Bundled or Best in Class?

Key Considerations for Selecting Service Providers

by Alison Borland and Karen Frost, CEBS

The decision of whether to use a single provider for all benefit plan administration or to use what’s commonly called a best-in-class approach— with separate providers for health care, pension and defined contribution administration— creates much discussion and debate. This article discusses each benefit area’s administration developments and the corresponding advantages of choosing a best-in-class versus single provider approach. The authors offer guidelines and tips employers can use in order to take advantage of the benefits offered by both approaches. They argue that the best selection is a single service provider that can deliver superior results in each benefit area independently, but that can layer in additional value by bringing together benefits in a way that improves results for plan participants and sponsors alike.

Selecting a partner to accept the important responsibility of delivering your benefits programs is a critical task, with significant implications on the financials of your business and in the lives of your plan participants. The decision of whether to use a single provider for all benefit plan administration or to use what’s commonly called a best-in-class approach—with separate providers for health care, pension and defined contribution administration—creates much discussion and debate. Plan sponsors should consider both alternatives when working through the vendor process, regardless of whether the decision spans only retirement (pension and defined contribution) or includes broader benefits such as health and welfare, absence management, flexible spending accounts and other ancillary benefits. The final decision between single provider and multiple providers will influence the overall delivery model, complexity of the vendor interactions, pricing and many components of the participant experience.

Points of view with respect to the best delivery approach differ depending on who is asked, which services are included and the latest industry trends. While it is difficult to argue that one solution will be ideal for every plan sponsor in all circumstances, there are clearly themes and implications of both approaches that will be discussed in this article in more detail. For the hurried reader, however, we offer our conclusion here: Why is any sacrifice necessary? Where possible, plan sponsors should take advantage of the benefits offered by both approaches by using a single provider that offers a best-in-class solution across the spectrum of benefits.

SETTING THE CONTEXT

Rarely can all benefit programs be evaluated on the same criteria across health and welfare and retirement administration. These programs historically have operated very differently from each other, with


**TABLE**

SHIFTING DECISION CRITERIA IN BENEFITS ADMINISTRATION

<table>
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<th>Key Considerations</th>
<th>Old Paradigm</th>
<th>New Paradigm</th>
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<td>Health care</td>
<td>Ability to effectively assign participants to selected plan</td>
<td>Ability to influence participant decisions and hence health and wellness</td>
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<tr>
<td>Pension</td>
<td>Deep pension knowledge and expertise</td>
<td>Deep pension knowledge and expertise, plus ability to handle volume and deliver an exceptional retirement experience</td>
</tr>
<tr>
<td>Defined contribution</td>
<td>Easy integration of administration and investments</td>
<td>Ability to change behaviors and hence increase retirement readiness</td>
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certain skills and capabilities being more or less important to providers focused within each area of program expertise. (See the table.) Due to the different needs and evolution of programs across benefits, some providers are focused strictly on the administration of health and welfare benefits, defined contribution savings plans or pension plans. Some are focused on an even smaller niche, such as spending account administration. The existence of the niche or single service provider has created the perceived paradigm of best-in-class providers—suggesting that a provider focused in a single area, or on a single type of benefit program, is equipped to deliver the best solution for that specific benefit type because of the provider’s limited and/or targeted focus. However, the existence of competent single service providers does not preclude other providers from developing acumen across multiple services, and from developing a uniquely integrated experience not afforded by a combination of providers.

**Health and Welfare**

For health and welfare benefits, administration platforms serve primarily as tools in helping eligible plan participants learn about their plan choices and enroll in these benefits. Each year, participants are guided through the online enrollment process that outlines plan provisions, costs and administration requirements. Then, throughout the year, participants frequently log on to the benefits Web site to track claims, find providers and review documentation.

Historically, the enrollment process was paper-driven and generally simple. Most plan sponsors offered a single indemnity medical plan with very generous benefits. Since administration was quite straightforward, most organizations were able to perform the needed administration internally. Even today, many plan sponsors continue to administer their own health and welfare benefit programs.

However, things are different in today’s environment. Employers are offering many more health care choices, they are implementing a variety of health improvement and wellness strategies, and they are offering incentives to encourage employees to focus on their health and health care options. This shift has required administrators to do significantly more than process paper enrollment forms. Given rapidly rising health care costs (see the figure), growing prevalence of chronic disease and obesity, and downward pressure on balance sheets and income statements, plan sponsors are increasingly relying on administrators to help change employee behavior and deliver improved outcomes from a behavioral and financial perspective.

