March 31, 2009—Webcast

Targeting Savings in HR Administration

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Discussion Framework

- Introduce specific ideas on reducing HR administration costs
- Discuss insights for short- and long-term impact
- Highlight cost-reduction case studies
- Prioritize cost-saving objectives
- Discussion
A Turbulent Year

- Global recession
- Dramatic reduction in stock prices
- Rising global unemployment
- Increasing global government intervention

- Delayed retirements
- Intense focus on the bottom line
- Reexamination of all priorities
- Opportunity to upgrade talent
- Increasing legislative complexity and compliance requirements
Caught in the Middle?

Employers
- Need immediate cost reductions
- Revisiting strategic plans
- Long-term cost saving and investment projects put on hold

Employees
- Reduced engagement
- Personal struggles with the economy’s impact
- Need for financial, health, and retirement stability
# Top HR Delivery Cost-Reduction Strategies

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<tbody>
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<td>1.</td>
<td>Manage plan eligibility</td>
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<td>2.</td>
<td>Manage absence and disability</td>
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<td>3.</td>
<td>Maximize use of tax-advantaged benefits</td>
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<td>4.</td>
<td>Manage compliance risk and administrative error</td>
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<td>5.</td>
<td>Optimize outsourcing delivery solutions</td>
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<td>6.</td>
<td>Pay retirement fees from plan trust</td>
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<td>7.</td>
<td>Consolidate and manage HR suppliers</td>
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<td>8.</td>
<td>Streamline HR administration</td>
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A Prioritization Framework

SOMETHING TO CONSIDER
- Coordinate Medicare
- Achieve Health Plan Migration Goals
- Streamline HR Administration
- Reduce Outsourcing Relationship Costs

TOP PRIORITY TO PURSUE
- Pay Fees From Trust
- Consolidate and Manage HR Suppliers
- Engage Participant in Shared Cost Benefits
- Manage Plan Eligibility
- Maximize Tax-Advantaged Benefits
- Go Green
- Manage Absence and Disability
- Manage Compliance Risk and Administrative Error

NO ACTION

LONG-TERM PRIORITIES
- Manage Compliance Risk and Administrative Error
## Manage Plan Eligibility

### BUSINESS PROBLEM
- 50% or more of health care costs come from spouses and dependents
- Inaccurate eligibility is a common problem
- Employees sensitive to changes in eligibility requirements

### COST IMPACT
- Active dependent eligibility management $\rightarrow$ 4% to 8% of health care claims
- Improving ongoing health care eligibility management and carrier reporting $\rightarrow$ 2% to 4% of health care claims
- Pension cash-outs $\rightarrow$ $75 or more per participant per year
- Identification of deceased retirees $\rightarrow$ 3% of inactive liabilities
Case Study

Eligibility and Premium Management

**Key Insights**

- Managing the eligibility data among numerous health plan carriers is complex and time-consuming task.
- HR/benefits staff has little leverage on their own.
- Complexity and eligibility errors accumulate over time.

**Outcomes**

- Large health care client saved more than $18.5 million identifying ineligible participants.
- Retailer saved more than $4.1 million by eliminating ineligible retirees from health plan files.
- Telecom company saved more than $1.6 million by reconciling data with HMO health plans.
- Energy company reduced pension liabilities by $25 million through data cleanup.
**BUSINESS PROBLEM**
- Absence and disability costs equal health care costs
- Loss of productivity
- Lack of compliance creates significant business risk
- High reserves from lack of review of LTD claims
- Costs associated with overtime and temporary labor expenses
- Participants on leave often not billed for employee contributions

**COST IMPACT**
- Management of unqualified discretionary absence events → 5% to 10% reduction in incidence
- Improving claim management → 5% to 10% reduction in total time
- Effective management of self-insured LTD claims → 10% to 15% in reserve savings and a decrease in ongoing annual disability payments
Case Study

Absence and LTD Management by Large Manufacturer

Key Insights

- Important goals:
  - Deliver leaves of absence (LOAs) and disability management in an automated manner
  - Reduce unnecessary cost
  - Manage unqualified durations
  - Enable compliance
  - Mitigate potential for abuse of intermittent LOAs

