

MANUAL VS AUTOMATED BENEFIT ADMINISTRATION

Return on Investment (ROI) Analysis

HR and Benefit professionals of mid-sized companies, 250 – 5,000 employees, who are still primarily using manual systems to administer their firm's benefit programs, know there is a better way. They have heard of, seen or worked with software solutions or outsourced services that deliver online enrollment, electronic data transfer and billing functionality. They are certain that these approaches produce a superior employee experience. The dilemma is to provide a convincing financial case to senior management. After all, someone has to pay the software firm or administration company for their services. This expense is not in the current budget. The following case study identifies the areas where there are potential cost savings.

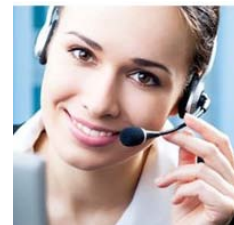
In this example, the company will save between \$2 and \$3 for every \$1 spent on an automated, online benefit enrollment and administration system.



CLAIM REDUCTION SAVINGS



ADMINISTRATION REDUCTION SAVINGS



COMPLIANCE AND TRANSACTIONAL SAVINGS

CASE STUDY

This case study is for a company with 635 employees enrolled in benefits. The annual cost savings in this example, based on conservative assumptions, are \$81,750. These savings come from three areas, i.e. claim reduction, administration cost reduction, and additional compliance and transactional savings*.

This represents annual savings of two to three times the cost of an automated enrollment/administration solution.

The following analysis supports the \$81,750 annual savings asserted above.

ASSUMPTIONS	
Number of Benefit Eligible Employees	635
Number of Covered Dependents	625
Employee Turnover Rate	9%
Average Annual Employee Claim	\$4,000
Average Annual Dependent Claim	\$2,000
Participants with Dependents	340

SAMPLE COMPANY SAVINGS COMPONENT	ANNUAL SAVINGS
Claim Reduction <ul style="list-style-type: none">Timely EligibilityIneligible Dependent Claims	\$12,000 \$38,000
Administration Cost Reduction <ul style="list-style-type: none">AdministrationPrinting	\$25,400 \$ 6,350
Total Savings	\$81,750

***Compliance and Transactional Savings have not been quantified in this analysis.**

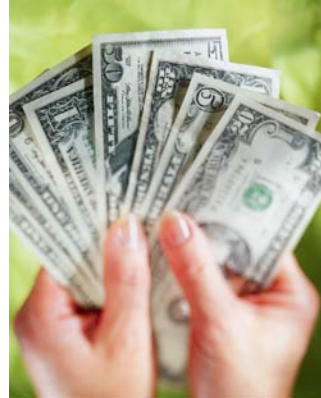
CLAIM REDUCTION

TIMELY EXECUTION

Weekly electronic carrier eligibility files reduce the likelihood that claims will be paid beyond an employee's actual termination date for both the employee and associated dependents.

Annual Employee Turnover	57
Associated Dependents	56

If benefits are terminated, on average, two weeks sooner using weekly electronic eligibility reporting as opposed to manual reporting, the savings are expected to be:



Timely Execution

	Number Covered	Average Weeks	Total Weeks	Full Time participant equivalent	Average Claims	Total Claims
Employees	57	2	114	2	\$4,000	\$ 8,000
Dependents	56	2	112	2	\$2,000	\$ 4,000
Total						\$12,000

INELIGIBLE DEPENDENT CLAIMS

Most plans cover dependents who are no longer eligible, or who may never have been eligible. This "excess dependent" rate is often found to be in the range of 3% to 8% of total dependents covered. Once the dependent database has been established as part of the automated system setup, a dependent audit should be conducted. This will identify and remove ineligible dependents, and strong online enrollment procedures will prevent new ineligible dependents from obtaining coverage.

Ineligible Dependent Claims

Total Dependents	Ineligible Rate	Number Ineligible Dependents	Average Dependent Claims	Total Ineligible Dependent Claims
625	3%	19	\$2,000	\$38,000

ADMINISTRATION COST REDUCTION

DATA ENTRY

Several reputable studies indicate that online enrollment costs \$80 - \$100 less per employee per year than manual enrollment. Using a more conservative estimate of \$40 produces the savings in the table below.

PRINTING AND FULFILLMENT

Since all benefit related documents can be viewed online, it is not necessary to print and distribute much of this material.



Administration	Cost		
	Number of Employees	Per Employee Savings	Total Savings
Data Entry	635	\$40	\$25,400
Printing and Fulfillment	635	\$10	\$ 6,350

Compliance and Transactional Savings

Other administrative savings, which are not as readily quantifiable, are recognized in the areas of enhanced billing accuracy, reduced error points, fewer participant calls to HR/Benefit staff, and benefit history and audit trail availability for dispute resolution. Additional functionality provided by many benefit administration vendors is professional customer service centers with recorded phone calls. Also, with all employee and dependent demographic and benefit data contained in one database, there are opportunities for improved, consolidated plan design.

There can also be a significant benefit in reducing potential liability related to improper administration of plan rules, e.g., enrolling participants late with subsequent denial of coverage and for which the employer becomes liable. Also, improper application of the Evidence of Insurability rules in the manual world can result in lower than expected death benefits being paid. In these cases, beneficiaries will expect employers to make good any shortfall. A solid, well designed automated system enforces eligibility rules, assures timely enrollments, precludes enrollment in plans that are not available to the participant, and passes enrollment data to carriers weekly.

Finally, electronic payroll deduction files are sent weekly to the payroll vendor/system. These files may include retroactive deduction amounts on the initial file. This eliminates the risk of missed payroll deductions that exists with manual processes.

summary

This case study outlining \$81,750 annual savings translates to a Per Employee Per Month (PEPM) savings of \$10.73. Based on an estimated PEPM range of \$4 - \$6 for an automated online solution, the estimated annual ROI of an automated solution compared to a manual process is approximately between 200% and 300%. Using this conservative example, the company will save between \$2 and \$3 for every \$1 spent on an automated, online benefit enrollment and administration system.

SAMPLE COMPANY SAVINGS COMPONENT	ANNUAL SAVINGS
Claim Reduction <ul style="list-style-type: none">• Timely Eligibility• Ineligible Dependent Claims	\$12,000 \$38,000
Administration Cost Reduction <ul style="list-style-type: none">• Administration• Printing	\$25,400 \$ 6,350
Total Savings	\$ 81,750

Complementary ROI Analysis

If you would like Benefit Concepts to prepare a customized ROI Analysis for your organization please answer these few questions. Click the link below

[ROI Analysis Questions](#)

conclusion

Automating benefit administration can generate dramatic cost savings for mid-sized companies. Using extremely conservative assumptions, this paper shows that savings of at least \$81,750 are possible in a company with 635 employees. Providing a convincing financial case to senior management can be a lot simpler than it might seem.

About the Author

F. Jay Hoder has over 30 years experience in the insurance and employee benefit fields. He is a Certified Pension Consultant (CPC) and Chartered Life Underwriter (CLU).

He co-founded Benefit Concepts, a leader in the health and welfare administration outsourcing business.