

2012 Corporate Governance of Employee Benefits Study

Align strategy. Manage risk. Execute.

December 2012


AMERICAN BENEFITS
INSTITUTE

AON Hewitt

How do multinational companies make and execute strategic policy decisions *to manage business risks* related to their employee benefits?



Defining Global Governance...

!!

*Processes and structures a multinational company utilizes to exercise **corporate oversight and control over strategic decisions** in the areas of program design, financial management, and operations by:*

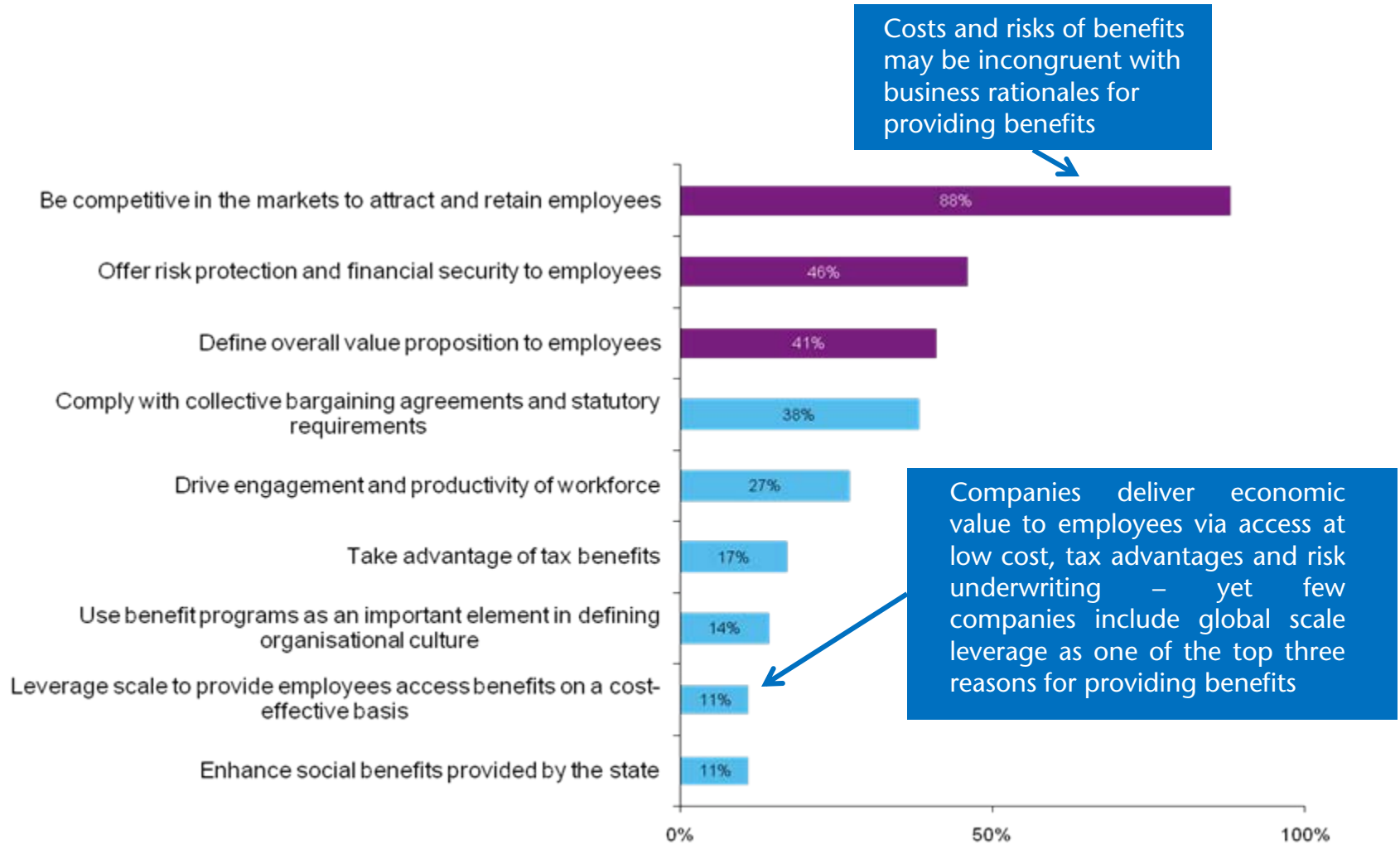
- *Defining expectations and granting powers to make policy decisions,*
- *Allocating responsibilities to execute such policies,*
- *Monitoring performance against such policies.*

!!

