

Mercer's Asia HR Roundtable

"The rise of HR in the new Asia"

13-14 April 2010

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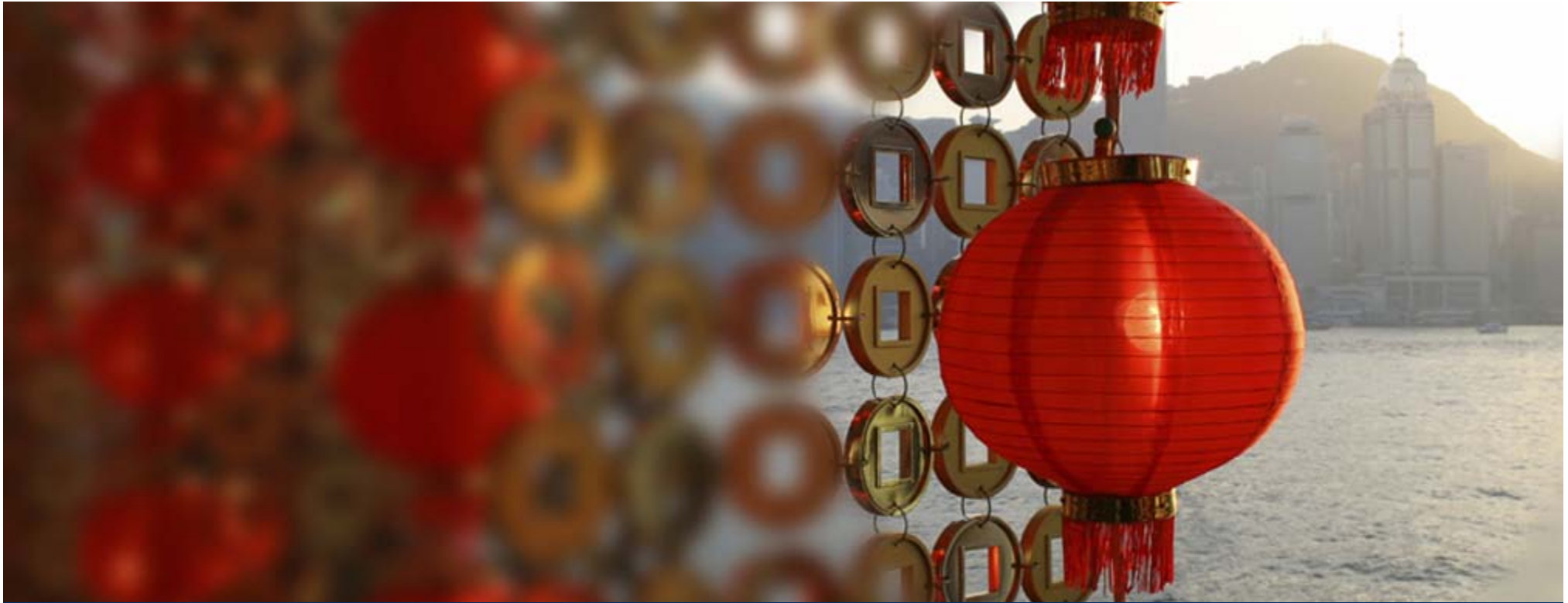


Regional update – how flexible benefits is transforming the packaging of rewards in Asia

Chow Yoke Fun
Regional Flex Consulting Leader

Key Discussion Points

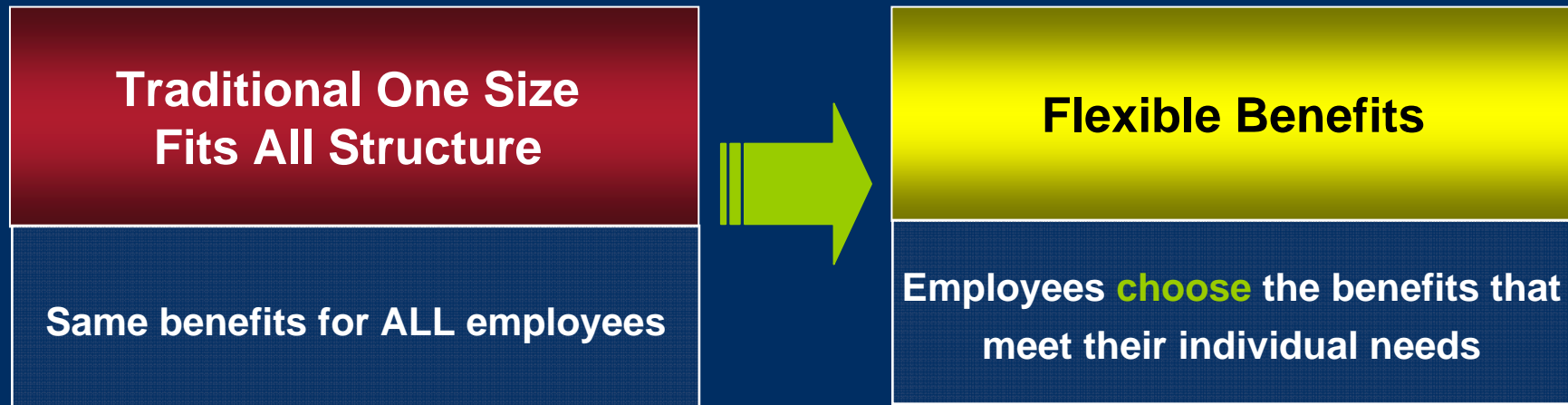
- What are Flexible Benefits (Flex)
- Transforming the rewards package – Flex Trends & Updates Across Asia
- Flex in Asia
- Highlights of Mercer Global Employee Choice Survey 2009 Results
- Flex Success Stories



What are Flexible Benefits

What are Flexible Benefits?

- An innovative way of offering employee benefits
- Basic concept is giving employees choice in selection of their benefits on year to year basis to meet their diverse and changing needs



Flex Drivers

- Meet diverse employee needs & maximize value of benefit spend
- Employer of Choice for competitive differentiation
- Control escalating benefit costs
- Harmonize benefits across different entities or during M&A
- Communicate benefits as part of total rewards
- Raise employee awareness and appreciation of benefits
- Facilitate benefit program changes

Different generations have different priorities

One size does not fit all

Groups	Matures/ Traditionalists	Baby Boomers	Generation X	Generation Y/ Millennials
Age	60+	43 to 60	30 to 42	18 to 29
Characteristics	<ul style="list-style-type: none"> Values security Company loyalty Inclusive 	<ul style="list-style-type: none"> Indulged Socially-conscious Works hard 	<ul style="list-style-type: none"> Distrust institutions Entrepreneurial Risk takers Needs work/life balance 	<ul style="list-style-type: none"> Balances work with family Technology-experts Team-oriented Socially-conscious
Value of Work	<ul style="list-style-type: none"> Wants expertise and experience to be valued 	<ul style="list-style-type: none"> Wants hard work to be valued 	<ul style="list-style-type: none"> Wants company to value individual contributions 	<ul style="list-style-type: none"> Wants to value own contributions
Drivers in Work	<ul style="list-style-type: none"> To build a life 	<ul style="list-style-type: none"> To build a better life 	<ul style="list-style-type: none"> To live better 	<ul style="list-style-type: none"> To live a purposeful life

