The acquisition of benefits administration software for Taft-Hartley funds can appear far more intimidating, expensive and risk filled than it needs to be. With a little planning and a focus on developing a detailed design for the new system prior to implementation, funds can identify solutions that are often more efficient, more cost-effective and much less painful.

Selective Search:

Acquiring Technology for Benefits Administration

by John Phelan

©2007 International Foundation of Employee Benefit Plans

For many Taft-Hartley funds, the process of acquiring new information systems, and especially benefits administration systems, can become frustrating, inefficient and often expensive. With a little planning and a small investment in designing the system details before implementation, the likelihood of a successful, well-executed acquisition of the right system with a smooth implementation process is much improved.

The major steps in a systematic approach to system acquisition include:

- Early identification and understanding of the true drivers for a decision to acquire a new system
- Thoughtful and structured due diligence of top vendor candidates
- A detailed system design phase involving the likely vendor before the final purchase.

These simple tasks can lead to selection of the most appropriate system vendor and result in a long-term relationship that benefits both the fund and the vendor. Alternatively, these activities may also lead the fund to the conclusion that other options, rather than total system replacement, are a better fit.

Selective Search: Acquiring Technology for Be

The following discussion describes a recommended approach to system selection, provides insight into tactics for managing the vendor sales process, emphasizes the importance of due diligence and highlights potential pitfalls. A free tool with survey results to assist funds in vendor selection is available at www.milliman.com/tafthartleysurvey. Specific to benefit systems designed for Taft-Hartley plans, the survey provides details on potential vendors, such as geographic areas served, numbers of clients, available applications, technology platforms, costs and implementation times.

Step 1: Drivers of System Replacement

For any system selection project, it is essential to understand the issues or problems that are driving the decision to pursue system replacement. Often, fund personnel and management perceive that the most effective solution to administrative challenges is replacement of the core system. In many cases, however, the root cause of problems may be found in processes, staffing or other infrastructure deficiencies. Before heading down the path of total system replacement, it is wise to conduct a root cause analysis focused on identifying the real causes of inefficiency and to consider other options that might more easily resolve current issues.

This thorough analysis of a fund's existing processes and true requirements, along with consideration for today's technology environment, opens up the door to other creative possibilities. Even if the current system lacks needed capabilities, a small investment in system modifications may be more expedient than total system replacement. An investment in supporting information technology infrastructure may also enhance fund operations at significantly lower cost.

For example, a fund's administrative offices may appear to be drowning in paper, with staff sorting through bankers boxes in search of specific information. In such instances, managers may assume the problem is the system, which may lead managers to purchase an expensive, full-featured system replacement—while leaving all those boxes of paper, the filing staff and the associated expense in place. Ultimately, it may be that the old system was fine, but the processes and infrastructure supporting that system needed improvement.

An alternative solution for this particular fund might be to examine its business processes and to explore workflow management and document-imaging solutions. Workflow and automation systems can often result in significant cost savings and efficiency improvements with minimal disruption and a much faster financial payback than total system replacement.

In another example, the root cause of perceived system inefficiency may be retention of outdated business processes that may have worked in the past but are counterproductive in today's environment. For example, the organizational structure that supported processing of paper-based pharmacy claims ten years ago may not be best suited to handling an outsourced pharmacy benefit program today.

In short, prior to system acquisition, it is essential that funds examine the true issues that are driving the decision and their causes. More often than not, there are solutions that are good alternatives to total system replacement and that at least warrant exploration.

Given the cost of a new benefits administration system, funds should avoid being penny wise but pound foolish. It is often in the fund's interest to invest in the opinions of an independent third-party expert who can more objectively analyze the fund's situation without a vested interest in the selected solution.

When persistent administrative problems cannot be fixed with operational changes, however, it may be time to consider investment in new technology and, perhaps, acquisition of a new system. Growing operational challenges that may point to the need for total system replacement can include:

- Delays in issuing member benefits
- Extensive use of time-consuming or error-prone overrides and process workarounds
- Excessive staff time and resources spent on problem resolution
- Obsolete programming languages that are difficult or costly to support
- Difficulties in making system modifications to support business requirements

Continued on next page

A Simple RFP Scoring Tool

Requiring benefits administration system vendors to respond to an RFP is a good way to identify candidates who are truly interested in providing the fund with a new system—including some vendors who might have been overlooked—and to determine initial fit. It also helps the fund managers, staff and advisors come to terms with the critical issues and needs involved in selecting a system.

It is important to make sure that preparing the RFP and then responding to it are not too onerous for either party. The more detailed work can come after the fund has narrowed down the list to viable candidates.

