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B E N E F I T S , I N C .

WHITE PAPER

Why Do Companies Outsource?

Why are companies again looking to outsource employee benefit functions? You've got it: "It's the economy!" Well, here we go again. Whenever there is an economic downturn, Chief Financial Officers (CFOs) look at where they can cut costs, especially in areas outside of their company's core competencies. Consider these facts drawn from recent surveys:

- 90% of CFOs agree that outsourcing non-core functions increases shareholder value.
- CFOs who measured the impact of outsourcing found that expenses can be reduced by 17%.
- The most frequently outsourced functions are in the areas of IT, HR and Facilities Management.
- In HR, the most frequently outsourced functions were in the areas of defined benefit and defined contribution plans (64%).
- Eighty-nine percent of closed or frozen defined benefit plans have been outsourced or will consider outsourcing.

"Outsourcing defined benefit plan administration almost always makes sense," says Karen Matingou, President of Atéssa® Benefits, Inc. She points out the following factors that explain why it's just a matter of time before almost all companies will outsource their pension plan administration:

- Increasingly, companies want to focus attention on their core businesses. Therefore, employee benefit administration has been, and will always be, one of the most frequent areas where outsourcing occurs.
- Outsourcing increases during hard economic times. When the economy weakens, companies look for ways to cut their overhead. As a result, employees whose sole job is employee benefit administration are typically among the first to go. Administrators who work on frozen plans, which may not even cover current employees, are especially vulnerable.
- Most HR departments are staffed by generalists. On-staff pension plan experts are a luxury that most companies cannot afford.
- The ever-changing legislative environment makes recruiting, training and retaining in-house administrators a HR headache. Plan documents can be complex and often require knowledge of "grandfathered" provisions that

sometimes stretch back 40 years. The liability from errors in plan administration can be great under ERISA regulations, providing another reason why companies prefer to outsource that function to experts.

- In many cases, companies can pay for outsourced defined benefit plan expenses from their pension funds, resulting in an immediate 100% cost savings. While these expenses will have to be funded into the pension plan in the future, they are amortized and only gradually impact the company's income statement.

In today's world of instant gratification, employees have become accustomed to immediate on-line access to their 401(k) balances (valued daily) and the ability to change investments within 24 hours. How is the emerging baby boom population going to feel about a 30- or 45-day waiting period for a benefit calculation or waiting three months for a retirement application to be processed? Pension administration companies can provide web-based administration with secure portals for clients and participants that meet this need and provide the following advantages:

- Immediate pension calculations at different retirement ages, optional forms of payment and under different assumptions.
- On-line applications for retirement and direct deposit of distributions.
- Pre-retirement modeling to determine when to retire and how much income is needed.
- Online reports for company management.

Your Administration Partner: Today, pension administration companies can provide participants and companies with the service they deserve. However, the "Big Three" firms can be rather expensive. Atessa Benefits, Inc. provides more customized service at a far better value than any of the large actuarial firms. We have been administering employee benefits and communicating to these participant groups for 20 years. Our team of actuaries, consultants and administrators are experts in all aspects of employer and public employee benefits. We specialize in measuring risk, determining the financial consequences of risk, and communicating the results. Our technologically advanced company can provide the right solution for your employee benefit administration needs. Please contact Debbie Mettenleiter, Marketing Manager, at (858) 673-3690 for more information.

- *Published March 2, 2009*