

Cost Savings in Automating HR and Benefits

*How automating HR and Benefits
can lead to significant cost savings for your organization*



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The role of the HR department has become increasingly complex in the past few years. Even in small to medium-sized businesses, the range of areas that the HR department is expected to cover has expanded significantly.

With that increase in complexity and range has come a new problem - the need to contain costs. The areas that the HR department is now responsible for have become significant cost centers within the organization. As a result, it is important that the CFO becomes much more involved in what's going on within HR, as it starts to have more of an impact on the company's bottom line.

This document focuses on the three main areas within the HR department where the need for cost containment can be easily identified and significant savings can be made.

- Eradicating benefit errors
- Managing attendance
- Automating compliance

Eradicating benefit errors

The cost of providing benefits to employees has increased dramatically. In order that these costs not spiral out of control and start significantly affecting a company's bottom line, it has become imperative that organizations put in place effective HR and benefits management systems. This will have the added payback of providing a more timely response to employees and will reduce the vast amount of errors that are currently an issue for benefits managers.

Managing benefits has traditionally been the role of the HR department. It's a complex and time-consuming task, even in a relatively small company, and can soon take up a disproportionate amount of the HR department's available resources unless the right tools are made available to them.

Where do the errors come from?

According to a recent survey by Business Insurance Magazine, insurance carrier bills are on average up to ten-percent inaccurate. The Wall Street Journal recently reported that benefits have become the second largest expense after payroll for most organizations, with an average cost of around \$7,000 per employee in 2004.

If we take those two statistics together, the average 200-person company is overpaying for benefits by \$140,000 per year. This is a staggering amount of unnecessary spending.

There are two main culprits when it comes to mistakes in insurance carrier bills. Transcription errors in paperwork are certainly a problem, but a surprisingly large number of errors can be accounted for in the continued payment of premiums associated with terminated employees. This is a situation that could easily be resolved by automating the link between the insurance carrier and HR.

It is also important that the payroll and HR systems are fully integrated so that the payroll process automatically highlights any changes. If the HR system is simply providing a data output file that then needs to be uploaded into the payroll system, it presents two problems. First of all, this is yet another task that needs to be performed by an already busy HR person. Secondly, the payroll manager is going to want to print off and review any changes before adding them

to the system, rather than uploading a data file full of unknown and potentially inaccurate information.

Accurate enrollment

The amount of paperwork generated in traditional benefits management is staggering - both for the employer and the employee. Consider what happens during open enrollment in a 200-person company. If that company offers ten benefit plans, and each of those plans involves just four documents, then the HR department has to deal with 8,000 documents, accurately, and in a timely fashion.

The question of accuracy is very important. If each of those documents is filled in by hand by the employee and then that data is transcribed and transmitted to the carrier by the HR department, the room for error is obvious. In smaller companies, where an insurance broker is also involved in the picture, another layer of complication and room for error is added.

Despite the best of efforts, mistakes are made as insurance carriers enter benefits data from handwritten, photocopied, and faxed employee benefits enrollment forms. And, most HR departments don't have the tools or the time to reconcile insurance carrier invoices against their own benefits information. Inaccuracies rapidly add up.

The amount of time wasted in clearing up noticed errors is a problem in itself, but it pales into insignificance compared to the issues involved if an employee or an employee's family member ends up without coverage due to an HR error. The potential liability is huge.

The answer to this problem is to provide employees with an online benefits enrollment system that is directly connected to the insurance carrier. The employee can use their computer - either at work or at home - to compare and contrast different benefit plans and fill out their personal information. This data can then be directly and electronically submitted to the insurance carrier upon HR approval. The process will be the same for a new hire or for making changes due to life events.

The HR department maintains control of the process by monitoring an employee's whereabouts within the enrollment process and can define communications templates that encourage employees to complete processes and to ask questions. A direct connection is maintained between the organization and the insurance carrier, allowing the carrier to be accessible for problem-solving, answering of questions, and making the whole process much faster and easier.

Carrier Connectivity

Carrier connectivity is a very complicated process. Some software vendors will tell you that they can provide you with a report from their system which will allow you to connect with your insurance carrier, but you really need to be aware of what you are getting into if you decide to take that route. Very few systems provide real carrier connectivity, but they do exist.

First of all, your carrier has to be willing to set up connectivity with individual companies. Once you overcome that hurdle, you'll need to ensure you have all the right technology to allow connectivity to take place. Then, you have to determine if your organization has the time, knowledge, and bandwidth to overcome all the required testing. And of course, you have to go through this

process for every carrier you have, and maintain regular connections and updates.