Key findings

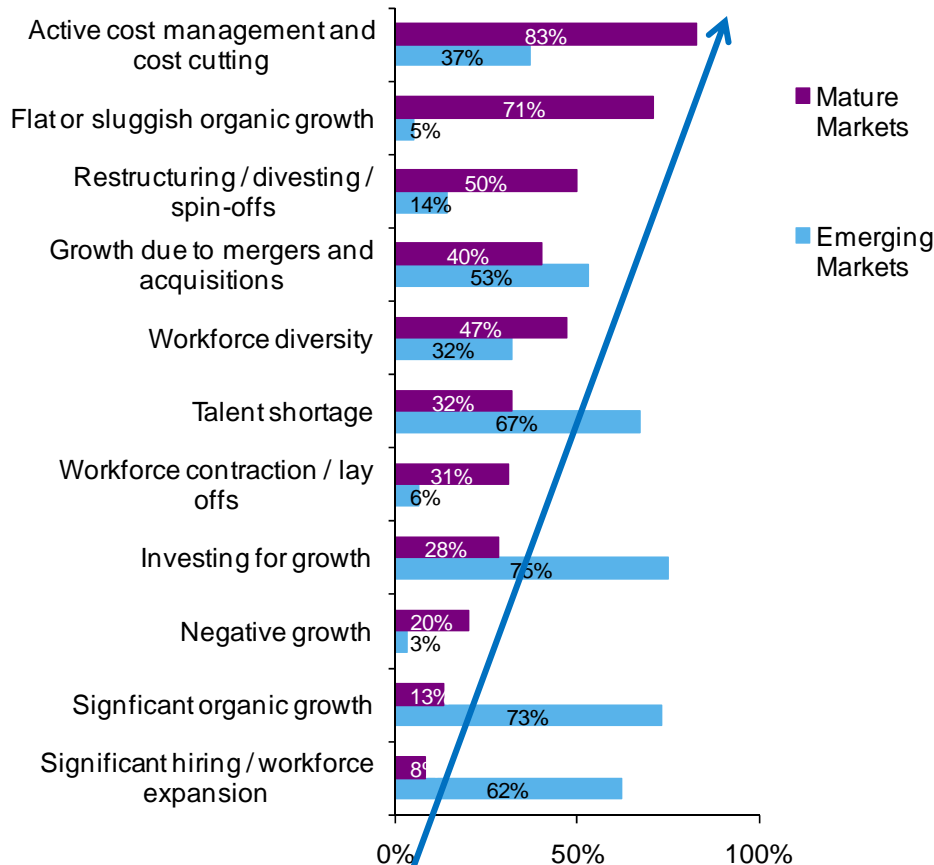
- **Financial costs and risks** are the main drivers of corporate involvement and centralization trends in global benefits management
- Current corporate involvement is geared towards **controlling design and financial decisions** in response to rising costs and risks of benefits
- Companies are **not satisfied** by the level of corporate oversight of benefits in international locations
- Companies are **not confident** that local benefits are aligned with corporate strategy, and that corporate oversight is reducing financial and operational costs and risks
- **Lack of reliable information and lack of formal protocols** are the main challenges in executing global benefits strategy
- Companies with ready access to information on risks, established corporate policies, and formal structure to execute such policies report higher confidence levels in reducing costs and risks
- In future, **corporate involvement is expected to increase significantly** in design, financial and operational decisions

