

Insourcing, Co-Sourcing and Outsourcing Leave and Absence Management

To outsource or not to outsource?

In our work with clients in evaluating Leave and Absence Management programs, we have reviewed the changing leave landscape, developed an overview of business case considerations and identified several paths employers can take to achieve their goals.

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Introduction

When determining whether your company should insource or outsource any aspect of Leave and Absence Management, you should first consider your specific goals. What does a successful leave program look like for your company?

Most employers typically agree that full compliance with federal and state laws and effective tracking and management of leaves are desirable outcomes. Other potential goals for a Leave and Absence Management program include:

- Implementation of policies and procedures for consistent reporting and handling of leaves
- Improved communication with managers and other employees
- Understanding ADAAA considerations as tied to employee absence
- Development of accommodation pathways and the legal implications tied to it
- Better management of intermittent leaves
- Keeping up with the ever-changing landscape of state and federal laws
- Data aggregation and analysis for better decision making
- Formal coordination/integration between leave and related disability and health programs

Let your company's business strategy, culture and goals be the guide in making the decision to insource, outsource or even co-source your Leave and Absence Management program.

“What does a successful leave program look like for your company?”

The Changing Leave Landscape

There are multiple reasons employers are looking at new ways to manage leaves and absences, and there seem to be more every month. The main driver behind the interest in outsourcing is to stay ahead of the changing leave landscape.

Employers face a number of challenges, such as:

- The evolving complexity of managing leaves (FMLA, state and municipal, and employer specific)
- The number of leave laws has consistently grown since FMLA was passed in 1993
- Multi-location organizations must remain compliant in all jurisdictions
- Litigation has been steadily increasing
- Employees are more sophisticated in understanding and applying the laws
- Leave incidence rates have increased
- The 1996 Supreme Court decision on DOMA requires employers to be aware of benefits related to same sex partners, by state
- Organizations are feeling pressure to better track leaves and understand leave usage



Additionally, the Amendments to the Americans with Disabilities Act (ADAAA), effective May 2011, have created greater awareness of the connection between ADA and leaves. Employers understand that they have a growing need to better manage the ADA process (for example, tracking accommodation requests, engaging in the interactive process, developing workplace modifications, supervisory training, ensuring consistency, etc.). Furthermore, FMLA and ADAAA lawsuits are on the rise. Employers report compliance as one of the key reasons to outsource or co-source leave administration, and the Department of Labor (DOL) estimates that only 40% of employers are in compliance with FMLA.

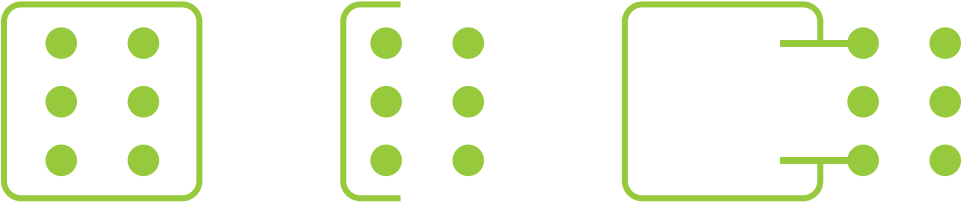
“The main driver behind the interest in outsourcing is to stay ahead of the changing landscape.”



Leave Management and Administration Options

There are many ways an employer can design a Leave and Absence Management program, but generally there are three buckets:

Insourced, Co-Sourced or Outsourced.



Inourced Leave

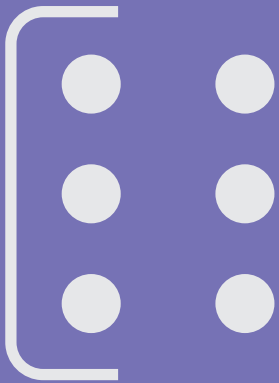


In an inourced Leave and Absence Management program, an organization makes the technology investment to develop an in-house leave administration application. The employer's benefits staff is responsible for intake and oversees all leave management, in coordination with Short Term Disability (STD) and Workers' Compensation claims. It also is responsible for durational guidelines and the claims management function. The employer maintains full responsibility for tracking leaves against laws and regulations as well as managing compliance risk.

