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Flexible benefits

Winning Asia's war for talent while containing costs

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www.mercer.com

Agenda

- What's driving Flex, what is Flex and how does it help in the war for talent
- Flex as a tool for long-term cost containment
- Asia's flex experience and challenges

Question 1

What is your organisation's top concern with employee benefits?

(Select one only)

Press	If your response is:
1	Employees' lack of appreciation/understanding of benefits
2	Need to derive greater value from existing benefits
3	Rising costs
4	Equity issues between employee groups
5	Complex / tedious administration
6	Not tax effective for employer or employees
7	Lack flexibility & not meeting employees' needs
8	Market Competitiveness

Question 2

Have you implemented flex in Asia?

Press	If your response is:
1	Yes
2	No

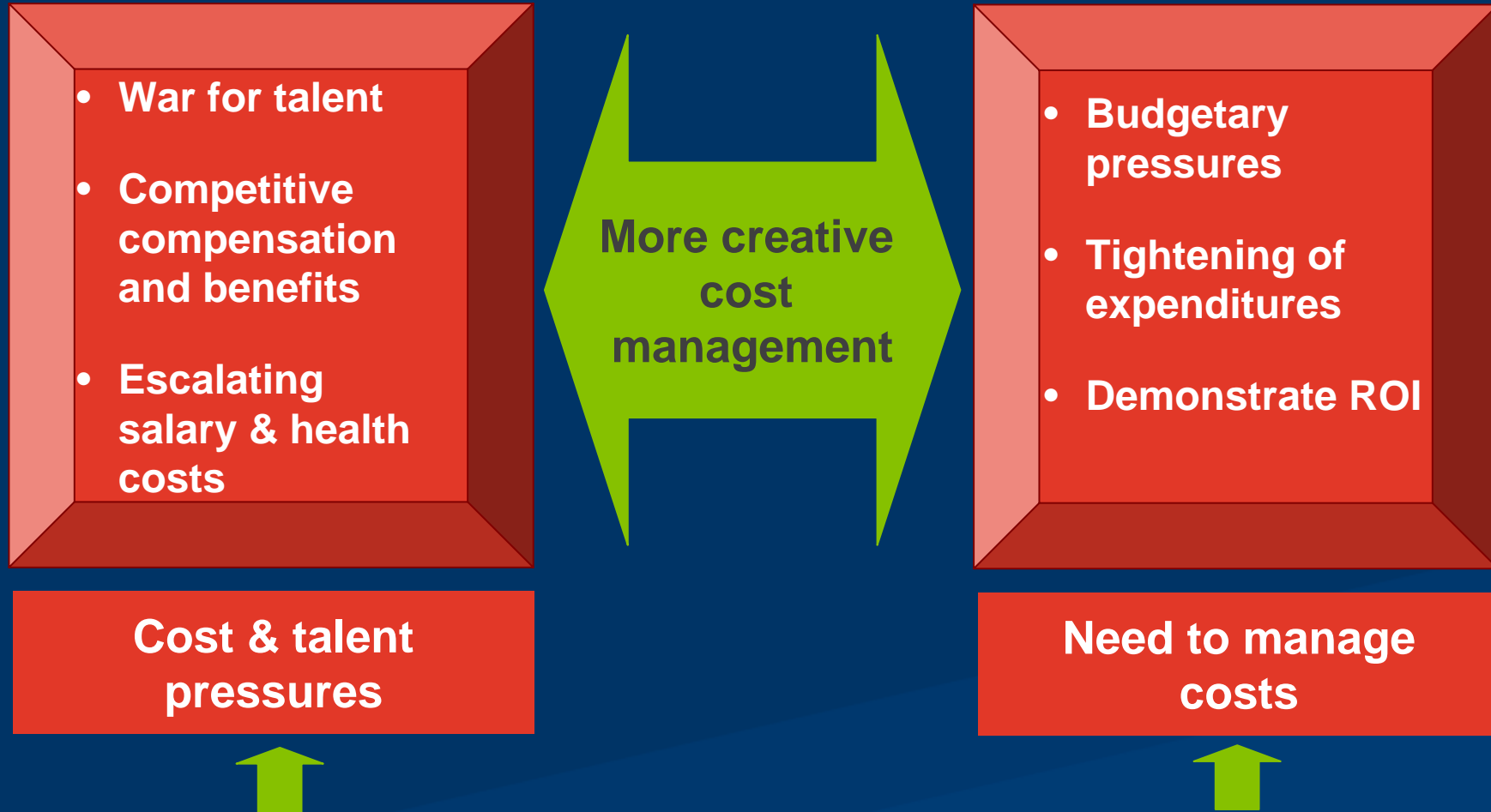


SECTION 1

- **What's driving Flex in Asia?**
- **Mercer Flex survey results**
- **What is flex?**
- **How does flex help in the war for talent?**

Primary drivers behind Asia's interest in flex

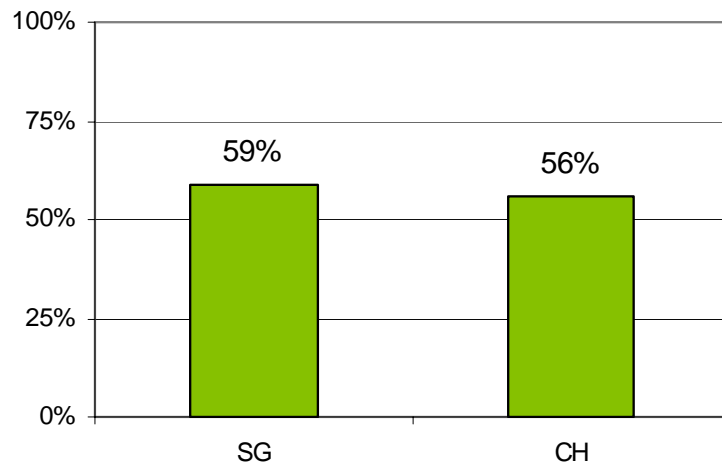
Need for creative cost management while still offering meaningful benefits



