

WHITE PAPER



Payroll and 401(k) Integration Study

A study conducted in September 2004 by:



Spring Consulting Group, LLC



Mathew Greenwald & Associates, Inc.



Retirement Services

Executive Overview

In 2004, ADP commissioned Spring Consulting Group and Mathew Greenwald and Associates to conduct a study to determine the impact of implementing ADP's integrated 401(k) administrative services on time savings of retirement services administration for companies that outsource payroll processing to ADP. This study focused on companies with 10 or more employees using ADP's payroll and/or 401(k) administrative services.

Key findings of the study show that ADP clients that use ADP for both their payroll and 401(k) administrative services experience significant time savings when compared to work required when they used a previous 401(k) administrative vendor or ADP payroll "only" clients that currently use another vendor for retirement plan administrative services:

- Total hours spent on 401(k) administration decrease by more than half when customers switch to ADP for 401(k) administrative services in addition to payroll
- This time savings from integration, coupled with reasonable assumptions for personnel costs, may translate into average cost savings of several thousand dollars per year for a given client who utilizes ADP for both their payroll and 401(k) administrative services
- 76% of integrated customers cite ease of administration and better customer service as major advantages of payroll integration
- Three quarters of newly integrated customers believe that there has been a positive effect on productivity, the administrator's stress-level and job satisfaction
- Two-thirds of newly integrated customers cite a major improvement in accuracy of processing and the avoidance of mistakes

These findings help illustrate the significant savings a company can realize by using ADP's 401(k) administrative services in conjunction with ADP's payroll system. It also points to the fact that the benefits go beyond the saving of time. ADP's integrated 401(k) and payroll services help employers minimize mistakes, improve job performance and reduce stress.

Background

The Objectives

ADP commissioned Spring Consulting Group and Mathew Greenwald & Associates to survey an extensive cross section of ADP 401(k) administrative services and/or Payroll “only” clients with 10 or more employees to:

- Identify the benefits of utilizing BOTH ADP’s payroll and 401(k) plan administrative services for customers
- Determine the difference in time savings before and after integration of ADP payroll and 401(k) services
- Document the value of switching to ADP 401(k) administrative services by ADP payroll clients that previously used another vendor for this service

The Methodology

Spring Consulting Group and Mathew Greenwald & Associates developed a telephone-based survey that was conducted in August and September 2004. Three hundred companies are represented in the study results. The breakdown for these interviews is as follows:

- 100 companies who have used ADP for their payroll and 401(k) plan administrative services for one year or less
- 100 companies who have used ADP for payroll only, and
- 100 companies who have used ADP for their payroll and 401(k) plan administrative services for more than one year

The interviews within each group were divided evenly among companies with <50 active 401(k) participants, those who have 50-99 active 401(k) participants and those with 100+ active 401(k) participants. All data were weighted to represent the population of ADP’s 401(k) administrative services customers.

Key Findings and Analysis

Total hours spent on 401(k) administration decreased by more than half when customers switched to ADP for 401(k) administrative services in addition to payroll

Time savings was a large factor in switching from their previous provider among the newly integrated group. Reasons for switching include less paperwork, fewer manual processes and the ability to have information in both their payroll and 401(k) plan updated simultaneously because of the consolidation.

What survey respondents had to say:

"[The old provider was] bulky, unpleasant to work with and too time consuming. I virtually spend no time on it now other than when I do quarterly reports ... We saved 100% of the time we were spending."