The overall benefit of inourced leave management is the ability for the employer to maintain its culture and practices. However, companies today are seeing many drawbacks to inourced leave management, such as:

- Employers assume full responsibility for the technology platform, including developing processes and integration
- Employees must share sensitive medical data with the employer
- Employees often do not have a consistent experience
- Front line managers and supervisors are often required to be heavily involved in leaves
- There's a significant compliance risk
- It's difficult to keep up with new regulations
- The program must be staffed

Co-Sourced Leave



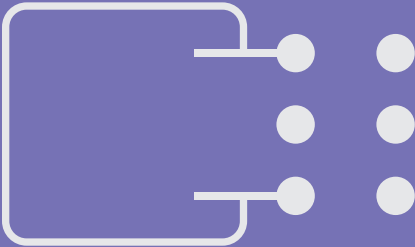
In a Co-Sourced Leave and Absence Management arrangement, an employer partners with an external vendor for the technology platform but maintains an internal staff for leave intake and management oversight. The employer remains responsible for durational guidelines and the claims management function, although guidelines are likely incorporated in a vendor platform. Leaves are coordinated with STD and Workers' Compensation claims.

A co-sourced solution allows an employer to manage the process in-house, using a sophisticated technology platform. The employer can maintain its culture and company practices along with the responsibility for administering the program. The vendor is responsible for maintaining a rules-based technology platform, making real-time updates to the system and keeping data current.

One challenge of a co-sourced solution is that the program is implemented at the employer's place of business and requires an investment in IT resources to ensure that the new technology links to the company's existing systems, such as time and attendance, payroll, etc.

This solution allows for tracking and back-end reporting, and often provides better compliance and consistency than an in-house model without a platform. It's important to note that in a co-sourced leave management arrangement, the employee experience is still dependent on front line managers and/or an in-house Leave Management Team.

Outsourced Leave



When an employer chooses to outsource its Leave and Absence Management program, it gets a fully outsourced solution using a vendor's platform. All services are provided by the outsourced vendor, including intake, claims management, communications, and management oversight and reporting. It's also a common practice to include STD with leave. The vendor is responsible for maintaining legal updates and ensuring system compliance, and leaves are handled through a consistent process. The employer is not involved in medical decision making and instead gets clinical and leave expertise from the vendor.

What an employer gives up is customization and the ability to insert its culture into the process. Some customization is possible, but the core functionality will be based on vendor capabilities and practices. It's also a cultural change for an employer that may not be accustomed to outsourcing. A high level of involvement is still required, even though both the technology and the staffing will be provided by the vendor. Vendor management in an outsourced model is critical to the success of the program.

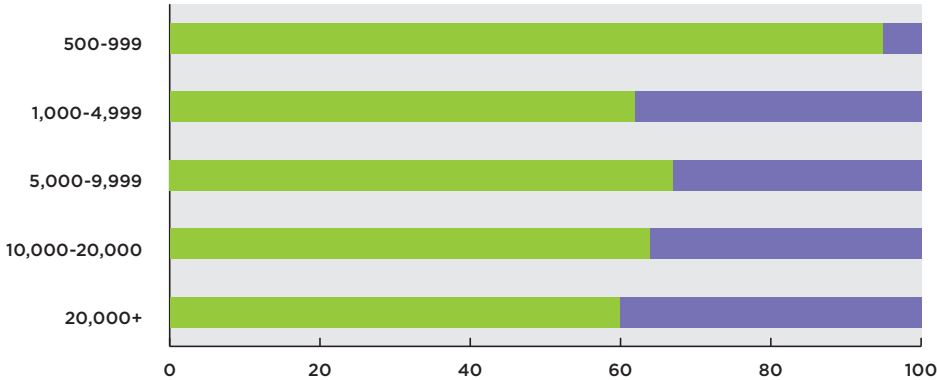
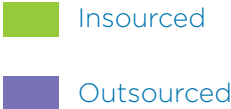
Outsourcing a Leave and Absence Management program deserves a deeper look because it has the potential to have the greatest impact on organizational procedures and culture.

