

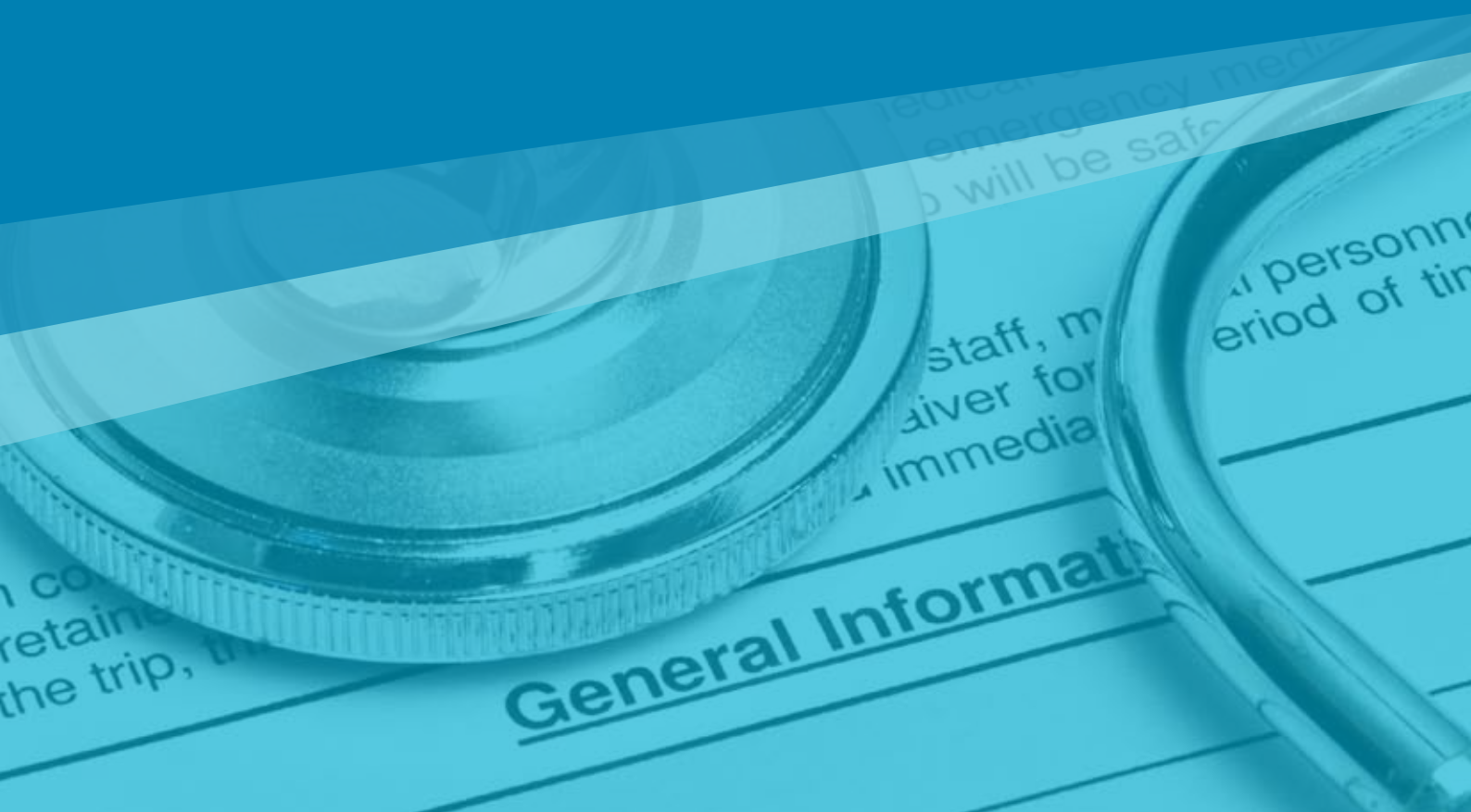
TAKING BACK CONTROL OF YOUR BENEFITS –

THREE STEPS TO ESTABLISHING A HIGHLY TARGETED, EMPLOYEE-
FOCUSED, AND COST-EFFECTIVE BENEFITS PROGRAM



LIANA ATTARD, MERCER MARSH BENEFITS
REGIONAL BENEFITS MANAGEMENT LEADER, AMEA

Effective management of the rising costs of medical benefits alongside providing targeted health and wellness programs that meet employees' needs is essential for a sustainable and meaningful benefit program.



Health and medical benefits are provided for a variety of reasons. Some companies feel that they are “nice to have” because they make employees feel “looked after”; many believe that they show commitment to corporate social responsibility and improve brand reputation; others appreciate that benefits provision can give their company a competitive edge.

In recent years, rising health care inflation, combined with high employee dissatisfaction levels, has meant that companies can no longer be complacent when providing benefits programs. Employees have increasingly sophisticated expectations of the level of benefits their employers should provide, and management teams need to take these expectations seriously. The key to success is being able to meet employee needs while ensuring that costs do not spiral out of control.

WHAT CHALLENGES DO EMPLOYERS FACE?