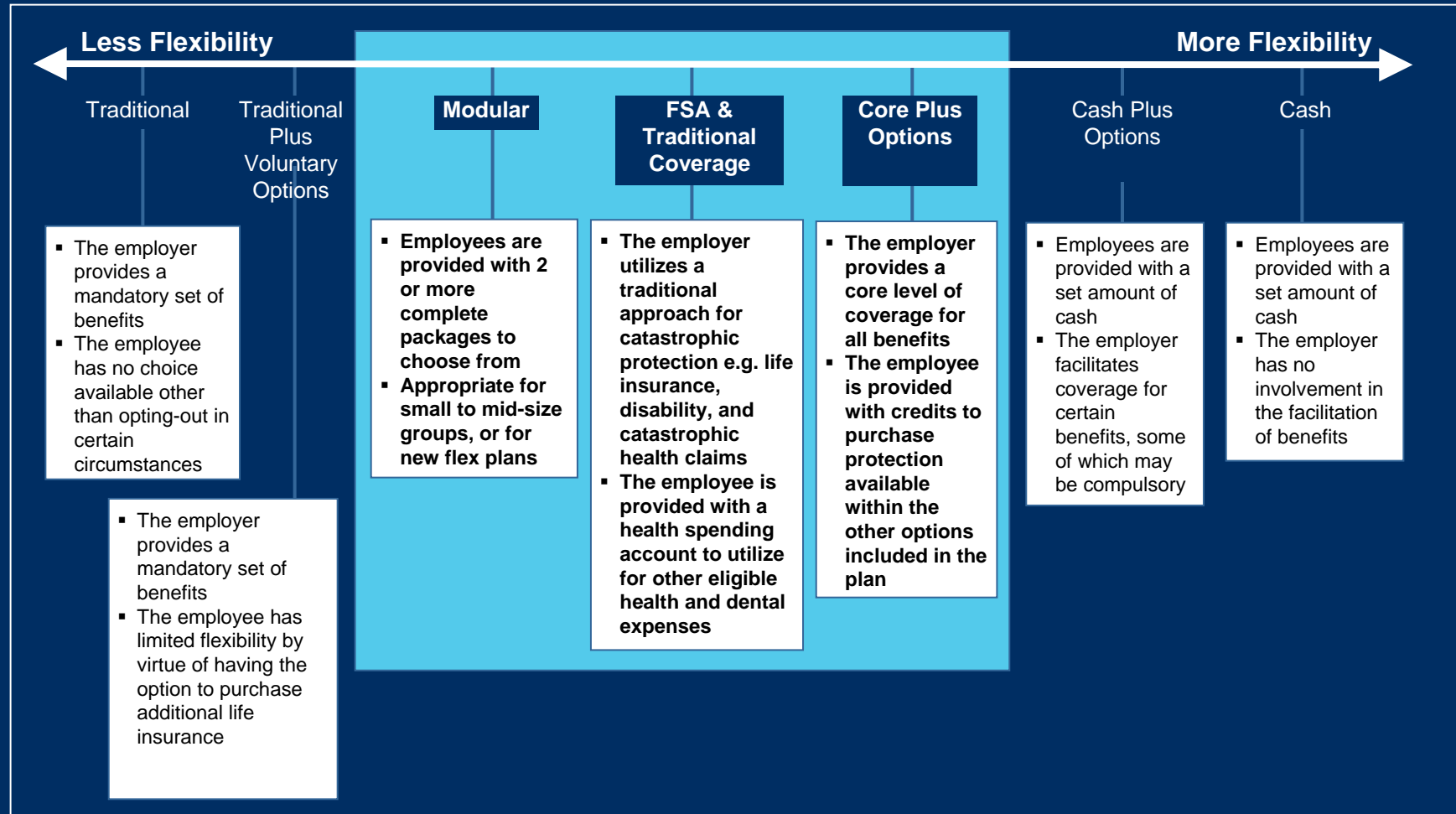
Sources: Employee Benefits of the future, Employee Benefit Plan Review, Jan 2007

The Next 20 Years: How Customer and Workforce Attitudes will Evolve, N. Howe, W. Strauss 2007

Millennials Rising – The Next Great Generation, Howe and Strauss, Vintage Books 2000

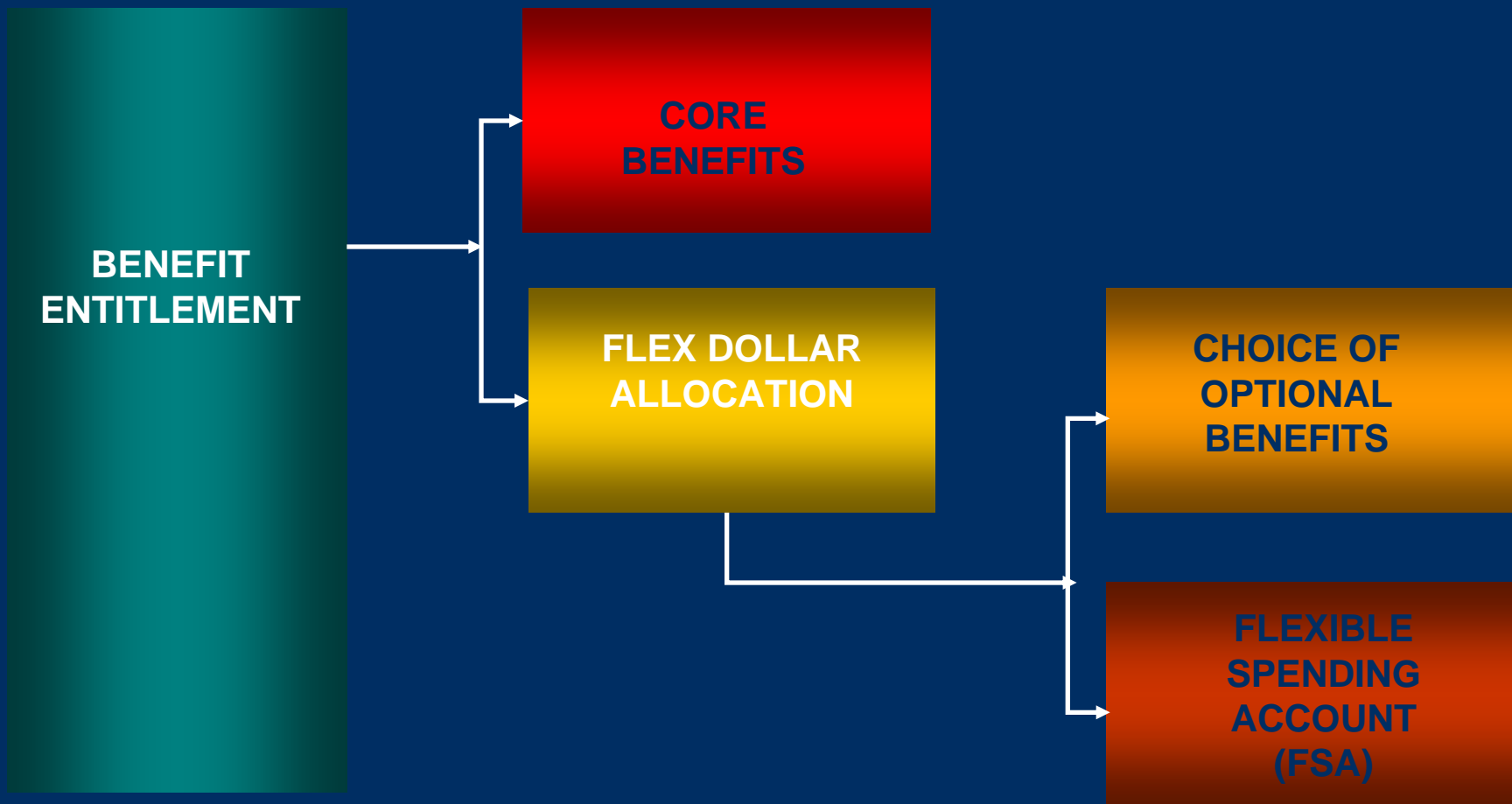
Flex Models

- Flexible Benefit Continuum



Flex Models - Core Plus Model

Flex is a scheme which provides options for employees to choose the benefits which *best meet* their needs



Flex Models - Modular Plan

The modular plan design is a **set of various packaged plans** where employees chose one that best meet their needs. A minimum package plan usually applies.

