



2021 - 01: Integration Is Not Necessarily Automation

Introduction

Payroll and other service providers frequently market systems “integration” as a means to automate and increase the speed and accuracy of administrative procedures. Integration can be closed with one service provider performing multiple functions, or open with multiple service providers becoming linked through API or other forms of IT connectivity. However, changing service providers, especially payroll, can be a major investment in time and resources. Many marketing presentations advertise these improved levels of automation with demos that suggest the latest system technology will almost run itself with little to no human involvement. However, there is human involvement on at least four levels.

1. Establishing the rules to program the system and capture all the variables that make each business unique is an initial commitment of time. For example, who approves PTO, benefit changes, or compensation adjustments? Is the system programmed to deal with PTO restrictions or different benefit eligibility criteria for different employee classes?
2. Another level of human involvement is in managing system maintenance and upgrades. New laws and compliance requirements, such as the July 2020 electronic communication requirements, need to be woven into the operation of the system. Most service providers leave the majority of this programming up to the end user.
3. Creating more detailed eligibility rules to screen out ineligible participants for certain benefits is also usually left up to the user. For example, a basic eligibility rule is months of service. But can the system ask an HSA applicant if they are covered under another medical plan, taking Social Security Income benefits, or claimed as a dependent by another person? A “yes” answer to any of these questions should make an individual ineligible. And even if the system can do this, does the user know how to program the system to establish the criteria?
4. Finally, the learning curve for employees to adapt to the new system can turn into a tremendous commitment of time and resources. This can be compounded if omissions in the setup process are found and re-programming is required.

Many of the procedures, especially those that involve integration with insurance companies, 401k platforms, and other service providers, require an approval by the client before the integrated transaction takes place. This is likely a matter of risk management, making sure the information being transferred to the integrated partner is accurate, but it makes the automation process less seamless than many expect.

With these thoughts in mind, we have put together some of the issues we have noticed as we worked with and observed our clients trying to implement new payroll service providers, or even upgrade an existing system.

Technology Platform

Payroll and its related services are much like 401k systems. Around 2003 we began converting our clients to “open architecture” 401k plans. That meant using a service provider that could offer any mutual fund that agreed to be sold through non-proprietary systems. Initially that meant moving from a service provider with dozens of investment options to one with hundreds. Many large companies like Vanguard and Fidelity initially tried to use their strength in the market to steer clients to proprietary or preferred vendors. Today, almost all mutual funds are available on any open architecture platform and literally thousands of options exist. If a fund is not available, a selling agreement can be established in a matter of days. There are many fields of data shared between a mutual fund and a service provider. Payroll systems are much the same.

They have information, such as income, date of hire, and date of birth, needed by multiple service providers. An open architecture system has each field available in an unencumbered state, available without pulling or modifying that field of information from some other source. Payroll services that have built their system from the ground up tend to be true open architecture systems. Providers who outsource parts of their service capabilities, or who have grown through mergers with, or acquisitions of, other systems tend to be more problematic and more difficult to integrate for maximized automation.

Technology Philosophy

Unfortunately, even if a service provider is built on an open architecture platform, that doesn't mean the company will adopt the philosophy of sharing the data fields with other service providers. They may restrict their sharing to a short list, or even just one, service provider(s) from another industry. This philosophy may be driven by a partnership agreement that requires no competition or other proprietary reasons.

Another related feature is the ability to download fields of data into Excel or other formats on an ad hoc basis. Restrictions like this can impact internal data analysis objectives.

Basic Questions for Payroll and Other Service Providers

Here are some preliminary questions to determine the open architecture status of each service provider:

1. Is the system under consideration a single technology platform or one that has evolved over the years from multiple systems acquired in mergers or acquisitions involving other service providers?
2. Are the service modules offered, such as online benefits administration, recruiting, PTO management, or total compensation reporting, systems developed on the base platform, systems acquired through mergers or acquisitions, or ones outsourced to another service provider?
3. Can the system under consideration integrate with any other service provider willing to integrate with them and if so what are the setup and recurring charges for each integration?
4. If integrations are restricted, who are approved service providers for integration? Are there any restrictions that apply to the service providers on this list, such as minimum number of employees, a common restriction with insurance company integrations in benefits administration modules.

Benefits Administration Questions

The Conestoga Group is not qualified to comment beyond the above generalities of payroll administration capabilities, but we do have extensive experience regarding online benefits administration systems. We have found that many payroll services offer either a proprietary benefits administration system, or one that has been outsourced to another service provider. We have found that some payroll service providers embed the benefits administration module in another package of services, which can increase the cost of the service if the package includes services not needed. We have also found that systems may have limitations in the initial benefits package setup, such as the ability to create classes of employees to deal with owners of an S Corporation versus owners of another business type, wage-based employee premium sharing systems, spouses who work for the same employer, etc. Below are questions to help uncover these features that may or may not be offered by service providers under consideration.

1. Is the benefits administration system under consideration a system developed on a base platform, a system acquired through a merger or acquisition, or one outsourced to another service provider?
2. Are there additional services that must be purchased in a package to receive the online benefits administration module?
3. Can the system under consideration support eligibility classes that recognize the following:
 - a. S Corporation owners versus other business types
 - b. Defined contribution premium sharing
 - c. Wage based premium sharing
 - d. Employee couples
 - e. Opt-out reimbursements
 - f. Spousal surcharges/discounts

4. Can the system support multiple benefit plan types such as the following:
 - a. Voluntary plans with Evidence of Insurability requirements
 - b. Voluntary or contributory plans with late entrant penalties
 - c. Voluntary life plans that include benefit options for spouses and children
 - d. Voluntary life plans that treat AD&D as a separate benefit election versus included automatically with the life
 - e. Matching contributions for 401k and/or HSA, including an ability to let employees know they are not maximizing the employer match
 - f. Roth 401k options, including an ability to elect both Roth and regular pre-tax deferrals
5. Does the system have pre-set eligibility rules, such as not allowing a person to enroll in an HSA unless also enrolled in a High Deductible Health Plan?
6. Can the system support additional customized eligibility questions such as whether an HSA enrollee is covered under another health plan, is receiving Social Security income benefits, or claimed as a dependent by another person, all of which disqualify someone from enrolling?
7. Can the system provide custom disclosure statements to allow an employee to more fully understand a benefit, such as a pop up window following a dental plan declination that lets them know there will be a late entrant penalty if they try to enroll in the future?
8. Can the system be designed to send alerts to a customized list of users who need to know certain events, such as the client's payroll department for a new withholding election, the benefits broker for a new enrollment or disenrollment, the Cobra administrator for a loss of coverage or new hire event, and can the alerts be customized to provide all of the information needed, without unwanted information, to the user?
9. Can the system support tasks that create a digital record of completion or delivery of:
 - a. Compliance notices
 - b. Acknowledgement forms
 - c. Policy agreements
 - d. Beneficiary designations
10. Can tasks be set up with automated reminders, such as days remaining during open enrollment?
11. Can the system support educational campaigns that include embedded videos and that can be distributed to employees during the plan year as well as open enrollment?
12. Is there any client size that is most advantageous for a client to achieve maximum value from the system under consideration based upon frequency of use or expertise?

We hope these questions will help you determine the best service providers for your particular needs and objectives. Feel free to contact us with any questions.

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