



TCO for Benefits Study: Results of an Industry Study

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Unleash your Powers

Sunday, March 26 - Wednesday, March 29

Agenda

- Session goals
- What is Total Cost of Ownership (TCO)?
- TCO and ROI
- TCO for Benefits: the results of a ground-breaking study
 - The results
 - The cost effect of call center solutions
 - The cost effect of company size
 - The cost effect of complexity
 - The services factor



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Our Goals

- ✓ *Understand the TCO Methodology*
- ✓ *Learn how to apply TCO to business case/ROI analysis*
- ✓ *Receive the study results on Benefits Administration costs using the TCO model*

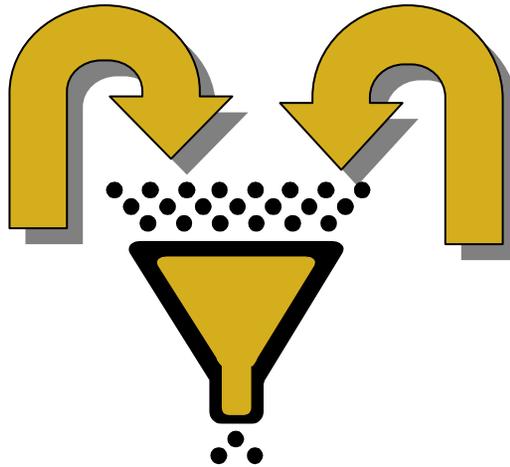


What is Total Cost of Ownership?

TCO is an approach for quantifying the costs of a process from end-to-end

One Time Costs

- Initial system installation
- Upgrades
- Consultant fees



Ongoing Costs

- Labor for administration
- Labor for system maintenance
- Non-labor costs

TCO



What is Total Cost of Ownership?

- Developed in the late 1980s by the Gartner Group as a way to determine the total cost of deploying personal computers in an organization.
- Typically, TCO methodology is a means for:
 - Identifying hidden costs
 - Identifying cost shifting
 - Accurately benchmarking costs
 - Projecting return on investment (ROI) for a capital expense



TCO and ROI

- **ROI is...**A measure of how efficiently a company uses its investments. Examples can include assessments of:
 - Systems acquisition
 - Process enhancements
 - Headcount additions



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TCO and ROI

- **ROI isn't...** Always effective in measuring the cost impact of seemingly unassociated areas or functions. Apparent returns can be offset by:
 - Non-labor costs
 - Increased maintenance costs
 - Headcount restrictions
 - Process changes and training costs



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Power tip:

TCO Advantages...

- Calculating TCO allows a company to identify all costs associated with a process
- The cost impact of system enhancements, personnel or process changes can be identified
- Instead of calculating an ROI on subset of costs, the true ROI can be identified

...Which Result In A Better Business Case

- Because TCO calculates costs across departments, divisions, cost centers etc., an ROI calculation for the company, not just a department or group can be determined. When all costs are identified, a better business case may be presented.

Great Moments in Cost History

- 1626 – Dutch purchase Manhattan Island for \$24
- 1803 – U.S. purchases Louisiana Territory for \$15 million
- 1982 – Pentagon purchases hammer for \$435
- 1997 – Windows 95 PC TCO calculated at \$9,784
- 2003 – \$16 per paycheck for in-house processing



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The Sourcing Analytics Study

- Independently compared the costs of in-house administration to the costs of outsourcing.
 - The study is unlike any other benefits cost study available in that it specifically captured the costs of health and welfare benefits administration
 - Study companies have over 1,000 employees
 - 36 companies with an average 4,155 benefit eligible employees (5,700 US employees) each are included
 - 20 companies administer benefits in-house, 16 outsource to ADP



