

August 25, 2017

HR Outsourcing: HR Managers Speak

By Katherine Tange-duPré, CEBS

Staffing cuts; budget restraints; increasingly complex regulations; globe-spanning locations; increased efficiency; improved quality; enhanced employee experience: employers outsource their HR functions for any number of financial and nonfinancial reasons. Whatever the reasons, many employers are turning to HR outsourcing. For these employers, outsourcing is an important tool that allows them to concentrate on strategic initiatives, reduce expenses, and move day-to-day administrative tasks—including recruiting, staffing, benefits, payroll, and training—to a third party provider.

This article is based on interviews with two clients that use HR outsourcing (HRO) services, including our firm's DB Advantage services for the administration of their defined benefit plans. Our interview describes their approaches to HRO and provides insights into the reasons organizations outsource, the challenges they face in doing so, the lessons learned through the process, and how the roles of their HR professionals have changed as a result.

Findley: Let's begin by having you tell us a little bit about you and your organizations.

Food Co. Manager: I am the benefits and HR manager for a midsized food company with multiple locations in the southeastern U.S. Our typical hourly employee has 10-12 years of service, and the average age is approaching 50.

Manufacturing Co. Manager: I am the HR manager for a midsized manufacturing company based in the Midwest. We have approximately 825 employees. We have about 200 employees and 1,000 former employees who are covered by our defined benefit plan. We began as a family-owned business, and I would say that our corporate culture is a bit paternalistic. We have a lot of long-tenured employees. In our production area, the average length of service is probably 18 or 19 years; outside of production, we have one employee who has been with the company over 45 years.

Findley: Do you think your organizations have a specific benefit or compensation philosophy?

Food Co. Manager: We want employees to value our benefit plans over and above the simple dollars and cents associated with them. We have a comprehensive offering of welfare plans, which we try to keep affordable. We provide our hourly employees with a traditional pension plan and our salaried employees with a traditional pension as well as a 401(k) plan. Some might characterize our philosophy as a bit of a "throwback" to an earlier time; however, we feel that if we take care of our employees, they will take care of us.

Manufacturing Co. Manager: Our company's philosophy watches costs, but management really thinks through how changes will affect employees. One of the great things about our organization is that management tries to find some balance. If we need to make changes we try to limit the impact. Management has been, I think, very generous with trying to make cost increases as painless to employees as possible. They definitely consider the employees versus only considering the bottom line.

Findley: You both use our DB Advantage; can you discuss any other outsourcing services that your organizations use?

Food Co. Manager: We have a long history of outsourcing. We outsource payroll, timekeeping, insurance eligibility, and COBRA functions to ADP. We also rely heavily upon the HR services division of our insurance broker. They serve as the "point of contact" between our company and our insurance carriers, which gives us additional leverage. Carriers often seem to value broker relationships more than individual customer relationships, since brokers represent so many more lives than most individual customers.

Historically, we've also outsourced much of our DB plan's actuarial work. Many years ago, I personally did some of the simpler retirement benefit calculations; however, I always made it a point, to know where my ability ended and when to outsource the calculations to an actuary. So, when our relationship began with Findley, outsourcing the DB plan's administrative functions was a natural fit.

Manufacturing Co. Manager: In addition to using the Findley DB Advantage service, we work with Wells Fargo on our 401(k) plan administration. We also outsource the benefits enrollment for our health and welfare plans. Employees can go online and enroll and there is a call center that employees can use if they need help with enrollment or life status changes. The call center is important because a lot of our production employees do not have access to computers at work. In addition, we outsource typical things like COBRA, FMLA, and disability administration.

Findley: What factors caused you to look at outsourcing DB Advantage specifically?

Food Co. Manager: A number of years ago, we compared the cost of HR outsourcing to the cost of internally staffing a benefits and HR department. Logistically we could have easily handled all of our benefits functions, internally; however, we would have had to add both professional and administrative staff, which would have meant significant additional costs. In contrast, but serving multiple customers, our vendors achieve an economy of scale we simply can't reach internally. Our vendors give us access to a multitude of professionals and administrative staff, without us having to shoulder anyone's entire salary or benefit's expense. We pay only the portion of that expense that is tied to the services we actually buy.