Following is a simple evaluation grid that funds can use to narrow the field if they receive many RFP responses:

Attribute	Potential Points	Vendor Finalists A	Vendor Finalists B	Vendor Finalists C
Vendor profile	10	10	7	5
Applications	—	—	—	—
Pension	20	15	13	12
Claims	20	16	15	10
Contribution	15	5	10	8
Reporting	10	7	4	8
Technical	10	5	5	7
Compliance	5	2	2	3
Implementation	10	8	5	7
TOTAL	**100**	**68**	**61**	**60**

In this table, attributes represent sections of the RFP to which the fund would like the vendor to respond. The fund system selection team must assign points that indicate the relative importance of each area. Keeping the maximum total points at 100 helps keep things simple. The team assigns points up to the maximum for the attribute based on the RFP responses and then totals those points for each vendor to identify preferred candidates. Although the assignment of points is often subjective in nature, strengths and weaknesses among vendors tend to emerge, justifying differences in scoring.

The attribute weights and the vendor ratings do not need to be perfect. This is simply a method to help sort through a number of responses and also to get those participating in the selection process to be more specific about their own preferences. It is perfectly reasonable to add or delete a candidate after the scoring is complete, based on overall impressions of the fund administrator or information technology (IT) professionals or the recommendations of a trusted advisor.

Finally, note that the scoring chart does not consider price! That part of the evaluation should come after the fund has identified its preferred system or systems. There is no good price for a system that does not adequately meet the fund's needs.

- An inability to respond to external auditor or regulator requests for information
- A lack of current system capacity to support membership growth or a fund merger.

It is important to keep in mind that the drivers of a decision to acquire a new system must be significant and compelling. Seldom do minor administrative challenges meet the threshold to justify the organizational disruption that almost always accompanies a major system conversion.

Step 2: Due Diligence

Once the fund has made a decision to acquire a new benefits system, it is important to conduct an appropriate level of due diligence for both the needs of the organization and vendor qualifications.

Often, funds rely on vendors to assist with the technology acquisition process simply because they provide low-cost or free access to informed advice. Although vendors can be helpful in this regard, keep in mind that their advice is not independent but rather is usually focused on completing a sale or positioning their products to be more competitive. When a vendor is involved in the requirements-gathering phase of system selection, only after the contract is signed may true incompatibilities emerge. For example, the fund may discover that the new software may not support some critical but atypical aspect of its claim-processing requirements, or that the system requires expensive customization to meet security policies or that there are other heretofore hidden and costly needed modifications.

These risks necessitate that funds conduct their own thoughtful requirements gathering and develop consistent evaluation criteria for use in a formal vendor proposal process. Again, an independent third party can help improve this process if the fund's management or personnel lack adequate knowledge or experience to ensure a thorough analysis.

Doing the Homework

A fund can use a formal request for proposal (RFP) process to quickly narrow down choices to a short list of two or three vendors prior to making a final selection (see the sidebar for a simple RFP scoring tool). Requiring vendors to respond to an RFP, as compared with an informal inquiry among likely vendors, can be advantageous because it provides documentation of vendor capabilities and commitments that can more easily be included in a contract after a final vendor is selected.

An RFP should fully explain both the fund's current situation and its priorities for a new system. The RFP need not be the size of a telephone book, with every detail on the fund's operations, but it should provide adequate information such that vendors can submit a complete proposal.

An RFP of around 20 pages with some attached specifications often can be sufficient, and there are many good boilerplate RFPs available. Keep in mind that most vendor candidates are likely to have significant experience adapting their technology to fund databases and operations. The important issues for initial evaluation of vendor proposals are the general fit, how the vendor's solution meets the fund's administrative requirements, and the fund's comfort level with the technology and the support the vendor proposes to provide.

From the responses to the RFP, make a short list of the top two to four vendors that appear best suited to provide the system. Within this narrower field of candidates, funds should follow a fairly scripted due diligence review to make an apples-to-apples comparison. A few recommendations to make the most of the due diligence include the following:

- **Ask for demonstrations with your data.** See the steps involved in actually processing your fund's data.[1] Keep the demo scripted as tightly as possible to match your operations. Don't fall for ad hoc demonstrations of the vendor's own making (or, worse yet, a canned electronic presentation or video).
- **Visit the vendor's head office.** Kick the tires, talk to the managers. By seeing the offices, the company's strength and staying power can be validated.
- **Check out references thoroughly.** Reference checks should follow an outline that produces comparable results across all references and vendors. Have a script of questions to ask all references and take notes. Also, ask references what they'd do differently, having gone through a similar selection process.

