



*Where do  
you want  
to grow?*

## WHITEPAPER

# How TPAs Can Use Specialized Business Process Outsourcing to Prepare for Growth, Improve Efficiency, and Increase Profit

The last three years have presented many unique challenges for employers and the TPAs that provide their tax-advantaged, post-tax, and compliance account administration. The pandemic has altered routine business patterns, making it harder for TPAs to plan for ebbs and flows in daily operations and prepare for growth. Controlling costs is even more critical. Yet providing high-quality customer service is more important than ever for business health and growth.

Fortunately, TPAs can conquer all of these concerns efficiently and cost-effectively through the use of specialized business process outsourcing (BPO) for third-party benefits administrators.

# Responding to Pandemic Challenges

The coronavirus is transitioning to endemic status, and our national public health emergency is ending soon. However, the pandemic has permanently affected American business. Few expect to return entirely to pre-pandemic norms.

COVID-19 resulted in unprecedented layoffs, furloughs, and reduced hours, in some cases resulting in fewer participants for employee benefit accounts. Plus, many qualified COBRA beneficiaries chose the healthcare marketplace or went without health insurance instead of electing continuation coverage.

Reacting to the changing market conditions, TPAs took a good hard look at cost factors. As a service business, TPA operating budgets tend to be dominated by the cost of personnel. Some TPAs delayed previously planned staff expansions. Others undertook a few layoffs of their own or began a hiring freeze to reduce costs through natural attrition. As a result, existing staff had to take on extra tasks to fill the gaps.

Although effective in the short run, these actions can negatively impact efficiency, productivity, customer service, and the company's ability to prepare for growth. Fortunately, they are all areas in which TPAs can benefit from specialized BPO services.

Conversely, when it comes to hiring additional staff and retaining quality talent, TPAs have experienced many of the same problems as other businesses. Positions that deal with repetitive tasks, often on the lower end of the pay scale, have been particularly hard to hire and keep filled. Yet, such tasks are essential to providing benefits administration services and are another area in which TPAs can benefit dramatically from specialized BPO.

## Types of BPO

In their *Global Outsourcing Survey 2022*, Deloitte defines three types of business process outsourcing: Traditional, Managed Services, and Operate Services.<sup>1</sup>

- ▶ **Traditional Outsourcing** focuses on cost reduction for “simple, discrete tasks which can be automated.” Vendor relationships are transactional. Examples of traditional outsourcing include payroll, network administration, and other narrowly defined processes.
- ▶ **Managed Services Outsourcing** combines “cost reduction and discrete value-add, where vendors support complex processes, applications, or full business functional areas requiring specialized expertise.” Vendor relationships are long-term, tied to performance service levels, and priced on outcomes and volume. Examples include web hosting/cloud operations, infrastructure support, and other defined but multi-faceted processes.
- ▶ **Operate Services Outsourcing** is “outcome and innovation-oriented, underpinned by technology and cost optimization ... leveraging automation and data insights as part of the services to drive value.” Clients receive on-demand access to hard-to-source talent, experience, skills, and technology. The vendor relationship is highly collaborative and often viewed as an extension of the client's organization. Examples include foundry services, advisers-as-a-service, analytics-as-a-service, cyber detect and respond, and other outcome and innovation-oriented functions.

Comprehensive, specialized BPO services for TPAs include some aspects of all three types of outsourcing. That's one reason why TPAs should choose an outsourcing provider that is knowledgeable and experienced in processes specific to employee benefit TPA operations.

## BPO Benefits

Business growth is essential to long-term company success, but can only happen when management is able to effectively delegate repetitive tasks. As outlined below, outsourcing can provide many valuable benefits when a TPA has the right vendor partner.

### Service Expansion

As part of their growth plans, a TPA may be preparing to expand services by taking on additional clients or offering more types of benefit account administration.

For example, they may currently offer only CDH account administration (such as FSAs, HRAs, and HSAs) and want to expand into billing (such as COBRA administration and retiree billing). Or they may decide to add some of the newer benefit accounts, such as Individual Coverage HRAs (ICHRAs) or Lifestyle Spending Accounts, to their services menu.

The extra work is going to require more personnel. To quote the Deloitte survey, “Finding, developing, and keeping the right talent with the right skills at the right price is more elusive than ever.” The TPA planning to expand wants to hire now so that new staff will be

trained and ready when the business comes in, but that can increase the financial risk to the extent that they ultimately decide to delay or cancel the planned expansion.

