

IN THE NEWS

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By Tom Starnier

When Riverdeep Group, based in Ireland, acquired publisher Houghton Mifflin in 2006 from massive Reed-Elsevier, Ciara Smyth inherited 3,000 new employees. She also inherited a contract with a large benefits broker as part of the deal.

Smyth, vice president and chief human resource officer at Houghton Mifflin Harcourt Publishing (Riverdeep also recently acquired publisher Harcourt), says that although Riverdeep had used a smaller boutique benefits broker since 1999, the 2006 acquisition meant honoring the contract with the large brokerage firm.

Within a year, Smyth realized it wasn't going to work. Not only was she used to working with the smaller firm – Boston-based Longfellow Benefits – and happy with the results, but she also knew that the current fee-for-services contract with the large brokerage was not a good fit with her growing company, which doubled to 6,000 employees after the acquisition.

So in 2007, after some evaluating and thinking, she bid adieu to the large brokerage firm and reconnected with Longfellow.

It was a classic case, she says, of the importance of having a benefits broker that matches well with your HR and benefit objectives – and a good example of the importance of evaluating your benefits broker from contract to contract.

"We had a fee-for-services contract with a large broker, and when we looked at the numbers, it just didn't make any sense," she says "We brought Longfellow in last year, and almost immediately got letters back from managers saying how much they appreciated Longfellow. It was just a better fit for us, for a number of reasons, not the least of which is their constant communications and customer-service support."

Smyth's experience is a good lesson for HR executives who must look for and find a benefits broker, either for the first time or as part of a re-evaluation process of the current broker. It's critical to ensure that the relationship is in the best interests of the employer.

Good Judgment

HR executives such as Smyth, as well as healthcare vendors, experts and even brokers themselves, say HR executives who are in the hunt for a new benefits broker (or are re-evaluating their current broker) don't have it easy, but there are ways to ensure the best possible outcome, even given today's rocky economic landscape and rising costs, where shifting strategies can make things especially complex when it comes to benefits.

It's very clear, says Joseph Gray, a founding member and managing partner at Longfellow Benefits, that delivery of employee benefits has changed profoundly over the last decade, as years of double-digit medical-cost inflation and spectacular corporate failures – such as Enron – have led to dramatic restructuring of benefit and retirement options.

He adds that the pendulum has shifted from employee entitlement to employee engagement and participation, with plans centered on employee cost-sharing and personal benefit/financial management.

"The role of benefit brokers/advisory firms has also transformed dramatically, as have client expectations," Fox says. "Complexity of the benefits landscape has increased to the point where clients demand and expect that their advisers have the intellectual property and service infrastructure to deliver appropriate solutions."

"As a benefits adviser, people hire us not because we make the best widgets; they hire us for our intellectual property value. They see us as a law firm or accountancy," he adds. "Most of all, they evaluate and eventually judge and keep us based on what are we doing to make sure we are delivering on our promises."

Mike Turpin, CEO for the Northeast Region at Minneapolis-based UnitedHealthcare, believes the goal for every broker should be to educate clients over time to confidently assume more and more of their own risk, ultimately becoming self-insured. As a result, HR executives should really focus on how a benefits broker can help them reach that goal.

"The goal is improving health outcomes, to interpret data to better understand how employees and their dependents are accessing and using healthcare. Brokers also must partner with insurers and their providers to design solutions that will reduce costs for their clients," Turpin says, adding that a good broker has analytical capabilities to evaluate utilization data and the skills to review insurer underwriting decisions.

"It's about value, span of services, and setting performance guarantees," Turpin says. "For example, is a broker balanced with his or her stable of carriers? Or, if they seem to favor a carrier, why? Does that relationship give brokers leverage to get special consideration for the clients, especially if they are a smaller employer?"

What to Look For

HR executives, of course, should ask for references. But Turpin has a twist on that idea, recommending talking to some customers who are not necessarily the happy ones, but the ones who fired the broker in the last few years. He believes a good broker won't try to hide the fact that it has lost some clients in the past, and will supply those contacts if asked.

"It will send shivers up the broker firm's spine, but it gives you a complete view of the broker firm," he says. "A great broker is worth their weight in gold. But to the HR executive, it's really a case of caveat emptor [let the buyer beware]."

To Smyth, the first, and most important, critical factor in choosing the right firm to help you create the best benefits package for both employee and employer is that it must know how your company and its HR department operate, and be willing to do whatever it takes to help both succeed.

"The first thing on an evaluation list [of brokers] is they must understand your business needs," says Smyth. "With that, I mean not only during the selection process, but also once you have decided to use their services."

Smyth says because HR organizations constantly face the pressure of balancing an attractive benefits suite as a way to attract and retain talent, at the same time, they must deal with the constant pressure on costs. When you evaluate benefits brokers, she says, it's important to see if they understand and can help you achieve success in that delicate balancing act.

"The trick is how to offer the best benefits package possible and make it affordable," she says. "That's not an easy challenge, but if you have the right benefits broker working for you, you can achieve it."

Working for a "very acquisitive" parent company brings even more complexities to choosing and using a benefits broker. For example, you might need to do an extra benefits enrollment event without much notice as a new company is acquired.

One thing she especially likes about Longfellow Benefits is the firm's commitment to carrying out quarterly sit-downs with her team so any critical or ongoing issues are communicated. Also, Smyth says, it's important that Longfellow understand the pressures on her HR team, whether it's new growth, downsizing or any number of benefits-related situations.

"We do those meetings four times a year, and that's a real commitment by the broker," she says. "They need to know how your business must perform to be effective, and they can't do that without open, and frequent, communications."