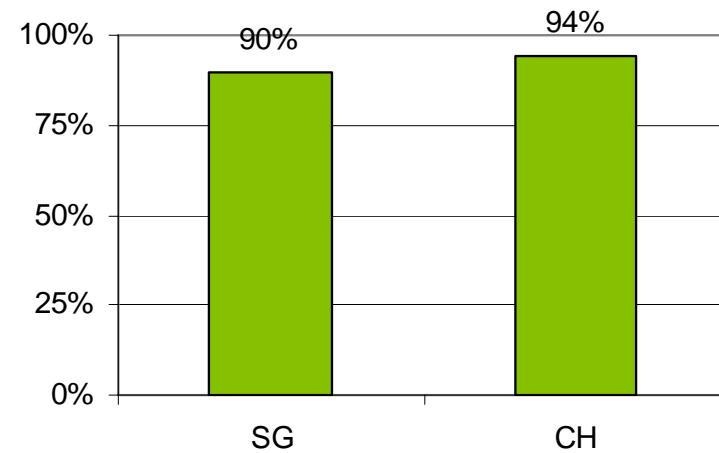
Asia – War on two fronts: talent war and rising costs

Over half of firms plan to use benefits for talent war yet almost all are concerned about rising benefits costs

% Companies who plan to use Benefits to attract and retain employees



% Companies concerned about rising Benefits costs



Flex successful in meeting employee needs while containing cost
Over 100 companies participated in on-line survey in SG, HK, PH

Objectives achieved	SG	HK	PH
Meet the needs of diverse employees	97%	50%	100%
Contain costs	78%	100%	80%

Success of flex	SG	HK	PH
Will you continue to offer Flex?	100%	100%	100%

Traditional vs. flexible benefits

Traditional

- Employer decides on benefits
- Employer absorbs future cost increases
- Employees undervalue cost of benefits



Same benefits for ALL employees

Flex

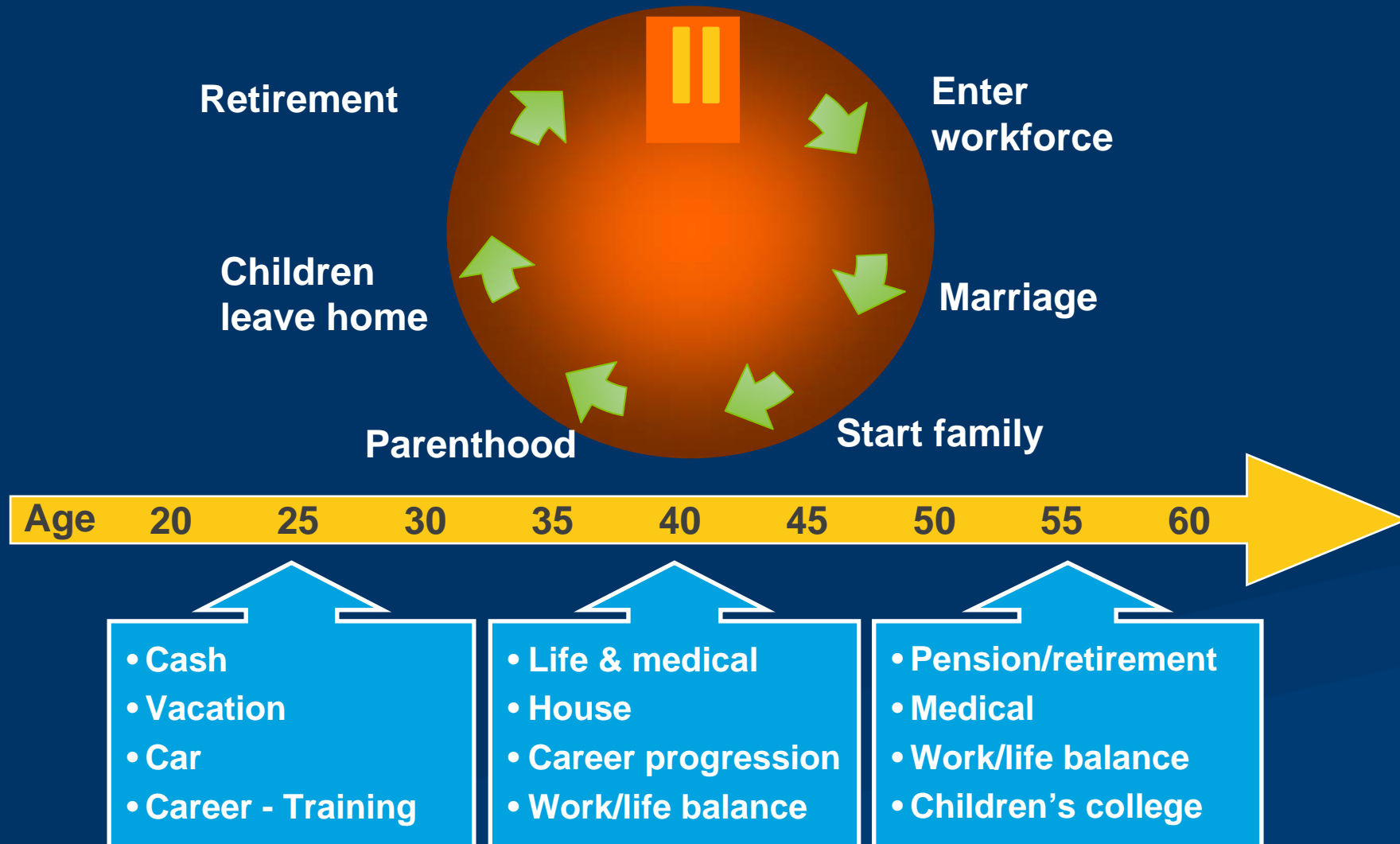
- Employees aware of benefits
- Employee co-shares any increases
- Employees understand employer costs



Employees **choose** the benefits that meet their individual needs

Employees have different benefits needs during different life stages

Why is choice important?