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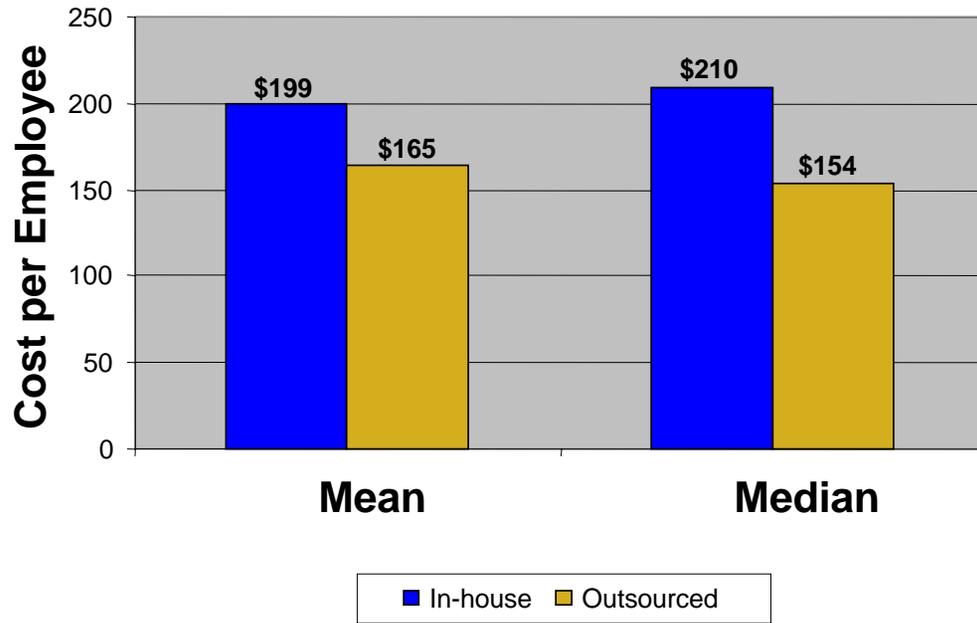
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TCO for Benefits: The Results

Benefits TCO per Employee



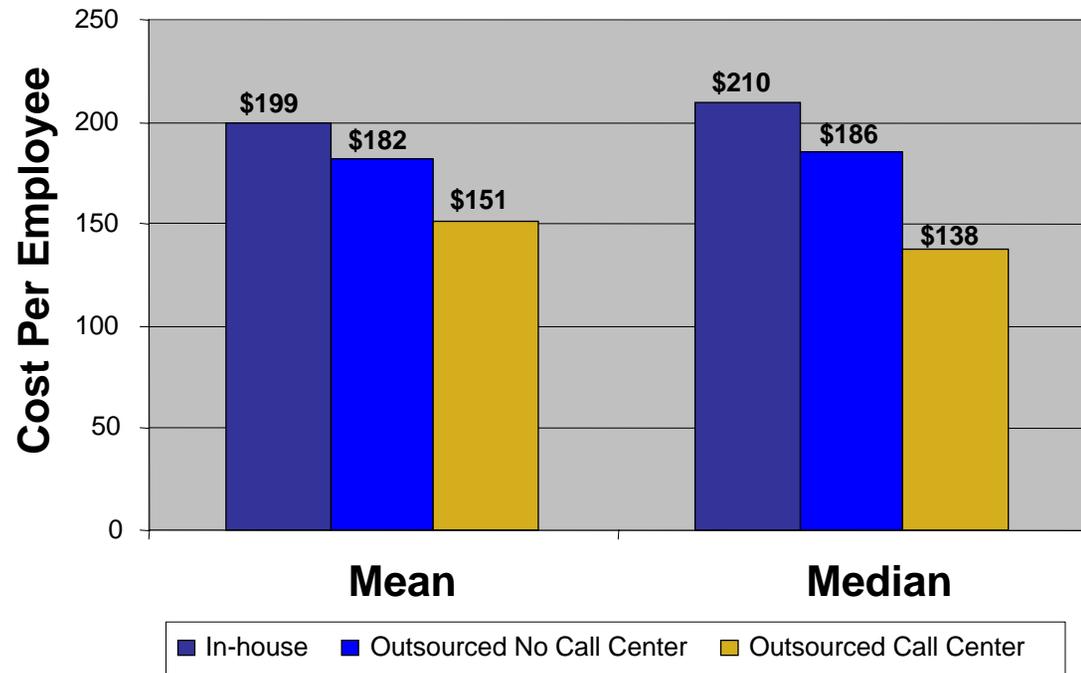
- The average annual TCO for in-house benefits administration is \$199 per employee.
- The average annual TCO for outsourcing to ADP is 17% less at \$165.
- The median TCO is 27% less for companies that outsource to ADP.



