



AMERICAN BENEFITS

COUNCIL

TESTIMONY OF

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ON BEHALF OF THE

AMERICAN BENEFITS COUNCIL

FOR THE

ERISA ADVISORY COUNCIL:

OUTSOURCING EMPLOYEE BENEFIT
PLAN SERVICES

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My name is Allison Klausner and I am the Assistant General Counsel – Benefits for Honeywell International Inc. (“Honeywell”). Thank you for inviting me to engage in a dialogue with you about a topic that is very important to Honeywell, as well as other employers who sponsor employee benefit plans and programs for their employees and retirees.

Today I am here on behalf of the American Benefits Council (the “Council”), a public policy organization with respect to which I am a member and officer of the Executive Board, as well as a member of the Policy Board. The Council represents a significant number of Fortune 500 companies and other organizations, all of which either sponsor directly or provide services to employee benefit plans that provide coverage for more than 100 million Americans. Notwithstanding our United States focus, it is important to acknowledge and recognize that Honeywell, like many American based companies, does business, and has employees working, in numerous countries outside of our U.S. borders. This permits me to bring perspective to our dialogue today, as I have knowledge and insight of the manner in which employee benefits are provided in various countries from around the world and, importantly, to apply my knowledge and insight to our discussion here today.

You have asked that I address issues regarding the outsourcing of the management and administration of employee benefit plans. To do that – I think we need to consider some historical perspective.

ERISA is having a birthday. She will be 40 years old in a few months – September 2014. When ERISA was enacted and became law, all knew that she would change the landscape of providing employees with benefits – with a goal and purpose of bettering the well-being of our American workers.

Those involved in the legislative process, and those that inherited its outcome, were aware that it would be a challenge to support the delivery of these benefits under and in accordance with the new framework provided by ERISA. Notwithstanding, many professionals involved with the launch of ERISA, as well as those who have taken a ride on the ERISA rails during the first 40 years of the journey, have been thankful, indeed grateful, for the ERISA framework, together with ERISA’s preemption of those state laws that relate to employee benefits.

Yet here we are, 40 years later, struggling to continue the delivery of benefits to employees and retirees in an employer-sponsored delivery system. Not only has the law become more complex, but the types of jobs have changed. Workers rapidly change jobs, family structure and home residence or location (both within the United States and globally to destinations around the world) many times during the total span of their working and retired lives. Moreover, technology has evolved and continues to evolve at lightning speed. Indeed, the current generation of young workers and students must laugh and chuckle when they think of a world without iPods, iPads, and more i-things;

Google, Wikipedia and more. And this young population must wonder, as we do, whether the vision portrayed by George Orwell in his late 1940's book "1984" – of a future nation broken by government surveillance and a public forbidden to experience individualism and freedom of individual thought – is a vision that we can counter by ensuring that there is an appropriate balance between the wants and needs of government, employers and employees. Although we are not quite talking about an Orwellian situation here, it is very important that employers are given the flexibility they need to meet the needs of their plans and employees. Indeed, it is that very need for balance that drives the conversation today with regard to what role government might play in the shaping of outsourcing services for the delivery of employee benefits.

As ERISA turns 40, to effectively deliver "benefits" (perhaps best stated as "the delivery of support for the well-being of our workers and retirees") in an employer-sponsored system, plan sponsors find that it cannot be done without outsourcing some (or all) of the administrative and other work associated with and necessary to operate employee benefit plans. The alternative would be that our American society defaults to a social welfare system wholly sponsored by the government, without any balance and shared responsibility with and from the employer and the individual worker.

So: what do employers and plan sponsors outsource to suppliers and vendors, some of whom are consultants? Why do we outsource? How do we engage in the procurement and the contract process? How do we manage the ongoing supplier relationship? How do we partner with the vendors for purpose of satisfying our strategic goals (whether they be building widgets, airplanes or providing different goods or services) while maintaining our allegiance to legal compliance, corporate initiatives, and the ever changing landscape of technology and workers?

The balance of my testimony will provide some answers to these questions and explore these topics from the perspective of an employer and plan sponsor. Although my view is primarily derived from being an employee benefits professional at Honeywell, a large U.S. employer, Honeywell (and many of the American Benefits Council member companies of like size) actively engages in mergers and acquisitions in and outside of the United States. It is from these corporate activities that I have had, and continue to have, the privilege and opportunity to view employee benefit issues from a multinational perspective, and as a large, medium and even small business or enterprise.

As noted in the ERISA Advisory Council's scope document, the management and administration of employee benefit plans is increasingly complex. Through outsourcing, plan sponsors can gain access to expertise and technology, achieve economies of scale and reduce costs. Importantly, outsourcing permits plan sponsors to focus on their core business rather than the business of managing its employee benefit plans.

Notably, there are innumerable factors considered by a plan sponsor in the offering of a benefit to employees and retirees of a company. As such – on behalf of all of the American Benefits Council’s company members, as well as companies who do not have a large or diverse employee population or who do not operate in many states or countries – I encourage the ERISA Advisory Council, and indeed the Department of Labor and other regulatory bodies who have oversight of employer sponsored employee benefits, to recognize that outsourcing will mean different things to different people and companies and in the context of different benefit plans. For this reason, in particular, flexibility must be a key component of any government or company initiative to shape the selection and monitoring of a supplier to whom a portion of the plan function has been outsourced.

Walking through the life cycle of the Honeywell procurement process can illustrate that both adherence to a well-developed governance process, with room for flexibility and adaptability, is key to the success of delivering employee benefits plans, programs, coverage and benefits to our American workforce.