Outsourcing has saved us a lot of personnel management headaches, too. Employees have legitimate reasons for missing work, such as personal illness, family leave, vacation, etc.; however, ensuring that absences don't interrupt work flow can be a real challenge. Outsourcing has allowed us to shift that burden to our vendors. Our outsourcing partners generally have sufficient resources to ensure that work flow is never interrupted.

Manufacturing Co. Manager: Our reasons are similar. We looked at the resources we needed to administer our plan, and decided that outsourcing would be the most appropriate thing to do. Our pension plan has been in place since 1954, and there have been amendments over time and changes to the plan, and, as I said, we have a lot of long-tenured people, so benefit calculations can be complex. We also have a culture where employees would just walk into the office at any time and say, "I need to talk to someone in HR about my retirement." That was a drain on our resources, and the HR department was trying to focus on other initiatives and become more proactive in

leadership development and different aspects of HR. Also, the person who had been administering the plan left the company, and we realized it would always have to fall on someone to learn the plan—and if that person left, a new person would have to learn it. So everyone just felt from a resources perspective it was better to distribute our internal resources differently. And we felt the plan would be more compliant and on-track if handled by people who were experts in the field and had more experience.

Findley: So how have your roles and the roles of your benefits staff evolved since outsourcing?

Food Co. Manager: My role has evolved so that I manage the activities of vendors to help ensure that we meet the needs of the company and our employees. I decide how best to bring an issue to a vendor's attention and get a needed response. It is a very different model than managing individual employees, and doing everything in-house. Outsourcing means the work is always done by people who are experts in a particular field. For a company our size, staffing internally, with similarly qualified employees would be prohibitively expensive.

Manufacturing Co. Manager: Several years ago the company moved a portion of its manufacturing to another location and some went overseas. As a result, HR staffing was cut. Well, for various reasons, they merged locations. The thought was that if we were eliminating jobs, we didn't need as large an HR staff. We were running very lean. Decisions to outsource various HR functions were made because we didn't have adequate internal resources available to manage those functions and to play a strategic role in HR development. Outsourcing has freed up time, which allows us to proactively manage the HR function, rather than simply reacting to HR issues.

Findley: Once the decision was made to outsource, can you tell us a bit about the transition process? We're especially interested in hearing about transitioning your DB plan from in-house to DB Advantage.

Food Co. Manager: It has been nine years since we made this transition, but I don't remember feeling like it was an overwhelming challenge. As I recall, the vast majority of the work in the DB transition was handled by the Findley staff. Our role was to gather and interpret historical data, to introduce Findley to our people in the field, and to offer clarification on data. We sent our records to Findley,

where they were scanned and put into your databases and systems. We also spent a fair amount of time working through the structure of things. We focused on the kinds of letters and documents we would send out in particular situations, and how those letters would be worded. For us, the transition process involved more brainstorming about processes and procedures than labor-intensive work; however, I'm sure it was labor-intensive for some people at Findley.

Manufacturing Co. Manager: You know, I think we were in a kind of unique situation here, because the plan had been running for so long and was such an old plan. 100% of the plan's documentation was physical documents. Each individual had his or her own file. Nothing had been automated or scanned. For instance, I could run reports from our payroll to see which active employees were still in the plan based on their hire date, but then I'd have to pull the employees paper file. I have spent a lot of time over the years having to go back, dig, and pull boxes from offsite storage. Working with the plan was quite manual because of how we were set up. So it was great when Findley came in and said to just send everything to them. We had a summer intern who copied everything and shipped the copies off, and that was really all we had to do. Findley staff did all the work as far as sifting through the data. The transition went smoothly, and once all the files were sent to Findley, there was a quick turn-around to get the call center up and running for our employees.

Findley: What can you tell us about your experience in communicating with your employees both before and after transitioning to DB Advantage?

Food Co. Manager: In so far as communicating with active employees about Findley, we ran a number of articles in our company newsletter, complete with Findley team pictures, to provide an introduction. For retirees, Findley was able to replicate a process we started years earlier by providing a single packet of benefits information that covers all retiree benefits. Retirement is a period of transition that causes a lot of anxiety for employees; however, with Findley's help, new retirees continue to get one envelope, with a letter that provides comprehensive information on retiree insurance eligibility and cost. All enrollment forms are also included.