The Cost Effect of Call Center Solutions

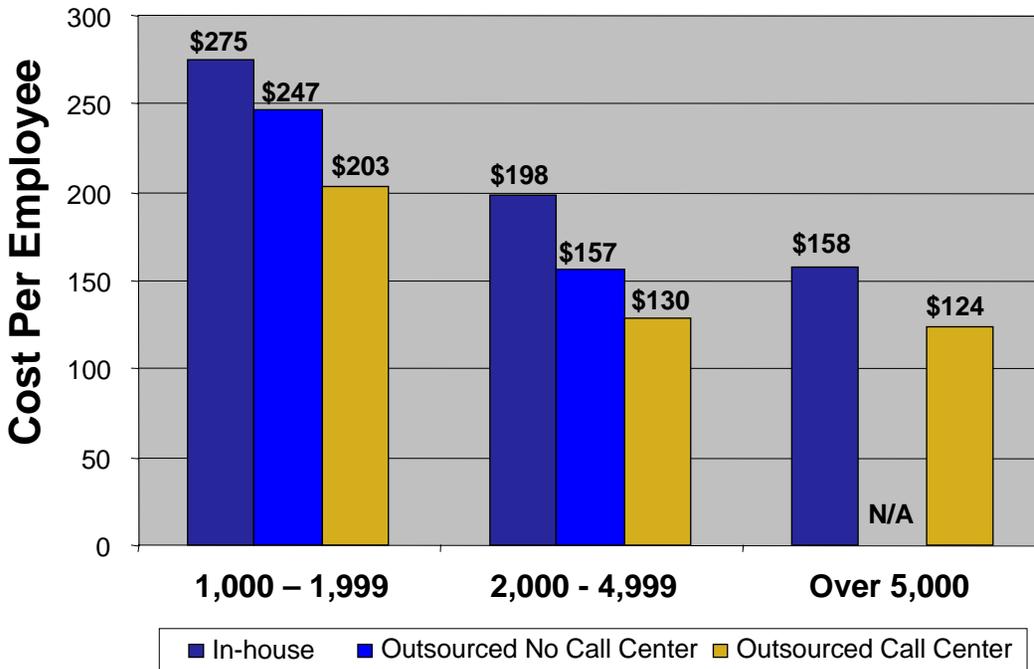
- Companies including employee call center services in the outsourcing arrangement experience lower average TCOs than companies outsourcing without call centers.
- TCOs for outsourcing with call center services is 24% less, on average, than in-house benefits administration TCOs.

Benefits TCO per Employee



The Cost Effect of Company Size

Average TCO by Company Size

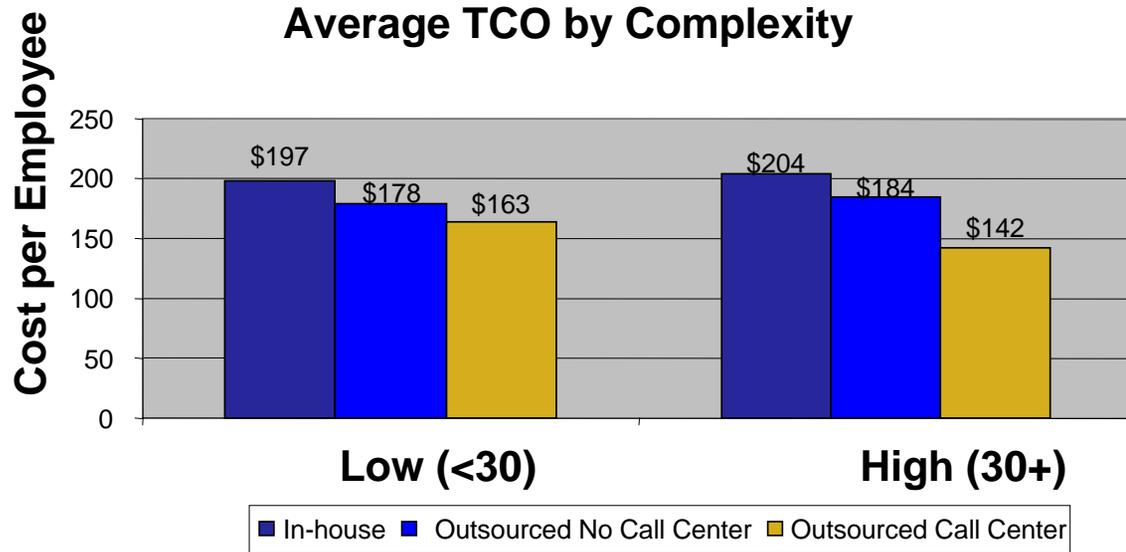


- Outsourcing to ADP is, on average, less costly than in-house administration for all size groups.
- All outsourcing companies with more than 5,000 lives chose to include call center services.
- The study shows that outsourcing with call center services provides significant savings at all company size groupings.



The Cost Effect of Complexity

- Complexity = the number of plans in a benefits program + the number of data exchanges.
- On average, the program administration outsourced to ADP is over 38% more complex than the administration performed in-house.

