

**Reed Group Survey Results:
Insourcing and Outsourcing
Leave and Disability
Administration
July 2011**



Insourcing and Outsourcing – Executive Overview

Survey demographics

- The following survey was distributed in July 2011
- 163 respondents are represented in the following results
- 60% of employers responding have 10,000 or fewer employees

Overall Trends

- Core reasons for either insourcing or outsourcing are identical for STD and FMLA, however,
 - Insourcing FMLA is a steady rather than decreasing trend for employers
 - A majority of employers continued to outsource STD in the last 10 years
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In sourcing and Outsourcing – Executive Overview

Employer Considerations

- Downsides to insourcing included administrative difficulty; lack of clinical/ other resources; consistency and compliance concerns
 - Downsides to outsourcing included lack of control and personal touch with employees/supervisors; service levels; inadequate supervisor/ employee training and lack of integration of programs
 - Employers are not completely confident their FMLA programs are compliant
 - 32% of insourced employers are not confident
 - 21% of outsourced employers are not confident
 - Employers that outsource STD are less confident that their program is completely compliant with laws
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Insourcing and Outsourcing – Executive Overview

Future indications

- Continued commoditization of FMLA
- Employers seeking to reduce FMLA PEPM costs over the next several years
- Integration of STD and FMLA programs

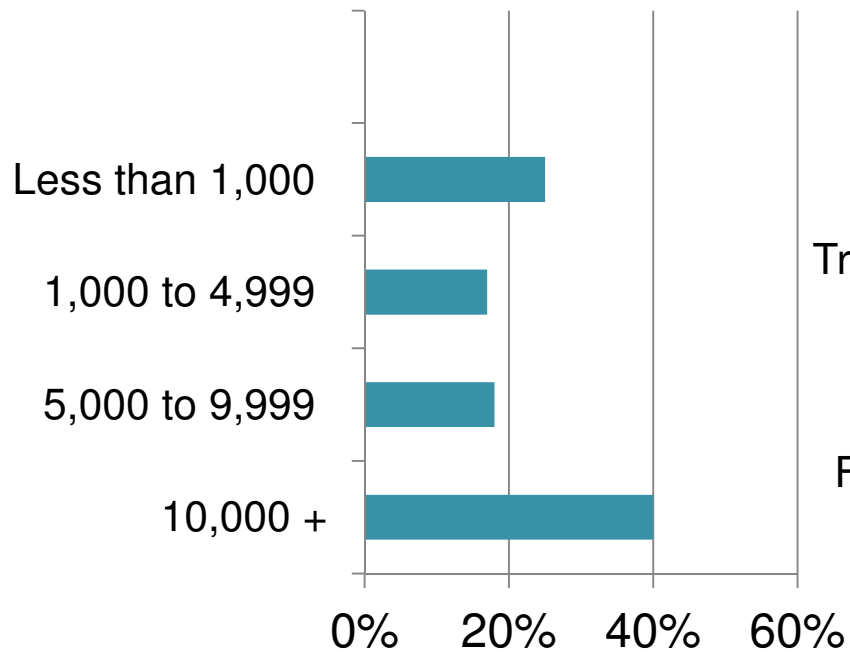
Factors to consider when deciding whether to insource or outsource