Top 3 rationales for providing benefits

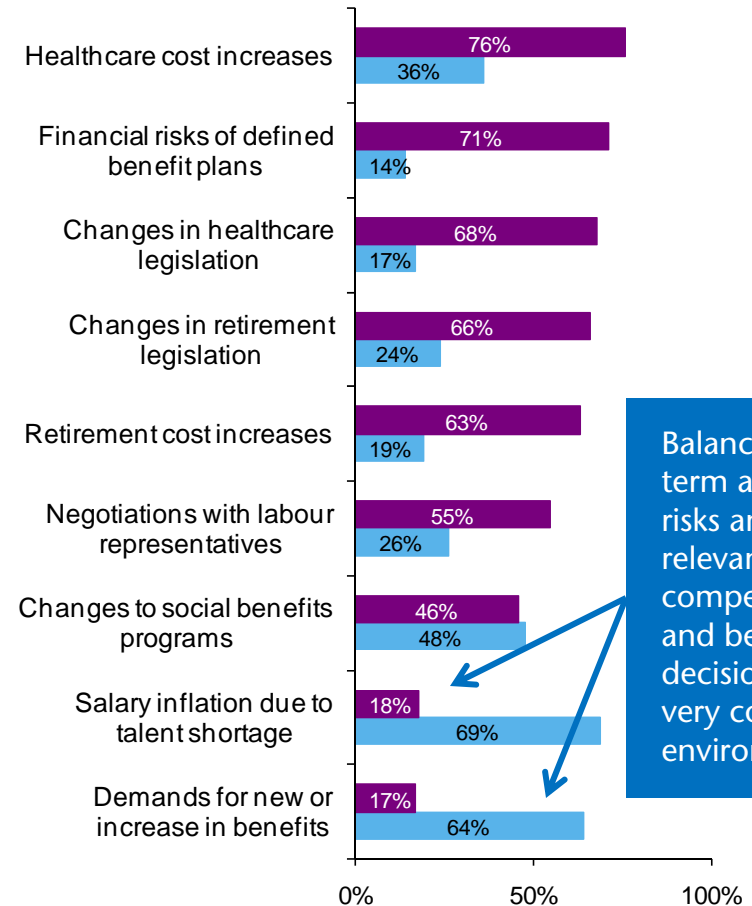


Business and benefits issues in mature and emerging markets

Business Issues



Benefits Issues



Balancing long-term adverse risks and local relevance of compensation and benefits decisions in a very competitive environment

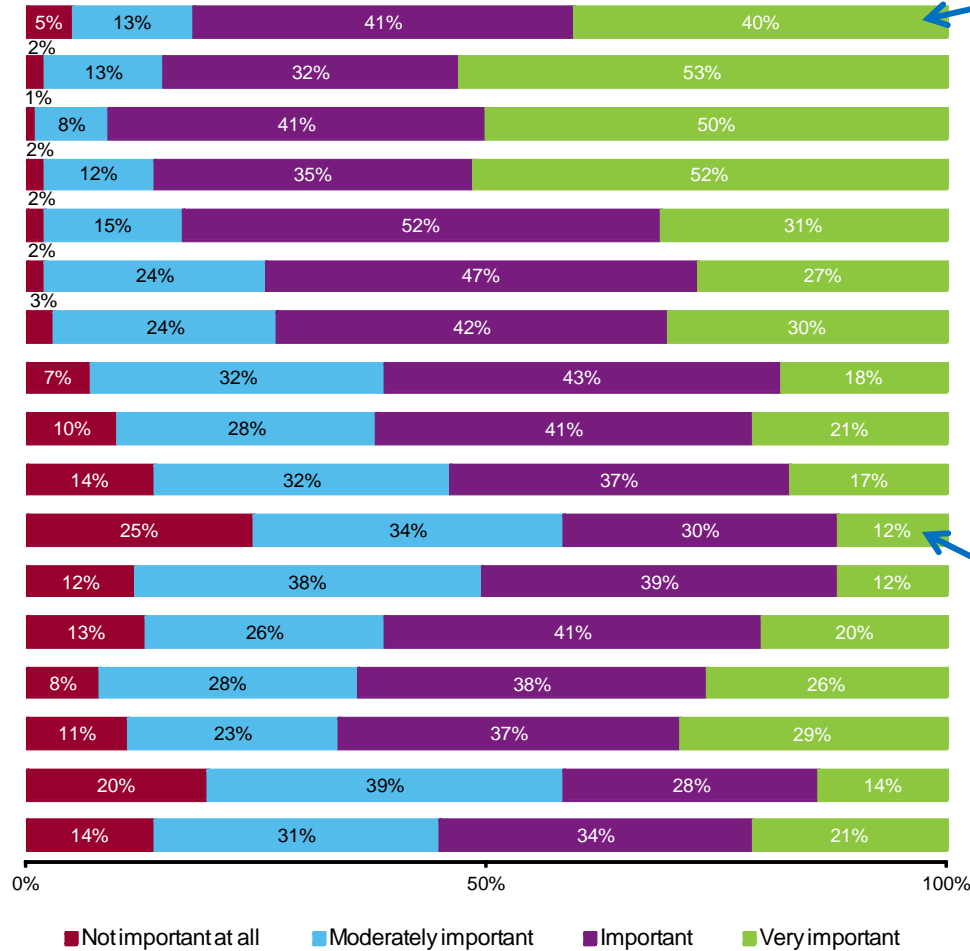
There is an inverse correlation between business and benefits issues in mature and emerging markets

Drivers of corporate involvement

Costs and risks of benefits are primary drivers of corporate oversight and controls over local benefits decisions

Many companies struggle with access to reliable information on benefit programs at corporate level