Honeywell incorporates and builds on the principles of Six Sigma into all stages of the life cycle relating to the procurement and monitoring of services from an outside supplier, including those supporting the delivery of employee benefits. For those who may not be familiar with Six Sigma, it is strategy, with a great toolbox, designed to accelerate improvements in processes, products, and services, and to radically reduce manufacturing and/or administrative costs and to improve quality through laser focus on eliminating waste and reducing defects and variation. This sure does sound like a good idea when procuring services from a supplier or vendor for the delivery of employee benefits by a plan sponsor and employer!

Honeywell applies Six Sigma to its procurement function, regardless of whether we are procuring goods in the supply chain or services in the context of an administrative function. The application of the Six Sigma principles may seem fairly straightforward to the purchase of goods such as pencils, paper or iPads. But indeed it is not. If certain goods are the same (including quality) from different suppliers, then one may not need to evaluate the quality of the goods (once it has been established that the goods are the ones wanted/needed for whatever purpose, objective or strategy is intended to be satisfied by the purchase of such goods). But, in deciding from whom to purchase the goods, perhaps factors to be considered would include the supplier’s ability to (i) deliver on time, (ii) integrate tracking of the delivery with the company’s existing delivery system, (iii) innovate, (iv) reduce cycle time, (v) eliminate leakage or breakage, (vi) react quickly to changes in the supply chain, and (vii) be pro-active, not simply reactive, to support the client (or prospective client). No doubt there are significantly more high valued factors to be considered – far too many to list and consider here and now.

At Honeywell, the Six Sigma process is applied to all stages of the life cycle relating to employee benefit services: consideration of new plan designs, integration of technology changes, satisfying government-mandated reporting and disclosure obligations, compliance with nondiscrimination and other testing requirements, fulfillment of fiduciary duties relating to the management of plan assets and discretionary decision making, education of employees, managers and suppliers, compliance with applicable law, harmonization of benefits and providers upon and in the context of corporate transactions, and integration of strategies aligned with the attraction and retention of talent.

With all these different needs and wants for outsourcing benefits to suppliers and vendors (including consultants), most certainly there cannot be – and, frankly, should not be – one set of standards or one roadmap by which a company as a plan sponsor should be mandated to adhere to when engaging and monitoring, and, indeed, terminating a relationship, with a supplier of employee benefits services.

Since the Honeywell Six Sigma model works for Honeywell and its employee benefit plans – and, by extension, the employees and retirees – we would be very reluctant to endorse a set of rules from the Department of Labor unless those rules are flexible enough to respect our corporate choice of applying Six Sigma to our procurement of suppliers in the employee benefits space. Indeed, the American Benefits Council, on behalf of its member companies, would support DOL initiatives with regard to outsourcing work relating to the delivery of employee benefits, but only so long as it is not one that limits the freedoms of the plan sponsor to make corporate decisions that fit its corporate culture and the personality and needs of its workforce. As we know, employers are already required to comply with scores of rules – statutory and regulatory – while providing employee benefits to our US workforce, and as such, we respectfully request that the DOL take caution to not add another layer of complexity related to plan sponsors’ decision making as it pertains to the procurement of plan related services from suppliers and vendors who reside outside of the company.

Before I close, I would like to take a few minutes to provide some details as to how Honeywell has engaged in the procurement process relating to defined contribution plan recordkeeping services and trustee/custodian services, third-party administrators for our self insured group health plans, consulting services relating to our wellness initiatives, and satisfaction of government mandated or company initiated reporting, disclosure, financial, audit, testing and other like services.

Depending on the scope and size of the “project,” which could include factors such as the number of affected employees or retirees, potential liability for failure to manage correctly, or the type of benefit or service, Honeywell will develop a Request for Proposals (RFP) or Request for Information (RFI) and release the same to a handful of providers who are expected to be able to successfully provide the service at a reasonable cost, in a timely fashion, with the necessary integration with other ongoing

functions, technology, initiatives, etc. The RFP includes terms and conditions that Honeywell mandates be agreed to by the suppliers, which in the case of an employer sponsored ERISA governed plan, would include terms and conditions relating to adherence to legal requirements, satisfaction of high standards, including, as may be appropriate, fiduciary standards, acceptance of legal risk, without inappropriate limitations of liability, indemnifications, insurance coverage, etc. The RFP also would include a section which requires the bidder to provide examples relating to innovation in the marketplace and ability to effectively, efficiently and timely respond to the ever-changing landscape of ERISA-governed employee benefits.

The procurement process includes what is likely the standard vetting of bidders, to ensure that the bidder is a stable company able to provide the services for which a request has been made, as well as reference checks and a review of the proposed fees and a lively discussion regarding service level agreements (SLAs), key performance indicators (KPIs) and agreement as to the scope of fees at risk for failure of the bidder (to be supplier) to satisfy those SLAs and KPIs. Furthermore, for Honeywell, the process includes a reverse e-auction to drive fees down further than may otherwise have been the best and final offer from a bidder. Bottom line, the process of choosing a supplier is well developed and quite thorough and we would be loathe to support a DOL initiative that mandates a certain process in a “one-size-fits-all” model.

In fact, most (if not all) the American Benefits Council’s company members recognize that there are different models for procuring and monitoring vendors and suppliers relating to the delivery of employee benefits by employers as plan sponsors. And, to the extent those models support the delivery of employee benefits in compliance with the scores of laws and regulations applicable to the different plans, programs and policies, then once again, on behalf of Honeywell and the American Benefits Council, we respectfully submit that any government initiative in this domain be one that permits the continued flexibility currently enjoyed by the American companies as they provide benefits to their workers and retirees in an effort to further their collective financial well-being and good health status.

Thank you for taking the time to hold this hearing and to explore the topic of outsourcing functions relating to the delivery of employee benefits. I would be delighted to continue this dialogue and entertain questions.