The Coming Obsolescence of Stand-alone Benefits Enrollment Systems

By Joe Markland

Let me start by saying that I realize the title of this article alone is going to be met with objections and criticism from many in the benefits technology business, some of who are my friends. But as a consultant to the industry I have seen the trends for some time and the time has come to declare that the demise of stand-alone benefits enrollment systems is in sight. And it is time for all who either own such a system, sell such a system, or use such a system to prepare for the inevitable.

The beginning of the end started in 2006 when ADP acquired Employease, which at the time was one of the largest benefits enrollment vendors in the space. This was followed in 2007 by the acquisition of Benetrac by Paychex. These leading payroll firms made these acquisitions not because they wanted to be in the benefits enrollment business, but because they recognized the opportunity and the increasing market demand by the employer market for a single system to manage HR-Benefits-Payroll. Since that time they have quickly become the leading benefits enrollment companies in the U.S. with ADP controlling approximately 45% of the market and Paychex 26%. [i]

While I recognized this trend as early as 2002 I first wrote about it in an article published in Employee Benefit Advisors magazine in September 2009 titled, "Payroll Firm, PEO's, and BPO's Have Got it Right". (See this in the Article Section in my blog at http://joemarkland.wordpress.com/past-articles/) In this article I pointed out that employers would be looking for a "single system that stores all HR, benefits and payroll information". Many employers don't want one system to track someone's pay, another to track benefits, and a third to track someone's vacation days, performance, and other data that an employer may track on an employee. Employers don't want to makes changes to 3, 4 or 5 systems if an employee simply changes their address. And "for employee self-service, accessing one system to see all pay, benefits and time-off information is much more user friendly". I often compare this merging of systems to the iPhone. At one time I had an iPod, a camera, and a cell phone. Now the iPhone and the rest of the smart phone market has all three features in one.

At the time I had written the article and on many occasions since I have claimed that the transition to a single platform would occur in about 5 years. We are now a little over three years since the article and based on recent market activity and my assessment of that activity, I still believe this to be true. My belief is based on statistics gathered from my own company's customer base. As a HR and Benefits technology advisor to benefits brokers, and by extension their clients, we conduct needs assessments and recommend HR-Benefit-Payroll solutions to employers. They use this analysis to make purchase decisions. We work with anywhere from 20-40 employers per month and have been doing so for about 10 years. Over the last 36 months we have seen a huge shift in demand with stand-alone benefits enrollment systems moving from 55% down to 10% of our activity. The following chart shows our data as to the type of systems employers have been requesting in our assessments.

	Benefits Enrollment Only	**HR-Benefits-Payroll**
2011	55%	45%
2012	35%	65%
2013	10%	90%

The HR-Benefits-Payroll column in the above chart may represent systems that either are HR and Benefits or HR-Benefits-Payroll. Keep in mind that we are introduced to these employers by benefits brokers, so one would think the statistics would lean more to benefits enrollment only systems. That is not the case. Employers, by a 9-1 ratio, are predominantly looking for a single system. This statistic not only plays out for new customers. We are also witnessing a significant number of existing clients that use benefits enrollment systems convert to a single HR-Benefits-Payroll solution. Over 95% of those that have changed systems have transitioned to a single platform.

Other than the obvious, which is the employer's desire for a single system, I attribute this rapid conversion to the following:

1. **Increase in number of vendors** – Any competitor to ADP or Paychex has had to develop similar capabilities. While some are still evolving, the number of vendors offering these capabilities has grown tremendously creating a greater awareness in the market while giving employers more options.
2. **Reduction of HR Staff** – Employers want to the reduce costs related to corporate overhead. HR is one area. Therefore efficiency in HR by leveraging technology is a goal for many employers.
3. **Compliance** – HR and Benefits is getting more complex. Employers need to organize their data to stay compliant. The reporting needed for the Accountable Care Act is an example of this. Payroll Companies have led the way here with this type of reporting.
4. **Employee Self-service** – Employers do want to expand employee self-service in an easy to use way. A single point of entry to all HR-Benefits-Payroll information provides a better and easier employee experience while reflecting well on the company.

