RR

INTERNAL COMPLIANCE AND COSTS DRIVE DEMAND FOR BENEFITS ANALYTICS

August 2018

Zachary Chertok
Research Analyst, Human Capital Management

ABERDEEN

The correlation between compliance challenges and the push to automate benefits management is clear. What may be less obvious is that as the legal basis for compliance increases in variability, the rate of blind technological automation is lagging the need to get smarter about compliance.

Top Labor-Cost Pressures in 2018

According to the results of a March 2018 Aberdeen survey, uncertainty is the greatest benefits- and compensation-related pressure reported among Best-in-Class companies. Pressure from changes to federal legal compliance followed and was reported 2.2x greater (65% vs. 30%) than the next reported benefits and compensation pressure.

Table 1: Benefits and Compensation Pressures in 2018

	Best-in-Class	All Others
Changes to federal legal compliance	65%	27%
Changes to state / provincial compliance	30%	15%
Corporate pressure to reduce labor costs	26%	16%
Lack of synchronization between payroll, compensation, and the central HRIS system	26%	15%
Minimum wage policy	22%	10%
Time to process employee records	22%	4%

Source: Aberdeen, March 2018 (n = 115)

Table 1 shows the top pressures facing Best-in-Class and All Other companies in benefits and compensation management today. The top-two pressures relate to external regulatory compliance in fields where individual businesses have little influence beyond participation in the regulatory process (i.e., lobbies). Along those lines, the third and fourth largest pressures for the Best-in-Class continue to stem from labor-cost

The Aberdeen maturity class framework is comprised of three groups of survey respondents. This data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

- Best-in-Class: Top 20% of respondents based on performance
- Industry Average: Middle 50% of respondents based on performance
- Laggard: Bottom 30% of respondents based on performance

Sometimes we refer to a fourth category, All Others, which is Industry Average and Laggard combined.

reductions and a lack of central information management that would enable labor-cost reductions. In fact, the first process-related pressure reported by Best-in-Class is the time to process employee records, and it ranked in sixth place.

Independently, each line item in Table 1 indicates that corporate management is plagued by actual individual regulations both inside and outside the company. In the context of the other line items, each issue shows a very different picture as to what is at the core of the pressures for Best-in-Class companies: uncertainty. Uncertainty, particularly in cost management, is the single greatest, unifying pressure for corporate management today. While this may sound like a “duh” statement, it is important to note that some companies manage this uncertainty better than others.

Table 1 illustrates a desire among the Best-in-Class to reduce labor costs, but let's expand the focus to consider the contexts of political uncertainty and the need for visibility into process costs: It's clear that this desire to reduce labor costs is really about increasing certainty in specific areas in response to rising uncertainty in others. A key area of uncertainty, which has been so since the passage of the Affordable Care Act (ACA), is how federal policies and state implementation mechanics will vary from year to year. Aberdeen has found that 46% of Best-in-Class companies are still pressured in their cost scenarios by the ACA. In the context of Table 1, the pressure mostly stems from uncertainty surrounding the continued battle over the ACA’s legitimacy and implementation rather than the rules set forth by the policy itself.

Evaluating HR Response Mechanisms

As labor-cost management behaves like a hose, where stepping on one area of uncertainty creates uncertainty in another, the HR administrative landscape for benefits and compensation is reacting — and unfortunately, cultivating a constantly evolving mess. From 2011 to today, Aberdeen has found that shared-services models are gaining popularity in response to convolution in benefits management, as companies recognize a need for greater solution accessibility and cross-functional data management. As Table 1 indicates, companies today are facing increasing levels of uncertainty about compliance measures, prompting management to want greater visibility and control over how labor behavior affects the bottom line.

From 2011 to today, Aberdeen has found that shared-services models are gaining popularity in response to convolution in benefits management, as companies recognize a need for greater solution accessibility and cross-functional data management.

The shared-services model enables various departments to collaborate in the development of managerial best practices that make internal outcomes more predictable. Aberdeen has found that Best-in-Class companies are 11% more likely than All Others (31% vs. 28%) to employ an HR shared-services model across the entire organization. In fact, they are 63% more likely to deploy this model across the entire organization than they are to deploy it only in strategic divisions or territorial regions. Expanding data access while consolidating solutions behind common analytics is increasing labor management efficiency for the Best-in-Class by 36% over All Other companies (38% vs. 28%). At the most fundamental level, the shared-services model is improving data delivery efficiency by expanding direct access to the metrics emerging from within diverse endpoints in the HCM solution ecosystem.

Best-in-Class companies are 11% more likely than All Others to employ an HR shared-services model across the entire organization.

