

Flexible benefits – a risky business

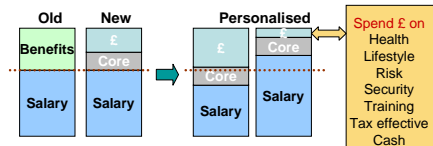
Marcus Underhill

Agenda

- Overview of flexible benefit plans in the UK
- Rationale and structures
- Typical risk benefits included
- Pricing and anti-selection
- Future developments

Typical UK flexible benefits structure

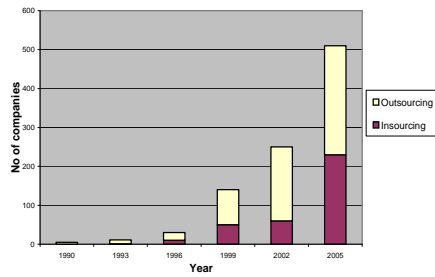
Once a year choice with lifestyle changes



- Individual receives communication of value of total package.
- Some benefits are considered core with no flexibility e.g. some pension, holidays, life assurance.
- The individual can trade other elements for cash, or other benefits.

UK market

Still growing – competitive pressure to do something



Sources : Mercer HR Consulting 2005

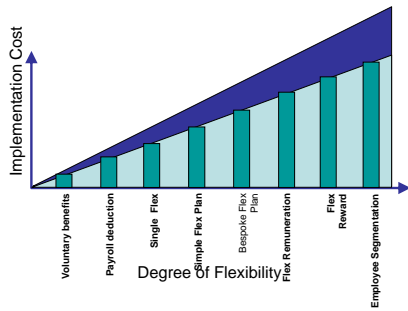
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Where has flex come up?

External influences	<p>What impact will an aging population have?</p> <p>"How can we control healthcare and retirement costs if governments are trying to pass on responsibility?"</p>
Strategic HR level:	<p>"We want to change the culture of the organisation"</p>
Strategic reward level:	<p>"We want to change how we pay people, the mix between variable/fixed pay, move from DB to DC pensions and control rising healthcare costs"</p>
	<p>"How can we merge these 2 benefit programmes at minimum cost?"</p>
Tactical reward level:	<p>"Can we increase the value of benefits without increasing the cost?"</p>
Benefit level:	<p>"Can we offer a facility to employees whereby they can get access to more benefits in a cost effective manner?"</p>

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Segmentation of solutions



Article available at: <http://www.mercerhr.com/referencecontent.jhtml?idContent=1201020>

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Management of Flex Implementation



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Management of Flex Implementation – The Favourite



- Employees no worse off
- Flex allowance based around current benefits
 - NI savings offsets costs of crystallisation of benefits
- Typically 10-12 benefits
- Issue – maintaining its freshness and differentiation?

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Management of Flex Implementation – financial driven



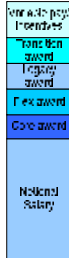
- Salary sacrifice benefits only
 - Pensions
- Total Reward statements
- Possible voluntary affinity arrangement in parallel
- Issue how to grow?

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Management of Flex Implementation



- Shrewd tactical solutions which assist in acquisitions and mergers
- Issue – dealing with complexity of solutions



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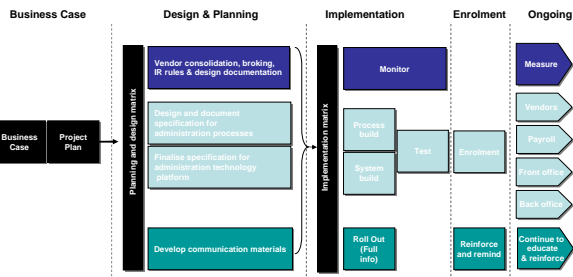
Management of Flex Implementation – continental thinking



- Lifecycle concepts – events more important than the benefits
- Career thinking not individual year by year thinking
- Wealth creation
- Invest in tools to manage engagement
- Issue – may require a leap of faith?