Outsourcing as a Solution

As the leave landscape has changed, so have other aspects of benefits management, including dealing with the impact of the Affordable Care Act (ACA). As a result, more organizations are looking at the option of outsourcing STD and leave services. Recent studies show that 65% of large companies outsource part or all of their leave management process, and 50% of those who do not outsource indicate that they are considering doing so.

While outsourcing leave administration has increased over the last 10 years, the majority of employers still handle leave management internally (although some with purchased leave administration systems). Research suggests that outsourcing leave administration will continue to grow. (2013 study on *The Impacts of Patient Protection and Affordable Care Act on Absence and Disability Policies and Benefits* sponsored by the Disability Management Employer Coalition (DMEC) and Pacific Resources.)

Percentage of Employers Who Outsource Leave Management



There are four primary reasons outsourcing leave management and administration programs makes sense:

1. COMPLIANCE

There are currently more than 400 separate municipal, state and federal leave laws and it can be an onerous task to keep up with changing laws as well as the administrative duties surrounding FMLA, such as securing appropriate documentation, meeting required deadlines, and providing required communications.

- The US government has steadily increased resources in the Department of Labor (DOL) and Equal Employment Opportunity Commission (EEOC) to address employer compliance violations of both FMLA and ADAAA. The wage and hour division of the DOL, which is charged with enforcement of FMLA, had an increased 2013 budget of \$238 million dollars and 1,839 FTEs. Their web site indicates that “These resources will support a continued shift to greater directed and compliant enforcement activity ...” (www.dol.gov/dol/budget/2013/bib.htm#summary).
- Disability claims filed by individuals to the EEOC now make up almost 30% of all discrimination cases, which is up by almost 10% from 2007. (<http://www.eeoc.gov/eeoc/statistics/enforcement/charges.cfm>)
- Employees who successfully sue for wrongful termination based on FMLA typically receive between \$87,500 and \$450,000 in damages. In addition, the DOL has estimated that the average cost of defending an FMLA lawsuit is \$78,000, regardless of the outcome. (Allen Compagnon, Compliance Officer,

Presagia, *How Well Do you Understand the Intricacies of Compliance?* 2011). High profile cases such as EEOC vs. Sears, EEOC vs. Supervalu and EEOC vs. Verizon, highlight the complexity (and potential cost implications).

- The recent expansion of ADA creates additional compliance rigor as it relates to protected leave time as well as workplace accommodations (as well as other areas).
- Total EEOC settlement amounts increased significantly among people with mental disabilities between the time Congress deliberated over the ADAAA in 2007 and 2012 (<http://www.shrm.org/legalissues/federalresources/pages/ada-statistics-show-reinvigorated-law.aspx>).

The largest increases were:

- Anxiety disorders: \$1.6 million in 2007 to \$6.4 million in 2012.
- Manic depressive disorder: \$1.1 million to \$3 million.
- Post-traumatic stress disorder: \$611,600 to \$2.5 million.
- Other psychological disorders: \$1 million to \$1.6 million.

Acknowledging the above, it is fair to point out that given the amount of leave and ADAAA activity that occurs in the United States on an annual basis, lawsuits and penalties only touch a minority of businesses. Legal actions can be costly and can hurt public image and employee morale. Most companies also want to treat employees fairly and “do the right thing” when it comes to business practices.

2. PRIVACY

Employers who outsource leave and absence management functions often cite privacy as a business rationale, which is essentially not wanting to have access to an employee's medical records and knowledge about individual health conditions. A 2011 study of employers who decided to outsource STD and Leave named confidentiality of their employees' health information as a key reason for deciding to outsource. (Reed Group, *Insourcing and Outsourcing Survey*, 2011.)

3. TECHNOLOGY AND EXPERTISE

Certainly a key advantage of outsourcing leave and absence management (or leasing an absence management system to run in-house) is the technology platform. In addition to ensuring compliance, these rules-based systems automatically determine employee eligibility, define all leaves that an employee may be eligible for, calculate prior used time, auto-generate correspondence and follow up diaries, etc. When STD is involved, the technology also houses durational guidelines and case management tools. Nearly all external vendors have robust STD and Leave self-service reporting capabilities. What's more, Third Party Administrators (TPAs) and carriers also have the technology to accept data feeds from Workers' Compensation carriers, provide a data interface with other health and wellness vendors, add modules for ADAAA tracking, and engage their clinical resources for claims management.