Table 2: Best-in-Class Benefits Versus Payroll Pressures in 2018

	Benefits	Payroll
Cost of administration	38%	13%
Changes to internal policies and protocols	30%	20%
Diversity of management requirements	26%	17%
Manual resource management and siloed data sets	23%	17%
Incomplete data sets	17%	17%

Source: Aberdeen, March 2018 (n = 115)

Table 2 makes a case for why the shared-services model is beneficial to benefits management. The shared-services model is mitigating key issues in both benefits management and payroll. Aberdeen has found that payroll has benefited from this model for a longer time. Table 2 shows the benefits of a shared-services model for benefits administration as compared to the benefits it already enables in payroll.

As Table 2 shows, data diversity in the solution ecosystem is causing problems for both benefits management and payroll, as HR scrambles to become nimbler in labor-cost reporting and management. Best-in-Class employers, however, report that they face mounting risks in benefits management that they no longer stress about in payroll. Today, HR must satisfy a near universal need to reduce the cost of process administration when it comes to labor. Across the board, the C-suite is demanding tighter efficiency standards for the workforce, and that includes management and HR, and therefore, benefits management. Aberdeen has found that more than half of companies factor the cost of solution and procedural administration into the cost of labor, meaning that a strategy for cost reduction goes beyond labor itself to include the tools and hours that go into managing labor and its resource needs.

Aberdeen has found that less than 40% of companies report that their benefits management solution ecosystem supports the kind of efficiency they need to offset rising infrastructural costs with improved internal efficiency. For payroll, this is not as big of an issue, as routinization of processing reduces the risk of audit, which sufficiently accounts for the cost basis of technological automation. For benefits administration, however, automated processing is not enough to reduce rising overhead from diversified plan costs that aim to accommodate differing employee needs.

Aberdeen research shows that less than 40% of companies find that their benefits management solution ecosystem supports the kind of efficiency they need to offset rising infrastructural costs with improved internal efficiency.

As Table 2 shows, the current benefits management solution ecosystem does not scale or adapt to internal policy changes for up to 38% of Best-in-Class companies. Furthermore, almost one quarter of Best-in-Class companies experience a combination of manual data management and siloed datasets in benefits administration, as compared to just 17% in payroll. Additionally, fragmentation and rigidity in the solution space is leaving 17% of Best-in-Class companies with incomplete data sets.

In short, benefits administration tools lacking cross-functional analytics, or that cannot tie employee behavioral analysis to plan-selection bias in the determination of plan offerings, are not improving HR's competitiveness when negotiating plan offerings for the company. Without an analytical competitive edge, HR cannot efficiently reduce the cost of benefits plan offerings. Furthermore, Aberdeen has found that the odds of reductions being enough to compensate for the cost of the solution and the time-valued cost of HR manually analyzing plans are small.

Tech Can Help … and the Benefits are Greater than the Cost

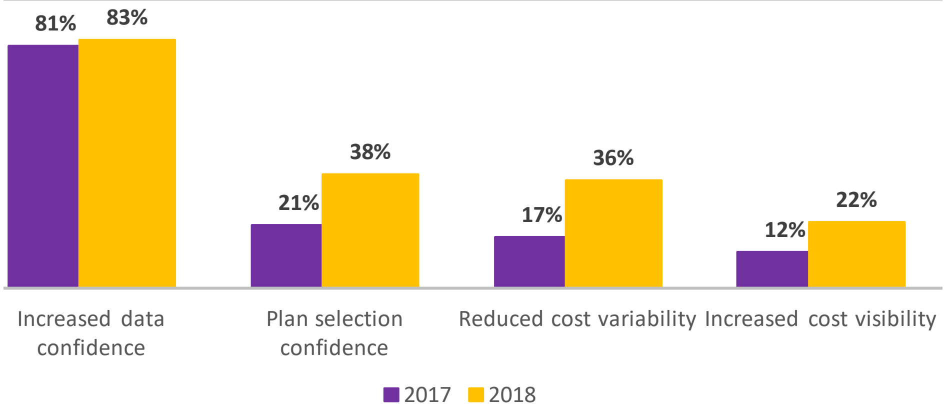
Aberdeen has found that the average company — across a wide breadth of industries — needs to rethink labor cost reductions to focus on how effective reporting not only reduces the burden on HR, but also supports a profitable employee performance cycle. In *Building Holistic Employee Development: The Performance Cycle* (September 2017), Aberdeen found that a successful integration of direct labor-cost data with incentivized performance metrics helps to paint a real-time and more efficiently complete picture of opportunities to seize the untapped potential of the workforce. It also helps to provide key behavioral insights into what impacts employee benefits plan selections to better understand the cost structures the company will encounter.

Table 2 (see Page 4) alluded to this conclusion, and Best-in-Class companies are aware that they need to pursue a deeper integration of data sets that enables more than putting all the data in the same place. These companies need robust analytics that synthesize internal and external information relevant to the benefits decisions they need to make. From the offered plans, to optimizing selection bias on behalf of the workforce, benefits analytics based on an open and accessible benefits marketplace are improving the Best-in-Class odds that benefits management will go smoothly, with costs falling within a reasonable margin of error around predictive estimates.