Different priorities for different generations

Matures & boomers

- Work/life balance
- Retirement planning
- Post employment medical
 - Flex time
 - Job security

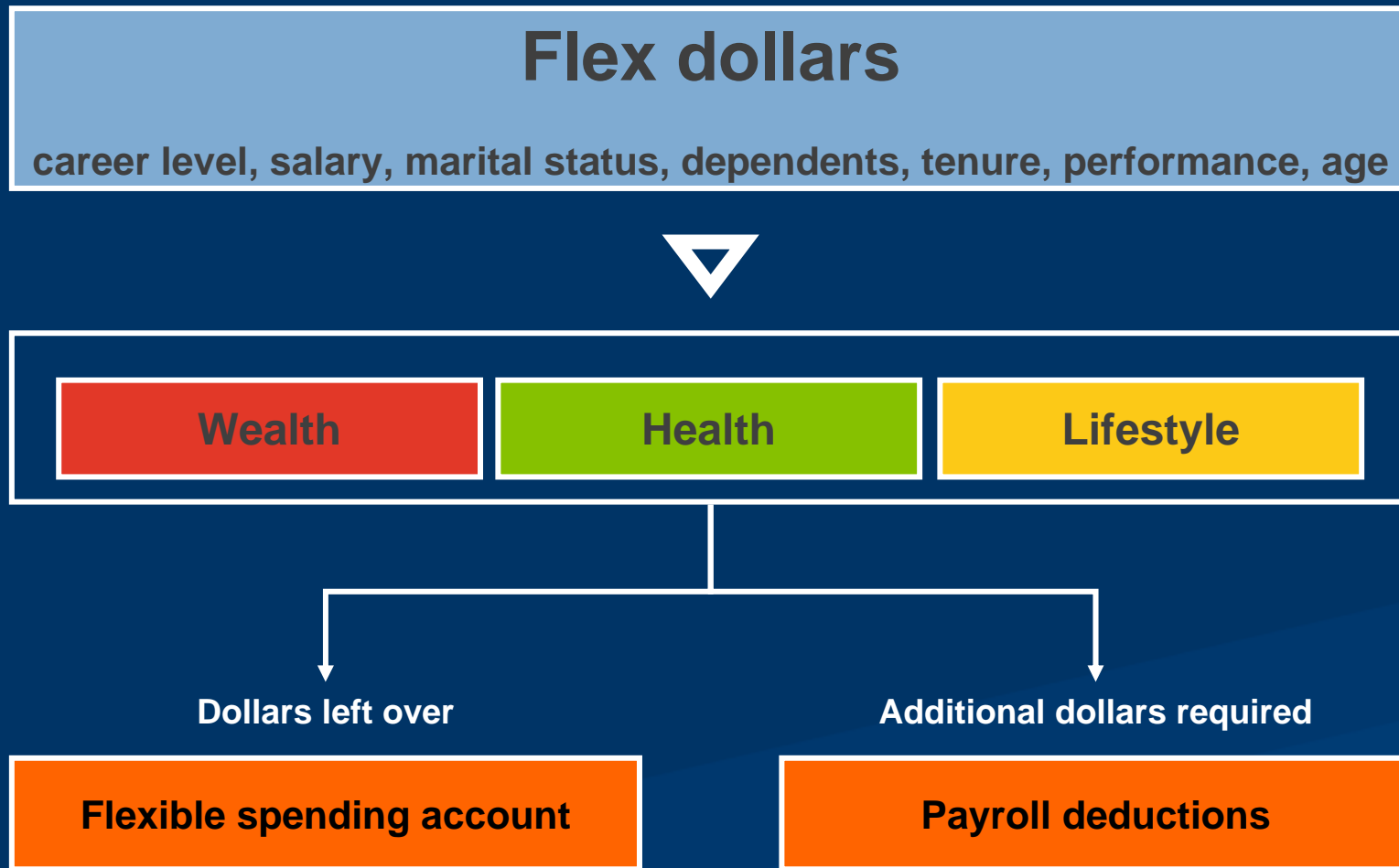
Gen-X

- Career growth
- Earnings potential
- Pay for (individual) performance
 - Family healthcare
 - Dependant needs

Gen-Y

- Participative, casual work cultures
 - Cross-training challenges
- Self-development opportunities
 - Recognition & praise
 - Technology savvy

How Flex works



Typical flexible benefits framework in Asia

Core benefits Fully funded by company

- Life & accident insurance
- Medical outpatient
- Hospital insurance

Flex dollars Spending dollars from company

Optional benefits Top up core or additional benefits

- Additional life & accident insurance
- Dependant medical outpatient
- Higher hospital coverage
- Dependant hospital coverage
- Dental Insurance for self & dependants

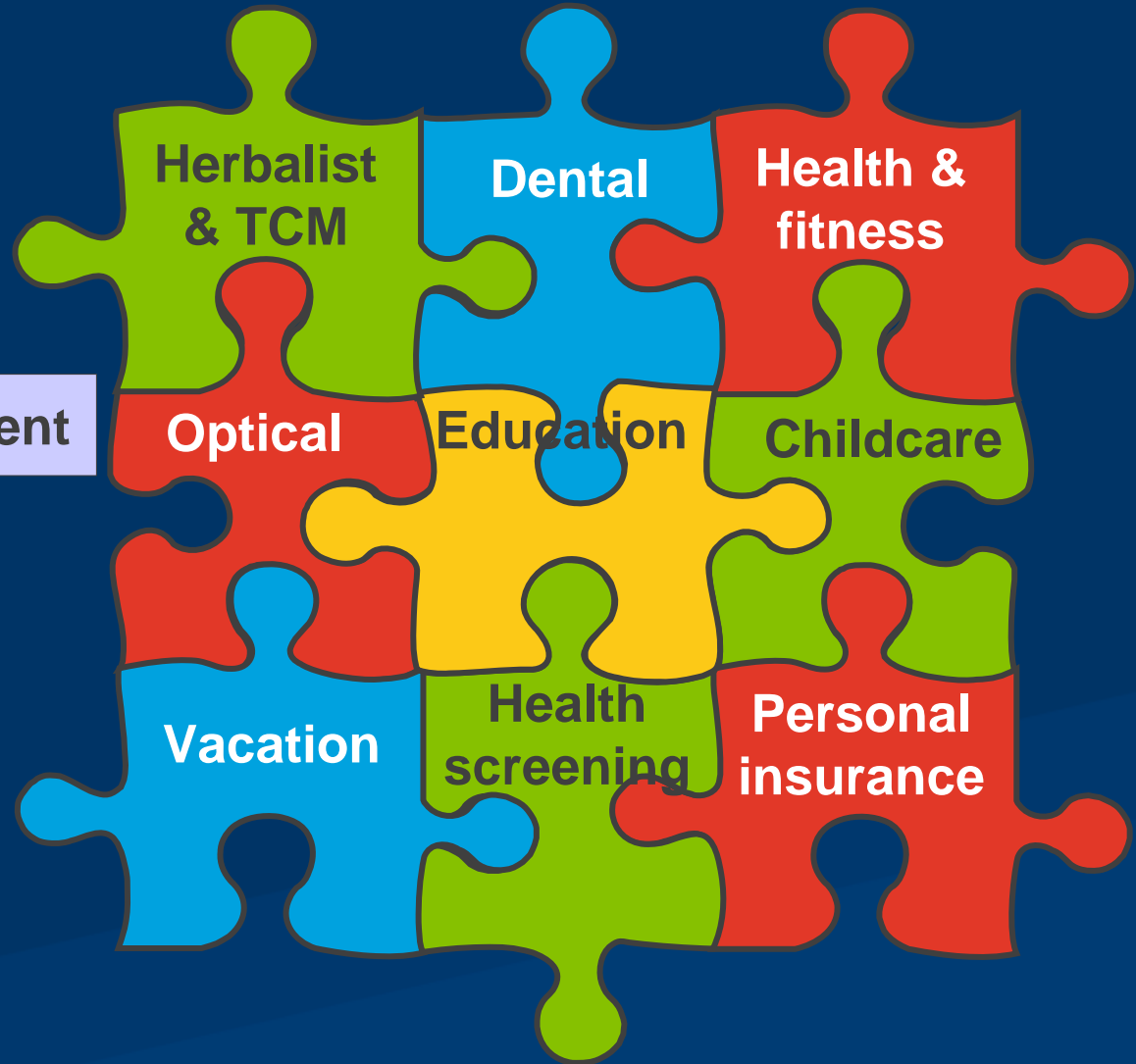
Flexible spending account Balance for reimbursements