The remaining money is also put into a flexible spending account and used for various self-insured benefits. If the total flex dollars spent exceeds the budget given by the company, the excess is deducted from salary.

Example: An employee who picks Choice III would have a GTL sum assured of \$200,000, a GPA sum assured of \$200,000 and R&B per day limits of \$388.

	Choice I (Minimum Plan)	Choice II	Choice III
GTL	50,000	100,000	200,000
GPA	50,000	100,000	200,000
GHS	R&B: 170	R&B: 250	R&B: 388
Price tags for GTL, GPA and GHS (in Flex dollars p.a.)	400	500	800

500 flex dollars budget for each employee (family friendly employers may give more to employees with dependents)

Unspent flex dollars are usually diverted to a **flex spending account**. The flex dollars in a spending account can be used to claim reimbursement for:

- Dental
- Holiday Subsidy
- Chinese Physician
- Gym Subsidy
- Encashment (Converted to cash using a fixed percentage)



Transforming the rewards package – Flex Trends & Updates

Flex Updates Across Asia - 2010

	The Trend
<p>Benefits are decided by organization</p> <p>One-size-fits-all disregarding needs of diverse work force</p>	<ul style="list-style-type: none"> ▪ Choice & flexibility for employees ▪ Empowerment ▪ Diverse work force / culture & needs
<p>Provision of benefits w/o defined HR or corporate philosophy</p>	<p>Re-defined benefits provision philosophy - one that supports specific corporate / HR objectives eg</p> <ul style="list-style-type: none"> ▪ maximise value of existing benefits ▪ health & wellness ▪ Employer of choice - innovative ▪ competitiveness ▪ keeping line with new benefit trends ▪ institute culture of responsible use of medical benefits

Flex Updates Across Asia - 2010

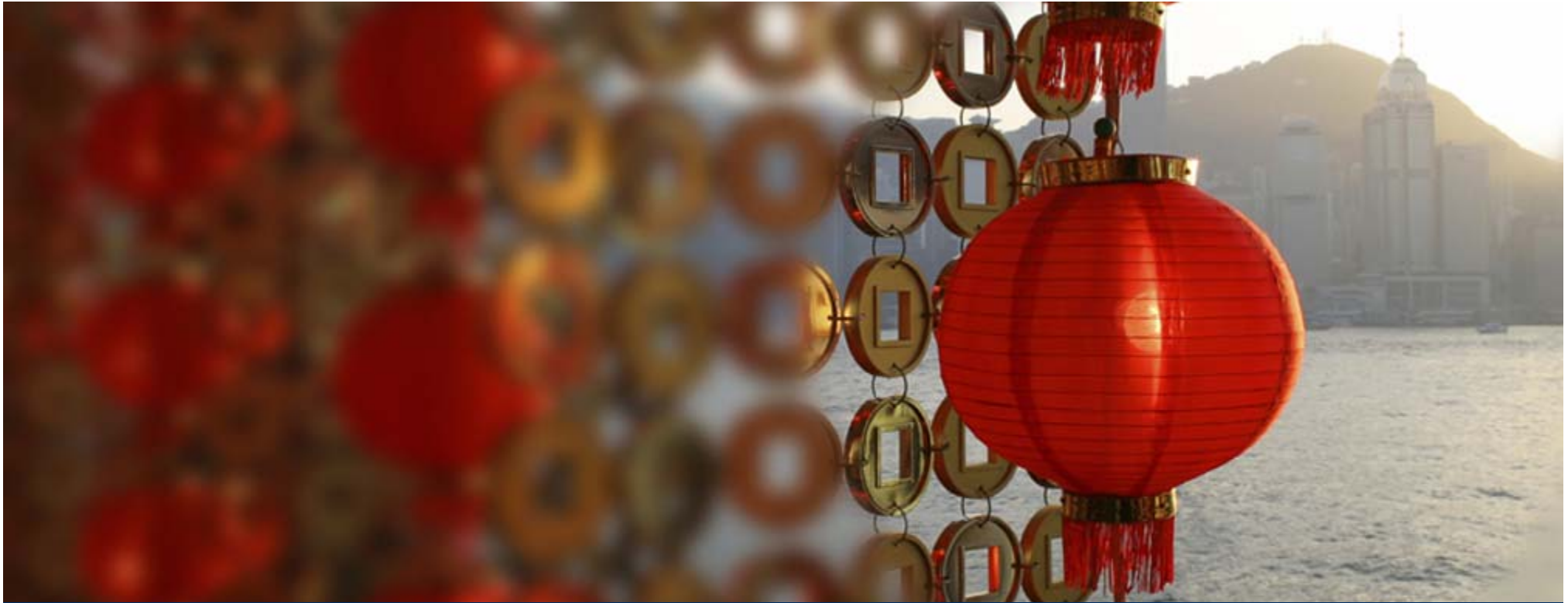
	The Trend
No control over escalating cost	<ul style="list-style-type: none"> ▪ Cost management / shifting
Benefits offering on defined benefits structure	<ul style="list-style-type: none"> ▪ Move towards defined contribution with better control over benefits spend / budget
No alignment of benefits across entities / countries No regional HR co-ordination	<ul style="list-style-type: none"> ▪ Benefits harmonization or alignment across entities within a country or business groups ▪ Regional alignment across countries spearheaded by regional HR ▪ Benefits harmonization during M&As
Lack of communication of benefits and value Compensation separate from benefits	<ul style="list-style-type: none"> ▪ Total rewards strategy / online total rewards statements ▪ More effort & interest to communicate value of benefits especially through flex programs ▪ Help employees better understand insurance & medical benefits – working jointly with providers

Flex Updates Across Asia - 2010

	The Trend
Plan Design Features	<ul style="list-style-type: none">▪ Lifestyle benefits▪ More comprehensive local medical coverage▪ Interest in including international medical plans to employees using flex dollars or employee's own cost▪ Voluntary benefits▪ Work site products & services▪ Portability▪ Incentives for desired behavior eg environment-friendly behaviour, community service & contributions
Flex Model	<ul style="list-style-type: none">▪ Off-the-shelf solutions for SMEs with lower cost of implementation & administration
Pension / retirement	<ul style="list-style-type: none">▪ Potentially integrating flex with pension / retirement program, if regulation permits and there are tax efficiencies

Flex Updates Across Asia - 2010

Current or Previous	The Trend
Health & Wellness programs	<ul style="list-style-type: none">▪ Encouraging employee health & wellness, health education▪ Health risk profiling, healthy living programs and incentives / rewards through flex
Financial & Insurance planning	<ul style="list-style-type: none">▪ Incorporate education to help employees make appropriate plans for their future and post-retirement financial and insurance needs
Encashment of Flex Dollars	<ul style="list-style-type: none">▪ Move towards FSA to encourage specific behavior as in health & wellness focus vs encashment



Flex in Asia

Flex in Asia

- Countries that have mature flex and choice programs



Singapore

Between 50 - 200 companies on Flex programs to-date, mostly MNCs in **financial services, technology and logistics industry**. Also includes numerous government ministries and government-linked organizations