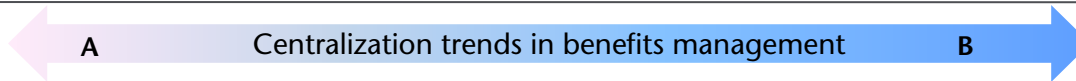
- Lack of knowledge of benefit plans and costs
- Significant size of liabilities / assets**
- Costs of benefit plans**
- Financial risks of employee benefit plans**
- Regulatory compliance risk
- Corporate/ local fiduciary requirements
- International corporate governance standards
- Reduce admin costs via global purchasing
- Implementation of new accounting rules
- Desire for consistent global benefits approach
- Centralized operating model of the company
- Lean HR / benefits staff in local countries
- M&A transactions
- Reputational risk
- Benefits do not align with corporate policies
- External auditor requirements
- Rapid growth in international locations



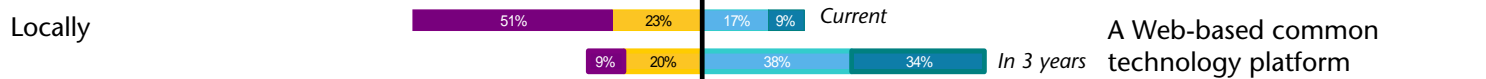
Suggests that there may not be a strong correlation between the operating model of companies and centralization trends in benefits management

While many companies have established corporate policies, there is a lack of alignment between such policies and local benefits

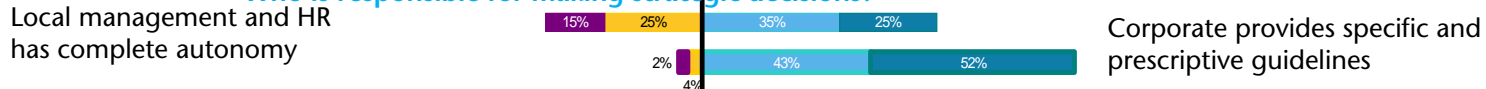
Centralization trends



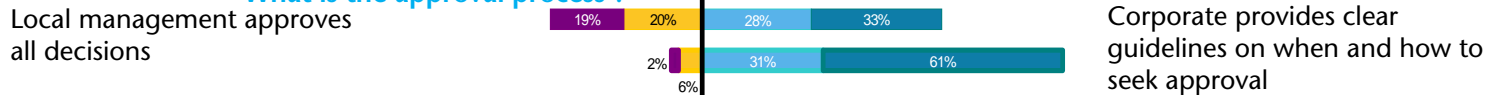
How is data on benefit plans maintained?



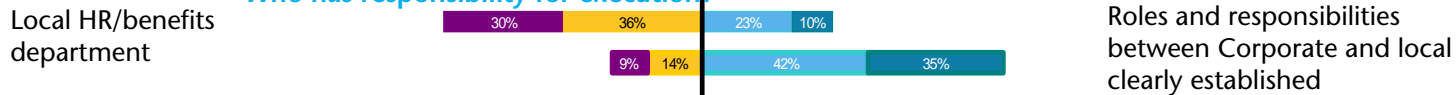
Who is responsible for making strategic decisions?



What is the approval process?



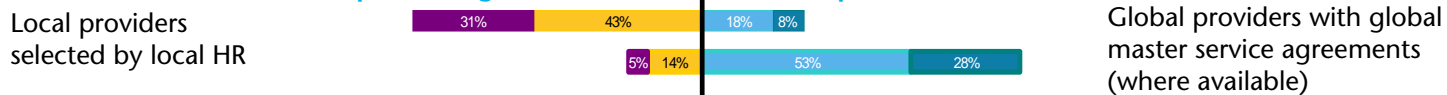
Who has responsibility for execution?



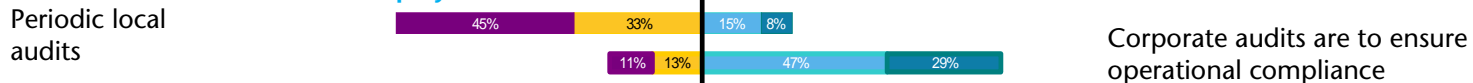
What is the current staffing model?



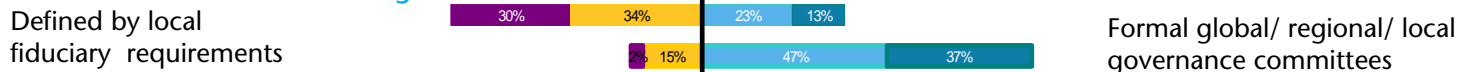
How are purchasing decisions made for service providers?



How are employee benefits audited?



What is the governance model?