- Cost effectiveness
 - Cultural alignment with program objectives
 - Insourcing – Access to tools, data and skilled resources; desire for claim control/ personal touch with employees
 - Outsourcing – Supplier capability and expertise; compliance and consistency; improved outcomes data; reduction in administrative workload
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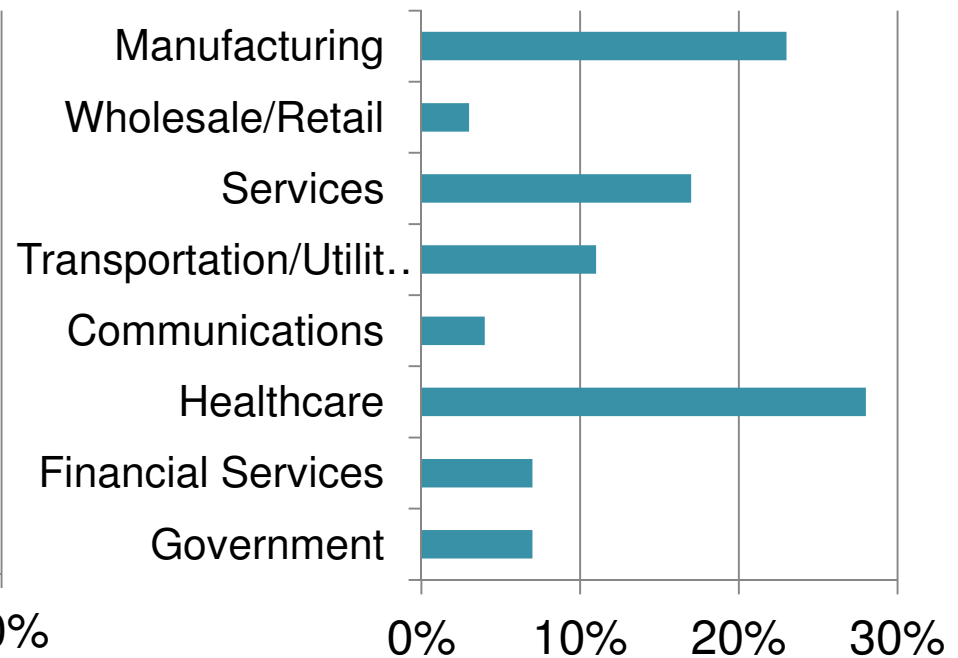
Survey Results - Participants

163 employers from a variety of industries and sizes provided their views on disability and absence management