The first step in changing employee behavior is helping participants select the right health plan. The enrollment process can influence participant decisions regarding which plan is optimal, which medicines to purchase, whether to participate in a disease management program, and whom to cover under the plan. All of these decisions can affect the health and well-being of plan participants, as well as the financial results for the plan sponsor. The cost of administering health care benefits is just a small fraction of the overall health care spend, yet it heavily influences the final results. Hence, when selecting among providers, it’s important for plan sponsors to consider the providers’ ability to offer the decision support needed to optimize participant decision making. The required skills go far beyond the ability to simply put participants into the plans they signed up for and connect them to providers.
Savings Plans

Savings plan administration has a very different history and evolution. When 401(k)s were first introduced in 1978, they were designed as supplements to traditional pension plans. Plan sponsors invested the assets in a single, pooled fund, and administrators were asked to periodically allocate the monies to participant accounts. Solid math skills and attention to detail were critical skills for providers. Technology transformed the defined contribution landscape as participants were given the ability to allocate their assets across a selected number of investment choices, and the allocation of investment returns and transaction processing moved to daily. Financial services firms recognized two opportunities: They could manage these assets by offering their own mutual funds, and they could capture rollovers when employees left their employer. Hence, providers that performed administration and managed assets became prevalent. Financial services firms remain the most common administrator of defined contribution plans and generally require that they manage some to all of the investments offered in the plan. Financial firms do not naturally have depth in pension and health and welfare benefits, so many plan sponsors that historically preferred to use a financial firm for defined contribution recordkeeping services were more likely to use separate providers for the other benefit areas.

Over the last decades, we’ve seen a decrease in the use of pension plans, which has resulted in an increase in the size, importance and scrutiny of defined contribution retirement programs. This has placed plan sponsors and participants under pressure. The ease of using a provider that manages the assets and administers the benefits has to be balanced with the risk of fiduciary scrutiny and litigation, and the importance of selecting a provider that can deliver the desired outcomes for the participant population. The success of a defined contribution program depends on the decisions made by employ-
ees and their ability to accumulate sufficient assets. Absent this, plan sponsors may have to deal with a disengaged workforce—workers who are still employed only because they can’t afford to leave. Important characteristics of a provider that can deliver these outcomes include an open investment architecture with support of lower cost, institutional investments; a business model that aligns with the best interests of participants and the plan sponsor; the ability to influence participant decisions; and effective, unbiased advice or guidance. Similar to healthcare, it is critical that any provider be able to positively impact results—not just for plan sponsors, but for plan participants as well, eliminating barriers to making good choices.

**Pension Plans**

Pension plans remain complex, insufficiently understood and heavily regulated. As a result, pension plan administration has seen less change than other benefit areas. Successful administration continues to require deep pension knowledge and experience, legal and compliance expertise, and the ability to handle and manage large amounts of data that may be incomplete. The aging population offers new challenges, including significant increases in calculation volume and numbers of retirements. Therefore, while the need for expertise is as important as before, a provider’s capacity to effectively handle large volume and offer increased automation are of increasing importance. Significant manual intervention must be minimized. Otherwise, the historical participant experience of waiting a month for a calculation will continue, and participants will become disgruntled, as they are increasingly accustomed to the instant gratification of the Web outside of the pension plan.

Unlike other benefit areas, participant behavior and decision making have little impact on the success of pension plans year over year. However, providing effective decision support to retiring participants can do much to alleviate anxiety and offer confidence in the process. Selecting a form of payment and a retirement date are important decisions that most individuals have never made before. They can be especially complex if a lump sum is offered as a distribution option. By offering needed guidance and help during the retirement process, as well as preparation and information prior to retirement, a plan sponsor can provide an exceptional retirement experience that ends the employment relationship in a very positive light. Providers that pass the test of having ample relevant experience and knowledge should be assessed for their ability to improve the participant experience, and even more importantly, the experience of the retirement event.