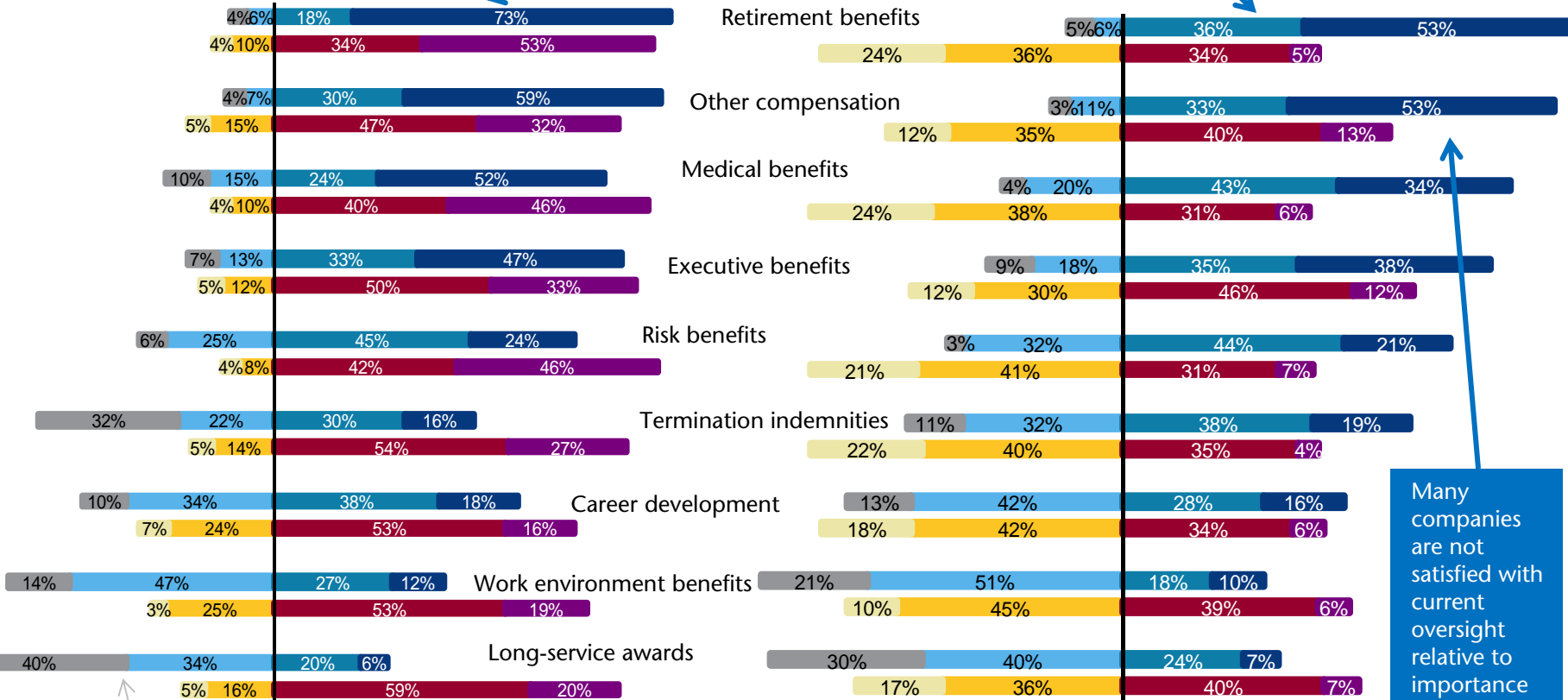
Very much like A Somewhat like A Somewhat like B Very much like B

Importance and satisfaction of corporate oversight by types of benefits

Country of Corporate HQ

Companies place similar importance on corporate oversight of home country and international benefits by benefits type

International Locations



Many companies are not satisfied with current oversight relative to importance

Importance of corporate oversight correlates to size of obligations and costs

Not important Moderately important Important Very important
 Not satisfied Somewhat satisfied Satisfied Very satisfied

Adequacy of current oversight in achieving outcomes

% of companies with

probability of achieving ...

Alignment of benefit plans with corporate policies / guidelines

Improved outcomes for employees in terms of greater financial security / improved health