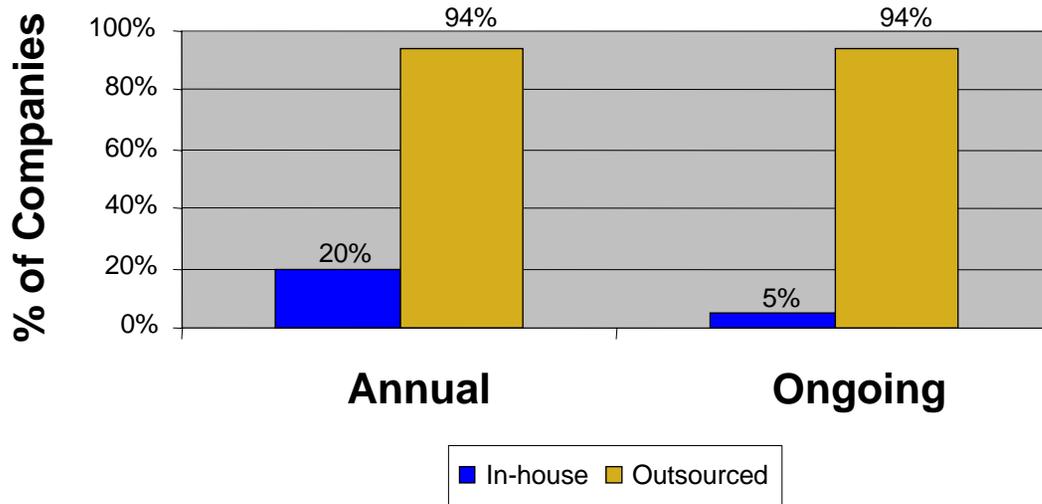


- The average TCO is less for companies that outsource to ADP.
- Higher complexity programs benefit significantly from the outsourcing of call centers.



The Services Factor

% of Companies Offering Web Based Services



- Companies outsourcing to ADP are over 4 times more likely to offer web based annual enrollment.
- Companies outsourcing to ADP are over 18 times more likely to offer web based ongoing enrollment.



Additional Observations

- Sarbanes-Oxley
 - Not included in TCO study results
 - Type II SAS 70 reviews and 404 reviews
- Processing FTEs/1,000 employees
 - In-house environment revealed nearly twice as many employees as the outsourced to ADP environment



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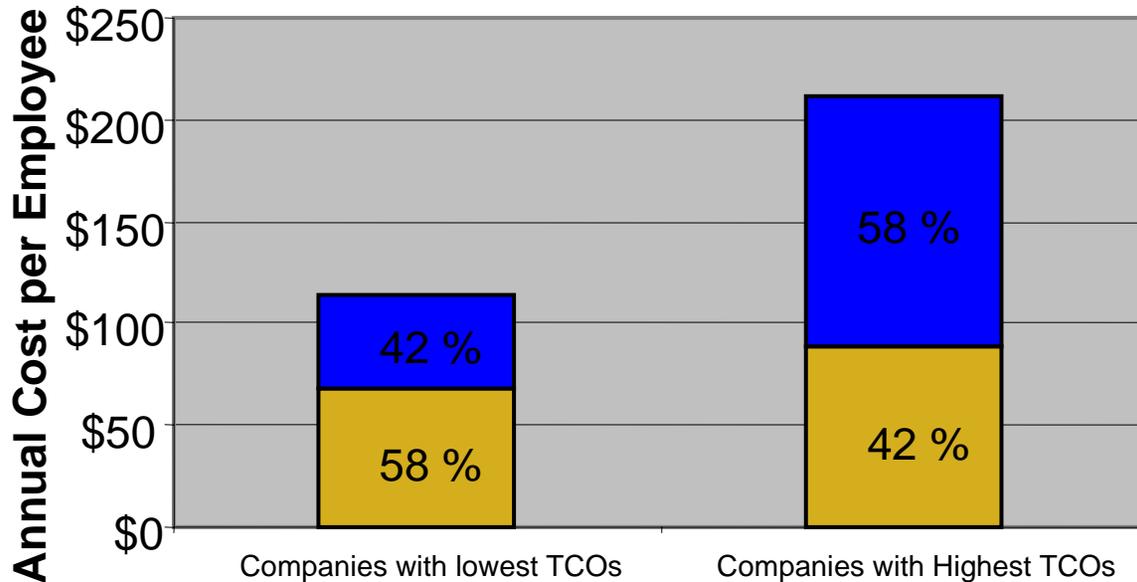
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Additional Observations

Relationship of TCO driven by ADP fees vs. company costs



- Where outsourcing fees represent a larger percentage of TCO, TCO tends to be lower, implying a “right” way and a “wrong” way to outsource

Average TCOs of ADP Clients



Summary

- ADP commissioned this study to objectively determine if its outsourcing service model provided cost savings over an in-house service delivery model for health and welfare.
- The study results provide new benchmarking data for both outsourcing and in-house administration models for health & welfare.
- The results quantified specific findings that consistently showed lowered TCO with outsourcing to ADP.
- The results are independently derived and you can immediately use them in your evaluation processes or business cases as needed.



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Sourcing Analytics is available for detailed cost analysis to determine your own company's TCO and to develop strategies for cost containment in a risk reduced environment.

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