Findley's retiree letter goes on to describe the pension benefit: "here is what you are eligible to receive and

here are the forms." Findley also provides retirees with a checklist that details which forms need to be completed, and where to send them. The 401(k) benefit is referenced too, along with a phone number for that plan's recordkeeper.

Manufacturing Co. Manager: I think from an employee perspective, the culture was that there was an open door. Anytime an employee wanted to walk up to HR—even if the employee was 40 years old and nowhere close to retirement—he could find out how much his pension was worth and what it was going to be at the time of retirement. If an employee wanted to do that once a month the expectation was that somebody in HR would sit down and go through everything. That was very much the culture. So it was a change for some people to understand that if they had a question, they would contact someone else outside of the office. One positive outcome was that at the time we were eliminating some HR positions there was a lot of fear that the company would disappear, and they wouldn't know where to get information regarding their pension plan. So it was helpful for me to be able to tell people, "Here is a toll-free phone number that is designated specifically for the pension." Then there is the annual notice, which always has the contact information. So it helps that people are seeing the phone number and address and the contact information. Drop-ins and phone calls to my office have decreased.

Findley: So do you have any insights to your employees' experiences with or perceptions of any of the DB Advantage services that you can share?

Food Co. Manager: Our employees have a favorable impression of Findley. Findley has represented itself as an extension of our company, with our full blessing. In all the years Findley has been assisting us, I've never gotten a single complaint from an employee about not getting an answer to a question or about not being called back promptly.

Experience has taught me that if employees or retirees don't understand a written communication piece, they will call, again and again; however, if they feel comfortable with what they received, we might never hear from them at all. Findley puts a lot of work into the communication pieces they send on our behalf, so we rarely hear from employees or retirees in relation to those items.

Manufacturing Co. Manager: Overall employee experiences are good. Having the call center is important. Given our culture of just stopping by HR for information, I do find that a lot of our older participants are not as familiar or comfortable with certain technologies. It seems they don't want to send an email, and sending something by mail will take too much time, so they just want to make a phone call and get answers right away. Also, English is a second language for many of our employees, and we probably have at least 20 different languages spoken in the workplace. We have a lot of employees from Asian cultures, Thailand and the Philippines in particular. So if they go into voice mail it is a little hard for them to leave a message or they may not be confident that they were able to communicate their phone number and their name. I haven't had problems where people are calling me to say they just couldn't get through, and I'm not aware of any situations where somebody couldn't get any help.

Findley: Do you have any comments that a plan sponsor might need to consider before making the move to outsourcing?

Food Co. Manager: A plan sponsor considering a transition to outsourcing should take a hard look at the costs associated with their current methods. Are high-dollar employees covering lower-level work? An outsource vendor can provide a range of staff, at different cost levels, to ensure that work is performed economically.

Also, I imagine some HR managers may be wondering if they are outsourcing themselves. It's true you may end up cutting some jobs down the line—scaling back can be a painful process. However, we've never found an outsourcing arrangement that was so comprehensive that we didn't need employees within our organization to oversee and coordinate various work activities, make decisions, answer questions, and clarify the intent of the company.

Manufacturing Co. Manager: I would also tell sponsors that they need to look at their corporate culture; they need to know what their employees are comfortable with, and what they are comfortable with having someone outside the company manage.

Conclusion

Even with all of its benefits, the decision to move to HR outsourcing can't be taken lightly. Knowing what to expect before you sign on the dotted line can save you and your organization from months of ineffective planning, poor vendor selection, and a difficult implementation period.

To help decide if HR outsourcing is right for your company, ask yourself these questions:

- Are you comfortable letting someone else handle your HR functions?
- Do you have adequate HR staff and resources to manage your HR needs?
- Is outsourcing a cost-effective use of funds?

If you answered “yes, no, yes,” you may be ready to outsource some or all of your organization's HR functions. And while cost is always a factor, a truly successful HRO program can only be created when the service provider you choose demonstrates professionalism and a strong cultural match with your organization.

The information provided is a summary and should not be relied upon in lieu of the full text of a particular law, regulation, notice, opinion, legislative proposal or other pertinent information, and the advice of your legal counsel. Findley does not practice law or accounting, and this publication is not legal or tax advice. Legal issues concerning your employee benefit plans should be discussed with your legal counsel. This publication is intended for informational purposes only and is in no way intended to offer investment advice or investment recommendations.

© Copyright 2018 • Findley • All rights reserved