Historically, medical benefits provision has been relatively low cost — however, this is no longer the case. In the Asia Pacific (APAC) region, annual benefits premiums are set to rise between 4% and 22% in 2013. This rise is attributable to a number of factors:

- Increased medical costs associated with innovation and technological advances.
- Longer life expectancy and more diverse health requirements of employees.

Additionally, companies are finding it difficult to retain staff:

- Companies are experiencing a higher staff “churn” rate as competition for the best talent becomes ever more fierce.
- Employees are showing less commitment and less engagement as a result of increased marketplace competition — between 30% and 50% of employees across the APAC region are actively seeking to leave their current employer.

ARE YOUR BENEFITS EFFECTIVE?

This is a basic but fundamental question. Answering it involves looking at benefits provision from several different perspectives.

- | | | |
|-------------|---------|---|
| EMPLOYEES | ←.....→ | Do employees value the benefits provided? |
| EMPLOYERS | ←.....→ | Are the needs of the workforce being met? How do benefits support business objectives, goals and priorities? Do benefits comply with legislative and regulatory requirements? |
| COSTS | ←.....→ | Are benefits provided at an affordable and sustainable cost? |
| COMPETITION | ←.....→ | Do benefits provided compare favorably with those provided by competitor organizations? |

“Are your benefits comprehensive and cost effective now and tomorrow ... and will they remain so in the years to come?”

It is important that companies have short-, medium-, and long-term strategies to ensure that benefits are most effective. One trap that many companies fall into is making cuts to benefits provision each year as a quick-fix method of cost containment. This is a poor strategy: it is unsustainable and could ultimately lead to a demotivated workforce, decreased productivity, and, crucially, irreparable damage to corporate reputation.

If companies are to engage the highest-quality workforce, they must shift their focus from traditional benefits programs to programs that are tangible and flexible — and completely in tune with employee needs.

A THREE-STEP APPROACH TO TARGETED BENEFITS PROVISION

In order for companies to establish highly targeted, employee-focused, and cost-effective benefits programs, three key steps are essential.

“The one-size-fits-all approach to benefits provision is generally no longer an effective approach.”

1 DUE DILIGENCE

Due diligence means acquiring in-depth knowledge of the health risks and cost drivers within your company. Market/benchmarking data can be a valuable resource in analyzing external trends and competitor benefit positioning. However, relying solely on market data can be limiting, as it does not provide an insight into the internal issues — what your employees need and value. Focusing solely on the “external” may also mean you lose sight of aligning benefits to key business objectives.

Regular, thorough analysis of claims history and trends, employee demographics and behavior patterns, and external factors such as rising medical costs offers invaluable insight to companies when:

- Considering plan design changes.
- Reviewing providers/vendors.
- Creating communications/awareness campaigns for employees, to reduce risks and costs.

“In Asia, companies love survey data and benchmarking against peers and competitors. However, we can become so fixated on looking to the left, right, and behind that we forget where we are going in terms of broader business objectives and how benefits support these strategies.”

CASE STUDY: KNOWLEDGE IS POWER

A financial services company in India experienced high claims and sought to undertake remedial plan design changes. However, the company did not have an adequate understanding of why such high claims occurred in the first place. On investigation, Mercer Marsh Benefits (MMB) discovered that 75% of claims were from female employees requesting elective caesarian section births.

To tackle this, MMB implemented a range of targeted strategies, including an education and awareness program for female employees and the provision of information on prenatal care and the risks of medically unnecessary surgery. In the year following the introduction of these strategies, the company saw a 30% reduction in medical benefits spend — thus illustrating the importance of directing a solution at a particular problem, rather than making wholesale plan design changes.

2 CONTAIN COSTS AND IDENTIFY RISKS

The next stage in the process is to look at short-, medium-, and long-term needs, prioritize them, and construct a plan that spans program design, delivery, finance, and health management. A plan that embraces cost sharing, claims management, vendor performance management, employee education, employee choice, and lifestyle interventions can result in a return on investment (ROI) of up to 30%.

Carrying out a regular claims audit is also critical. Monetary error rates can be as high as 6%, and procedural errors up to 4.4% — the associated costs of these mistakes are avoidable when strict audit procedures are utilized.

“Increasingly, employees need to take ownership of their own health and that of their families, but need to be given the incentive, tools and knowledge to do so.”

CASE STUDY: OPTIMIZING CLAIMS DATA

A multinational organization in Singapore has an employee population of 4,000 (7,500 including dependents). In 2011/12, the company received over 14,000 claims under a single diagnosis category, at a cost of nearly \$1.8 million. When MMB analyzed these claims, it became clear that the majority of these claims related to minor upper respiratory tract infections, and the company’s benefits program was structured in such a way that the employer was responsible for almost 100% of payout in respect of such claims.

This poor plan design meant that employees were not encouraged to take personal responsibility for their health care — they could simply go to a GP for minor illnesses at little or no cost to themselves, which resulted in a considerable financial burden to the employer. Deep analysis of claims data allowed MMB to scrutinize health risks, see more clearly how costs could be contained, and advise our client on making longer-term plans regarding program design and addressing supply chain issues (better management of vendors).

