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The Easy Way “Out”: Midsourcing Your Pension Fund Management

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Pension fund outsourcing is easy. That, when it comes down to it, is why so many companies go the outsourcing route. They want to focus on their core business, eliminate distractions, and give their human resources professionals and other executives the freedom to turn their attention to more germane, more pressing, and more profitable concerns than their fiduciary responsibilities to retired employees.

They are called “pension fund *obligations*”—not “pension fund *opportunities*,” or “pension fund *profit centers*”—for a reason: they *are* obligations. And like many such obligations, they can at times seem more trouble than they are worth, particularly in the case of frozen plans. In contrast, incremental expenditures on a pension fund outsourcing firm may seem well worth the cost. That is why, according to the information technology services and business process outsourcing consulting firm NelsonHall, the worldwide defined benefits pension administration market is forecast to grow from a little more than \$4.5 billion in 2005 to \$6.5 billion in 2010.

EASY IS NOT FREE

The cost of outsourcing should not be measured merely in payments to outsourcing firms. There is also the time involved in ensuring efficient data migration, and in managing yet another third-party vendor relationship. There are the public relations problems that can occur when employee or retiree queries are mishandled, ignored, or answered incorrectly, and the loss of control over administration means having to deal second-hand with a sometimes recalcitrant or unresponsive outsourcing firm, rather than directly with the employee or retiree, in addressing these problems. And, above all, there are the literally incalculable

losses that occur when data migrations propagate systemic errors, which in turn result in missed payments, duplicate payments, overpayments, and missing checks.

Again, however, these glitches can seem relatively easy to deal with, at least at first. There are plenty of competing outsourcing firms out there, so businesses that run into trouble with one vendor can assign blame to external, rather than systemic, factors, fire the firm they deem responsible, and simply hire another one.

The problem, of course, is that regardless of the outsourcing firm, the systemic problems will persist because, by definition, they are distributed throughout the system and impossible to eradicate unless *attacked* systemically. And that means that, over time, the cumulative result of years of “easy” decisions can be one very difficult and expensive mess. Expensive not only because of the cost of the outsourcing itself, but because those overpayments, missed payments, and data errors have lodged themselves into the system in a way that neither the outsourcing firm nor the in-house executive responsible for administering the outsourcing relationship are in any position to identify, much less eradicate.

ARE YOU IN OR ARE YOU OUT?

Since the multiple justifications the business had for outsourcing in the first place still exist, it would not, in many cases, make much sense to bring pension fund management back in house. But it makes just as little sense to continue down a path that is fraught with fiscal peril, firings, and frustration.

For a lot of companies, these equally unsatisfactory alternatives lead to a lot of “frying pan into the fire” activity, jumping back and forth between different outsourcing firms

and, sometimes, between outsourcing and insourcing.

Indeed, in an article titled “Is Insourcing the New Outsourcing?”, an analyst from the international management consulting firm Compass noted that, according to a recent poll of executives from 70 outsourced companies in North America conducted by his firm, “only 4 percent of organizations would *not* consider taking all or some services back in house when their contract term expired...the key factor driving the consideration of insourcing has been the failure of outsourcing to achieve the consistent, long-term, and significant cost savings clients anticipated...organizations that expected the best of both worlds from outsourcing—low cost and ‘value added’ responsiveness and commitment—have inevitably been disappointed, and are now revisiting their decision to outsource.”

It is difficult to find any hard statistics on how many previously outsourced firms eventually decide to insource their pension management once again, probably because it is not in the interests of any pension administration outsourcing firm to trumpet such a number, nor is there much for the companies themselves to gain from acknowledging that their outsourcing initiative was unsuccessful. All that can be stated with certainty is that the movement from in-house management to outsourcing, from one pension plan administrator to another, and, in some cases, from outsourcing back again to insourcing, takes a tremendous toll on an organization and its benefits program, and in particular on the quality of the data that is being shuttled back and forth among information technology systems.

However, there is a middle way between “in” and “out” that more and more companies are considering: The use of what I would like to call a “midsourcing” firm to serve as an intermediary between your company and its pension fund outsourcing vendor.

How would adding another layer of management make things more efficient? That is a good question, especially in light of all of the consultancies and vendors that businesses already rely upon, not always to good effect. But the key is to find a firm that actually complements your existing vendor relationship, makes it more efficient, supplies a missing piece that your outsourcing firm is not in a position to supply, and, in the long run, saves you far more than it costs.

Such a midsourcing firm would play a very specific role: As a broker between the client and the outsourcer, it would perform data quality assessments where necessary, ensure that the data the outsourcer receives is clean, and manage the data stream to identify and eliminate systemic problems that will inevitably cause future errors to propagate.

TECHNICAL AND TOUCHY-FEELY

In performing this role, the midsourcer would function in a manner that is, at once, more objective and more subjective than the outsourcing firm. Objective because the midsourcer can play the role of fair broker, identifying in a non-judgmental way the source of technology problems and the most effective fixes without indulging in the “blame game.” And subjective in the sense that, as it brokers these problems, it also can help manage the

relationship between company and outsourcer, helping them understand each other’s frustrations and, when those frustrations become too great, serving as the one party that both sides can talk to even when they are not talking to each other. All of this is a lot less expensive and time-consuming than firing an outsourcer and searching for another one, or rebuilding an in-house capability from scratch.

An effective midsourcing firm would need to be well versed in the art and science of information integration, and have the ability to plug in, at one end, to any existing data source and, at the other, to any existing outsourcer’s system. It would need to have substantial experience in the process of finding and repairing specific data errors and the underlying systemic problems that cause these errors. And, finally, it would need to be an objective, third-party resource that is not in the business of competing with outsourcing firms and can talk, both in technical terms and touchy-feely ones, with every outsourcing firm out there.

That is a lengthy list of specifications. Finding a midsourcing firm that fits the bill will not be easy. But when the right midsourcing firm is in place, making the outsourcing of pension plan management run seamlessly *will* be every bit as easy as it always was intended to be. ☺

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