Global Benefit Trends

Nick Dobelbower, PhD, CEBS, GPHR
Lockton Companies
Agenda

- Global demographic trends affecting occupational benefit provision
- Financial crisis and social and statutory benefit provision
- Benefit plan cost drivers
- Regional benefit trends
  - Asia Pacific
  - Latin America
  - North America
  - Europe
  - Middle East and Africa
Global Demographic Trends

Impact on social and occupational benefits provision
Longevity Increases
Life expectancy at birth: 1950-2050

- Changes in retirement age
- Stressors on social insurance
  - Old-age retirement
  - Medical expenses
  - Long-term care
- Convergence between less and more developed nations
  - Greater need to enhance social or occupational insurance in developing nations
  - Cost of employment will increase in developing nations
Life Expectancy
Exceeds 80 on average for OECD countries

Source: OECD Health Statistics 2013, OECD; World Bank for non-OECD countries
Population Aging
Proportion of the population 60 year or over: 1950-2050

- Decreasing fertility rates combined with aging will impact age dependency ratios globally
- Fewer working people to support non-working populations
- Added strain on social insurance
- Greater reliance on occupational and individual retirement savings
- Greater participation of women in the workforce

United Nations, Department of Economic and Social Affairs, Population Division (2015)
World Population Aging 2013 ST/ESA/GEN/234B.
Western Europe and Asia most affected
- Japan has more workers retiring than joining the workforce
- In 2010, more workers retired in Europe than joined the labor market
- Soon to follow are Canada, China, Russia, South Korea

BRIC countries not immune
- Africa will have largest proportional working-age population
Global Financial Crisis

Impact on social and occupational benefits provision
Financial Crisis
Impact on social and statutory benefit provision

- Expanding social insurance coverage
  - Brazil, China, South Africa
- Increased contribution rates
  - Australia, Kenya, New Zealand, Singapore
- Increased contribution ceilings
- Reduced social retirement benefit levels
- Decreases in payroll tax exemption for supplemental plans
  - France, Mexico, Spain
- Appropriation of privately managed retirement assets
  - Argentina, Hungary, Poland
- Weakening of social medical services
- Increasing normal retirement age and protections for older workers
  - Australia, France, Germany, Japan, Sweden, UK
- Mandating occupational coverage
  - Medical (USA, France)
  - Retirement (United Kingdom, Germany to follow?)
Diversifying the Workforce

- **Women** participating more significantly in the workforce
  - Greater flexibility and protections to promote working women having children
  - Increased child care grants in Europe
  - Greater parity between genders

- **Older workers** on flexible working arrangements ("Generation U")

- **Mobility** and migration will continue to grow
  - Easing of immigration restrictions to be expected as economies improve and labor market tightens

- Redefinition of the employee value proposition
  - Greater employee power in defining how work is assigned, assessed, and rewarded
Impact on Employers

- Higher costs for social contributions
- Reduced opportunities for tax shelters
- Increased need for occupational plans to supplement social shortfalls
- Defined benefit retirement plans will have increased funding challenges due to longevity risk
- Increased contributions under mandatory private pension plans and auto-enrolment requirements
- Increased requirement for portability in retirement and health plans

Actions Employers Are Taking

- Employee participation in the cost of occupational benefits
- Flexible benefit structures to allow employees to align cost with most valued benefits
- Defined contribution benefit structures beyond capital accrual plans
  - Flexible benefits
  - Life, disability, medical
- Wellness and prevention
- MNCs will seek talent in most efficient geographies in terms of skill and cost
- Benefits as a tool for talent retention
Benefit Plan Cost Drivers
Global Medical Inflation Trends

Historic and Projected Medical Inflation Trend (%)

Source: Towers Watson 2012, PWC 2014
Prevalence of Chronic Diseases
Diabetes prevalence by country

Source: International Diabetes Federation (2011)
Regional Benefit Trends

LOCKTON®
Global Benefits Trends

**Corporate governance**
- Governance requirements
- Central and regional management
- Greater adherence to central/global strategies