Based on the results of the due diligence, the fund can then select the vendor that appears to be the best fit. The selection team should include management, information technology personnel and end users to ensure diverse opinions. Funds should also make sure that the selection process relies on credible objective criteria rather than subjective decision-making processes.

Don't Go Here!

The mistakes that many Taft-Hartley funds make in selecting IT systems are surprisingly similar. Here's a quick look at common pitfalls:

- **Metaphorically falling in love either with a technology or a supplier company or that company's sales representatives.** Perhaps because it's a small niche industry with a chummy atmosphere, funds may rely on friendships rather than an objective analysis of the best system. When it comes to selecting technology solutions, careful study, fact finding and detailed due diligence are needed.
- **Getting swept away by looks.** It's easy to be awed by some nifty graphical user interface or other system functionality (especially when it is compared with one's present gray or green screen). Looks can be especially deceiving if funds settle for only an ad hoc demonstration or presentation of the system, where the vendors control the conversation. It is wiser to have the supplier duplicate the fund's actual needs, using the fund's data.
- **Overlooking total cost of ownership.** Sometimes funds ignore (or don't realize) other costs—beyond the hardware and software—such as maintenance, training or customization that may crop up as the system is being implemented. These costs can be significant and must be thoroughly understood before entering into a contract.
- **Lacking clear objectives.** A lack of precise objectives and hard requirements for the new system can result in overbuying or underbuying—in other words, buying the red convertible instead of the hybrid sedan. Funds must clearly define their objectives at the beginning of the process and ensure that the evaluation of vendors takes into consideration how well a vendor's solution meets those objectives.
- **Lacking organizational buy-in.** A failure to get management, trustees and staff to acknowledge the need for a new system and to accept the implementation process and cost can result in many years of second-guessing and a loss of credibility for those involved with the acquisition decision. The selection team should include or at least consult with representatives of all these constituencies to ensure that their opinions are considered before making a final decision.
- **Confusing business problems with system issues.** Some funds are drowning in paper and need to rethink and reengineer business processes—not install a new computer system. Funds should think carefully before forgoing $30,000 for a workflow management redesign analysis and instead spending $700,000 for information technology.
- **Failing to exercise due diligence.** A failure to thoroughly evaluate a vendor can result in selection of a fly-by-night vendor, who disappears after installing the system, or selection of an established vendor who relies on dated technology. The solution is to carefully structure the reference checking and demonstration process and to require a detailed design phase before agreeing to a final purchase.
- **Not appointing an experienced project manager.** Every major initiative needs a good leader, and a system selection and implementation process is no exception. The best manager is likely to be someone free of day-to-day responsibilities for the fund operations and not aligned too closely with the vendor.

Step 3: Detailed Design

The detailed design phase begins after the fund has identified a single preferred vendor. Going through the detailed design process presents an opportunity to get to know the vendors and their personnel, not unlike an engagement period before a marriage. After, say, three to six months of working together, the fund will experience

Continued on next page

how well the marriage is likely to work out—how bureaucratic or efficient the provider truly is and how the two parties get along. Only after the detailed design specifications are developed and all the required work is spelled out can the two sides agree on a final contract price and terms—terms that should not be renegotiated because of unforeseen exceptions.

Requiring a vendor to provide a detailed implementation design before making a final purchase is an excellent way to get the best system at the best price, and perhaps take advantage of newer cost-effective technologies that would otherwise appear too risky. Other benefits include:

- **Reduced risk.** Breaking out the detailed design work can uncover key issues and eliminate unwanted surprises and cost overruns. It may also permit the fund to get better acquainted with a smaller vendor that has a better technological product but lacks an established track record or name recognition.
- **Better pricing options.** By having a separate design phase as part of the acquisition process, the fund and the vendor have a more realistic assessment of the system needs and costs. Funds also may have more flexibility in considering vendor options, such as a smaller or regional vendor offering a more affordable system.

The fund—especially a smaller fund—may need to pay the vendor for the detailed design phase. This does not necessarily mean that detailed design drives up the total cost of system ownership. Generally, a fund would have paid for this phase anyway as part of the system implementation. The difference here is that the detailed design phase is broken out and separately priced prior to the full acceptance of the vendor's proposal. A detailed design phase also allows the fund to walk away from the vendor, after getting to know it in-depth, with only a relatively small investment.