Malaysia

Similar to Singapore except less than 50 companies on Flex

Hong Kong

Less than 50 mostly in financial services industry

Flex in Asia

- Countries with moderate levels of choice and flex



Philippines

Less than 50 companies on Flex, mostly pharmaceutical, manufacturing, telco and BPO industries

Indonesia

Less than 10 companies on Flex, mostly manufacturing, logistics and pharmaceutical industries

Australia / Thailand

Less than 5

Flex in Asia

- Countries that have emerging flex and choice programs



China, Taiwan & India

Less than 10 companies on flex primarily in [technology industry](#)

Japan & South Korea

Less than 5 companies on typical flex structures and those that we are aware of are from [technology industry](#). However, there appears to be a prevalence of voluntary top-up programs in South Korea

Vietnam & New Zealand

No known flex plans to-date

Flex in Asia

	Mature Flex Markets	Developing Flex Markets	New Flex Markets	Immature Flex Markets
Countries	Singapore, Hong Kong, Malaysia	Philippines, Indonesia, Thailand, Australia	China, Taiwan, India, Japan, South Korea	New Zealand, Vietnam
Infrastructure	Mature market with infrastructure in place in terms of ready pool of insurers, medical providers, flex experience & expertise, market best practices, technology & internet infrastructure to support flex programs	Developing markets with some flex plans in place for several years and continued growing interest. Insurers are somewhat familiar with flex and there is a growing number of vendors providing flex consulting and administration services	All Markets which have seen interest in flex and there are some plans in place though relatively few. Insurers are relatively new to flex Japan & Korea Infrastructure not yet in place to support flex programs. Lack of market practice, local flex expertise and experience. Insurers are generally wary of flex programs and not keen to support	New markets with no known flex implementations Insurers are unfamiliar with flex and there are no known flex providers For Australia & New Zealand, some of the more commonly flexed benefits are tied to superannuation packages and hence may not allow for flexibility.
Regulatory	There is no known regulation that would inhibit introduction of Flex programs in these countries except 'diminution of benefits' regulation in Philippines which does not permit auto reduction of benefits to core level without employee consent			

Flex in Asia

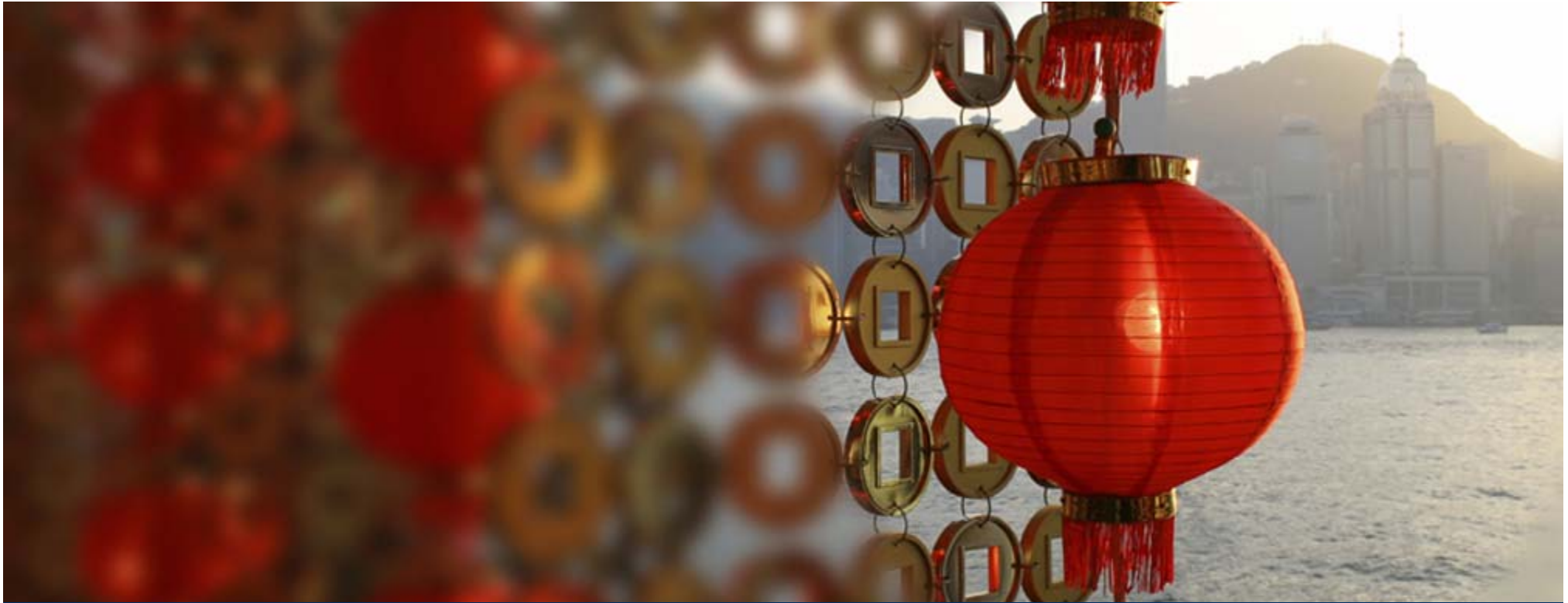
	Mature Flex Markets	Developing Flex Markets	New Flex Markets	Immature Flex Markets
Countries	Singapore, Hong Kong, Malaysia	Philippines, Indonesia, Thailand, Australia	China, Taiwan, India, Japan, South Korea	New Zealand, Vietnam
Tax	<p>Singapore & Malaysia</p> <p>Some tax efficiencies available as FSA reimbursements for medical, dental, health screening & maternity expenses for employee, spouse & children are generally tax exempt for employees</p> <p>Hong Kong</p> <p>All FSA reimbursement items are taxable in hands of employees</p>	<p>Philippines & Thailand</p> <p>Some tax efficiencies available as some FSA reimbursement items are tax exempt for employees</p> <p>Indonesia</p> <p>All FSA reimbursement items are taxable in hands of employees</p> <p>Australia</p> <p>Fringe Benefit Tax applies on employers</p>	<p>All FSA reimbursement items are taxable in hands of employees.</p> <p>Additionally, fringe benefit tax is levied on employers in India</p>	<p>Fringe benefit tax applies on employers</p>

Flex in Asia

	Mature Flex Markets	Developing Flex Markets	New Flex Markets	Immature Flex Markets
Countries	Singapore, Hong Kong, Malaysia	Philippines, Indonesia, Thailand, Australia	China, Taiwan, India, Japan, South Korea	New Zealand, Vietnam
3 key advantages of Flex	<ul style="list-style-type: none"> ▪ Talent attraction & retention ▪ Better meet needs of diverse employee profile ▪ Long term cost containment 			<ul style="list-style-type: none"> ▪ Talent attraction & retention ▪ Better meet needs of diverse employee profile ▪ Competitive differentiation
3 key barriers to introducing flex	<ul style="list-style-type: none"> ▪ Cost especially ongoing flex admin costs ▪ Employees' ability to understand flex and make appropriate decisions during annual selections ▪ Admin complexities & workload ▪ Australia – Fringe Benefit Tax 	<ul style="list-style-type: none"> ▪ Cost especially ongoing flex admin costs ▪ Lack of infrastructure support from insurers, local consultants and administrators ▪ No tax efficiency for employers & employees in Taiwan, India, Japan & South Korea eg fringe benefit tax in India 	<ul style="list-style-type: none"> ▪ Fringe benefit tax ▪ Lack of infrastructure support from insurers, local consultants and administrators ▪ Lack of market prevalence 	

