate the costs associated with preparing and mailing paper forms.

- ✓ **Extra Time for HR to Focus on Cost Containment** – Instead of spending time entering enrollment data and preparing enrollment reports for carriers, you are free to conduct eligibility audits, review new health plan designs, or start a wellness initiative.

How Much Could Your Company Save with Paperless Benefits Management?

To illustrate the ways that your company could save by adopting paperless benefits management technology, we will examine the savings a typical midsized business with 400 employees and \$50 million annual revenue might achieve. Research by the Saratoga Institute finds that companies spend an average of 5.9% of annual revenue on employee benefits. In the case of our hypothetical midsized business, that's \$2,950,000—clear motivation for pursuing any serious savings opportunities that technology can afford!

Let's break down the types of savings opportunities afforded by paperless benefits management technology, starting with the most obvious effect—getting rid of the paper.

Eliminating Paper

Reducing or eliminating paper benefits packages during open enrollment can save your company the cost of printing and postage, plus the staff time to process packets. According to the Society for Human Resource Management (SHRM), the cost to create and distribute paper enrollment packages averages \$27.50 per employee. For our example company, this saves about \$11,000 for each open enrollment project.

Saving Time

According to the 2006 SHRM Human Capital Benchmarking Study, the median ratio of full-time HR staff is approximately one per 100 employees in companies with between 250 to 999 employees.¹⁶ So, we might expect our example company to employ at least four full-time HR staff. Let's assume an average annual salary of \$50,000.

If the typical HR staff spends 30% of its time on benefits administration under a paper-based system, and we assume that our example company spends about \$200,000 per year on HR salaries, a 50% reduction in the time spent on benefits administration (from 30% to 15%) using paperless benefits management applications, the savings would equal about \$30,000 in HR staff time per year that could be redirected to other priority activities.

¹⁶ John Dooney and Noel Smith, SHRM® Human Capital Benchmarking Study: 2006 Executive Summary, p 14.

Reducing Errors

Paperless benefits management can yield its largest savings through the reduction of errors. Centralizing all human resources data ensures that benefits managers can instantly access complete information about each employee's benefits selections. Online benefits enrollment eliminates clerical errors that often occur when administrators must re-key information into the HR system from handwritten employee enrollment forms. And automating enrollment updates with a carrier connectivity solution helps ensure that ineligible participants are disenrolled from your health plan in a timely manner.

How much can a midsized company save by reducing errors? Consider that eligibility audits typically remove 5% of participants from plans. With an average employer cost of \$7,774 per employee in 2006¹⁷, removing 5% of participants in our example company could save about \$155,000! Even a 1% error reduction rate would save tens of thousands of dollars annually.

Conclusion

Studies estimate that administrative expenses consume nearly one-third of all healthcare spending in the U.S. Much of that is wasted on inefficient processes. For corporate organizations, paper-based benefits administration results in the inefficient use of HR staff time, more errors, added complexity, compliance risks and unnecessary costs. To protect the bottom-line, small and midsized businesses should take advantage of benefits cost-containment strategies that include paperless benefits management technology.

Benefits administration software, online benefits enrollment, and carrier connectivity solutions all contribute to a more productive, cost-efficient benefits management strategy. These technologies greatly reduce the amount of time it takes to perform routine benefits enrollment and administration, and increase data accuracy, yielding tens of thousands of dollars in savings each year for a midsized business.

Sage Abra has been the industry leader in mid-market HRMS systems for 25 years. Our software is supported by a nationwide network of Certified Business Partners providing a local resource for implementation, training, service, and support. **For more information, please call us at 800-424-9392, or visit our Website at www.sagesoftware.com.**

¹⁷ Hewitt Associates, "Hewitt Associates Data Reveals Lowest U.S. Health Care Cost Increases in Eight Years," November 14, 2006.



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