The detailed design phase is perhaps more important than the actual implementation. During this period, virtually all major decisions are made that will determine whether the fund has a successful long-term relationship with the selected vendor. In this phase, the vendor has the following responsibilities:

- Assessing the true current state of the fund's operations beyond the description that the fund provided in the RFP
- Determining the reengineered state of the system based on the true requirements
- Performing a detailed gap analysis of operations. This includes gaining a clear understanding of the fund's operational processing needs and matching those in detail to the vendor's solution. As part of this analysis, the vendor should be able to pinpoint any needed modifications to the system's existing functionality. Such modifications can allow the vendor to satisfy the fund's processing requirements or make recommendations for changes in the fund's business processes if this choice appears reasonable and more efficient.

Only after the detailed design specifications are developed and all the required work is spelled out can the two sides agree on a final contract price and terms—terms that should not be renegotiated because of unforeseen exceptions.

- Developing an implementation plan that identifies both the vendor and fund responsibilities and sets target dates for meeting various milestones
- Preparing a final vendor pricing proposal. The license fee should be the same as that initially proposed, but the vendor may request that the fund pay for unanticipated system changes and be able to explain why the vendor was unable to anticipate these changes in developing the original RFP response.

For the fund, this stage will help inform final vendor negotiations and provide an opportunity to determine whether it really wants to partner with this vendor and perhaps begin a courtship with another runner-up vendor. Because the fund is likely paying for the initial vendor's due diligence effort, it should seek to retain ownership of the findings. The fund can then provide a runner-up vendor with the information if it chooses to go down this path.

The Contract

Typically, the detailed design phase leads to further negotiations with the vendor on the provisions in a long-term agreement. This agreement should cover functionalities and constraints that may not have been foreseen before the detailed design work, such as maintenance, training and cancellation terms. The fund should consider:

- **Product or software license pricing.** Negotiation issues can include future site needs; system documentation; the duration of the license; other pricing considerations, such as annual price increases; and third-party access rights. (These are handy if the fund has resources that can increase the system's functionality by, for example, the addition of built-in documentation imaging—at costs significantly lower than those that the vendor may propose.)
- **Product maintenance and support.** This may run from 12% to more than 20% of the license fee. Be sure that the final fee includes all routine upgrades and patches for bugs.
- **Professional services.** Be clear about what additional services the vendor provides and the fees for those services. In particular, determine if there is a way to cap or otherwise control the vendor's travel expenses. It is also reasonable to ask for approval of staff assigned to the fund and to reimburse the vendor based on the completion of specified milestones, rather than simply hours of work performed.

Conclusion

Implementing a new benefits administration system is a major investment. It can result in hefty costs for the purchase of the new system, and it can disrupt routine processes and demand significant time of the fund's staff and administrator. Any changes to routines may also prompt complaints from members who may not appreciate temporary delays and mistakes that occur as part of the conversion.

Given the significance of the decision, fund management would be wise to proceed with vendor selection carefully and methodically and not to allow external pressures or the vendor sales process to drive decision making. A fund can gain control of the selection process by requiring the vendor to complete a detailed design phase before agreeing to the final system purchase. Once the design phase is complete, however, the fund and the vendor should come to final contract terms that minimize any possibility of exceptions due to unforeseen circumstances or unique requirements of the fund's operations. It may also be necessary for a fund to walk away from a first choice and find a vendor that is more compatible with its needs and culture.

Remember: The fund and its staff will likely have a long-term relationship with this vendor. It is especially important that both the vendor and the fund invest the time up front to assure that this relationship will work for both parties. B&C

Endnote

1. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) requires that health plans, which would include the fund if it is self-insured, avoid revealing health care data in which a member could be identified by an outside party, such as a vendor. The easiest way to accomplish this is to substitute made-up information in any database field that can be linked to the member's identity. This includes names, addresses, dates of birth, Social Security numbers and other similar information. The substituted information does not need to make sense as long as the vendor can demonstrate the capacity to process the type of claim and produce the type of report that the fund requires.

For information on ordering reprints of this article, call (888) 334-3327, option 4.

John Phelan is a management and technology consultant in the Los Angeles office of Milliman. He works with Taft-Hartley funds on technology acquisition, data security and compliance, and other management issues. Phelan has a doctorate from the University of Chicago and bachelor's and master's degrees from the University of California–Berkeley.

Reproduced with permission from the *Benefits & Compensation Digest,* Volume 44, Number 12, December 2007, pages 38-43, published by the International Foundation of Employee Benefit Plans (www.ifebp.org), Brookfield, Wisconsin. All rights reserved. Statements or opinions expressed in this article are those of the author and do not necessarily represent the views or positions of the International Foundation, its officers, directors or staff. No further transmission or electronic distribution of this material is permitted.