**Employee engagement**
- Flexible benefits
- Increasing awareness of benefits on offer
- Work/life benefits as differentiators

**Cost efficiency**
- Carrier consolidation, multinational pooling
- Cost-shifting to employees via voluntary benefits and salary sacrifice for tax efficiency
- Risk-shifting by converting to defined contribution structures

**Wellness & prevention**
- Wellness programs with incentives & penalties
- Biometric screening, health risk assessments
- Preventive screening (not always insurable)
Regional Trends

- Growing importance of benefits from “nice to have” to a “must have”
- Adding flexibility to benefits offering
  - Align expense with value perception
- Assignment opportunities
- Wellness and prevention
  - Annual check up, biometric screening, health risk assessment, employee assistance
- Better communication of benefits on offer
- Growth in lifestyle benefits as differentiator
  - Gym membership, shopping discounts, etc.

Country Highlights

- Australia:
  - Increasing superannuation contributions
- China:
  - Enterprise annuity (retirement) tax rules clarified
- India:
  - Dependent parent health coverage increasing cost challenge
- Korea:
  - Pension plans growing rapidly due to loss of tax efficiency for severance pay plans
- Singapore:
  -Flexible benefits incentives
Latin America

Regional Trends

- Benefits important part of employee value proposition
- Growing interest in voluntary benefits
  - Dental, higher level medical, life and AD&D
- Wellness and prevention increasingly important in light of medical trend and increased chronic disease rates

Country Highlights

- Argentina:
  - Collectively bargained pay increases continue to range from 20-30% due to inflation
- Brazil:
  - Health insurance is most valued benefit
  - Retirement plans growing in importance
- Chile:
  - Private health insurance increasingly common
- Colombia:
  - Private health insurance increasingly common
North America

Regional Trends
- Workplace flexibility
- Communication of benefits on offer
- Controlling medical spend
  - Negotiated arrangements for high-cost treatments with best-in-class providers
- Wellness incentives and penalties
  - Chronic disease management and compliance

Country Highlights
- Canada:
  - Growing shift toward generic only coverage in private medical plans
- USA:
  - Mandatory health coverage (Affordable Care Act) will affect employers in 2015
  - Consumer driven healthcare (high deductible plans)
- Mexico
  - Fiscal reform law (effective 2014) reduces corporate deductions for employee benefits
  - Wellness and chronic disease management
Europe

Regional Trends

- Cross-border European pensions (IORP) still evolving
- Transition from DB structures to DC
- Greater focus on maximizing purchasing power across countries
- Increasing employee awareness of benefit value
- Greater need for private medical, and medical trend increasing concern
- Increasing need for supplemental pensions
- Growing mobility within the EU can be a challenge for benefits consistency and portability

Country Highlights

- France:
  - Continuation of benefits post-termination now in effect
  - Mandatory private health coverage with effect for all employers in 2016
- Germany:
  - Trend towards offering private medical
- Netherlands:
  - Reduction in maximum pension accrual rates requiring employee consultation, change in state pension age
- United Kingdom:
  - Pension “command paper” addressing charges and active member discounts and Budget 2014 changes to withdrawal
Middle East and Africa

Regional Trends

- Continued rich guaranteed allowance environment in GCC countries
- Increase awareness of cost of benefits in GCC through plan design features or flexible benefits
- Distinction between national and expatriate compensation and benefits disappearing in GCC countries
- Growing MNC presence in Africa raising awareness of employee benefits
- Increasing mandates for occupational life and pension coverage in Africa

Country Highlights

- Dubai:
  - Health insurance law with effect from 2014
- GCC:
  - Funded pensions with matching design constructed to offset end-of-service indemnities growing as a retention tool
  - Medical premium increases consistently averaging 15-20% (poor claims behavior and network management)
- Kenya:
  - Social security changes effective June 2014 create incentive for employers to contract out through private pension
Our Mission
To be the worldwide value and service leader in insurance brokerage, employee benefits, and risk management

Our Goal
To be the best place to do business and to work

www.lockton.com