4. TRACKING AND REPORTING

In many insourced Leave and Absence Management programs, leaves are administered in different ways – often managed disparately by each department using some type of manual tracking. This leads to a lack of centralized data and inconsistent reporting. There’s often no way to determine the full cost of leaves, to understand what’s driving leaves, to see whether leaves are being abused, etc. What’s more, without the ability to look at this information, it’s impossible to make policy decisions based on data. Outsourcing allows employers to have all those data points on a dashboard, to evaluate metrics on a daily, weekly or monthly basis, and to conduct a trend analysis. Especially with the ACA requirement to provide medical coverage to full-time employees, it’s essential that employers are able to account for leaves that count toward the full-time valuation. An outsourced system can do this.

“Employees who successfully sue for wrongful termination based on FMLA typically receive between \$87,500 and \$450,000 in damages.”

Placing Leave With a Short Term Disability Vendor

Many of the leave administration vendors (especially the insurance companies) will require at least one line of insurance coverage to go along with the leave administration (this can be Short Term Disability, Long Term Disability and/or Life Insurance). Since 70% of all leaves are tied to an employee's own health condition, it makes sense to place the leave management program with the STD vendor (when one exists). This allows for one-call common claim intake, one set of medical data to satisfy both claims, and often combined case management, communications and reporting. It is not necessary to place the STD coverage and LTD coverage with the same carrier, but there are some advantages in doing so, including early intervention, leveraging the LTD provider's clinicians during the STD phase and claim coordination.

In situations where there is not a STD plan in place and the organization only offers a sick day or PTO bank, the leave can still be outsourced, with coordination points built in to ensure that the associated leave is being reported and tracked.

We are often asked if the management of a sick day or PTO bank can be outsourced to the leave vendor—in essence, one-stop administration for all employee absences, regardless of cause. This is a challenge because most vendors do not have the system capabilities to track accrual-based benefits (such as sick and vacation time). Sedgwick (a Third Party Administrator) is one of the only vendors that can provide this service. They can also administer self-funded STD and leave management.

Most of the organizations we work with that outsource their leave management also outsource their STD, but manage their PTO/sick day plans in-house.

The Cost of Leave and Absence Management



Whether your Leave and Absence Management program is insourced, co-sourced or outsourced, there will be costs associated. In general, employers feel that taking on the costs of managing leaves is the price of doing business —more specifically, the price of remaining compliant with all applicable laws.

With an insourced model, you need to consider the cost of your in-house staff that is running the leave department. In addition, many employers with an insourced leave program find it useful to have a clinical resource on staff to assess whether a leave qualifies as a serious medical condition and to ensure coordination between disability and leave claims. Finally, costs may also vary significantly in an insourced model, depending on what technology, if any, is used to administer leaves.

In a co-sourced model, employers also face IT costs, such as the cost to lease the technology platform being used. In addition, they will incur some of the staffing costs described in an insourced model; however, there is the potential for gains in efficiencies if the employer is using an outsourced system that performs automated tasks like generating letters and leave packets.

An outsourced approach is the easiest to quantify from a fixed cost perspective. Outsourcing leave management is based on a per employee/per month (PEPM) fee. These fees typically are in the range of a few dollars PEPM and there may also be set-up fees charged, which are typically in the range of a few thousand dollars.

If the STD plan is self-funded, it will also be billed on a PEPM basis, which is typically a few dollars PEPM (depending on the level of services provided). A fully-insured STD plan will be priced based on the employer's demographics, plan design, experience, etc.

In addition to that monthly fee, there are IT costs related to internal IT resources for initial implementation of the outsourced solution. And, even in a fully outsourced model, companies usually require a few in-house staff to handle unique employee situations, to track usage and create policy, and to interface with the IT vendor.

Outsourcing Leaves: One Employer's Solution

Our client grew rapidly, from less than 20,000 US employees in 2010 to more than triple that in just three years. With their exponential growth came challenges in maintaining their in-house leave management program, which was running on an internal database that could not meet the demands of users.