Flexible spending account



Reimbursement

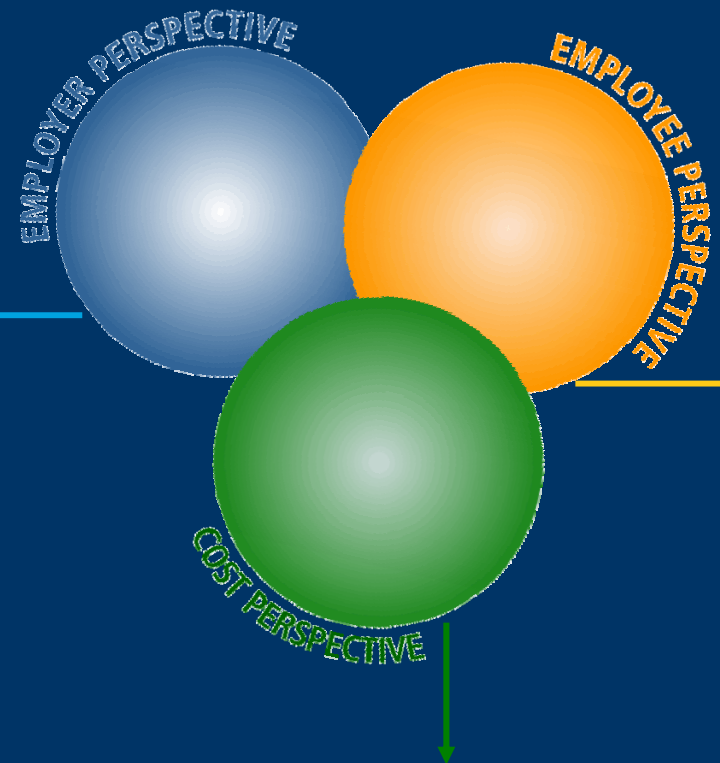
Balance of Flex dollars
credited to each
employee's FSA



Total Rewards strategy

Where does Flex fit in?

- How do we meet the needs of diverse workforce?
- How do we engage and create a compelling deal for our critical talent?
- How do we cope with emerging benefit trends?



- Diverse employees have different preferences and values
- Each employees' needs change as their career and life develops
- Flex can deliver benefits at more affordable price

- How can rising benefit costs be controlled?
- How do we maximize tax opportunities?
- How can we encourage cost sharing with employees?



SECTION 2

Flexible benefits

- **Tool for long-term cost containment**

Question 3

What is your top driving factor for implementing flex?

(select only one)

Press	If your response is:
1	Attract & retain talent
2	Market differentiator
3	Better meet needs of employees
4	Better communicate value of benefits to employees
5	Benefit enhancement
6	Cost management
7	Create greater value from existing benefits
8	Benefit harmonisation
9	Market alignment
10	Global / regional initiative