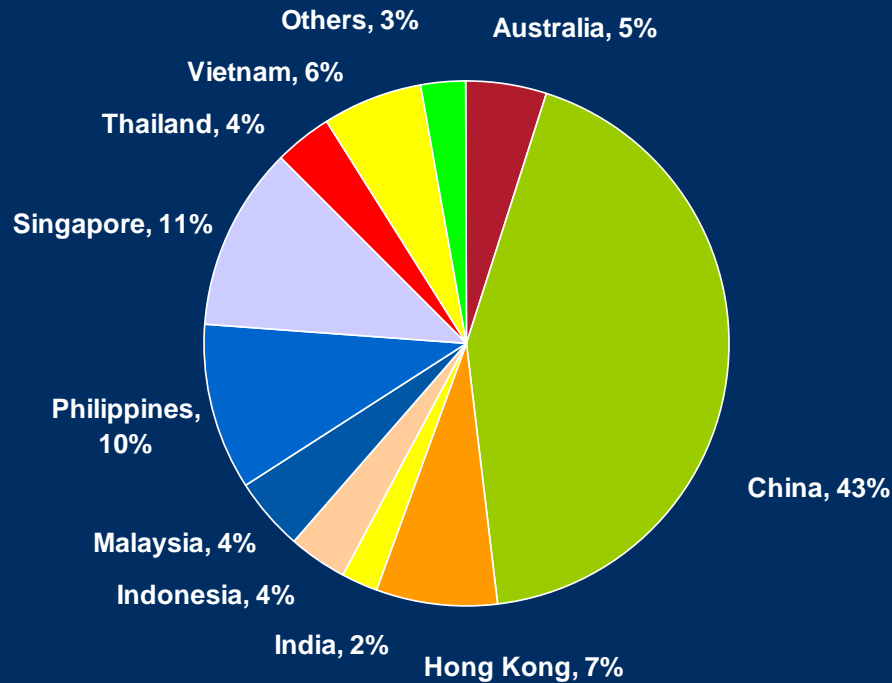
Flex in Asia

	Mature Flex Markets	Developing Flex Markets	New Flex Markets	Immature Flex Markets
Countries	Singapore, Hong Kong, Malaysia	Philippines, Indonesia, Thailand, Australia	China, Taiwan, India, Japan, South Korea	New Zealand, Vietnam
Common Flex Models	Comprehensive Core Plus	<p>Philippines, Indonesia, Thailand</p> <p>Comprehensive Core Plus</p> <p>Flexible Spending Account Only</p> <p>Australia</p> <p>Flexible Spending Account</p>	<p>China, Taiwan & India</p> <p>Comprehensive Core Plus</p> <p>Japan & South Korea</p> <p>Voluntary Top-Up</p> <p>Flexible Spending Account Only</p>	Not known
Benefits Commonly Flexed	<p>Life & Accident Insurance</p> <p>Medical Outpatient & Inpatient Insurance</p> <p>Dependant Coverage</p> <p>Dental Insurance</p> <p>Maternity Insurance</p> <p>Health Screening Insurance</p> <p>Some Allowances</p>		<p>China, Taiwan & India</p> <p>Same as Singapore, Hong Kong & Malaysia</p> <p>South Korea</p> <p>Life & Accident Insurance</p> <p>Allowances</p> <p>Japan</p> <p>Not known</p>	Not known



**Highlights of Mercer Global
Employee Choice Survey 2009
- Asia Pacific regional overview**

Country Participation in Asia Pacific



Asia Pacific constitutes 34% of total respondents

Profile of Respondents

1. Mainly Manufacturing (50%)
2. About a third (31%) employs between 251 to 1,000 employees
3. Average employee age is 33
4. Nearly 1 in 2 employees is female
5. Nearly 1 in 3 employees in a collective bargaining arrangement

Most important benefit priorities for the next three years

Increase employees' understanding and appreciation of existing benefits



Integrate health and group benefits into a total rewards approach



Educate employees about their health risks and how to improve their health



Ensure equitable benefits across employees groups in home country



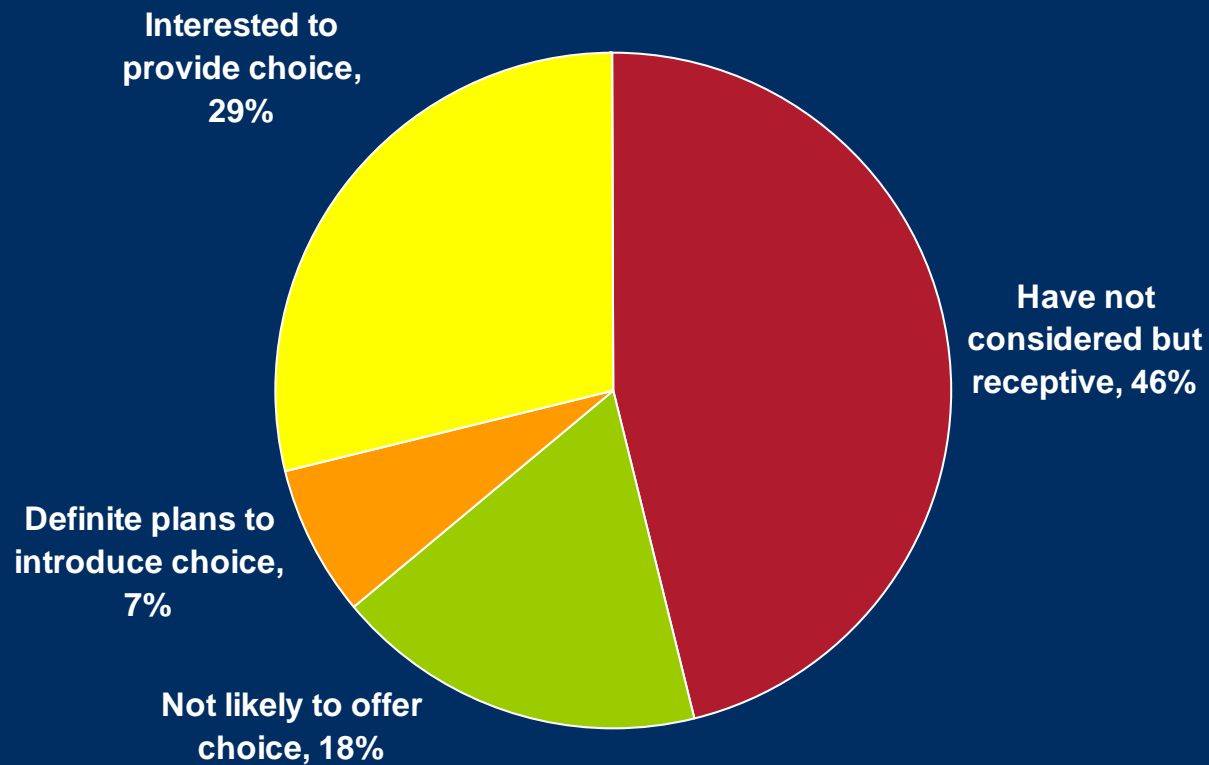
Ease the administration of benefits programs