On the whole, most organizations find that it is easier to find a software provider that specializes in performing these functions and can simply provide them with a working interface.

Real-life Carrier Connectivity examples

Below are examples of real customers (company names withheld) who discovered their insurance carriers' databases to be seriously out-of-date. These error rates were discovered when the organization electronically transmitted their benefits enrollment data from their HRMS to their benefits carriers.

Situation #1: A company with 130 employees had nine employees with incorrect names/addresses listed on the eligibility roster of their health insurance provider.

This is a 6.9% error rate!

Consequence: Significant time wasted on communication between the HR department and benefit insurance group to correct inaccurate information.

Consequence: Some employees were without medical benefits while the issue was being figured out and fixed.

Situation #2: An organization with 110 employees discovered three members were not on the register and nine members were on the register that shouldn't have been.

This is a 10.9% error rate!

Consequence: Overpayment to insurance carriers and a large unnecessary benefits expense.

Consequence: Significant time spent on calls between employees, HR, and insurance carrier to fix situation.

Consequence: Three employees assumed they had medical insurance when they did not.

Situation #3: A 72-employee organization was being billed by their vision carrier for 79 employees. Seven employees who had been terminated had not been dropped from the vision plan.

This is a 9.7% error rate.

Consequence: Overpayment to the vision carrier for seven employees who no longer worked at the company.

Auditing eligibility

Another issue that needs to be addressed to ensure efficient and cost effective benefits management is the eligibility of members and their dependents. Frequently, children who have left full-time education and divorced spouses, for instance, just never get taken off the benefit roll. In order to address this concern, many companies are beginning to conduct "eligibility audits" which require employees to produce tax returns, birth certificates, and other legal documents in order to prove their claimed dependents are eligible for coverage.

Ford Motor Company began conducting regular eligibility audits in 2000. Since then it has removed 50,000 ineligible dependents from its benefit rolls-- nearly 10% of its total 560,000 plan members.

When companies are seeing projected benefit plan increases of 10% – 15%, conducting a thorough audit can go a long way towards paying for those plan increases, and sometimes cancel them out completely.

However, a lot of this expense can be resolved very simply with an automated HR and benefits management system that would automatically alert HR to such things as dependents' birthdays that might remove them from eligibility. Another example is changes in numbers of dependants on payroll tax information.

Managing attendance

While attendance management may seem like the most basic and simple of HR tasks, it presents more problems than are initially obvious. Ask yourself, "Can I rely on all my managers to consistently log my employees' sick or vacation days?" If the answer is "no," you are unnecessarily accruing liabilities that affect your company's bottom line.

The main areas that can benefit from automation are time clock management, and vacation, sick, and other time off policies.

Many employees don't keep track of how many vacation days and sick days they are entitled to or have taken. If you ask any HR manager for the most frequently asked question they receive, they'll most likely repeat, "How much time do I have available for my vacation today and how much will I have in one month's time?"

It's one of the most common inquiries an HR department has to deal with and one which frequently equates to time and effort wasted on a mundane tasks executed by highly-paid HR professionals. What if an employee could log onto a secure HR system and simply look up the information they need? Easier still, what if that system could easily show the employee the amount of leave taken and allow the employee to make online leave requests?

From a departmental manager's standpoint, imagine this process:

An employee makes a request for vacation.

The employee's manager receives an email from the employee requesting time off. If the manager happens to be out of the office or unable to acknowledge the request, the email will automatically be forwarded to another decision maker.

Once the request is received, the manager can use a calendar view to check whether the request will clash with other department members' absence.

The manager can also verify at this time that the employee is entitled to the time off.

Then the manager can simply accept/reject the time off request accordingly.

If the vacation or medical leave request is approved, every system from HR, to payroll, to benefits, will automatically be updated.

Calculation of vacation time is frequently a contentious issue. If it is sloppily managed, employees can frequently take more paid vacation time than they are entitled to, because no one can prove they haven't taken it. Online leave request ensures that leave is taken and that leave requests are accounted for.

And take for example a terminated employee. You would typically pay a salary for leftover vacation. If proof of what has been taken is clearly available, it can make the whole termination process run much more smoothly.

If absenteeism is becoming a problem, automating the reporting, management and logging of sick days is a good way to track and control whether there is an issue.

A good attendance management system should be largely self-managing. Once you have defined your unique business rules, the HR department should have to expend little or no effort in ensuring that it is running smoothly.

Having a single, electronic access point, directly integrated to the payroll system offers a very easy solution to these issues.