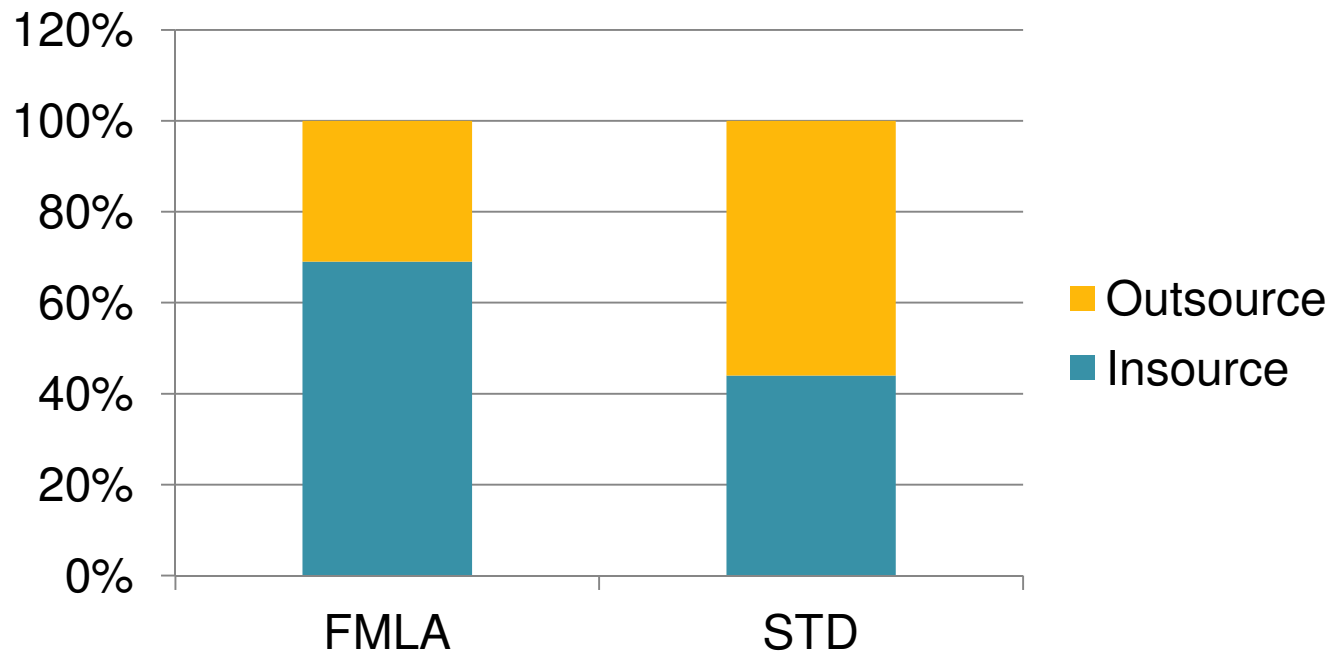
Number of Employees



Employer Industry



Insourcing and Outsourcing – Employer Survey



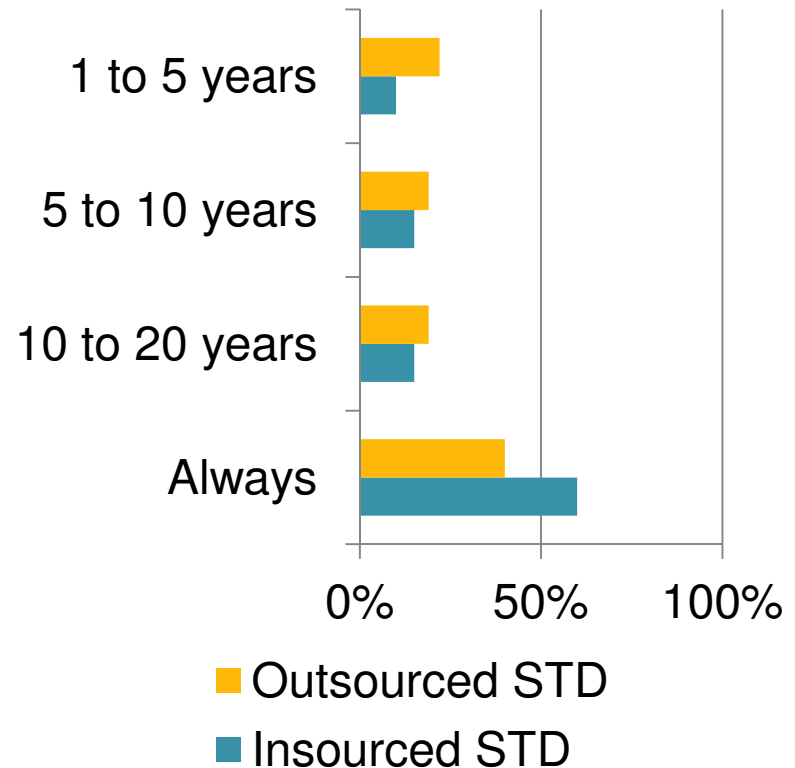
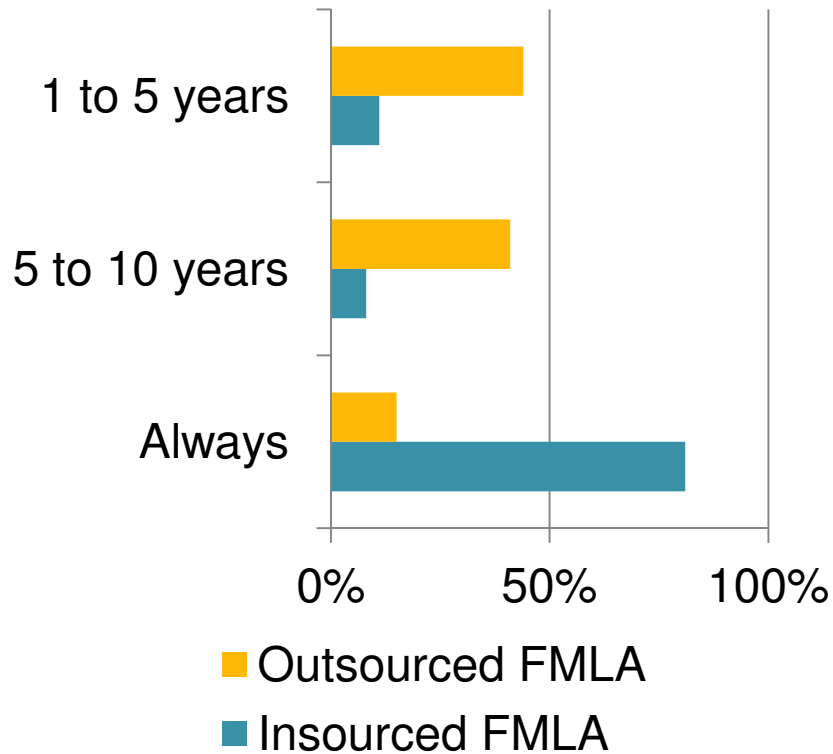
Reed Group Insourcing and Outsourcing Survey 2011 Results