Mercer 2009 Global Survey on Employee Choice

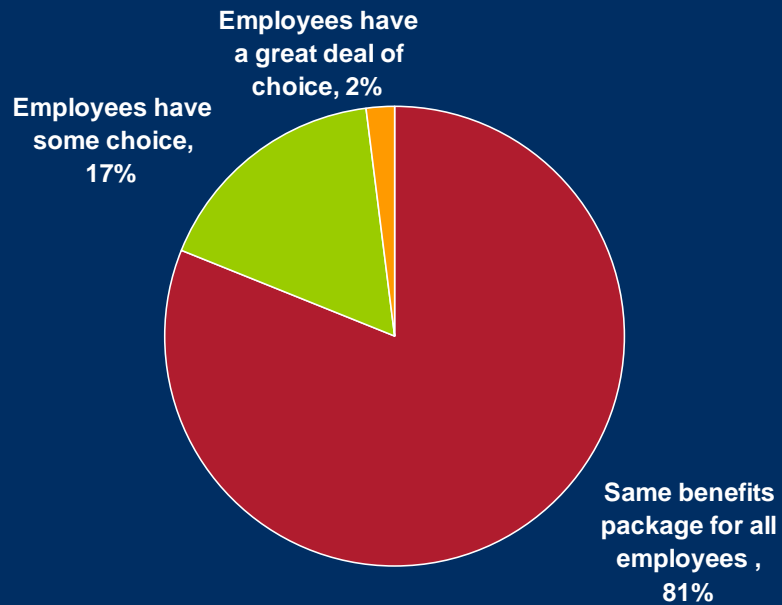
View towards offering choice

Among respondents not currently offering choice

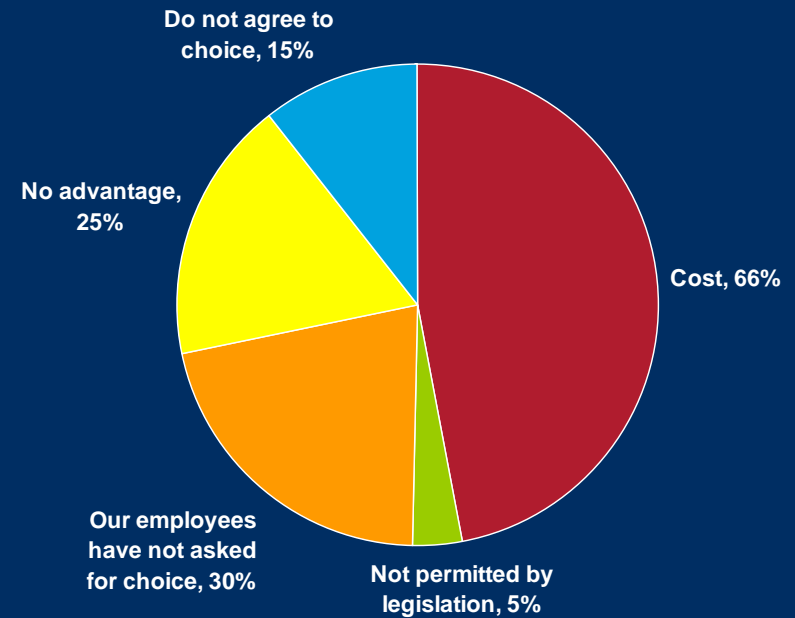


Mercer 2009 Global Survey on Employee Choice

Degree of Choice



Reasons for not providing choice



Mercer 2009 Global Survey on Employee Choice

Significant challenges perceived in setting up flex

Key challenges perceived

- Complexity of administration (59%)
- Cost (57%)
- Resource constraints (43%)
- Demonstrating returns on investment (38%)
- Employee communication (28%)
- Legal or tax issues (25%)
- Technology (23%)

Developing Markets

Australia & Thailand – Cost
Philippines – Resource



Mature Markets

Singapore – Cost
Hong Kong – Admin Complexity
Malaysia - Technology



New Markets

Indonesia & Vietnam – Cost
India & China – Resource



Main objectives for offering flex / choice

Respond to diverse workforce needs and values



Remain competitive in our marketplace



Maximise value of existing benefit spend



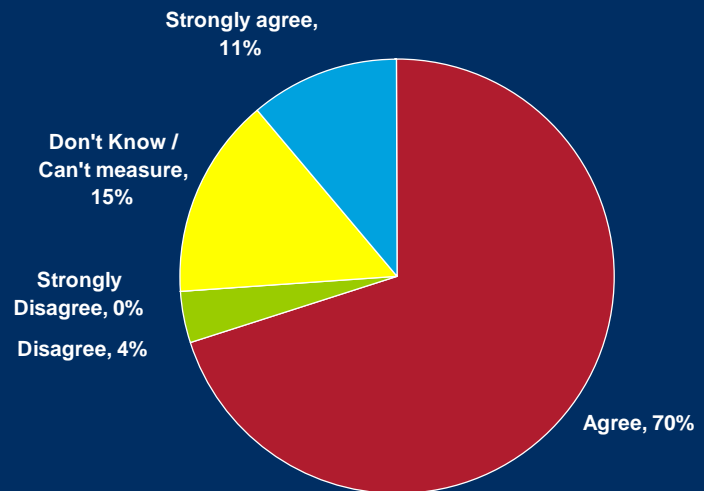
Increase employees' understanding and appreciation of the value of their benefits



Improve employee engagement



Flex Met Original Objectives?



Employees' response to choice

Employee Responses in APAC

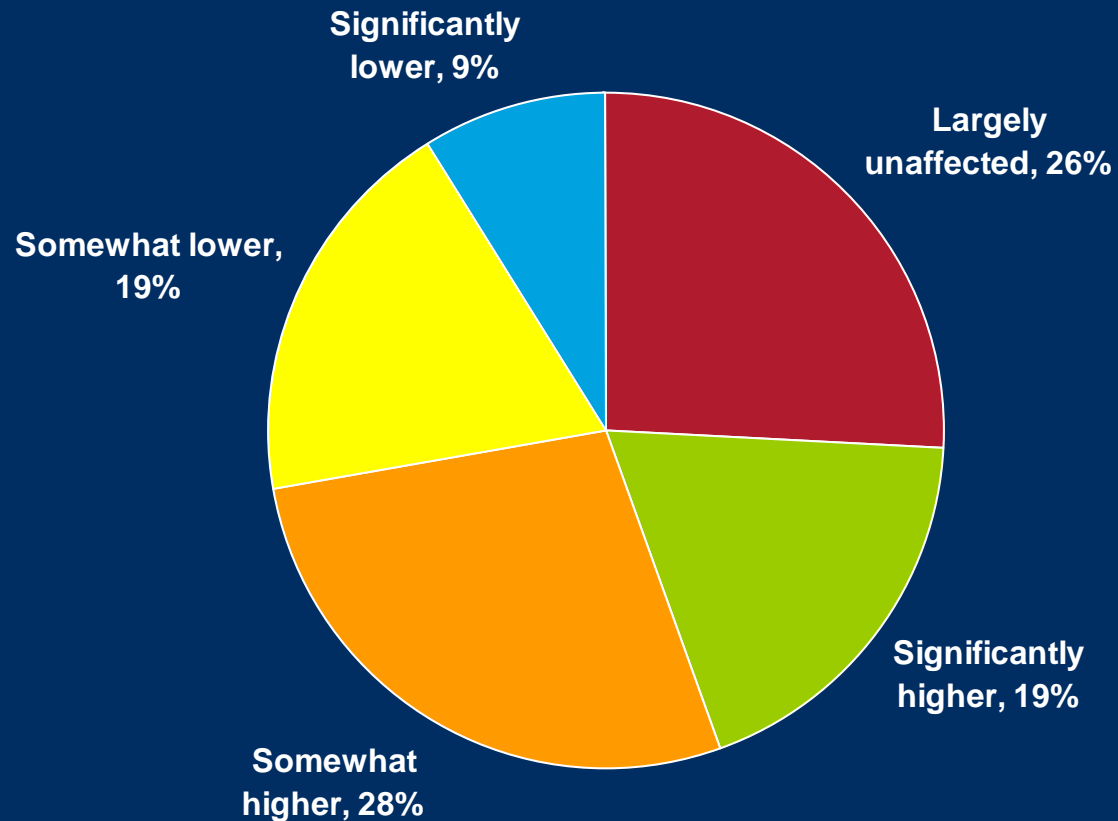
- More positive than negative (62%)
- Strongly positive (23%)
- Evenly mixed between positive & negative (13%)
- More negative than positive (2%)