With the right BPO partner, TPAs can prepare for growth on any scale without hiring permanent staff in advance. They can wait to add personnel until new clients or services generate sufficient revenue, or work with their BPO partner long-term instead of expanding permanent staff.

The following expansion cost comparisons were modeled using real-world data by an experienced BPO partner for TPAs.<sup>2</sup>

**In Expansion Model 1**, the modeled TPA provides CDH administration for 1,200 employer groups and is considering expansion into COBRA administration. If they go forward with the expansion, they expect to pick up 500 COBRA groups.

By having an experienced BPO partner perform all of the added COBRA-related task processing, the TPA incurs no direct personnel cost to expand into COBRA and no permanent overhead while ramping up to their goal of serving 500 groups.

In addition, the TPA's costs of providing COBRA administration to those 500 groups are dramatically lower by using the BPO partner for those tasks instead of performing them in-house, saving an estimated 65% annually in direct processing costs.

**In Expansion Model 2**, the same TPA has completed the expansion and reached their goal of 500 COBRA groups. Due to the success experienced in using their BPO partner for COBRA task processing, they move all CDH and COBRA task processing to their BPO partner, saving an estimated 59% annually in direct processing costs.

#### **Expansion Model 1 –**

##### **TPA administering 1200 CDH groups, expanding to add 500 COBRA groups and having BPO partner handle added COBRA tasks**

Peak Season Processing	Tasks	In-House Cost	BPO Cost	Savings
COBRA Plan Setup	1,500	\$3,677	\$1,275	\$2,402
Day-to-Day Processing	Tasks	In-House Cost	BPO Cost	Savings
COBRA	70,500	\$172,798	\$59,925	\$112,873
<b>TOTAL ANNUAL SAVINGS</b>		<b>In-House Cost</b>	<b>BPO Cost</b>	<b>Savings</b>
<b>In Dollars</b>		<b>\$176,475</b>	<b>\$61,200</b>	<b>\$115,275</b>
<b>As Percentage</b>				<b>65%</b>

#### **Expansion Model 2 –**

##### **TPA administering 1200 CDH groups and 500 COBRA groups, with BPO partner handling all CDH and COBRA processing tasks**

Peak Season Processing	Tasks	In-House Cost	BPO Cost	Savings
Enrollment	19,800	\$22,674	\$10,771	\$11,902
COBRA Plan Setup	1,500	\$3,677	\$1,275	\$2,402
Day-to-Day Processing	Tasks	In-House Cost	BPO Cost	Savings
Contributions	157,500	\$180,357	\$85,680	\$94,677
Claims	122,800	\$140,622	\$66,803	\$73,818
COBRA	70,500	\$172,798	\$59,925	\$112,873
<b>TOTAL ANNUAL SAVINGS</b>		<b>In-House Cost</b>	<b>BPO Cost</b>	<b>Savings</b>
<b>In Dollars</b>		<b>\$520,128</b>	<b>\$224,454</b>	<b>\$295,673</b>
<b>As Percentage</b>				<b>57%</b>

Due to their BPO partnership, the modeled TPA has substantially increased its revenues, decreased direct costs by nearly \$300,000 a year, and freed up its permanent staff to pursue more valuable activities such as client relationship management, participant service, and broker outreach.

## Staff Supplementation

Short-term staff supplementation is often a critical need during “crunch times.” For example, a TPA may have sufficient staff for most of the year but needs extra help during open enrollment and plan renewal to meet deadlines and avoid overworking their existing personnel. Sometimes it’s hard to find temporary workers with the needed aptitude who can work as long as requested, and regardless, the TPA will incur increased personnel costs and training time.

Short-term, long-term, and permanent staff supplementation is possible with the right BPO partner, providing the advantage of experienced staff to regularly and reliably handle specific tasks at a much lower cost than paying wages and benefits (see below).

## Cost Savings

In addition to gaining the ability to undertake expansion with less financial risk and supplement staff during high-volume periods, TPAs can benefit from significant cost savings by using the right BPO partner.