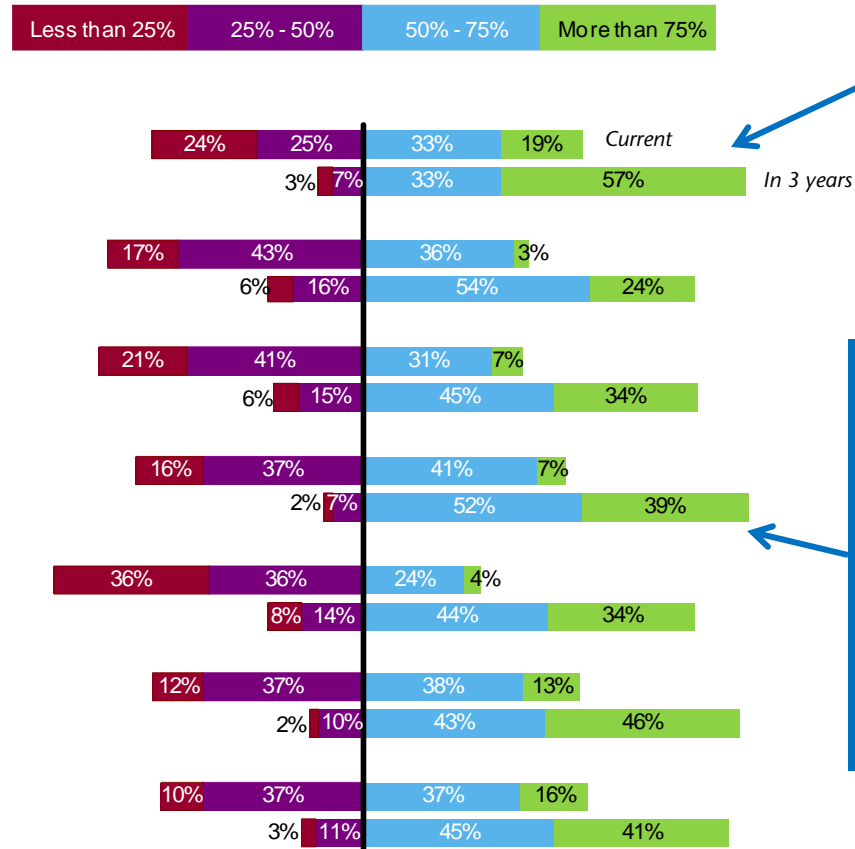
Reduced financial costs of employee benefit plans

Reduced financial risks due to employee benefit plans

Reduced operating costs through efficiencies and scale

Reduced compliance risks

Reduced reputation risks



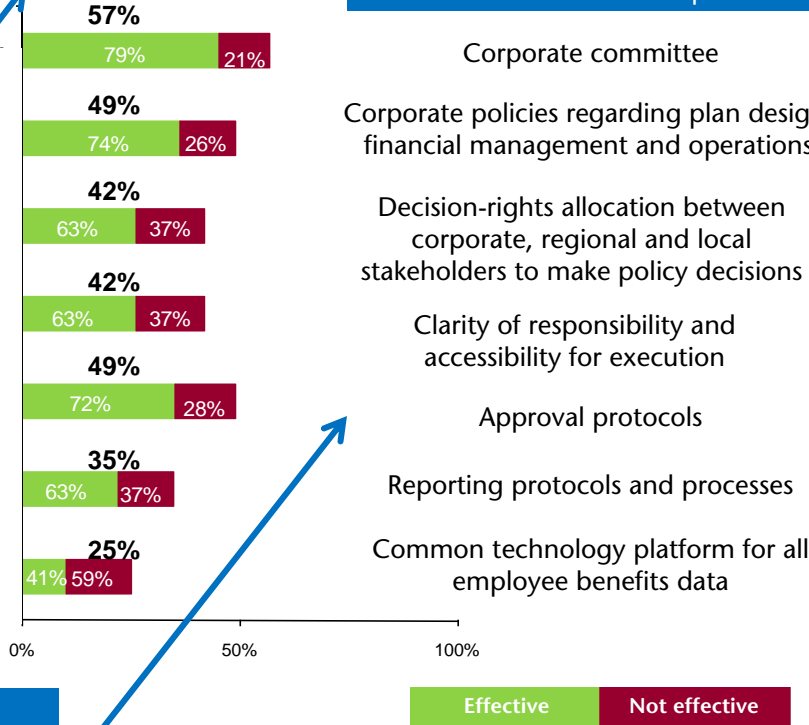
~60% of the respondents say they have corporate benefit policies and ~90%+ say they will have established policies within 3 years

Almost 90% of companies rate financial costs and risks as drivers of corporate involvement; however fewer than 40% are confident that costs and risks of benefits will be lower in 3 years