Outcomes

- Automated processes
- Achieved an 18% reduction in FML lost time
- Reduced FML duration by an average of 32%
- Reduced STD days paid by an average of 27%
Maximize Use of Tax-Advantaged Plans

Potential Ongoing Tax and Health Care Claims Savings

<table>
<thead>
<tr>
<th>BUSINESS PROBLEM</th>
<th>COST IMPACT</th>
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<tbody>
<tr>
<td>▶ Flexible spending account (FSA) plans underutilized</td>
<td>▶ Tax savings from increasing participation in FSAs and HSAs</td>
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<tr>
<td>– Health care FSA enrollment averages 20%</td>
<td>– Contributions not subject to FICA and other employment taxes</td>
</tr>
<tr>
<td>– Dependent care FSA participation averages 5%</td>
<td>▶ Increasing High-Deductible Health Plan (HDHP) enrollment can result in significant savings in addition to the tax savings</td>
</tr>
<tr>
<td>▶ Health Savings Accounts (HSAs) underutilized</td>
<td></td>
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<tr>
<td>– Only 6% utilization</td>
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Hewitt
Manage Compliance Risk and Administrative Error

Potential Savings Can Range Into Millions of Dollars

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<tr>
<th>BUSINESS PROBLEM</th>
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<tr>
<td>➤ Ongoing complications of legislation on administration</td>
<td>➤ Minimize plan overpayments</td>
</tr>
<tr>
<td>➤ Difficulty in hiring specialized resources</td>
<td>➤ Reduce participant complaints</td>
</tr>
<tr>
<td>➤ Staff reductions and turnover</td>
<td>➤ Reduce the possibility of fines and interest payments</td>
</tr>
<tr>
<td>➤ Challenges of monitoring administration accuracy</td>
<td>➤ Reduce likelihood of expensive and time-consuming cleanup processes</td>
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<tr>
<td>➤ High cost of compliance penalties and employee escalations</td>
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## Case Study

### Reducing Compliance Risk and Identifying Administrative Error

<table>
<thead>
<tr>
<th><strong>Key Insights</strong></th>
<th><strong>Outcomes</strong></th>
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</table>
| - Compliance issues pose threat of high costs at inopportune times  
  - Client contacts have limited time to provide plan oversight  
  - Seemingly innocuous errors can add up to big dollars  
  - Manual processes create risk  
  - Ongoing reconciliation is critical | - Developed automated reports for client use in plan oversight  
  - Annual audit findings significantly reduced  
  - Identified $3.5 million in pension overpayments  
  - Detailed reconciliation processes implemented to avoid future overpayments after initial corrections made |
BUSINESS PROBLEM

- Outsourced administration represents a large portion of the HR budget
- Current administration delivery model may not reflect a cost savings priority
- Duplicative technology may exist
- Participants have multiple HR and benefits access points

COST IMPACT

- Reduced compliance risk
- Ability to react quickly to changes such as mergers and acquisitions
- Reduce cost by maximizing automation and eliminating manual or paper-based processes
- Consolidation of services often leads to reduced pricing due to efficiencies and cost concessions

Potential Savings: 2%–10+% of Outsourcing Costs
Case Study

Contemporize Outsourcing Relationships

Key Insights

- These are unique times that enable organizations to move beyond initial phase of outsourcing.
- Initial outsourcing agreements often sought to minimize change for participants.
- There are opportunities to build scale and efficiency with outsourcing partner.

Outcomes

- Financial services company able to reduce costs by $300,000 by consolidating absence services with benefits services.
- Manufacturer able to reduce company paid DC expenses by $250,000 by charging for loans.
- By reducing the service center hours and moving to relaxed call wait times reduced costs for insurer by $100,000 annually.
- Eliminating paper...$100,000 in print, fulfillment and postage.
BUSINESS PROBLEM

- Increasing employer-paid benefit program costs
- Increased scrutiny of fees in 401(k) plans
- 40% of organizations have not tried to calculate the total cost of their 401(k) plan
- 42% of organizations pay for all or some 401(k) administrative costs out of pocket

COST IMPACT

- Organizations can reduce out-of-pocket costs by 100% of eligible expenses, often in the millions for large organizations
- Cost increases to employees can often be offset by identifying lower-cost, institutionally priced investment options
Case Study

Considering Total Plan Cost Significantly Reduced Investment Management and Administration Fees