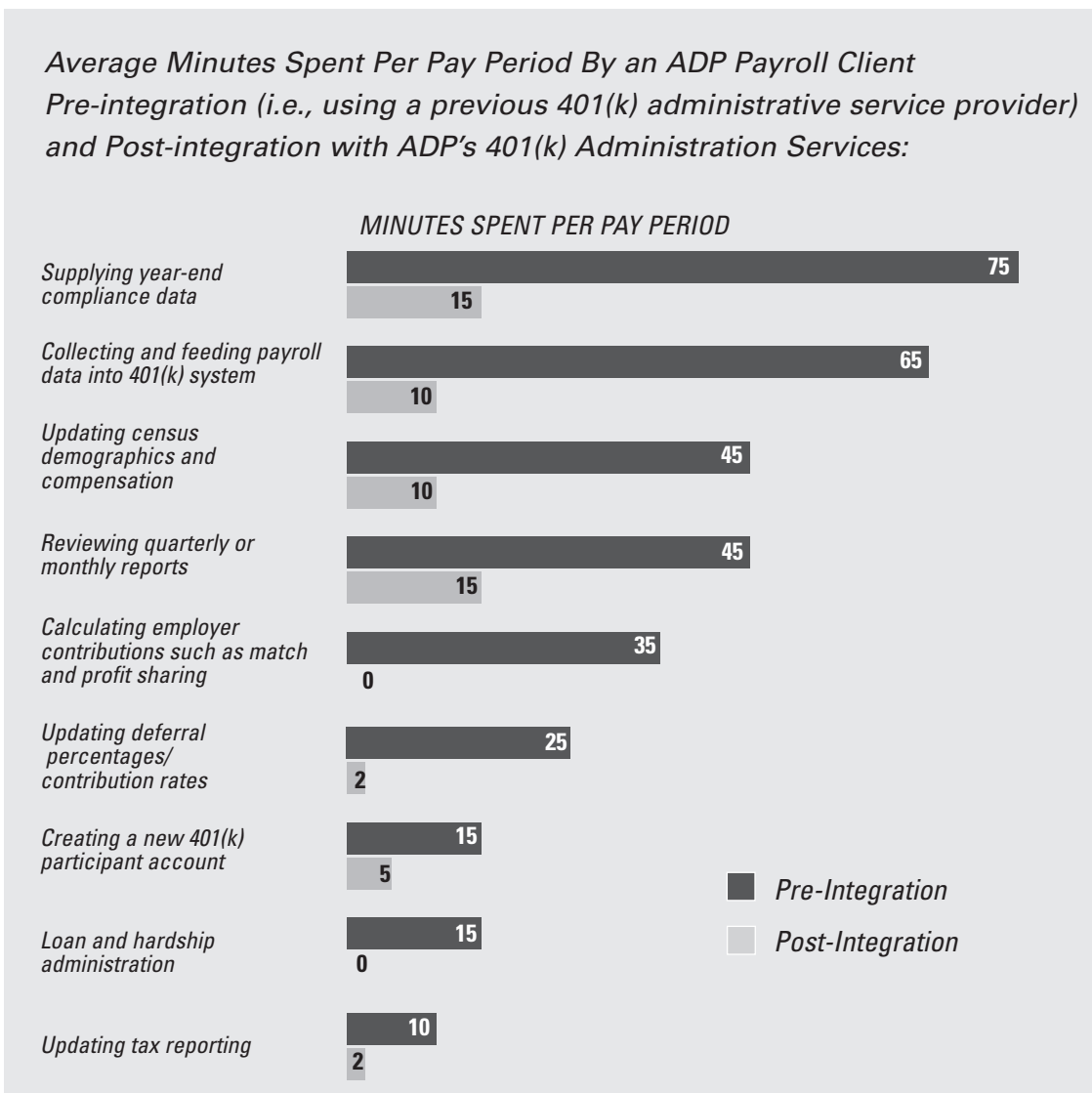
"Finding out that ADP could do the taxes and all for us, freed me up to do the other things I have to do."

"Time savings was a great factor because I have the ability to do it [make changes to the plan] at any point in time. I think the integration of the payroll system with the 401(k) has helped a lot because basically any changes that were made to the 401(k) [were made] to payroll... I had to physically call them in [before], do the adjustments by phone, so there was a margin of error there also ..."

