

Healthcare Savings Plan Service Provider Consolidation: A Case Study

By Michael A. Webb

Michael Webb reviews one company's success in increasing employee participation in the 403(b) retirement savings plan by moving the plan to a single outsourced service provider and carefully structuring employee communication and enrollment opportunities.

When South Jersey Healthcare, a Bridgeton New Jersey-based healthcare system with over 2,900 employees and 10+ locations throughout the southern portion of the state, added an employee match to its voluntary 403(b) retirement savings program in 2003, convincing employees to take advantage of the “free money” was actually a challenging hurdle. Due to the existence of five investment providers and over 100 individual investment choices, simply enrolling in the program was a difficult task.

Fast-forward to 2005: The South Jersey Healthcare 403(b) savings plan experiences a 32-percent increase in the number of participants, as well as a 40-percent increase in the amount of contributions, in less than two months. At the same time, nearly all in-house paperwork associated with the administration of the plan was eliminated. How was this possible? In the summer of 2004, South Jersey Healthcare made the decision to switch to a single outsourced service provider for its 403(b) plan, becoming one of the first healthcare providers in the region to switch to a model that is commonplace in 401(k) plans of for-profit entities.

Why such a dramatic step? First and foremost, South Jersey Healthcare wished to maximize participation in and appreciation of the 403(b) matching plan, a goal that seemed untenable in the multiple vendor environment. Secondly, remitting contributions to five different plan vendors, as well as administering Internal Revenue Code and Department of Labor requirements for each vendor, had proved to become increasingly burdensome from an administrative standpoint since the matching contribution was added in 2003. Finally, the fragmentation of the 403(b) investments among several providers eroded South Jersey Healthcare's purchasing power, resulting in participant fees that, for the most part, did not benefit a nearly 3,000-employee institution. Despite the need for such a change, it was feared that employee backlash would be significant, due to relationships forged with the existing plan vendors, many of whom had enjoyed relationships with the institution dating back several years.

“Employee resistance to changing from existing vendor relationships was anticipated to be the number one obstacle to conversion, especially with respect to one provider in particular that had developed a strong employee following,” according to Betty Sims, Director of Human Resources at South Jersey Healthcare. Despite this potential obstacle, it was concluded that the advantages of moving to a

Michael A. Webb, AIF, CRS, CEBS, is Vice President, Retirement Services for Charles W. Cammack Associates (CWCA), a full-service employee benefits consulting firm.

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single outsourced service provider significantly outweighed the potential disadvantages of converting from the existing multiple vendor arrangement.

Thus, after an exhaustive search for such a consolidated provider in the fall of 2004 that included the five existing investment providers, an organization with no prior relationship to South Jersey Healthcare, Diversified Investment Advisors, was selected for implementation in early 2005. Though individuals could maintain their existing account balance with the five prior investment providers, all employees were required to invest all future contributions with Diversified, beginning in March of 2005.

The ability for existing participants to retain assets with the prior plan vendors was a factor in the RFP process, as many of the vendor proposals required the transfer of a minimum amount of assets in order to be provided with a favorable fee structure. Indeed, 401(k) plan sponsors often move assets *en masse* to the new investment provider, not permitting participants to retain assets with any prior plan vendors. However, the structure of 403(b) plans, which are generally invested in employee-owned annuity contracts and custodial accounts rather than employer-owned trusts, generally prevents employer-directed transfers of existing plan assets, a pricing factor of which healthcare institutions who intend to follow in the footsteps of South Jersey Healthcare should be acutely aware. Many service providers who are unfamiliar with the rules governing 403(b) plans initially offer attractive pricing, only to rescind such pricing after selection when it is discovered that assets may not be as easily transferred as the provider assumed.

Switching to an unfamiliar service provider and an unfamiliar method of enrollment (use of a Web site for enrollment as well as other plan-related transactions) at the same time was seemingly a difficult initiative for South Jersey Healthcare, especially when a significant component of the workforce lacked computer access at work, and/or spoke a language other than English as their primary language. In addition, since none of the existing investment providers were selected for the new arrangement, it was feared that initial employee reaction to the change would be negative.