**ADVANTAGES OF A BEST-IN-CLASS APPROACH**

Common sense will tell you that selecting the best provider for each benefits program will have its advantages. How can anyone go wrong by selecting the best of everything? By performing the provider review using a best-in-class lens, the plan sponsor benefits from the following:

- **Increased market knowledge of capabilities.** Plan sponsors can learn more about the capabilities and areas of expertise available in the marketplace during the search process. If the initial list is restricted to only bundled providers, skills or solutions of interest may be missed.
- **Better fee perspective.** Requesting bids in each benefits area will provide greater fee transparency and potentially improved negotiating power, regardless of the type of provider selected in the end.
- **Deeper domain expertise.** By focusing on a single benefits area, sponsors are likely to find deep expertise, which can improve the quality of the administration, consulting and compliance support.
- **Diversified business risk.** To the extent a single provider is selected across multiple services, a business failure or major change that impacts the services provided can have a much more significant impact than it would if multiple service providers are used. For example, providers can enter or exit markets, go bankrupt or spin off certain lines of business. By spreading this risk across multiple providers, plan sponsors can mitigate the large-scale impact of a business change.
- **Aligned buying centers.** It is not unusual for various departments within an organization to own different administration relationships. For example, the health and welfare administration might be owned by the benefits department, while the treasury team may have a vested interest in the defined contribution recordkeeper. The finance team may also push for an integrated pension administration and actuarial solution. By separating the service provider decision, it is easier for different departments to own the decision and the relationship, which can ease internal angst.

Each of these items is important and delivers tangible value to the plan sponsor. That said, before put-
Mistakes in payroll, data or execution will likely happen at some point. But when a single provider services multiple programs that must coordinate together, the provider can’t place blame on outside parties, nor is there any question of who is responsible for fixing the problem.

Plan Sponsor Benefits

For plan sponsors, combining services under a single provider can save time and money—both of which are at a premium in today’s financially strapped environment. Specific potential benefits are:

- **Streamlined implementation.** If multiple services are moved to a single provider at the same time, the implementation process can be coordinated, with combined requirements and project management meetings. Over the course of a transition of multiple services, this can save significant time.

- **Simplified data process.** Using a single provider generally means a single data file that is generated from payroll, and potentially even a single database that is used to store participant data or ongoing data synchronization, depending on the provider. Data processing is streamlined, with fewer files being managed on an ongoing basis. Changes and errors need to be made or corrected only once, instead of multiple times. Data are consistent across benefit programs all of the time.

- **Increased pricing leverage.** As noted above, streamlining data and other processes and consolidating implementation and other tasks can streamline work and reduce fees. In addition, providers are often willing to reduce prices for increased scope of work.

- **Consolidated reports and insights.** Cross-benefits reporting is often available when services are combined. For example, reports providing eligibility counts across programs and total retirement projections can be made available. Using separate providers means gathering and consolidating separate reports or participant data, resulting in more time spent and increased risk of error. The insights that can be gleaned from cross-benefits reporting, such as behavioral analyses across programs, are unavailable without combining services.

- **Enhanced direct accountability.** Few would argue that benefits administration is a perfect science. Mistakes in payroll, data or execution will likely happen at some point. But when a single provider services multiple programs that must coordinate together, the provider can’t place blame on outside parties, nor is there any question of who is responsible for fixing the problem. Having a single point of accountability when errors occur can accelerate the remedy and avoid needless finger-pointing.

Plan Participant Benefits

Combining services also benefits participants, impacting their overall engagement, their health decisions, and their ability to retire with sufficient assets. While advantages will vary based on the services included, some benefits that can accrue to plan participants from having access to integrated services include:

- **Easy access.** A single provider will generally offer a single Web site, a single call center and a unified experience across benefits. This means participants will have an easier time navigating the Web, and they will have access to a single phone number, and a single username and password. While some of these advantages can be provided through a presentation layer on top of disparate programs, the unified look and feel will be sacrificed, as well as potentially adding an additional step in the call experience.

- **Consolidated retirement planning.** Setting goals and tracking progress toward those goals is a critical step in retirement preparation. By inte-
grating retirement benefits across pension and defined contribution plans, participants receive a single, consolidated planning tool that can provide the whole picture across pension, defined contribution and Social Security. For sponsors that also offer retiree medical benefits, the planning tool can also incorporate expected medical costs based on the organization’s actual premiums and claims experience. Participants have a hard enough time making basic decisions about saving and investing; creating an easy experience in goal setting can make a big difference.