Automating Compliance

Compliance is a hot topic nowadays. It isn't necessary to be willfully negligent to be confronted with serious and very expensive problems. Even the most compliance conscientious employer who meets the variant interpretations of specific regulations may encounter unexpected litigation and find their efforts fruitless. Many companies presume that they are adhering to strict regulation guidelines when in fact they're at fault for violating a compliance specification located somewhere in the fine print.

For instance, an average of 450 employment lawsuits are filed in the U.S. each day, and 57% of companies have been named as defendants in at least one employment related lawsuit in the past five years. Lawsuits by disgruntled employees are one problem. But nowadays, a company can face suits from candidates who were never hired, as well as from former employees months after termination.

Compliance with federal and state regulations involves a mind-boggling array of topics, most of which fall within the purview of the HR department. OSHA, FLSA, COBRA, EEO, VETS, SOX, and EDA all have minutely detailed requirements, many of which are open to individual interpretation, and they all have severe penalties for infraction. It is a never-ending, full-time task to keep up with these requirements, ensure corporate compliance, and follow the required reporting procedures.

Human error is seldom seen as an acceptable defense in cases of compliance infraction.

This leads us to realize that compliance has to start from within. It isn't sufficient for management to simply pay lip service to compliance issues such as OSHA. It's now essential that the entire company, from the employee on the factory floor on up to senior management, understand the ramifications of non-compliance.

Compliance management comes in several forms:

Managing your company's documentation so that you have a defined set of policies and procedures.

Ensuring that every new employee is challenged accept that they have read and understood the guidelines for your company and that they will be expected to comply with those guidelines along with state and federal regulations.

Training your staff to be better ambassadors both within the company and to the outside world by ensuring that they adhere to your code of conduct, ethics and expected behavior

Setting these processes in place and ensuring the careful documentation and monitoring of every step is an obvious candidate for automation.

In addition to these practices, many organizations are now choosing to automate as many of their compliance maintenance procedures as possible. For instance, if HR has both benefits management and payroll automated and linked, it is an obvious move to add in COBRA compliance to this mix. (This particular piece of automation offers the added benefit of preserving privacy - an important HIPAA compliance requirement.)

Forms and templates necessary to maintaining compliance can be built-in to many parts of a corporate intranet, making it easy for employees and managers to adhere to reporting requirements. These forms and templates make it easy for employees to understand the regulations that pertain to their particular activity or sector of the company.

Compliance automation plays a critical role in both preventing violations by ensuring that requirements are automatically monitored and fulfilled, and in defending alleged compliance violations. The best defense against an alleged violation is a watertight reporting system and automatic documentation of everything related to a specific case. For instance, in a case of proving OSHA compliance, an updated, organized on-line injury reporting system in the factory is going to carry more weight than the standard illegible notebook.

In addition, some compliance authorities, such as VETS-100 and COBRA will waive strict reporting requirements if it can be proved that appropriate data-collection and tracking systems are being used.

Conclusion

In this document we have looked at three areas where automating HR and benefits management processes can provide demonstrable and direct benefits to the corporate bottom line. If you examine all three areas carefully in your organization, you are sure to find leakages, and maybe even some stark areas of exposure. If all you do by automating your HR and benefits system is solve just one of these problems, you'll find it a worthwhile project.

A more subtle benefit, however, is the amount of mundane, repetitive work that will be alleviated from the HR department. No doubt, in your HR department you employ a group of skilled, qualified professionals, whose abilities range far beyond the uses to which they are currently being put. By automating all of the little tasks - that quickly add up to overwhelmingly large, but not mentally stretching tasks - you'll free up your quality employees to do more complex and needed planning and management tasks that will benefit the long-term growth of the organization.

HR automation should be a simple operation. A good solution will allow the HR manager to use processes straight out of the box that mirror or improve their current way of working, without requiring months of set-up time and complex customization processes. The HR manager should be able to customize and control each individual process intuitively and with minimal training. Your HR manager should not have to become an IT manager in order to be able to set up and use the HR system but the system does need to have the flexibility to be customized to your business, not force your business to work its way.

The HR system should offer seamless connectivity between all parts of the organization - a change by an HR manager, such as a new hire, should immediately show up everywhere it needs to. Everything from the time clock and payroll system to training to performance review procedures to benefits management with just a single point of entry from a single individual.

Put good business processes in place and those processes will largely manage themselves. Your employee morale and conduct will improve throughout the organization with clear, defined guidelines, easy places to access information, and fewer inaccuracies in matters that are truly important to their well-being.

The bottom line is this will save your organization money and time.



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