Mercer 2009 Global Survey on Employee Choice

Impact of choice on benefit cost

Benefit cost today compared to what it would have been without adding choice



Mercer 2009 Global Survey on Employee Choice

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Benefits most commonly offered in flex or choice program

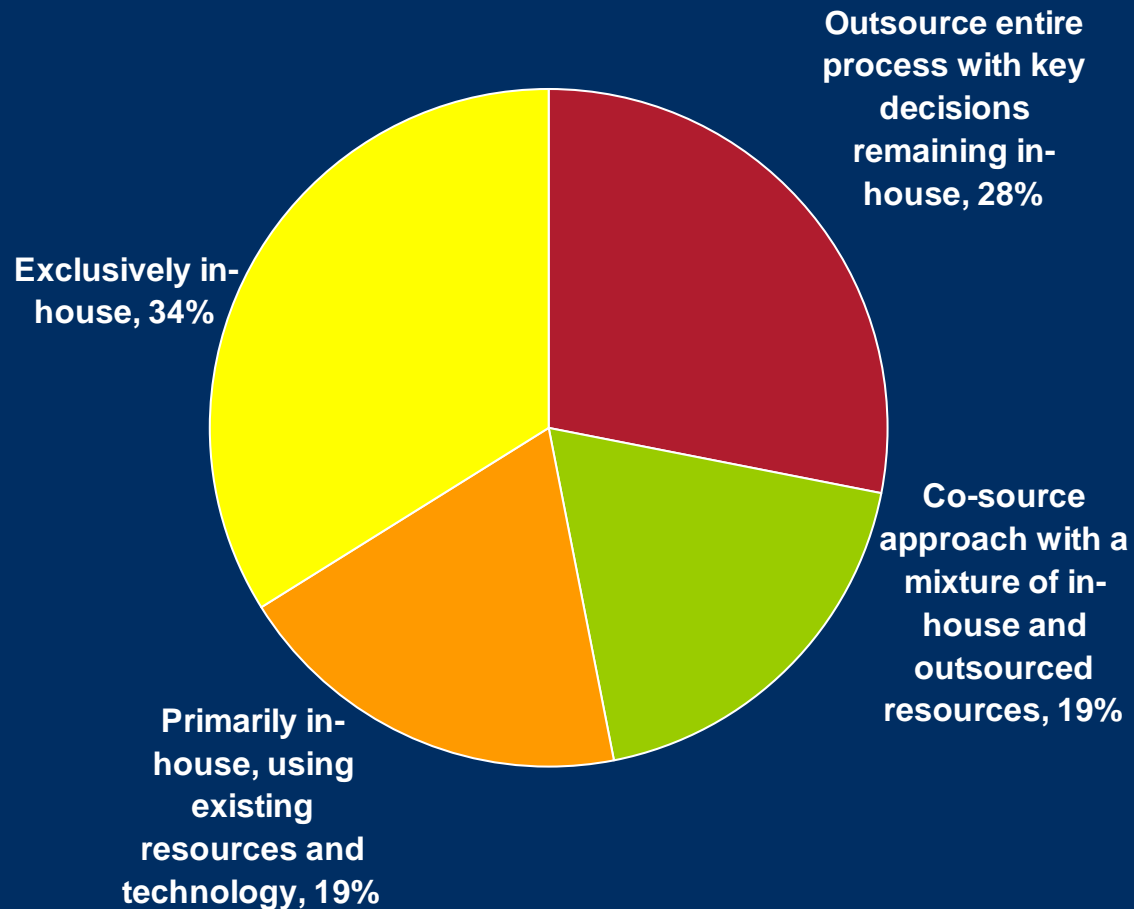
Common Benefits in flex or choice programs

- **Insurance** – Medical, Dependents' coverage, Accident, Life and Dental
- **Allowances** – Mobile phone, Gym club membership, Housing, Public Transport (commuting) and Cars
- **Others** – Health screening, Retirement (voluntary pension), Holidays



Mercer 2009 Global Survey on Employee Choice

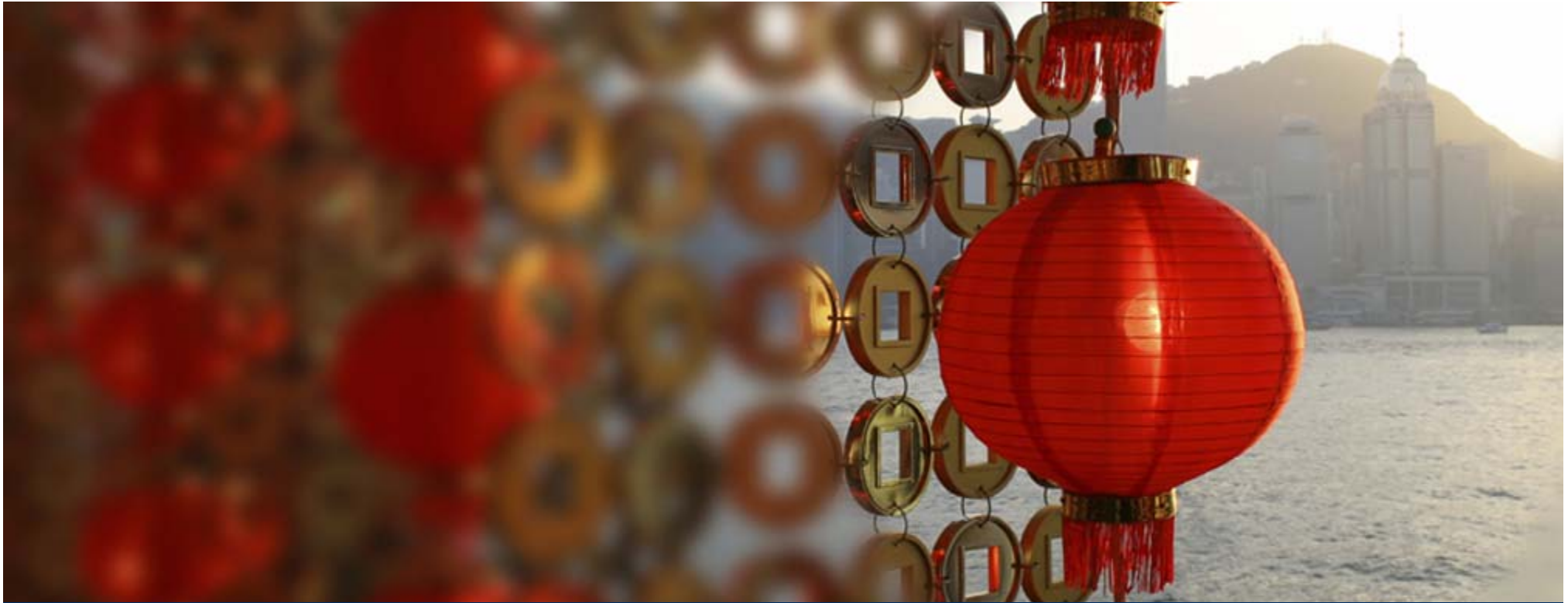
Approach to administration



Mercer 2009 Global Survey on Employee Choice

Mercer Global Employee Choice Survey 2009 - Key Thoughts

- Significant % of employers in Asia Pacific currently do not offer choice but are receptive with many expressing interest in doing so
- 50% of respondents are from manufacturing industry – reflecting an interest in employee choice programs from an industry which traditionally does not do so
- Some key challenges are perceived but experience of mature markets attest to the success of flex and choice programs in meeting corporate objectives
- Success of flex and choice is also evident in
 - employees' positive response
 - the many companies who have provided such and intend to continue doing so even during current economic environment