Structural elements of a governance model

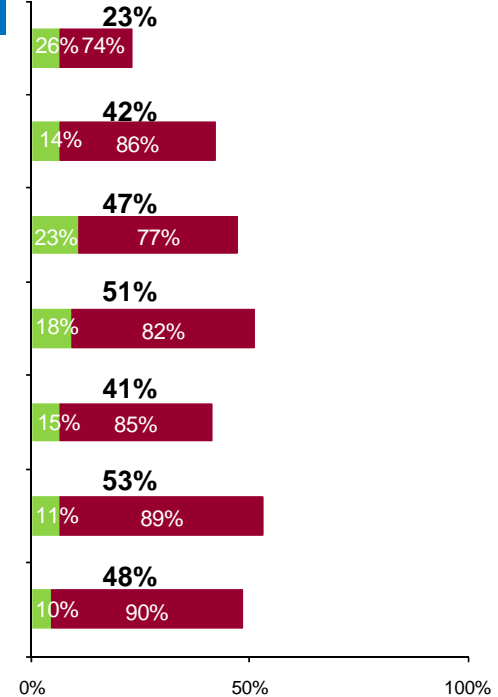
There remains a material gap between the importance placed by companies on various structural elements for executing strategies and how well they are working

Percentage that have formally established



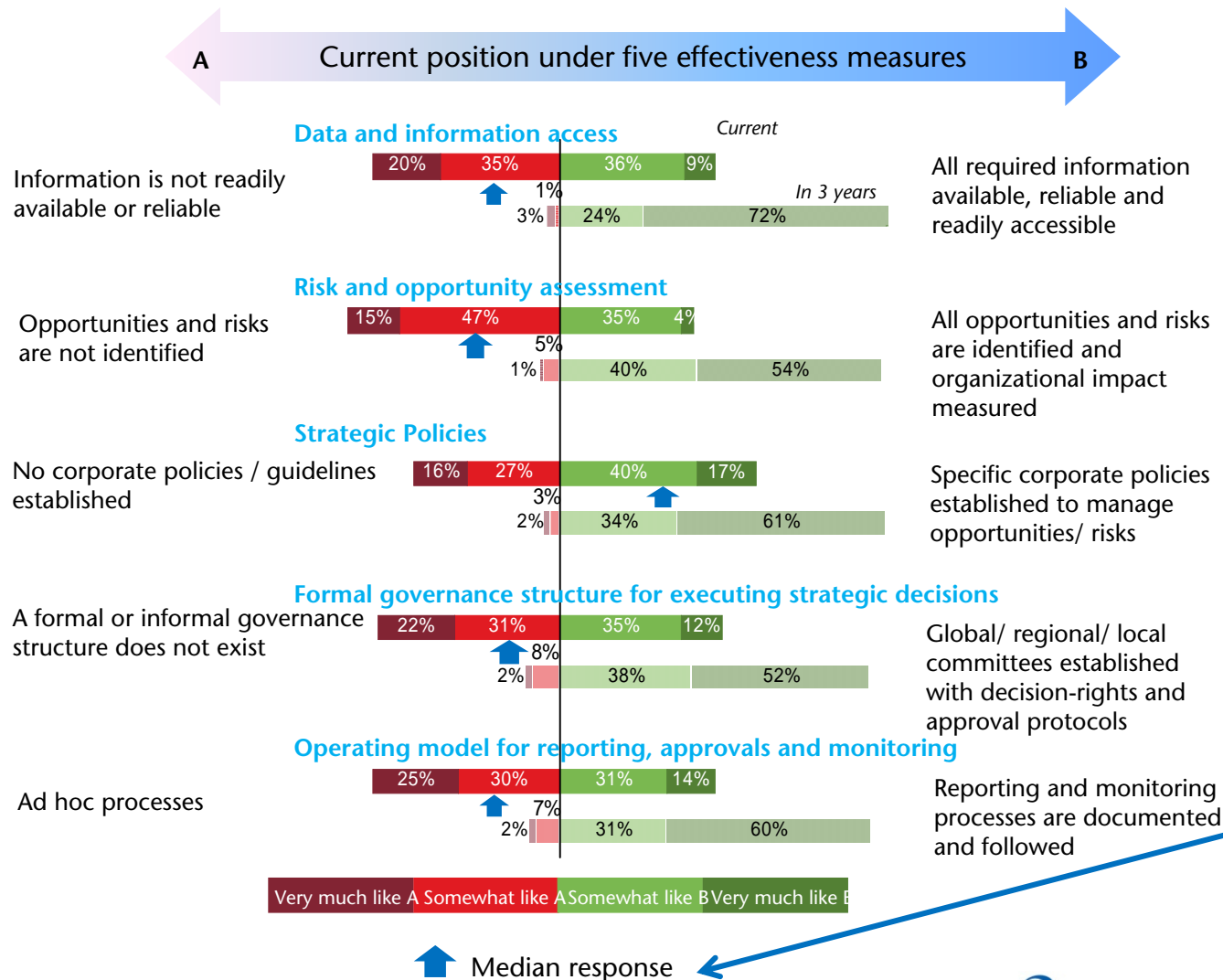
Only ~50% of the respondents have formal protocols established to manage global benefit programs even though companies demonstrate significant concerns related to benefit plans