In 2013, the client was significantly out of compliance with the Family and Medical Leave Act (FMLA). They had roughly 6,000 leaves that were backlogged due to an internal system that could not handle the volume. They also had no formal Return to Work infrastructure or process, which is critical to a growing company that needs to get employees back to work as rapidly as possible to continue on its growth trajectory.

The client realized it had two options that would be comprehensive and flexible enough to meet their needs: either expand their current leave team and purchase a new system for a co-sourced solution, or outsource its leave program to a vendor that would best fit their technology-focused, fast-paced culture.

After a thorough RFP process—which included mapping current leaves and processes, assessing the client's current staffing model, comparing the cost of outsourcing vs. insourcing vs. co-sourcing, and issuing an RFP—the client decided to fully outsource their leave management program to a third party administrator.

As a result of outsourcing their leave program, the client was able to:

- Eliminate its significant leave backlog
- Bring its program into compliance
- Improve tracking and reporting
- Enhance the employee experience
- Make improvements in the coordination between the disability and leave programs
- Improve Return to Work initiatives
- Experience significant staff reduction (over 15 FTEs)



Considerations for Outsourcing

Whether an employer is considering a fully outsourced leave management option, leasing a software solution to run in-house, or a solution somewhere in between, here's what to consider:

1. TIMELINE

In a best case scenario, leave administration needs a minimum of 120 days to implement. We recommend a window of six or more months from making the decision to outsource to the go-live date.

2. ELIGIBILITY FILES

All leave vendors require an eligibility file. Begin evaluating your capabilities as it relates to building an eligibility file early on. We recommend requesting the vendor's file format in advance.

3. ADDITIONAL IT SUPPORT

In addition to eligibility files, a co-sourced solution will require IT support to configure the vendor's software to the employer's company specifications, to ensure secure data transmissions, to link the leave software to payroll, time and attendance, etc.

4. RFP

All leaves to be managed should be clearly defined in the RFP and agreed upon. Leave vendors are able to administer federal and state leaves as well as company specific leaves such as bereavement, educational leaves, etc. Many vendors now offer an ADAAA component in their leave product, and have the ability to intake, coordinate and track accommodation requests.

5. HISTORY AND TAKEOVER

When outsourcing to a vendor, employers need to determine:

- If the vendor will be expected to manage leaves that are in progress (take over); and
- If the vendor will be expected to load all past leave history into their system so that the 12 month calendar look back can be accomplished (history).

6. COORDINATION BETWEEN STD/WC AND LEAVE

STD and Workers' Compensation lost time claims are also leave events that should be tracked by the leave administrator. Often the Workers' Compensation is being administered by a different vendor than the STD and leave. Therefore, we recommend building in integration points from Workers' Compensation to leave. In many cases, this can be accomplished through direct file feeds, but there may be some cost involved.

7. INTEGRATION WITH HEALTHCARE, EAP, WELLNESS AND DISEASE MANAGEMENT

Since 60-70% of all FMLA claims are also concurrent STD claims for the employee, it makes sense to ensure touchpoints with disease management and wellness programs. Additionally, research shows that if an employee goes out on FMLA not related to their own health condition they are more likely to go out on a STD claim in the next 12 months. Therefore, it makes sense to connect employees requesting FMLA to the company's EAP and other support programs.

8. STD DURATION

Outsourcing STD administration often has a positive impact on STD duration, particularly if the current program is not tightly managed. This may be a cost savings opportunity.

9. DATA

If consistent leave data is not available and leaves are not centrally managed or tracked, leave vendors will assume a 15-20% leave incidence rate when providing a quote. Leave volumes are consistently underreported when managed in-house. If not priced properly upfront, employers can experience pricing increases following the first year of implementation due to underpricing.

Employers are sometimes surprised to find that after they outsource, leave incidence rates increase. Once all leaves are reported and tracked consistently, the true levels of leave may seem unexpectedly high.

Another aspect of outsourcing that employers may not be prepared to hear is that outsourcing does not completely remove the work from the employer. Even after outsourcing, we find that most, if not all, of the current leave/STD team employees need to remain engaged in the process. There is an ongoing need for internal strategy, policy review, data reporting and vendor relations. However, current staff are relieved of many of the more mundane administrative tasks, freeing them up for more strategic, value added work.