Key Insights

Savings found through:

- Reviewing total plan cost
- Considering investment fees separately from investment management fees
- Shifting to institutional assets
- Significant room available to shift expenses to the trust

Outcomes

- Total plan cost reduced from 0.52% of assets to between 0.30% and 0.39% of assets
- Administrative costs reduced from $101 to $47 per participant
- Total savings of between $5 million and $9 million per year; administrative component $3.8 million per year
## Consolidate and Manage HR Suppliers

### Potential Savings: 10%–20% of Supplier Costs

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<tr>
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<tr>
<td>HR teams inherit the task of consolidating suppliers and managing costs</td>
<td>Increased focus of HR resources on strategic goals</td>
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<tr>
<td>Lack of experience and tools to effectively manage and assess HR suppliers</td>
<td>Less rework from proactive supplier governance and relationship management</td>
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<td>Underutilization of scale in decentralized organizations</td>
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Case Study

Hewitt Supplier Management—Technology Client Uses Hewitt’s Solution for Global Recruiting Suppliers

Key Insights

Global program enhanced by:

- Implementing new supplier management program
- Providing managed analysis, selection, negotiation, and implementation of recruiting suppliers in 30 countries
- Reengineering the supplier utilization processes
- Instituting supplier governance methodology

Outcomes

- Leveraged/maximized client’s spend
- Reduced the opportunity for error through a reduced number of transactions
- Improved supplier performance through enhanced monitoring and reporting
- Realized a savings of $800,000 annually, representing a 30% cost reduction
## Streamline HR Administration

### Potential Savings: 10%–20% of Administration and Infrastructure Costs

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<td>High-cost, numerous delivery channels with field HR involved in administrative processes</td>
<td>Drive self-service</td>
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<tr>
<td>Manual/onshore approach</td>
<td>Reduce or eliminate channels</td>
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<tr>
<td>Nonstandard practices and policies; decentralized administration of nonstrategic HR tasks</td>
<td>Leverage offshore resources</td>
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<tr>
<td>Data defects causing rework, workarounds, and calls</td>
<td>Increase service levels</td>
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<tr>
<td>Low service levels, lack of visibility causing repeat follow-up</td>
<td>Eliminate variation</td>
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<td>Shed infrastructure</td>
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<td>Leverage commercial platforms</td>
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# Case Study

## Overall Cost Reduction

### Key Actions

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<tr>
<th>Manufacturing Company</th>
<th>Financial Services Company</th>
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<tr>
<td>▪ Implemented <strong>self-service</strong> channels</td>
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<tr>
<td>▪ <strong>Outsourced</strong> administrative services</td>
<td>▪ <strong>Shifted HRMS upgrade responsibility</strong> and overall technology refresh to Hewitt</td>
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<tr>
<td>▪ <strong>Standardized</strong> data collection</td>
<td>▪ Completed several strategic HR initiatives <strong>without increasing staff</strong></td>
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<td>▪ Implemented Hewitt Solution to <strong>manage and streamline</strong> end-to-end operational performance of field HR</td>
<td>▪ Approved aggressive <strong>offshoring</strong> strategy</td>
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<td>▪ Aggressively managed and <strong>consolidated</strong> supplier spend</td>
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### Outcomes

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<th>Manufacturing Company</th>
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<tr>
<td>▪ Reduced HR headcount from $1,600 to $1,200 per employee</td>
<td>▪ Reduced overall HR cost</td>
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<tr>
<td>▪ Moved high percentage of HR transactions to self-service</td>
<td>▪ Reduced overall HR third-party spend</td>
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<tr>
<td>▪ Increased the accountability and productivity of field HR</td>
<td>▪ Refreshed infrastructure</td>
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Possible Next Steps

- Short term: Discuss immediate cost-saving needs
  - Determine which of these ideas can be implemented
    - Manage eligibility expense
    - Manage absence and disability
    - Maximize use of tax-advantaged benefits
    - Optimize outsourced delivery
    - Manage compliance risk and administrative error
    - Pay retirement fees from plan trust
    - Consolidate and manage HR suppliers
    - Streamline HR administration
  - Develop an action plan to achieve results this year!
- Long term: Develop a long-term cost-management strategy
Today’s Presenters

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