Percentage that have informally established or ad hoc



Existence of formal protocols decreases in prevalence with size of the company

Effectiveness of global governance



All required information available, reliable and readily accessible

All opportunities and risks are identified and organizational impact measured

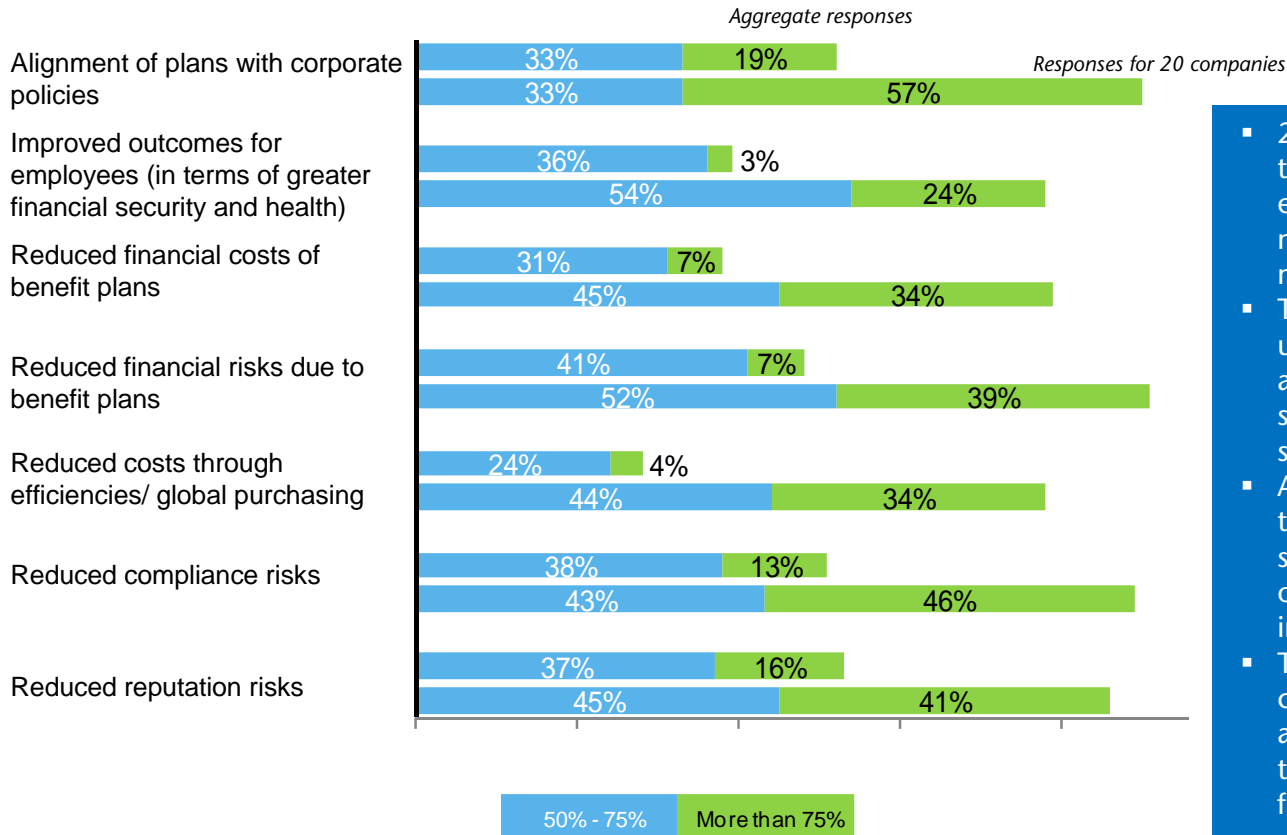
Specific corporate policies established to manage opportunities/ risks

Global/ regional/ local committees established with decision-rights and approval protocols

Reporting and monitoring processes are documented and followed

Most companies demonstrate effectiveness under some but not all five measures – this provides some insights into low satisfaction levels in corporate oversight of international benefits and low confidence levels in managing benefit costs and risks

Confidence levels due to effective management of benefits



- 20 of 140 companies rated themselves as effective or very effective under each of the five measures of global benefits management
- These companies manage benefits under a more centralized model and have established formal structures and protocols to execute strategic policy decisions
- As compared to aggregate data they registered a higher level of satisfaction with corporate oversight over international benefits in their company
- They also demonstrate higher confidence that their benefits are aligned with corporate policies and that corporate involvement reduces financial and operational costs/risks

The “why” and “how” of corporate involvement