Key Findings and Analysis

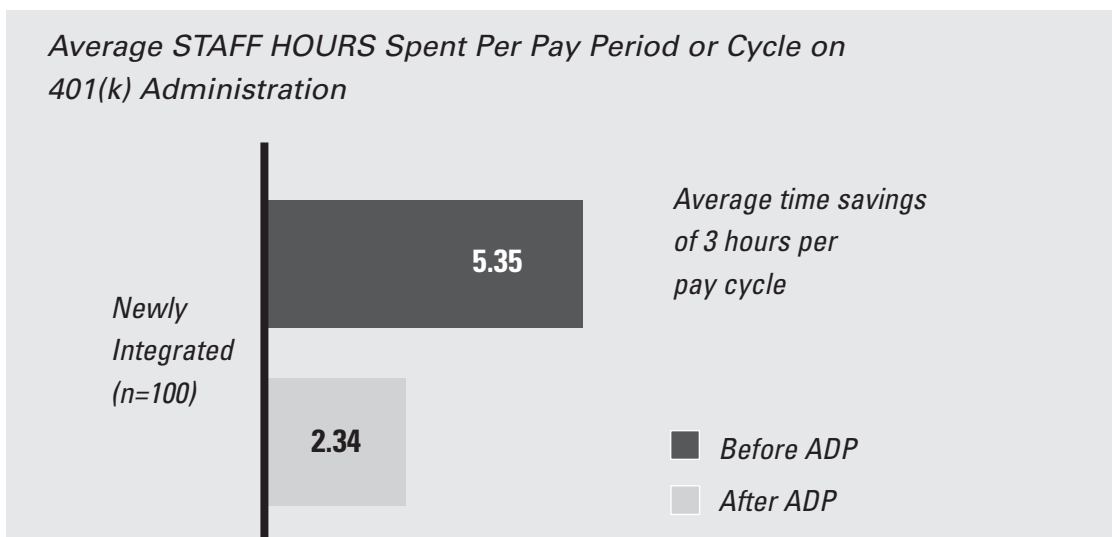
ADP payroll clients that replace a previous 401(k) provider with ADP's 401(k) administrative services experience substantial time saving from this integrated combination.

The time savings associated with major 401(k) administrative tasks are as follows:



Key Findings and Analysis

This time savings from integration, coupled with reasonable assumptions for personnel costs, translates into average cost savings of several thousand dollars per year for a given client that utilizes ADP for both their payroll and 401(k) administrative services (see example below).



The following chart helps to illustrate how these time savings on various 401(k) administrative tasks, achieved through ADP's integrated payroll and 401(k) administrative services, translate into significant cost savings by allowing payroll and HR personnel to focus on their company's core business. As indicated above, the study found an average time savings of three hours per pay cycle when a company integrated ADP's 401(k) services to their ADP payroll. The other two key variables in translating time saved into "money" saved is the "fully loaded" hourly wage of the personnel performing these administrative tasks (note: this is derived from an employee's base salary plus associated average benefit costs divided by the total number of hours worked per year) and the number of payroll cycles per year (i.e., how many times a year do these tasks need to be repeated). To provide a simple example of possible "money" savings scenarios, this illustration shows a base salary of \$32K. The example also provides a range of payroll cycles per year from 12 (i.e., monthly payroll) to 24 (i.e., twice a month) to 52 (i.e., weekly payroll).

Key Findings and Analysis

Illustration of Translating Time Saved into “Money” Saved through Integration

Yearly base salary of payroll administrator	\$32,000	\$32,000	\$32,000
Average benefit cost/employee*	\$18,358	\$18,358	\$18,358
“Fully” loaded salary	\$50,358	\$50,358	\$50,358
Average hours saved per payroll cycle	3	3	3
Number of payroll cycles per year	12	24	52
Total number of hours saved per year	36	72	156
Hourly wage based on salary	\$24	\$24	\$24
Total \$\$ savings per year	\$872	\$1,743	\$3,777

*Source: U.S. Chamber of Commerce statistic of the average 2003 employee benefit cost

To further highlight the importance of “saving money” as a large factor in a client’s decision to integrate, here are two quotes from study respondents as to why they switched:

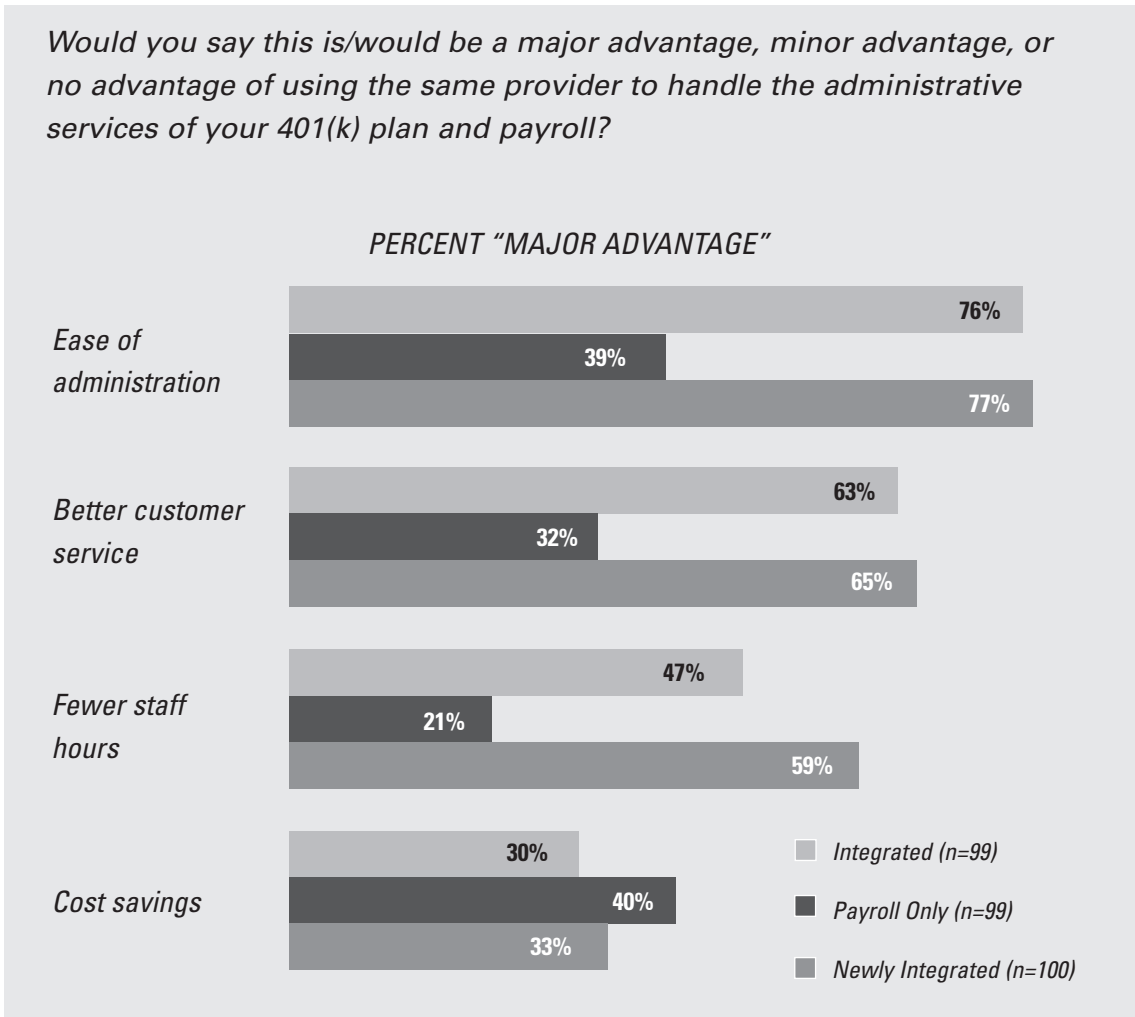
“Saving money was a great factor...we had an all-around service with our previous vendor, but it was very expensive. [There was] at least a 35% reduction in the actual payroll administration fees [by switching to ADP for 401(k) administrative services.]”

“It was all financial. The combination of both payroll and 401(k) costs per pay period was considerably less than with our previous provider.”

Key Findings and Analysis

76% of integrated customers cite ease of administration and 63% cite better customer service as major advantages of payroll integration.

The large majority of integrated and newly integrated customers mention ease of administration (76% and 77%, respectively) and better customer service (63% and 65%, respectively) as a major advantage of combining their payroll and 401(k) administrative services with ADP.