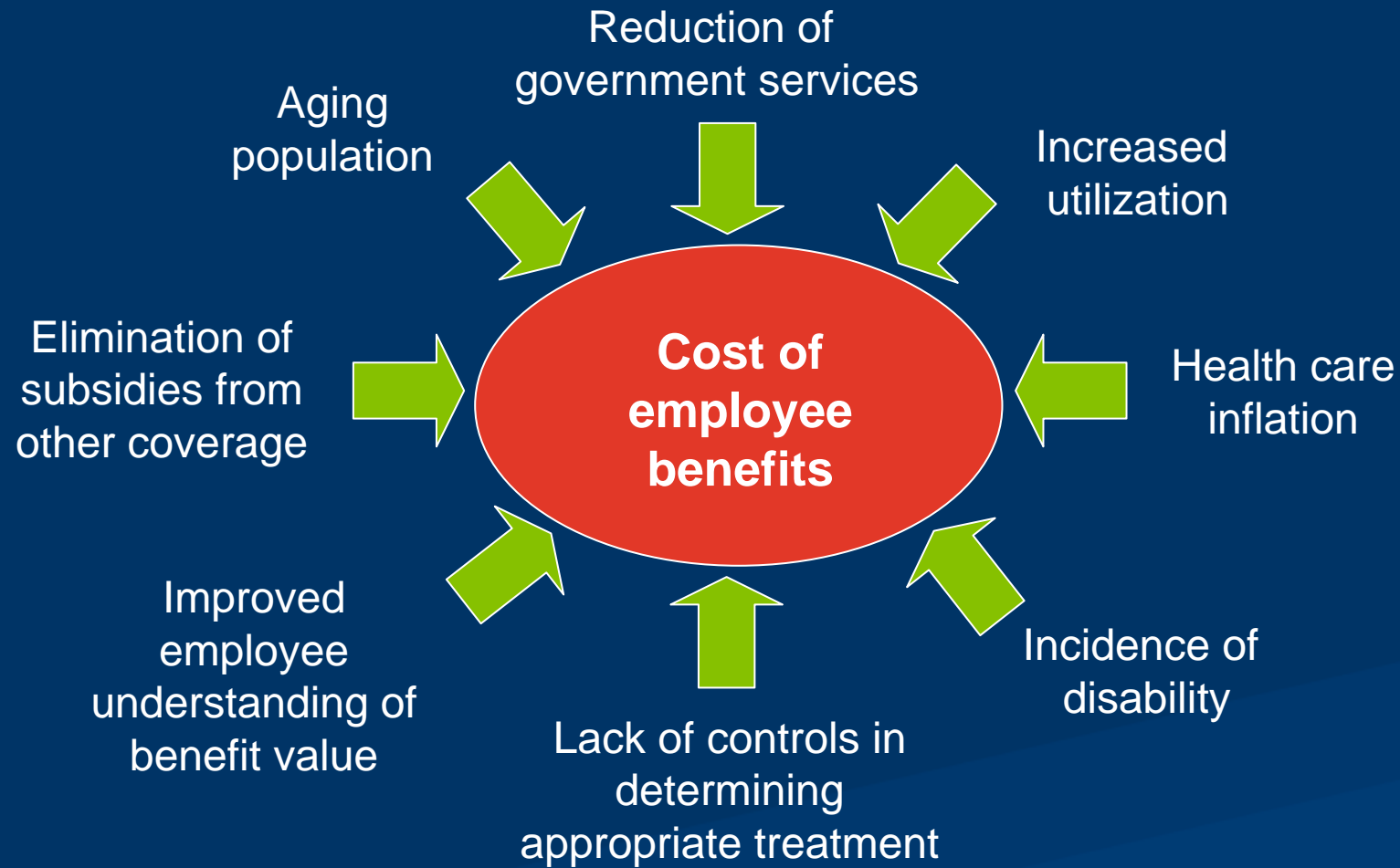
Question 4

What would you perceive to be the key concern or challenge in implementing Flex in your organisation?

(Select one only)

Press	If your response is:
1	Plan & administration complexities
2	Employees' ability to understand such a program
3	Costs
4	Lack of market information
5	Lack of vendors' support/experience
6	Not tax effective for employer or employees
7	Obtaining buy-in from key stakeholders within organisation

Influences on benefits cost



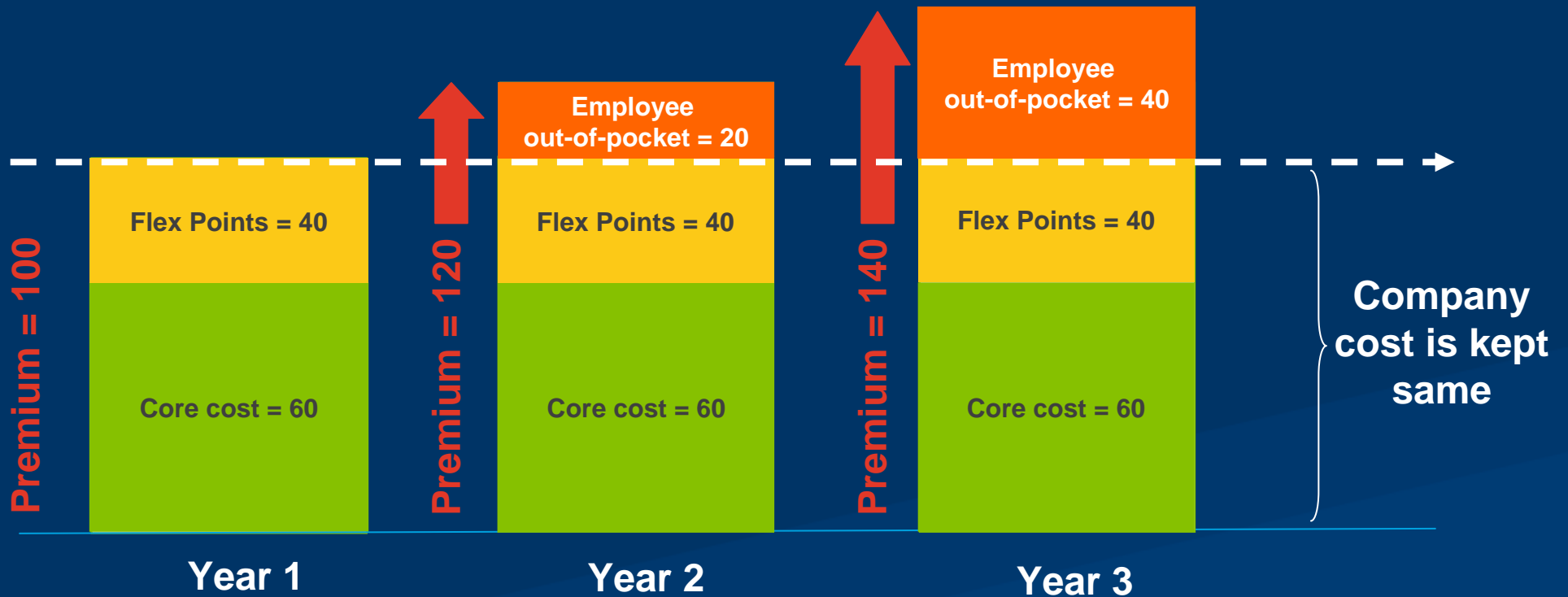
How flex can manage your benefits cost

- Depends on your current benefit utilisation and preferred degree of flexibility
- Depends on your flex objectives
 - Cost containment vis-à-vis benefit enhancements
- Flex offers a cost containment tool through its Flex Points vs. Price Tags mechanism.
 - How? (see next few slides)

How flex can manage your benefits cost?