The following cost and savings comparisons were modeled using real-world data by an experienced BPO partner for TPAs.<sup>2</sup>

### Savings Model 1 – TPA administering CDH only for 500 groups

Peak Season Processing	Tasks	In-House Cost	BPO Cost	Savings
Enrollment <sup>3</sup>	4,000	\$5,726	\$2,720	\$3,006
Day-to-Day Processing	Tasks	In-House Cost	BPO Cost	Savings
Contributions	31,500	\$45,089	\$21,420	\$23,669
Claims	24,600	\$35,213	\$16,728	\$18,485
TOTAL ANNUAL SAVINGS		In-House Cost	BPO Cost	Savings
In Dollars		<b>\$86,028</b>	<b>\$40,868</b>	<b>\$45,160</b>
As Percentage				<b>52%</b>

### Savings Model 2 – TPA administering CDH and/or COBRA for 2500 groups

Peak Season Processing	Tasks	In-House Cost	BPO Cost	Savings
Enrollment <sup>3</sup>	35,600	\$36,803	\$17,484	\$19,320
COBRA Plan Setup	4,600	\$11,275	\$3,910	\$7,365
Day-to-Day Processing	Tasks	In-House Cost	BPO Cost	Savings
Contributions	283,400	\$292,977	\$139,181	\$153,797
Claims	221,000	\$228,469	\$108,536	\$119,933
COBRA	211,400	\$518,150	\$179,690	\$338,460
TOTAL ANNUAL SAVINGS		In-House Cost	BPO Cost	Savings
In Dollars		<b>\$1,087,674</b>	<b>\$448,800</b>	<b>\$638,874</b>
As Percentage				<b>59%</b>

## Choosing a BPO Partner

Finding a BPO partner that meets your comprehensive needs is essential. In choosing a BPO partner, consider pricing, experience with employee benefits processing, service arrangements, and technological expertise.

### Affordable Pricing

Most TPAs are accustomed to hiring employees based on the number of people they need to complete the work or, stated differently, the number of hours needed to complete the work divided by the hours in an average workday. TPAs also need to be able to easily compare BPO costs to that of hiring temporary employees.

TPAs should not be forced to alter how they assess manpower needs in order to work with a BPO partner. Look for a provider offering full and incremental full-time-equivalent (FTE) pricing to simplify cost and productivity comparisons with temporary and permanent employees.

## Benefits Processing Experience

Having a BPO partner who is experienced in the tasks and processes you want to outsource is essential, particularly in regulated industries like benefit account administration.

Look for a provider with experience working with your benefit account types from a TPA perspective. There's just no substitute for the expertise that comes from experience.

## Flexible Service Arrangements

Some BPO partners require ongoing work or a specific volume of work. They can't or won't step in when you just need help getting through a high-volume quarter instead of year-round assistance. Also, when hiring temporary employees, some TPAs are accustomed to filling up their time with a variety of work, while others hire specifically for certain tasks or defined projects.

To get the maximum value out of the BPO relationship, you need a partner you can rely on to help how, when, and why you need them. Look for providers who offer flexible service arrangements.

## Technological Expertise

BPO providers may accommodate only certain brands of software. They may not be capable of working with any cloud-based or premises-based administrative platform you may be using.

You don't want to lose an established BPO partnership because you've changed software and they can't work with your new technology. Look for a provider with the technological capability to work with both the platform you are using now and any you may add or convert to in the future. Plus, insist on verification of security measures they follow to protect your data.

# Questions to Ask Potential BPO Partners

- ▶ Do you offer full FTE and incremental FTE pricing?
- ▶ How many benefit account claims have you processed?
- ▶ What volume of participant contributions have you processed and posted to accounts?
- ▶ What volume of debit card transactions have you substantiated?
- ▶ What is your accuracy rate, and how is that determined?
- ▶ How many COBRA elections and payments have you processed?
- ▶ Do you require minimum service periods or processing volumes?
- ▶ Do you offer short-term turnkey service arrangements, such as monthly or quarterly?
- ▶ Do you offer task-based and project-based service arrangements in addition to turnkey ones?
- ▶ Can you work with my specific software programs? What if I change programs or platforms?
- ▶ Are you comfortable working with both cloud-based and premises-based software platforms?
- ▶ What security measures do you follow to protect the data in my systems?

## References and Notes *(hyperlinks applied)*

<sup>1</sup> [Deloitte](#), 2022.

<sup>2</sup> [DataPath Operations BPO](#), 2023.

<sup>3</sup> Enrollment tasks include Employee Navigator and other file import processing, with limited paper enrollment exceptions.

### *About the Company:*

Founded in 1984, DataPath, Inc. is a leading provider of technology solutions, specialized business process outsourcing, and marketing services for TPAs and tax-advantaged healthcare benefit plans including FSAs, DCAP, HRAs, ICHRAs, EBHRAs, QSEHRAs, HSAs, LSAs, COBRA and other employer-sponsored benefits. The company also created the award-winning employee education and engagement program, *The Adventures of Captain Contributor*.™

Learn more at [dpath.com](https://www.dpath.com) or call (800) 633-3841.