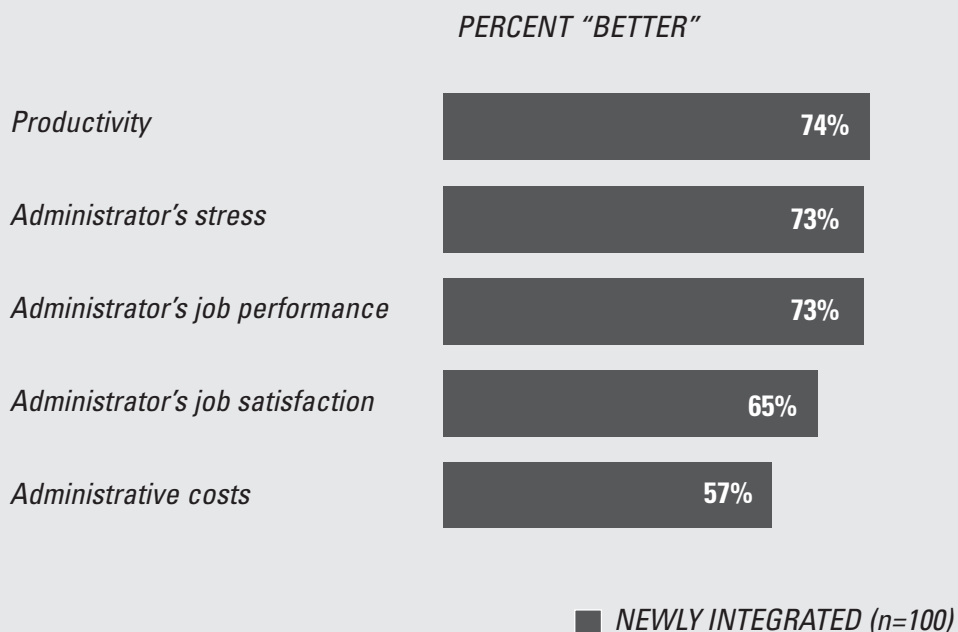


Key Findings and Analysis

Three quarters of newly integrated customers believe there has been a positive effect on productivity, the administrator's stress level and job satisfaction

The large majority of newly integrated customers believe that combining their 401(k) plan and payroll services has had a positive effect on productivity (74% — say "Better"), the administrator's stress level (73%), the administrator's job satisfaction (73%) and the administrator's job performance (65%).

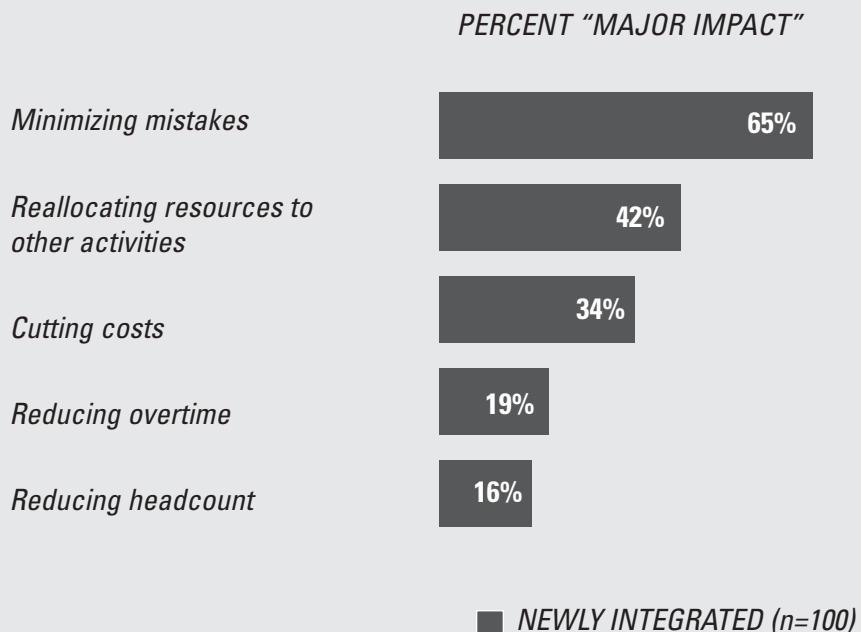
How has combining 401(k) plan and payroll services affected each of the following?



Key Findings and Analysis

Two-thirds of clients that added ADP's 401(k) administrative services to their ADP payroll cite a major improvement in accuracy of processing and the avoidance of mistakes.

What impact could combining your 401(k) plan and payroll services have on each of the following for the administrators in your company?



Conclusions and Recommendations

ADP payroll clients that switched from a previous vendor to ADP's integrated 401(k) administrative services enjoyed considerable time savings related to various administrative tasks. These time savings translate into cost savings by allowing personnel to focus their attention on core business functions. Clients also indicate substantial benefits in productivity and error minimization.

The study presents a compelling case that ADP payroll clients that switch to ADP's integrated 401(k) administrative services or new companies that outsource both their payroll and 401(k) administrative services to ADP will reap similarly significant time savings and other noteworthy benefits. Specifically these may include:

- Time savings in all major 401(k) administrative tasks
- Ability for personnel to focus additional time on core business functions
- Increased productivity and job satisfaction for personnel that perform these tasks
- Major improvement in accuracy of processing and the avoidance of mistakes