Best-in-Class companies are 26% more likely than All Others to engage in benefits analytics to optimize plan offerings based on performance and lifestyle data sourced straight from the workforce.

Best-in-Class companies are 26% more likely than All Others (43% vs. 34%) to engage in benefits analytics to optimize plan offerings based on performance and lifestyle data sourced straight from the workforce. The Best-in-Class are also 2x more likely than All Others (26% vs. 13%) to consolidate plan access into a centralized marketplace for easy access and comparison prior to selection. Furthermore, Best-in-Class companies are 5.6x more likely than All Others (50% vs. 9%) to expand spend on benefits plan optimization efforts that utilize these tools. They are also 56% more likely than All Others (50% vs. 32%) to have expanded spend on these digital resources to optimize plan rollout and cost management in the past year.

Figure 1: Changes in Best-in-Class Benefits Data Context



Source: Aberdeen (March 2018; March 2017) n=150; 115

Figure 1 shows how the Best-in-Class have changed their perception about benefits management data year-over-year using benefits analytics and centralized plan accessibility. Remember from above, in the past year, the Best-in-Class were 56% more likely than All Others (50% vs. 32%) to have increased spend on these digital resources to enhance benefits plan management. The Best-in-Class are increasing data access and visualization to map out employee behavior relative to plan dependencies and selection criteria.

From 2017 to today, Best-in-Class companies have gained more confidence in their benefits data and in the selection of the benefits plans they offer to employees year-over-year. On the management side, the Best-in-Class have also reduced cost variability and increased cost visibility year-to-date. Aberdeen has found that Best-in-Class companies are 6.3x more likely than All Others (25% vs. 4%) to find that they were able to reduce complexity in benefits plan audits while improving the accuracy of reported data. In terms of the bottom line, the Best-in-Class are 2.2x more likely than All Others (50% vs. 23%) to have seen revenue per FTE increase in the last 12 months. The Best-in-Class are also 41% more likely than All Others (31% vs. 22%) to have seen net productivity increase relative to net new revenue.

Best-in-Class companies are 6.3x more likely than All Others to find that they were able to reduce complexity in benefits plan audits while improving the accuracy of reported data.

Connecting the Dots

As companies continue to fret over uncertainty, they are chasing shadows to eliminate any risks associated with unpredictable behavior. The net result is that as they step on the hose at one end and pressure builds up at the other. For example, the last four decades have focused on reducing labor costs by stagnating salaries and focusing on established skills requirements that increasingly no longer match established, common job titles. Aberdeen has found that today, 44% of even the Best-in-Class are unable to fill emerging skills gaps based on the talent that is making it through early vetting. In *Holistic HCM in 2017: Getting the Formula Right on Adaptive Learning* (September 2017), Aberdeen discovered that this partly stems from a lack of onboarding and good-quality, long-term training and development opportunities that encourage an employee's full potential and goals. The other main contributor is that employers are using an old hiring paradigm in a constantly evolving world of jobs.

As employers propagate mismatches between skills demand and the candidates capable of filling those roles, they are stressing employees, as noted by the rise in demand for financial and health wellness and well-being that have both risen by over 30% among companies in Aberdeen's talent management survey sets year-over-year.

Added employee stress translates to increased consumer stress that comes back full-circle into the benefits picture. The Centers for Medicare and Medicaid Services estimate that the average American spends 18% of their net income on healthcare expenses, with 14% of that coming from the cost of insurance premiums alone. Independent estimates find that, in the US, employers cover, on average, 78% of healthcare premiums, but that the number can drop to below 50% for small- to mid-sized businesses, and even lower for startups. In other words, employees are massively stressed by uncertainty in benefits costs that fluctuate per changes to offered plans and what the employer can negotiate for continued coverage year-over-year.

The average American spends 18% of their net income on healthcare expenses, with 14% of that coming from the cost of insurance premiums alone.

Where benefits exist at the nexus of financial and health risk management for both the company and its employees, HR must take control of the company's negotiation profile by gathering and analyzing as much information used in the eligibility formula as possible. To get there from here, the Best-in-Class are optimizing plan offerings by turning to benefits analytics that consider internal employee behavioral monitoring across benefits plan eligibility and performance management, and external information about plan requirements and negotiation potential. The Best-in-Class are also unifying plan enrollment behind one comparative marketplace that allows employees to optimize their health plan selections with respect to their required use case, while providing management with direct insight into how historical selections shape future potential expenses.

Related Research

Building Holistic Employee Development: The Performance Cycle; September 2017

Improving the Workforce: Putting the Internal Talent on the Front Lines; March 2017

In Pursuit of Productivity: How Technology Can Map It; February 2018

Holistic HCM in 2017: Getting the Formula Right on Adaptive Learning; September 2017

About Aberdeen Group

Since 1988, Aberdeen Group has published research that helps businesses worldwide to improve their performance. Our analysts derive fact-based, vendor-neutral insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategies. Aberdeen Group is headquartered in Waltham, Massachusetts, USA.

17563