- 69% of employers insource FMLA administration vs. 31% outsource
- 44% of employers insource STD management vs. 56% outsource

Source: Reed Group Insourcing and Outsourcing Survey 2011

Survey Results - Length of Administrative Models

How long employers have currently insourced or outsourced program



Source: Reed Group Insourcing and Outsourcing Survey 2011

Survey Results – Insourced Administration

What are the top reasons your company insources FMLA and STD?

FMLA

- Company values direct contact with employees
- More cost effective than outsourcing
- Internal expertise or skill
- Better outcomes than outsourcing

Responses: 83

STD

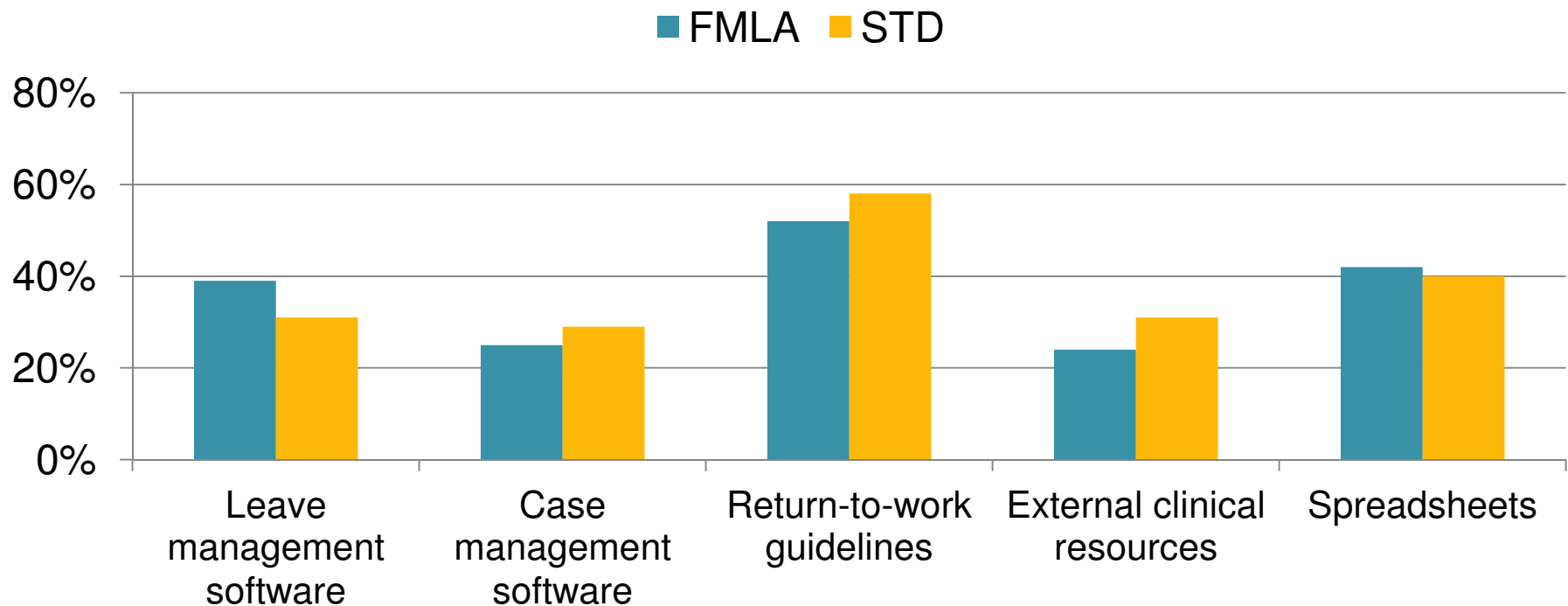
- Company values direct contact with employees
- More cost effective than outsourcing
- Control over claim decisions
- Internal expertise or skill

Responses: 48

Survey Results - Insourced Administration

Duration guidelines, spreadsheets and leave management software are the most prevalent tools utilized by employers.