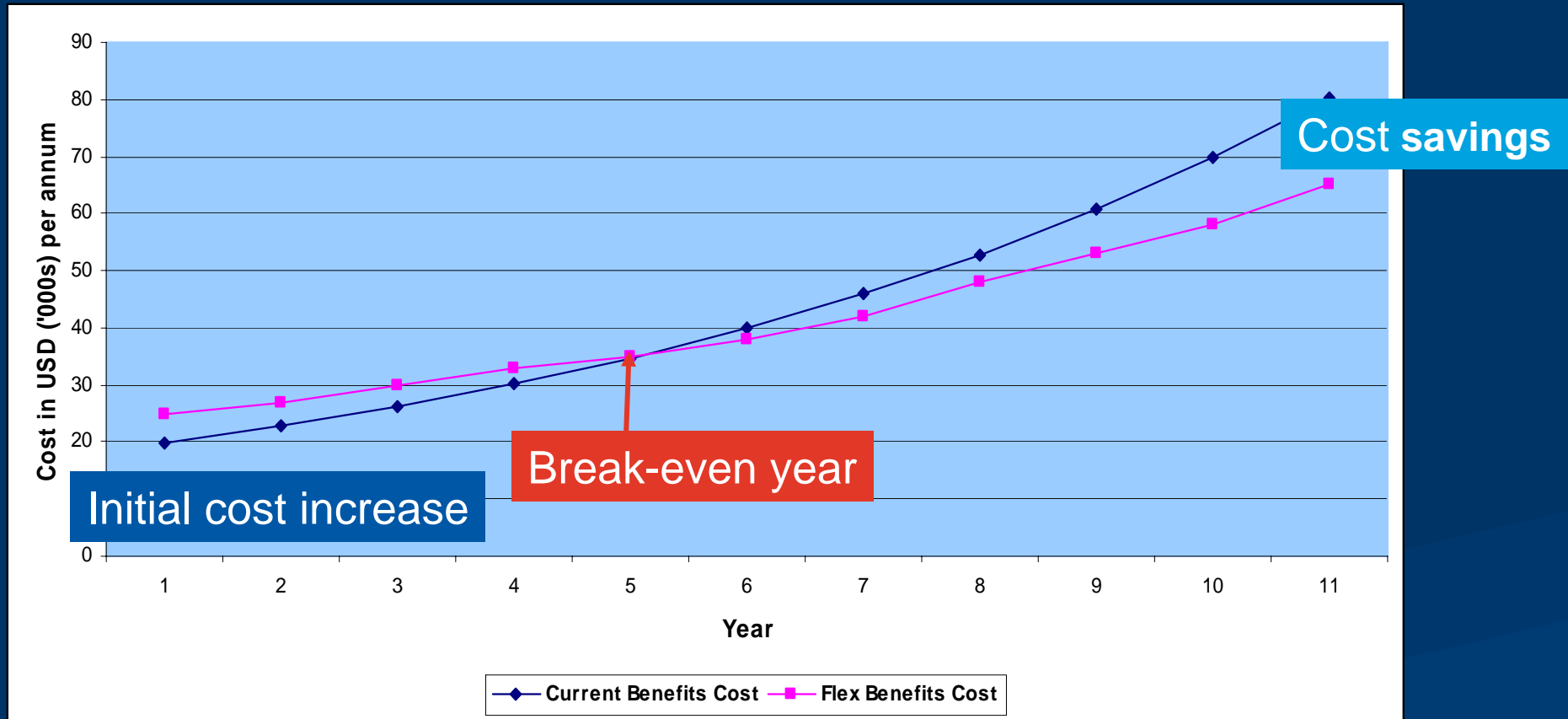
Flex offers cost containment tool through Flex Points vs. Price Tags mechanism

This tool is available in a flex structure but its use must be applied appropriately



How flex can manage your benefits cost

Cost-benefit/ROI analysis



How flex manages your benefits cost

- Companies are in no better position under a traditional benefits structure
 - Defined benefits structure means you are obligated to bear all future benefits cost increases
 - To keep cost same, you may have to review/cap benefit entitlements and levels; **the result = unhappy employees**
 - Employees are asking for higher entitlements and more benefits; you can't do so without increasing cost!

Flex can – and has been able – to address these issues successfully for some companies

Summary about flex...

Employee needs are different and a one-size-fits-all program is no longer relevant in our world today

Companies are seeing the need to:

- Respond to changing business environment
- Re-look at the other part of the compensation and benefits equation in war for talent

Flex is not a fad:

... growing interest in Asia as a possible solution in the war for talents especially in emerging markets and even developed countries

Flex provides a cost containment tool which can be deployed where appropriate

Experience of other companies

Key Flex Drivers:

- Better meet needs of diverse workforce
- Competitive differentiator
- Attract and retain talents
- Benefit alignment/harmonization
- Cost management
- Employees' lack of appreciation of benefits

Actions taken:

- Implementation of a flex plan
- Regional approach but focus on key countries as first phase, e.g. Singapore, Hong Kong, China, India
- Outsourcing of flex administration & use of a 'one-stop-shop' solutions provider
- Vendor consolidation and management
- Focus on cost efficiency

Challenges:

- Employees' understanding of choice and making informed decisions
- Administration complexities and cost
- Ensuring program remains relevant and competitive
- Communication

Results:

- Increased employee understanding and appreciation of benefits
- Enhanced employee perception of employer as caring, innovative, employer of choice
- Culture of responsible use of benefits and cost-sharing
- Consistent benefits platform across region
- Better cost management for some companies



SECTION 3

Asia's flex experience/challenges

Question 5

**Which country/region would you implement or next implement flex?
(Select one only)**

Press	If your response is:
1	Hong Kong/China/Taiwan
2	India
3	Singapore/Malaysia
4	Vietnam
5	Philippines
6	Indonesia
7	Thailand
8	North Asia (Japan, Korea)
9	Australia/New Zealand