- **Integrated life events.** Participants do not experience a pension event or a health care event or a savings plan event. Participants experience life and do not react to life events in the silo of a single benefits program. For example, when a participant goes through retirement, a once-in-a-lifetime event, decisions are much broader than just which form of payment to select in the pension plan. Retirees have to make multiple decisions, including those about health care coverage and Medicare, what to do with their savings plan balance, and when to start drawing Social Security. By bringing together complete information and support in a single place, with a single provider, sponsors can deliver a comprehensive, integrated experience to participants. Participants are then better equipped to make more confident, informed decisions, and plan sponsors face less pressure to provide seamless integration.

- **Integrated enrollment.** The process of enrolling in benefits, whether it is upon hire or each year during open enrollment, is a unique opportunity to engage employees. Employees are accustomed to making choices, reviewing eligibility and spending time focused on considering benefits choices. Interestingly, the focus of open enrollment has always been on health care, life insurance, disability and related benefits. These benefits are typically paid for, at least in part, through paycheck deductions. Of course, savings plans contributions are also funded through paycheck deductions. Since participants have only one paycheck to fund all of these benefits, enrollment is a time when participants can use added decision-support tools to balance choices that impact their single paycheck. Incorporating savings plan considerations into open enrollment can provide participants more perspective, remind them of the potential advantages of saving in a plan, and even encourage lower cost health care plans as a way to fund higher savings plan contributions. This is best accomplished using a single provider for multiple services.

- **Insightful messaging.** If a single provider administers multiple programs, that provider has a unique opportunity to use all of the data available to drive behaviors that cross benefits in creative ways. For example, when a participant enrolls a new dependent child in health coverage and is already taking full advantage of the savings plan, the provider can encourage that participant to consider a 529 plan for college savings for the child. Or, when a participant is considering retirement, the provider can encourage him or her to consider the impact on

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retiree medical costs. By using a single site and having access to broad information, the messaging delivered to the participant can be more insightful, and it can improve behaviors and knowledge that go beyond the scope of a single benefits area.

CONCLUSION AND RECOMMENDATIONS

While there are advantages to using a single provider for benefits administration or using best-in-class providers, it is possible to reap the rewards offered by both approaches if managed correctly. Plan sponsors can deliver a truly exceptional experience to employees, while managing costs and achieving an improved return on investment in the administration of their benefits programs.

To achieve this lofty ambition, the following guidelines and tips may be helpful:

• Consolidate the timing of contracts to maximize your flexibility. When bidding services, start with a selection of integrated providers and single service providers in each area of benefits. This will provide an overview of the market and give a sense of the breadth of capabilities available.

• Carefully judge each responding provider within each benefits area separately before measuring the value of integrated services. Make sure any provider considered for a service has a solution worthy of being selected on its own merits, not solely based on integration with other services. Otherwise, the important relevant expertise in each area may be lost.

• To the extent any integrated providers make it through the analysis with multiple benefits areas intact, carefully review the provider’s commitment to the business and, to limit risk of business disruption, its sustainability as well. Given the scope of multiple benefits areas and the risk if the provider leaves the business, research the firm’s history and dedication to benefits administration, and identify any ambiguity in commitment. Firms should provide references and lists of clients with similar size and complexity across each area of benefits under consideration, as well as for integrated clients.

• Request clear descriptions of the underlying level of integration. Is it superficial on a Web portal only, or is the integration deep within the underlying system? The former may be achieved through presentation layer consolidation, but the latter is where sponsors benefit from messaging and life event integration.

• Ask providers to articulate the advantages of integration. Consider the different buyers of the services in each benefits area, and the integration advantages they will care about. This will make the internal selling process more efficient and effective even when in different departments, and enable agreement from parties with very different perspectives.

A thorough, analytical provider selection process will enable sponsors to find the depth, skills and capabilities needed to deliver in each benefits area. By also focusing on strategic advantages derived from integrated approaches to benefits administration, it is often possible to achieve greater results at a lower cost. The best result for sponsor and participant is a single provider that can deliver superior results in each benefit area independently, but that can layer in additional value by bringing together benefits in a way that improves results for participants and sponsors alike.