What tools does your company utilize?



Source: Reed Group Insourcing and Outsourcing Survey 2011

FMLA Responses: 83

STD Responses: 48

Survey Results – Outsource Administration

What are the top reasons your company outsources FMLA and STD?

FMLA

- Third party claims administration
- Confidentiality of employees' health information
- Consistent application of the policy
- Complex leave administration requirements

Responses: 41

STD

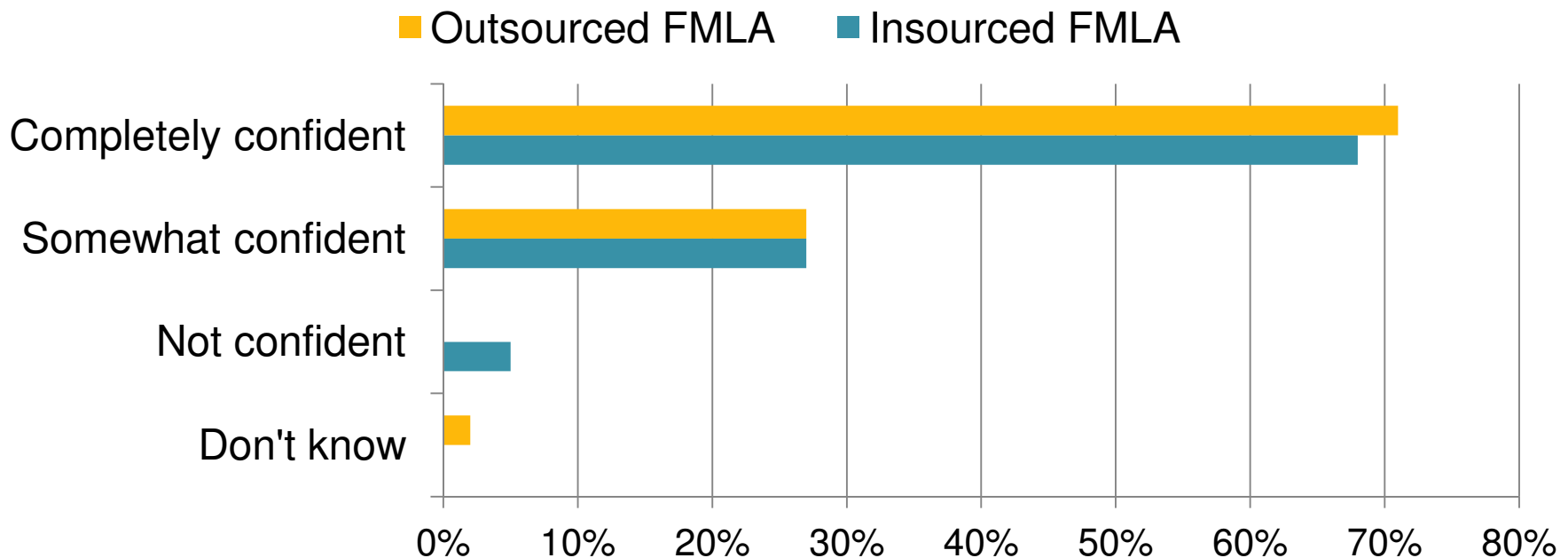
- Third party claims administration
- Confidentiality of the employees' health information
- Consistent application of the plan
- Lack of internal expertise or skill

Responses: 65

Survey Results – FMLA Compliance

The majority of employers feel their programs are completely compliant with state and Federal law whether insourced or outsourced.

