

# Health and group benefit administration: 2020 market perspectives

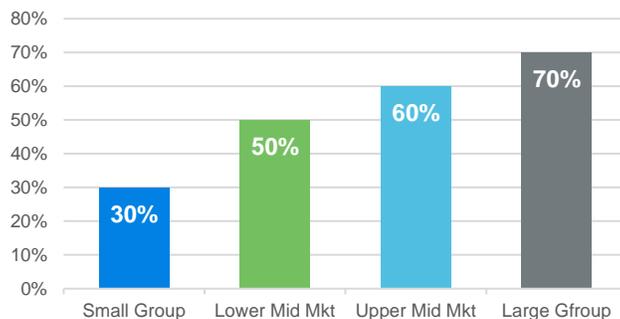
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## HGB outsourcing market update

Outsourcing the administration of health and group benefit (HGB) plans has become the preferred approach for large employers over the past two decades. This trend has accelerated in the past five years as the number of benefit administration firms has expanded and their technology capabilities have steadily improved. Milliman consultants with expertise in outsourcing have been active in the HGB administration market, helping employers evaluate their current processes, review market options, and manage their administration providers more effectively. We have prepared this 2020 market overview to highlight some of the changes affecting the market that employers need to understand to take advantage of improvements and avoid issues in managing their administration providers.

**FIGURE 1: USE OF HGB PLAN ADMINISTRATION TECHNOLOGY VENDORS BY EMPLOYER SIZE**



Source: Financial Analytic Service Providers: Highlights from William Blair's Benefit Technology Conference, November 2019.

### Benefit administration firms will continue to gain market share with large employers at the expense of human capital management/enterprise resource planning (HCM/ERP) systems.

- A recent research report from William Blair<sup>1</sup> projects that 85% of large employers will use outsourced benefit administration by 2027. This is up from 70% at present.
- The increasing complexity of managing healthcare and benefit administration programs provides a long-term competitive advantage for specialized benefit administration firms.

- We think it is unlikely that the major HCM/ERP firms (such as Workday, Oracle, or SAP) will be willing to commit the investment capital required to build the capabilities needed to compete with the benefit outsourcing firms.

### Corporate restructurings and mergers and acquisitions (M&A) activity will continue to change the competitive market at a rapid pace.

- Private equity firms have made significant investments in many benefit administration firms (Alight, Businessolver, Buck, and PlanSource). We expect increased competition and continued M&A activity as the private equity firms focus on maximizing their investment positions.
- Recognizing the need to stay competitive, we expect some legacy providers will expand their HGB capabilities or restructure their current business models. A good example would be Alight's recent purchase of Hodges-Mace as a way to expand their services in the mid-sized employer market.
- Outsourcers, bolstered with equity capital, will continue to search for and acquire firms that increase their client bases, improve their technology, and expand their offerings or open new market segments.

### Competition in the benefit administration market will intensify during 2020.

- New entrants (such as Morneau Shepell, Buck, or League) and the need for established firms to show high revenue growth will result in an increasingly competitive market.
- We think the increased competition may not drive fees down significantly from current levels, but may instead result in improved scope and service performance at current cost levels.

### Employer interest in "packaged" private exchange programs will continue to decline.

- Some employers have recently experienced diminishing results in the overall performance of first-generation private exchanges, many of which are now over five years old.
- Exchange providers, having experienced slower growth over the past two years and some client losses, have already shifted to "second-generation" exchange strategies, allowing employers to tailor the benefit design, the carriers and vendors included, and the financial structure to meet their specific objectives.

- Many employers are finding that exchange objectives can be obtained through targeted “custom built” strategies using benefit administration firms to provide the infrastructure and consultants to support plan design, pricing, vendors, and participant communications.

**Partnerships between brokerage/consulting firms and benefit administration firms will increase.**

- Brokerage/consulting firms recognize the value of benefit administration technology to improve their own HGB market competitive positions and drive higher value for clients.
- At the same time, the brokerage/consulting firms are generally uncomfortable with the hefty capital investment needed to establish their own benefit administration capabilities.
- Partnerships allow brokerage/consulting firms and benefit administration firms to present a “best in class” strategy—which we think will prove attractive to many employers.

## What actions should employers be considering for 2020 to improve the management of their HGB programs?

1. **Assess and monitor performance:** Employers should assess the overall performance of their outsourced administration providers and implement effective processes to measure and manage performance levels going forward.
  - Contractual service-level agreements (SLAs) provide limited structures for managing performance of the outsourced benefit administration firms.
  - SLAs are designed to measure basic operational and transactional processes (such as call center response times and availability), but do not identify and provide for the management of the overall performance of the administration relationship.
  - Establishing and implementing holistic sets of performance measures that take into account such areas as overall service performance, responsiveness, and ability to support specific employer administration requirements improves the relationship.
2. **Insource to outsource:** Employers that are currently administering their HGB programs with internal (HCM/ERP) systems should take advantage of current market conditions and consider outsourcing HGB administration.

3. **Trust but verify:** Employers should implement periodic audits of their outsourced administration firms to ensure that participant accounts are accurate and administered according to the plan provisions, particularly where retiree plan administration is concerned.

Milliman maintains detailed information on a wide range of HGB outsourcing firms, including current scope and pricing levels, services standards, and contract requirements. Milliman can provide additional information to employers that are considering their options for benefit administration.

## About Milliman’s HGB administration consulting services

Milliman’s consultants bring a unique perspective to helping employers evaluate and contract with HGB service providers:

- Delivering a wide range of expertise to the evaluation of HGB service providers. While our senior consultants have direct experience working within several of the leading benefit administration firms, they are supported by consultants with expertise across all aspects of HGB programs—clinicians, actuaries, communications experts, and technology experts. We take a holistic approach to helping our clients manage all aspects of their HGB plan administration.
- Offering an independent perspective to help our clients understand the long-term implications of the various administration strategies they might consider. Our goal as consultants is to help our clients implement effective administrative processes and build successful partnerships with service providers

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