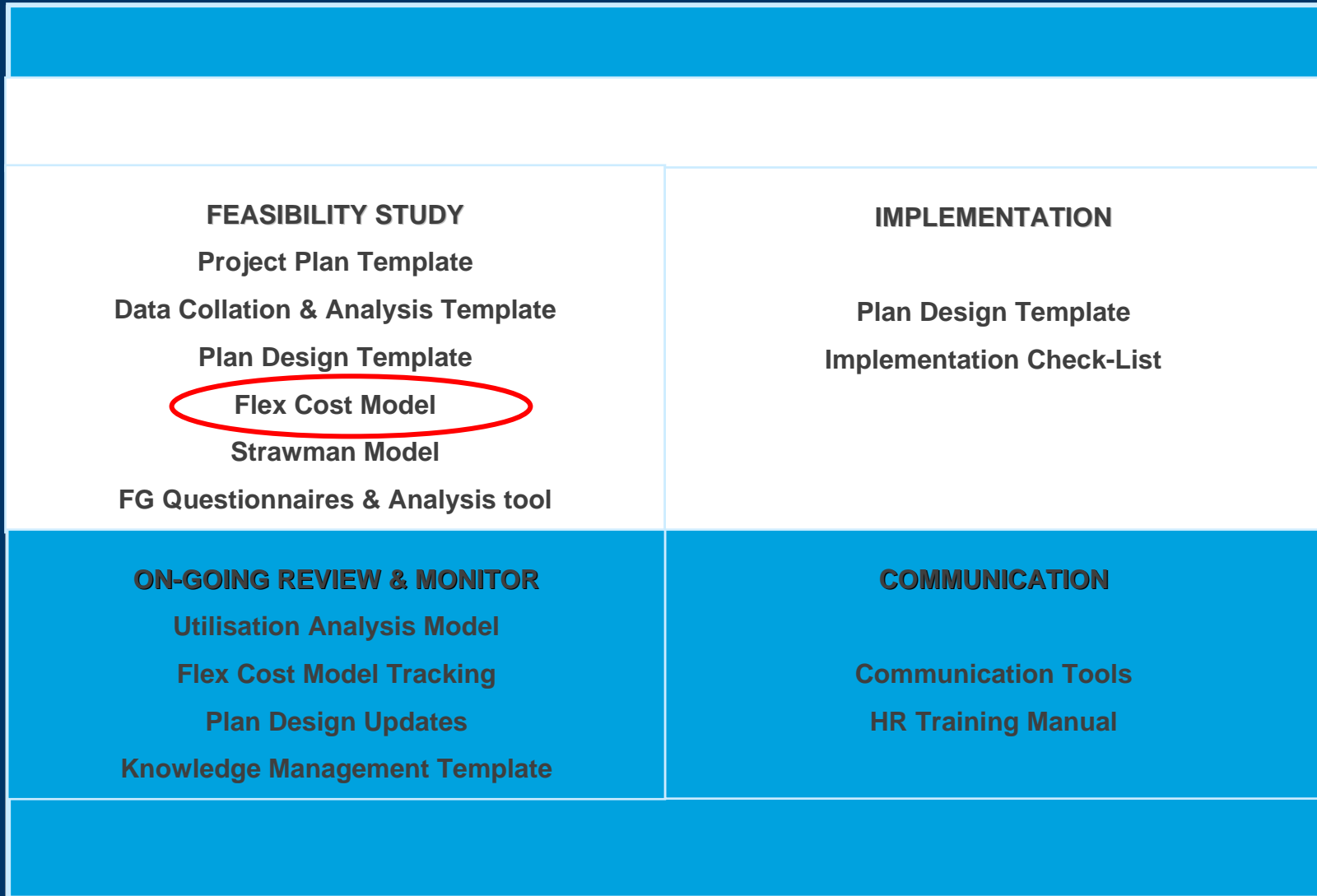
Question 6

What would be your preferred timeline for implementing flex?

Press	If your response is:
1	Within one year
2	Within two years
3	Within three years
4	Within five years
5	Not sure
6	No intention to do so

Getting started

What we need



Asia's flex experience – overview

	China	Hong Kong	Singapore / Malaysia	India	Philippines	Korea
Flex environment						
Infrastructure	Developing	Slow starter and some resistance from insurers	Mature market with good infrastructure support	New but insurers are receptive	Developing	Supports voluntary top-ups only for now
Regulatory	FSA items taxable	FSA items taxable	Some tax efficiency opportunities	Fringe Benefit Tax issues	FSA items taxable Automatic reduction of current benefits to core level not permitted	FSA items taxable

Asia's flex experience – overview

	China	Hong Kong	Singapore / Malaysia	India	Philippines	Korea
Flex environment						
Typical flex model	Flex Points, FSA & voluntary top-ups	Comprehensive model – core, options, Flex Points & FSA		Flex Points, FSA & voluntary top-ups	Comprehensive model – core, options, Flex Points & FSA	Flex Points, FSA & voluntary top-ups
Market practice	Few companies primarily MNCs Growing interest driven primarily by talent war	About 20 companies primarily financial services sector	Singapore – about 200 companies primarily financial services & technology sectors Malaysia – less than 20 mostly financial services	First flex to be launched in 2009 Growing interest driven primarily by need to better manage rising medical cost	Less than 20 Growing interest from MNCs in technology, pharmaceutical & manufacturing sectors	Approx 75 but on voluntary top-up plan model A few with FSA feature included

A blurred background image showing three people in professional attire. In the center, a woman with long dark hair is smiling and looking towards the left. To her left, a man in a dark suit and red tie is partially visible. To her right, another woman is partially visible, also in professional attire. The background is out of focus, showing what appears to be an office or meeting room with windows and greenery.

Questions?