How confident are you that your program is in compliance with FMLA, State leaves, ADA and USERRA laws and regulations?

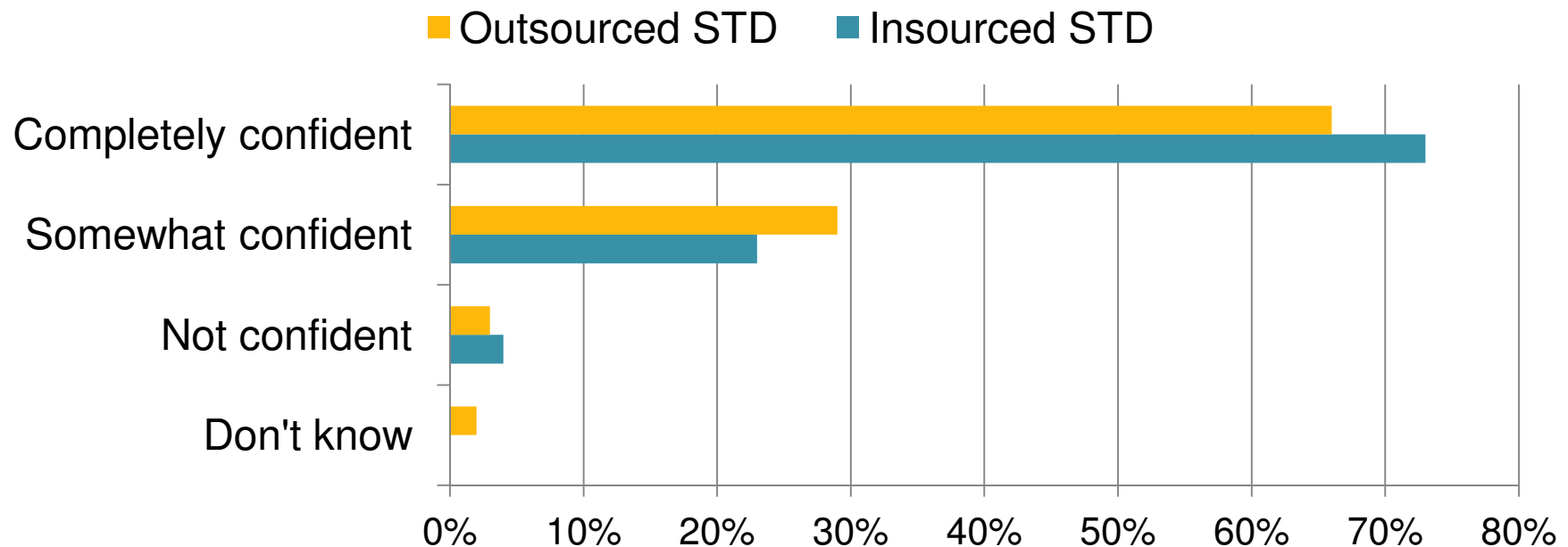


Source: Reed Group Insourcing and Outsourcing Survey 2011

Survey Results – STD Compliance

Employers that outsource STD are less confident that their program is completely compliant with laws than insourced employers.

How confident are you that your program is in compliance with FMLA, State leaves, ADA and USERRA laws and regulations?



Source: Reed Group Insourcing and Outsourcing Survey 2011

Survey Results – FMLA Struggles

While the largest downside to insourcing is the administrative burden, outsourced employers felt that the second largest downside was the lack of claim control.

What are the biggest downsides to insourcing and outsourcing FMLA?

Insourcing

- Administrative burden, time consuming
- No downside
- Changing federal and state regulations/complexity of regulations
- Limited internal resources
- Inconsistent application of the policy

Responses: 57

Outsourcing

- No downside
- Lack of control/claim decision
- Employees/Supervisors ability to understand leave/reporting requirements
- Supplier's lack of understanding culture/personal touch
- Supplier service levels to employees and HR

Responses: 30

Survey Results – STD Struggles

The majority of employers didn't see a downside to their administrative models.

What are the biggest downsides to insourcing and outsourcing STD?