How to Get Started with Outsourcing



There are several different paths to achieving your company's goals for leave management, depending on your resources, company culture, timeline and objectives. When deciding to insource, co-source or outsource a Leave and Absence Management program, employers should review a number of factors:

CAPABILITIES

STAFFING

VENDOR SELECTION

COORDINATION, INTERFACE AND COLLABORATION

Capabilities

An assessment of current or potential future leave management capabilities is the first step to streamlining your leave management process. There are several areas to consider (regardless of whether you insource, co-source or outsource):

STAFFING

- To handle leave reporting, tracking and management
- Legal, HR, IT resources
- Management oversight

SYSTEMS

- Claims management
- Ability to track ADAAA requests
- Letter and document generation

COORDINATION AND INTERFACE

- Eligibility data feeds
- Feeds to payroll and key HRIS platforms
- Data reporting
- Leave integration with Disability, Health and Wellness programs

PROGRAM OVERSIGHT

- Change management
- Communications and training
- Governance/Vendor management

Staffing

It is important to assess whether your staff has the right skills to handle the work and complexity of an insourced or even co-sourced model. It is also vital to understand that the decision to outsource your leave program to a vendor does not mean you are “washing your hands” of leave management, or eliminating the roles that supported the program prior to outsourcing. Companies that outsource leave management report a continued need for program involvement and oversight, including someone to review the leave data being provided and set the overall direction.



Vendor Selection

Knowing what your company ultimately needs is vital to the process of selecting a vendor. There are several points to consider. Are you looking to fully outsource leave and ADAAA administration, or just purchase software and tools to handle your program in-house? Or are you considering a combination of both? It will be important to understand your direction in this area because your direction will dictate which markets and vendors you engage.

A thorough vendor assessment should identify not only the vendor's specific capabilities but answer questions such as:

- Do they have sufficient experience with groups like yours (industry, size, complexity, etc.)?
- Do they have specialists such as physicians and nurses on their team?
- What does their employee turnover rate look like?
- Will there be specific staff assigned to your program?
- Do they want to understand your company's culture and are they willing to adapt to it?

Costs will vary, depending on the services you require from a vendor. Justifying upfront expenditures will likely involve a risk/benefits analysis that you may need to share with your company's C-suite in order to address ROI questions.

Coordination, Interface and Collaboration

Since the majority of leave requests are a result of the employee's own health, coordinating your leave process with STD and even your Workers' Compensation plan makes sense. Health programs and wellness referrals should also be part of the process. Developing these integration points should take place whether you have an insourced, co-sourced or outsourced model. Often this means internal collaboration, clearly stated vendor requirements, and technology capabilities for file feeds and data sharing.

The Key to a Successful Outsourced Leave and Absence Management Program

“Before we outsourced our leave management program, a leave was never denied.”

-Human Resources Manager

As employers look to change policies, procedures and plan design to improve a Leave and Absence Management program, the impact will likely be felt by employees. When talking about their Leave Program, a Human Resource Manager once commented, “Before we outsourced our leave management program, a leave was never denied.”

That’s why it’s critical to have a thorough change management process as part of outsourcing a Leave and Absence Management program.

Certainly the decision to outsource leave management can create dissatisfaction among an employee population that may have been accustomed to working directly with their local disability or HR manager. If one of your key objectives is improving program consistency, then supervisors and managers need communication and training.

A consistent, fair and compliant leave program will afford employees the leaves they are entitled to, and also should identify leaves that have run their course or that may require additional supporting evidence. This may be a new practice in some organizations.

To successfully implement an outsourced Leave and Absence Management program, employers need to pay as much attention to the cultural changes as they do to the policy, process and system changes.

Hopefully this brief summary provides a solid overview of what it takes to move to an insourced, co-sourced or fully outsourced Leave Management and Administration model. Moving to any of these directions will require additional discovery, analysis, strategy, and thoughtful planning, but when it is done correctly an organization can accomplish all their stated objectives, while still achieving high employee satisfaction.

For more information on Pacific Resources' Absence Management and Productivity services, please contact pat.purdy@pacresbenefits.com.