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Making it happen The key components of an implementation



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Examples of using choice to mitigate future benefit costs

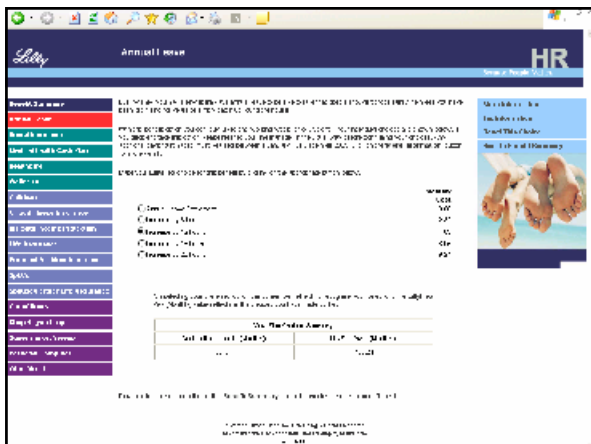
- Controlling benefit costs over time
 - Pricing strategies that are not cost neutral
 - Cost sharing
 - New benefits at no cost
- Reduced reward costs for new entrants
- Recognising turnover, absence, engagement and process savings
- National Insurance or tax savings

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Potential benefits

- Company pension
- Personal pension
- Life assurance
- Permanent health insurance
- Private medical insurance
- Personal accident insurance
- Health screens
- Critical illness insurance
- Long term care
- Dental care
- Optical care
- Financial counselling
- Discounted products
- Sabbaticals
- Share schemes
- Red letter days
- Bicycles
- Home breakdown
- Personal computers
- Household insurance
- Mobile phones
- Holidays
- Company cars
- Personal lease car
- Spouse/partner pension
- Pet insurance
- Private petrol
- Cinema tickets
- Magazine subscriptions
- Wine
- Mortgage subsidy
- Personal loans
- Spouse/partner life cover
- Charity contributions
- Travel insurance
- Professional subscriptions
- Sports facilities
- Annual leave
- Retail vouchers/discounts
- Childcare vouchers
- Legal insurance
- Car insurance

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Pricing issues

- Current benefit
 - Allowance structure
 - Core and flexible element
 - Pricing of options
 - Rules around the benefit
- New benefits
 - Less concern from the employer on cost?

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Medical insurance
Life assurance
PDI
Critical illness

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Interesting areas

- FSA Compliance
 - Retail and Commercial products
- Dealing with rating individual by individual
- Medical evidence collation for dependants
- Product bundling offerings
- Age discrimination

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Age discrimination

- 1st October 2006 - Service up to 5 years exempt
- Flexible benefits links
 - Access to a benefit
 - Age related flexible benefits allowances
 - e.g. higher allowance for older staff to reflect life cover
 - Age related options for benefit entitlements
 - Can I trade down to get age related benefit payment?
 - Age related options for new benefit options
 - Can I trade up to get age related benefit?

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Administration market is immature



- Traditional benefit providers
- Systems providers and distribution channels
- Payroll
- Integrated solution providers
- Niche players
- Outsourcing companies
- Benefit providers or Insurance Companies
- Other marketing/distribution channels

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Linking to absence discussions

If a company has more staff covered for health related benefits is there a value to the Company?

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Europe – Where should priorities lie?

Country Driven	Sector/Business Driven	Restricted
<ul style="list-style-type: none">▪ UK▪ Ireland▪ Spain▪ Germany▪ Czech Republic▪ Denmark▪ Sweden▪ Portugal	<ul style="list-style-type: none">▪ Netherlands▪ Hungary▪ Turkey▪ Norway▪ Finland	<ul style="list-style-type: none">▪ Poland▪ Austria▪ Switzerland▪ Belgium▪ France

Source Mercer HR Consulting - Blue countries show strong market and growth

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Takeaways – a risky business?

- Flex market is growing but segmenting
- Creates new opportunities for health related strategies
- Some technical issues but marketplace generally finds a way to overcome these
- Admin market still unclear
- Europe has potential

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