Insourcing

- No downside
- Lack of clinical staff/expertise or turnover
- Administrative burden, time consuming
- Changing federal and state regulations/complexity
- Inconsistent application of the policy

Responses: 27

Outsourcing

- No downside
- Supplier's service levels/responsiveness
- Lack of integration with other programs (WC, FML, HPM)
- Program not managed to STD plan requirements
- Employees/Supervisors ability to understand leave/reporting requirements

Responses: 46

Survey Results – Insourcing and Outsourcing Decisions

The most common considerations for considering insourcing vs. outsourcing are costs and effectiveness of programs.

What do you think are the most important factors to consider when deciding whether to insource or outsource?

Insourcing

- Keeping claim decision control and direct employee contact
- Availability of tools /resources for internal staff success (compliance and durations)
- Allocation of sufficient/skilled internal resources
- Access to data, reporting (requires systems and expertise)
- Internal vs. external costs

Responses: 73

Outsourcing

- Supplier's capabilities, experience and references
- Costs of services/effectiveness, quality and program outcomes
- Regulatory and plan compliance, consistent application
- Internal expertise and administrative workload
- Supplier/Employer's cultural alignment and program objectives

Responses: 61

Appendix: Data Tables

Survey Results - Insourced FMLA Administration

Employers value direct employee contact, control of claim decisions and believe Insourced administration is a cost effective model that delivers better outcomes.

What are the top 3 reasons your company Insources FMLA?

	Company Culture	Company values direct contact with EE	Internal expertise or skill	Complex leave plans	Union restriction on admin	More cost effective	Control claim decision making	Lack of C-suite buy-in to outsource	Better outcomes from insourcing
1	11%	<u>28%</u>	12%	8%	1%	<u>17%</u>	6%	7%	10%
2	6%	<u>23%</u>	15%	12%	3%	<u>21%</u>	9%	3%	8%
3	6%	7%	13%	8%	4%	<u>21%</u>	<u>19%</u>	4%	18%

Survey Results – Insourcing STD Administration

As with FMLA, direct contact with employees, internal expertise, claim decision making and more cost effective administration are primary reasons employers insource STD.

What are the top 3 reasons your company insources STD?

	Company Culture	Company values direct contact with EE	Internal expertise or skill	Complex leave plans	Union restriction on admin	More cost effective	Control claim decision making	Lack of C-suite buy-in to outsource	Better Outcomes from insourcing
1	15%	<u>25%</u>	10%	6%	0%	21%	4%	2%	17%
2	0%	21%	11%	14%	4%	<u>34%</u>	9%	0%	7%
3	10%	5%	22%	12%	2%	5%	<u>24%</u>	0%	20%

Survey Results - Outsourced FMLA Administration

Third-party case management, confidentiality of health information and consistency are primary reasons employers outsource FMLA, while indemnification of claim decisions and cost effectiveness were ranked lowest.

What are the top 3 reasons your company outsources FMLA?

	Third-party case management	Confidentiality of EEs' health information	Lack of internal expertise or skill	Consistent application of the policy	Complex leave admin requirements	More cost effective	Indemnification of claim decisions	Better outcomes from outsourcing
1	<u>26%</u>	10%	22%	20%	12%	5%	2%	2%
2	15%	<u>28%</u>	10%	20%	20%	5%	0%	3%
3	22%	5%	3%	<u>30%</u>	19%	8%	3%	11%

Survey Results – Outsourcing STD

Third-party case management, confidentiality, consistent application of policy and claims indemnification are the primary reasons employers outsource STD administration.

What are the top 3 reasons your company outsources STD?

	Third-party case management	Confidentiality of EEs' health information	Lack of internal expertise or skill	Consistent application of the policy	Complex plan provisions	More cost effective	Indemnification of claim decisions	Better outcomes from outsourcing
1	<u>45%</u>	11%	17%	11%	2%	9%	3%	3%
2	20%	<u>23%</u>	10%	16%	10%	5%	15%	2%
3	14%	11%	11%	<u>25%</u>	4%	11%	14%	11%

For More Information

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