"In the past, I've had relationships with brokers who, once you sign a contract, you never hear from them," Smyth adds. "If that's your broker's outlook, it's probably are not going to be a good fit."

Smyth says customer service also is a critical issue, as HR often has dwindling resources and often must run a tight ship without a tremendous amount of headcount.

"That's the challenge, doing more with less," she says. "So you need a broker who can act as an extension of your full-time staff, which is not something you get with every broker."

For example, when Houghton Mifflin Harcourt goes through open enrollment, the team that supports Smyth out on the road, doing town hall meetings, etc., has members from Longfellow.

"They really are acting as an extension of my HR team," she says, which means she can get more done with fewer internal resources.

A third evaluation element, Smyth adds, is that a broker must be a "subject matter" expert, keeping up with the benefits industry, especially healthcare.

"They send me materials, keep me apprised of what's going on out there," she says. "They, in fact, act in an educational capacity."

Basic Guidelines

Longfellow's Gray outlines a checklist for employers and HR executives to consider when evaluating and choosing a benefits broker (or maintaining a current one):

- * **Regulatory Expertise** – Benefits firms must have the resources and intellectual property to educate clients on all regulatory issues, including federal legislation regarding the Employee Retirement Income Security Act, the Health Insurance Portability and Accountability Act, the Consolidated Omnibus Budget Reconciliation Act, Medicare Part D, Pension Reform Act, health-reimbursement arrangements and health-savings accounts, which all have created the need for employers to make sweeping changes to their benefit programs.
- * **Compliance and Reporting** – Many employers are simply unaware of all of the Department of Labor filings required for typical benefit programs. At the very least, benefit firms should be able to advise clients of their filing responsibilities, and many firms will prepare signature-ready forms for their clients.
- * **Plan Assessment and Employee Education** – Healthcare costs once again rank as a top priority of finance and HR professionals in national surveys. Consumer-driven health plans are the current vehicles of choice in the fight to control medical costs. Federal legislation created tax-advantaged HSAs and HRAs, which are used in the design of consumer-driven models. Benefits advisers must have a full understanding of all benefit programs to design communication programs that allow members to efficiently navigate through benefit options.
- * **Merger and Acquisition Due Diligence Capability** – A benefits adviser must have strong expertise in due-diligence review and acquisition analysis so it can appropriately advise you on the potential exposure surrounding the health and welfare and retirement benefits of companies your firm may acquire.
- * **Benchmarking Ability** – Benchmarking is a hot-button topic for employers as they struggle to attract and retain top-notch talent. A good benefits consultant should be able to offer benchmarking reports, with data by industry compiled on both a national and regional basis.
- * **Vendor Evaluations** – Outsourcing of employee benefits has grown dramatically over the last several years, so benefits advisers must expand their knowledge base beyond traditional benefit programs. Look for an adviser that can provide the valued service of vendor evaluation of outsourcing providers.
- * **Up-to-Date Technology** – Benefits advisers who do not embrace new technology are at a distinct disadvantage because clients must be serviced 24/7. At a minimum, a benefits adviser should be Web-enabled to the extent that it can house client-specific benefit information that can be accessed anytime by members using passwords.
- * **Web-Based Solutions** – Many employers have already initiated or are exploring online enrollment and employee self-service. Advisers must have an understanding of these various platforms to help ensure the appropriate information is being delivered to employees and vendors.

"Finally, you must demand transparency," Gray says. "It's vital to understand how and what an adviser gets paid for the services [the firm] offers."

Smyth agrees. Transparency, she says, is something her board is very interested in.

"We spend \$65 million a year on benefits, so [board members] have every right to understand what we are spending on it," she says.

Jeanne Brutman, a New York-based benefits adviser serving mostly small businesses, says self-evaluation is a critical component in selecting a broker. Specifically, she says, an HR executive should evaluate his or her own HR staff, since it can go a long way in determining what kind of adviser you need.

"If your staff is not experienced, you need a more hands-on broker," she says. "Some companies that are expanding fast might need a much more experienced broker who can guide them so they don't make mistakes."

Vendor Management

Of all the broker-evaluation factors, making sure you are going to get what you pay for is among the least understood – but potentially damaging – issues, according to David Neikrug, chief executive officer of Optimum Group, a New York firm that helps employers optimize health-plan costs.

"HR executives assume they have a trusted adviser, and once or twice a year, at renewal and budget time, they will go around with the vendor who typically says, 'We'll fix it for next year and then it's placed on the back burner,'" Neikrug says.

That's no longer any good, he says, adding that there is an average of 10 percent to 15 percent leakage (roughly translated, lost dollars within group healthcare contract) directly due to the lack of vendor management.

"Most companies have policies and contractual language in place to manage their technology purchases or a piece of real estate," he says. "But that miraculously disappears when it comes to benefits. Why is that? [Employers are] handed contracts, take them or leave them, and don't feel they have any sort of opportunity or ability to deal with changing the agreements."

Even the best HR executives are doing so many things – compensation, payroll, recruiting, performance management, talent management, etc. – that they typically are not subject-matter experts, Neikrug says. So when it comes time to choose a vendor, they need one that can do that job for them.

"Many of the large benefits brokers focus on the defensive play, which is the renewals," he says.

"No one wants to talk about offense. They are not being proactive, and they are not holding the vendors accountable."

Right up front, Neikrug says, you need to ask what resources they are bringing to the table to help you control your costs. Second, you need to ask what leverage they are bringing to help negotiate an agreement with vendors that will be able to support those cost levels.

That means what are they doing specifically, and does the agreement have some teeth if they don't happen to deliver? Third, you must identify the value you are getting from that contract before you make a deal.

"In the end, you must have a way to hold benefits brokers accountable for what they are bringing to the relationship," he says.

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