Many benefits brokers and benefits enrollment companies will debate these statistics. Around the industry benefits enrollment vendors are having an outstanding year in 2013. I expect 2014 to be just as promising. I believe this can be attributed to several reasons. The first reason is that many benefits enrollment systems are either fully funded or partially funded by benefit brokers and/or insurance companies. Brokers and carriers continue to use technology and what I call "giveaways" as a differentiator or to sell product. In the past it was benefit websites. Today it is benefits enrollment systems and HR Call Centers. These free or discounted systems and services creates a false perception of market demand. Many of these systems were implemented without ever having gone through an analysis to determine employer needs. Why should they, in many of these situations the employer is not making a purchase decision. It is the brokers, carriers, or whoever is funding it that is the customer of the benefits technology vendor. I would estimate that close to 50% of the stand-alone benefits enrollment systems are funded by some third-party. Of systems my firm has implemented that number is closer to 75%. Competition in the benefits brokerage business has increased the number of "free" enrollment systems but this does not represent a real increase in employer demand for such systems. Give away anything for free for a day and I will show you an increase in demand.

Now along comes health care reform and the threat of reduced compensation from medical insurance. How many stories have you read about how a broker can make up for lost medical commission by selling more voluntary and worksite products? This push has resulted in an even greater funding of benefits enrollment technology by insurance companies that sell voluntary and worksite products.

For a while I thought the development of Private Exchanges would give the benefits enrollment companies some reprieve. I still think it may for a year or two. With Private Exchanges the technology bar has been raised and the enrollment technology vendors have had to add functionality to handle defined contribution plans and provide decision support tools to help employees make better insurance purchase decisions. In my opinion this technology edge will be short-lived as all other vendors will have to add these capabilities. In my short experience with Private Exchanges I still have found the majority of employers wanting to run their Defined Contribution Plan or Private Exchange within their existing HR-Benefits-Payroll technology. Using third-party tools I can Private Exchange-ize almost any HR-Benefits-Payroll system. With all these new employee contribution methods and the increase in voluntary products I still find the ease of making the payroll deductions a primary requirement of the employer. This once again puts the single system vendors in the driver's seat.

My predictions come in a year when benefits enrollment company Benefit Focus went public and raised around $75 million in their IPO after showing a previous 6 month operating loss of $15.2 million[ii] . More recently Towers Watson acquired benefits enrollment company Liazon for $215 million. I think both may disagree with my labeling them as benefits enrollment technology companies but that is how I see them. That is the goal isn't it – to enroll people in their benefits? As for the money aspect of these transactions I say "good for them". They capitalized on the opportunity. However, neither of these events changes my opinion as to where the market is going.

If broker competition, health care reform, the push to sell more voluntary products, and the advance of Private Exchanges is creating more demand what is going to stop the advance of benefits enrollment only solutions? The answer is two-fold and includes increased employer demand on one side and the ever growing vendor market providing the supply. In the end logic will prevail and employers will get what they want which is a single system; and the army of payroll vendors, HRIS vendors, HR Consultants, and even some benefits brokers will educate the market and deliver the solutions. I guarantee that brokers who work with me will be delivering such systems. Think of this for a minute, ADP has around 800 sales people calling on employers every day and they are just one company. Collectively there are thousands of sales people calling on employers to deliver these solutions. They will move the market.

The transformation has begun but will still take some time. In the near future mergers will happen between enrollment vendors, payroll vendors, and HR vendors to meet the market demand. Some stand-alone enrollment systems will survive to meet the needs of those clients with very complex benefits or those who want best in class solutions. This will more likely be in the 1000+ employee market, even though many larger companies such as Nokia with 50,000 employees are implementing a single system. (See http://www.computerweekly.com/news/2240210585/Nokia-Solutions-Networks-HR-rejects-best-of-breed-for-best-of-platform) In the less than 1000 employee marketplace I predict that by the end of 2015 you will see an even larger percentage of the market convert to a single system for HR-Benefits-Payroll. If you are in the benefits business then you will have to make some changes to prepare for this market change. Or, I could be wrong. I presented my facts so that you may decide.

About the Author

Joe is the President and Co-Founder of HR Technology Advisors (HRT). Joe is considered an industry expert on HR and Benefits Technology. He has published numerous articles and speaks regularly at Industry Conferences. Appearances include Health Underwriters meetings in California, New Hampshire, Michigan, Kansas, Ohio, Alabama, Washington, Georgia, North Carolina and Virginia; the LOMA Systems

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[i] HR Technology Advisors 2011 Study
[ii] Street Insider August 14, 2013