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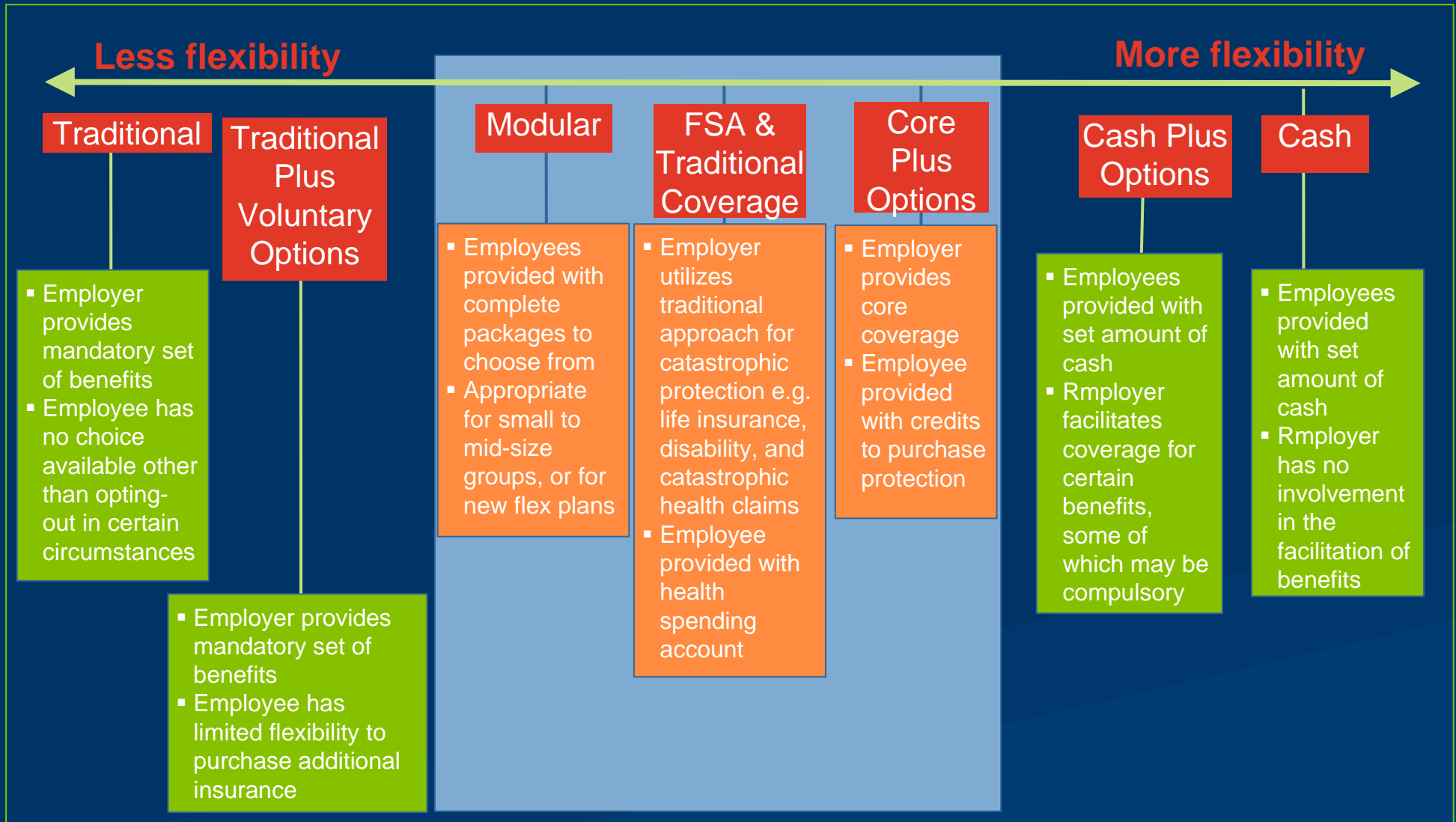
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How flex can help in long-term cost containment

	Year 1	Year 2 (+10% premium increase)	Year 3 (+10% premium increase)
Premium Rates	1-Bed : \$300 2-Bed : \$200 4-Bed : \$120	1-Bed : \$330 2-Bed : \$220 4-Bed : \$130	1-Bed : \$360 2-Bed : \$240 4-Bed : \$140
Benefit Entitlement	1-Bed Plan	1-Bed Plan	1-Bed Plan
Core Level	4-Bed Plan	4-Bed Plan	4-Bed Plan
Flex Points Allocated	$(300 - 120) = 180$	180 (no change)	180 (no change)
<u>Options</u>	Price Tags	Update Price Tags in line with new premiums	Update Price Tags in line with new premiums
2-Bed Plan	$(200 - 120) = 80$	$(220 - 130) = 90$	$(240 - 140) = 100$
1-Bed Plan	$(300 - 120) = 180$	$(330 - 130) = 200$	$(360 - 140) = 220$
Employer Cost	\$300	+10 (additional over Year 1)	+20 (additional over Year 1)
Employee Cost	\$0	+20 (additional over Year 1)	+40 (additional over Year 1)

This tool is available in a Flex structure but its use must be applied appropriately

Flexible benefits continuum



Comparison of some “typical” flex models

	Flex Models			
	Modular Plan	Core Plus	FSA Only	Voluntary Options Only
Key Features	Options are offered in fixed modules which are pre-determined based on assumed needs of target employee groups	Core Benefits Optional Benefits Flex Points FSA	Current benefits retained as core Flex Points & FSA only	Current benefits retained as core Top-Up or new insurance options but at employee own cost Company facilitates & negotiates with provider for special rates & terms
Pros	Easier to understand Appropriate model for more junior staff	Highly flexible Options / FA items can be expanded w/o increasing cost	Simple & with some choice May not have cost impact to employer	Simple & with choice No cost impact to employer
Cons	Limited flexibility	More complex	Limited flexibility	Limited flexibility
Administration Implication	Complex admin Outsourcing preferred option		Can be self-administered if rules kept simple	Selection can be administered by insurer
Potential Cost Impact to employer	Typical increase of up to 1% of annual base salary on average		Cost neutral basis may be possible or insignificant cost increase depending on design & quantum	No cost impact

Experience of other companies

Cost considerations

Benefits Cost	<ul style="list-style-type: none"> • Most companies spent additional budget of up to 1% of annual base payroll on flex programs • Some target to do flex on cost-neutral basis
Consulting Fees (once-off)	<ul style="list-style-type: none"> • This is a once-off fee payable to appointed Consultant to help in analysis, design, implementation & communication of flex program
System Configuration (once-off)	<ul style="list-style-type: none"> • This fee is for customising the system to administer the flex program, if it is to be outsourced • Range of fees will depend on admin work scope & requirements, Statement of Works & SLA
On-going System Maintenance	<ul style="list-style-type: none"> • Annual fee to maintain system
On-going Flex Administration	<ul style="list-style-type: none"> • Fee payable on per employee per month basis if flex program administration is outsourced • Work scope typically includes enrolment, life & work event changes, FSA claims, utilisation reports, helpdesk / hotline service
On-going Consulting Retainer	<ul style="list-style-type: none"> • Annual retainer fee to ensure continual consulting support in terms of program monitoring, analysis, utilisation, legislative changes & impact on flex, annual re-pricing & changes in flex points allocation

Factors for Success Flex implementation process