Flex Success Stories

Success Story 1

Flex redesign and migration (Singapore financial services firm)

Situation

- Company needed to review their flex plan design which was unchanged for several years; employees were asking for greater flexibility and more options
- Company wanted flex plan to support new focus on health & wellness and consumerism
- Flex administration was on a manual basis using legacy system; employees had to contact HR to obtain information on their selected benefits, FSA claims, flex points balance, etc.; company wanted to encourage an employee self-service culture and provide 24/7 access to such information

Challenge

- Flex redesign must be on cost-neutral basis or with some cost savings
- Transition to self-service culture with need to educate employees and convince them of merits
- Plan design changes and migration to online system required approval and involvement of key stakeholders in US (e.g., Global Rewards team, Global IT team etc); needed to factor these approval processes within a tight timeline

Action

- Mercer undertook analysis of current utilization, selections & flex costs, and market benchmarking
- A plan redesign was established to meet desired objectives and impact on company cost and winners / losers were identified
- Changes were made in pricing strategy to provide some cost savings to the company
- Mercer provided a bundled solution of consulting, broking and online flex administration services and worked closely with client HR and IT to ensure successful migration and launch

Results

- Revised plan design was well supported by US as it encourages consumerism and health & wellness
- Revised pricing strategy enabled company to achieve the targeted % cost savings
- Employees, though initially hesitant, liked the revised plan as it offers greater flexibility, options and provides incentive for good consumerism behavior
- HR able to redeploy internal resources
- The online system is well received as employees have 24/7 access to their account to check their benefits, claims status, flex points balances, etc

Success Story 2

Instituting Cost Sharing Culture – Co-payments

Situation

- Hospitality industry. Had in-house clinic which was well-utilized by employees
- Industry notorious for high staff turnover. Desired competitive differentiation to attract & retain staff
- Also faced issue of rising medical cost especially outpatient and productivity loss & cost due to high sick leave consumption

Challenge

- No limit to outpatient utilization. Analysis showed average of 22 visits to the doctor per employee each year. This is very high in comparison to industry average of between 5-7
- Medical cost-sharing in form of co-payments is not common market practice

Action

- Decision was taken to introduce flex for two key objectives – **market differentiator and cost containment**
- Co-payment for each doctor visit was introduced
- Company funded co-payments for 5 visits per employee. If not utilized, balance is encashed at year end
- No Sick Leave Incentive was introduced to reward employees with low or no sick leave usage

Results

- Immediate result in reduction of doctor visits from average of 22 to 17 per employee each year
- **In first year, achieved savings of about 5 visits or \$125 per employee which translated into \$125,000**
- Sick leave utilization declined hence increasing productivity and reducing replacement cost
- Company invested some of these savings back into flex plan by giving employees more flex dollars

Success Story 3

Medical Wellness Spending Account

Situation

- Financial services industry
- Medical outpatient cost increasing 30% p.a.
- Moved to managed care program in 1998 – helped contain cost but resulted in employee dissatisfaction & complaints
- Change in provider did not help

Challenge

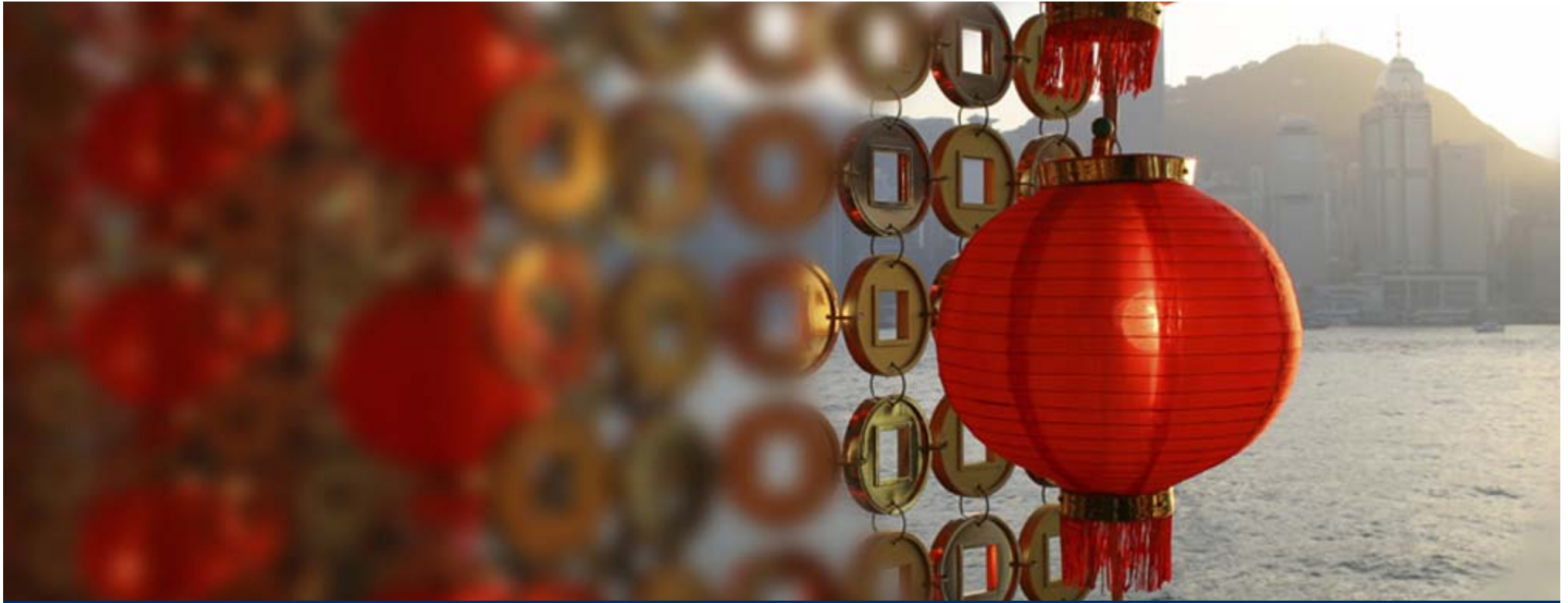
- Needed win-win arrangement for company and employees
- Look for alternative solution than managed care to address employees' dissatisfactions without increasing costs

Action

- Introduced Medical Wellness Spending Account in 2001
- Allocation based on average spent by employees. % unused Spending Account converted to Wellness Dollars
- Wellness Dollars used for approved items eg TCM, immunization, dental, optical, personal insurance policies

Results

- **Significant fall in medical outpatient utilization resulted in S\$1m savings over 4 years**
- Better employee retention
- Higher productivity as absenteeism rate declined from average of 3.18 days to 2.4 days over 3 years
- Employer branding
- Employees take charge of own health & medical spend



Thank you

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