To address these issues, South Jersey Healthcare worked with the new service provider to develop a comprehensive communication strategy to emphasize the positive aspects of the existing vendor consolidation (e.g., lower expenses, greater ease of use) and ensure maximum usage of the new online

enrollment and transaction system. The strategy included a series of written communications initiated less than one month after the RFP process was concluded so that participants were provided with the “scoop” regarding the new plan and all associated developments. The communication process continued through the implementation of the program, with critical components of the new arrangement summarized in one-page handouts at enrollment time. For example, a fee page was provided to compare the exact annual dollar cost of the new investment provider when compared to the prior providers, illustrating the dramatic cost saving achieved through the vendor consolidation. The expression of the savings in terms of dollar amounts was a conscious choice, since savings expressed in terms of percentages can confuse employees.

In addition, a comprehensive schedule of in-person sessions was designed to facilitate individual enrollment online. Computers were located in or in close proximity to meeting rooms, and participants were encouraged to enroll with the assistance of an enrollment specialist immediately following the meetings. Furthermore, South Jersey Healthcare’s state-of-the-art wireless Internet access throughout its facilities was put to good use, enabling enrollment of clinical employees without leaving their workstations. The participant meeting schedule was preceded by focus group sessions with line managers, where the managers edited the content of meeting presentations in order to maximize effect on employees. The focus groups served the purposes of securing critical acceptance of the new plan by managers, since studies have shown that many employees often seek the input of their supervisors with respect to benefits and other employment issues. “The comprehensive communications effort as to the many advantages of the new platform when compared to what was provided in the prior program was critical to the success of the transition,” according to Ms. Sims. “The multi-faceted effort was well planned, and calculated to reach the widest possible audience.”

At the same time that the communication strategy was being developed and implemented, various departments of South Jersey Healthcare (Human Resources, Information Systems and Payroll), were working together to ensure the smooth and secure transition of employee data to the new online system. The goal was to minimize any enrollment rejections and other glitches during the plan enrollment process, in order to solidify participant confidence in

transitioning from a paper-based to online transaction system. To minimize any “glitches” in the process, the decision was made to phase in some of the outsourcing capabilities over a period of time, rather than attempting to implement full functionality at the outset of the program.

The result of all of the aforementioned efforts was a conversion to the new consolidated program at a level of success that was beyond even the most optimistic expectations of South Jersey Healthcare. In addition to the plan statistics cited above, 2005 as a whole saw a whopping 42-percent increase in the number of plan participants, with plan assets accumulating in less than one year's time to nearly 25 percent of assets accumulated during the *entire history* of the prior multiple vendor arrangement. In addition, the plan installation meetings were marked by record attendance, with five percent of the entire workforce attending the first two meeting dates alone.

Instead of the negative reaction feared as the result of the discontinuation of the existing plan providers, participant reaction to the changes was overwhelmingly positive. “Negative employee feedback was nearly nonexistent,” according to Ms. Sims. Even though the investment provider provided foreign language assistance, the fears of lack of participation due to the significant population of individuals for whom English was not the primary language did not materialize. On the contrary, such individuals appeared to adapt to the online system in a fashion similar to what was previously encountered in a paper environment, by enlisting the assistance of the friend

or relative whom could assist them with the enrollment process. As for participants who maintained a “favorite investment” with a prior service provider, the new platform addressed this issue as well by offering a self-directed brokerage option with several hundred funds from which to choose, including a vast majority of the funds offered by the prior service providers.

Finally, it is important to note that, along with the extraordinary participation of employees in the new program, plan asset diversification in this participant-directed plan was outstanding. Only 16 percent of plan assets were invested in the fixed interest option at Diversified, despite the fact that this investment was the default fund for those employees who failed to actively enroll in the new program. Notably, a greater amount (18 percent) of plan assets were invested in so-called “lifestyle” funds, which are investments designed to provide appropriate asset diversification for those employees who neither have the inclination nor the aptitude to select individual investments in order to sufficiently diversify their plan assets.

When asked if there were any disadvantages to the new single-vendor arrangement, Ms. Sims could not think of a single drawback. “Greater employee participation levels, reduced administration, and high satisfaction marks from employees, with none of the negative reaction that we feared.” Indeed, the South Jersey Healthcare's experience with converting from a multiple vendor 403(b) savings program to a single outsourced service provider should serve as a model for other healthcare institutions in the region, as well as nationally, to follow.

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