3 DEVELOP AN EMPLOYEE CHOICE PROGRAM

The most effective employee choice programs take into consideration that employees have different benefits needs at different life stages — for example, marriage, starting a family, retirement, etc. Choice can be delivered in many forms and can have a positive impact on cost containment.

Examples of choice:

- Health and wellness — wellness credit, gym membership, education, etc.
- Corporate culture and environment — skills development and training, etc.
- Lifestyle — flexible working, shopping vouchers, etc.
- Financial support — pensions, life/disability insurance, etc.
- Voluntary benefits — critical illness cover, home/car insurance, etc.

“Focusing on incorporating health and wellness initiatives into plan design can go a long way towards helping control costs.”

CASE STUDY: INCENTIVIZING STAFF

A multinational hi-tech firm in Asia observed that some health risks could be prevented by health screening; however, only 5–10% of staff took advantage of such screening. MMB helped the organization to set up a choice program comprising core benefits and, in addition, established a Wellness Spending Account — a targeted “pot” of money that employees could spend on a wide range of wellness and lifestyle benefits *only* if they took advantage of health screening provided under the core plan.

By incentivizing staff in this way, the organization reaped the benefits of preventative screening and fewer claims.

LINKING HEALTH TO CHOICE

The three-step approach is clearly capable of delivering significant advantages to businesses in terms of cost reduction, and employee welfare and engagement.

In studies Mercer has conducted, it was found that the average ROI for wellness programs was 2.5:1. If any further evidence highlighting the benefits of linking health and choice is required, consider the fact that companies investing in such programs enjoy (over a two- to three-year period):

- 26.5% lower health costs.
- Increased productivity.
- 25.3% fewer sick days.
- Improved job satisfaction/employee morale.
- 11% higher revenue.
- Reduced staff turnover.
- 28% higher shareholder return.

Moreover, supplementing choice with wellness initiatives provides companies with the ability to repurpose program spend to maximize ROI, not just in monetary terms but also in terms of staff productivity, performance, and motivation.

CONCLUSION

It is possible to contain employee benefits-related costs while at the same time empowering, motivating, and engaging employees through the provision of choice in health and wellness benefits. The core messages that companies must remember when designing and implementing benefits programs are:

1. LEVERAGE DATA EFFECTIVELY

Optimize due diligence by analyzing your workforce and focusing on how you can most effectively cater to internal needs, in addition to making external comparisons with peers or industry competitors.

2. STRIVE FOR SUSTAINABILITY

Once you have identified the core needs of your workforce, concentrate on creating a tailored, sustainable health and wellness program that gives demonstrable benefits in the short, medium, and long term.

3. WORK SMARTER

Encourage employees to take ownership of their health and wellness; support them in becoming active consumers of health and wellness rewards rather than passive recipients of medical benefits. Prevention is more cost effective than cure!

CONTACT US

For further information on how to implement an effective health and wellness program, contact your local Mercer Marsh Benefits team or visit Mercer Marsh Benefits — Benefits Effectiveness at www.mercer-marsh-benefits.com/benefits-effectiveness.

ABOUT THE AUTHOR

Liana Attard is the Mercer Marsh Benefits Regional Benefits Management Leader for AMEA and is based in Singapore. She can be contacted on +65 6327 7144 or at liana.attard@mercer.com.

ABOUT MERCER MARSH BENEFITS

Mercer Marsh Benefits provides clients with a single source for managing the costs, people risks, and complexities of employee benefits. The network is a combination of Mercer and Marsh local offices around the world, plus country correspondents who have been selected based on specific criteria. Our benefits experts, located in 135 countries and servicing clients in more than 150 countries, are deeply knowledgeable about their local markets. Through our locally established businesses, we have a unique common platform that allows us to serve clients with global consistency and locally unique solutions.

For further information, please contact your local office in:

Auckland
Tel: +64 9 928 3217

Penang
Tel: +60 4 263 2463

Bangalore
Tel: +91 80 4185 7710

Seoul
Tel: +82 2095 4700

Bangkok
Tel: +66 2695 7129

Shanghai
Tel: +86 21 6335 3358

Beijing
Tel: +86 10 6533 4300

Shenzhen
Tel: +86 755 3332 4500

Delhi
Tel: 91 124 4175 600

Singapore
Tel: +65 6398 2553

Guangzhou
Tel: +86 20 3877 2199

Sydney
Tel: +61 2 8864 8886

Hong Kong
Tel: +852 3476 3800

Taipei
Tel: +886 2 2508 5168

Jakarta
Tel: +62 21 5790 0110

Tokyo
Tel: +81 3 5334 7760

Kuala Lumpur
Tel: +60 3 2302 8545

Vietnam
Tel: +848 822 7456

Manila
Tel: +632 902 3200

Regional Headquarters
Mercer (Singapore) Pte Ltd
8 Marina View
#09-08 Asia Square Tower 1
Singapore 018960
Company Registration No. 197802499E

Melbourne
Tel: +613 9623 5984

Mumbai
Tel: +91 22 4343 4500

www.mercer-marsh-benefits.com

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