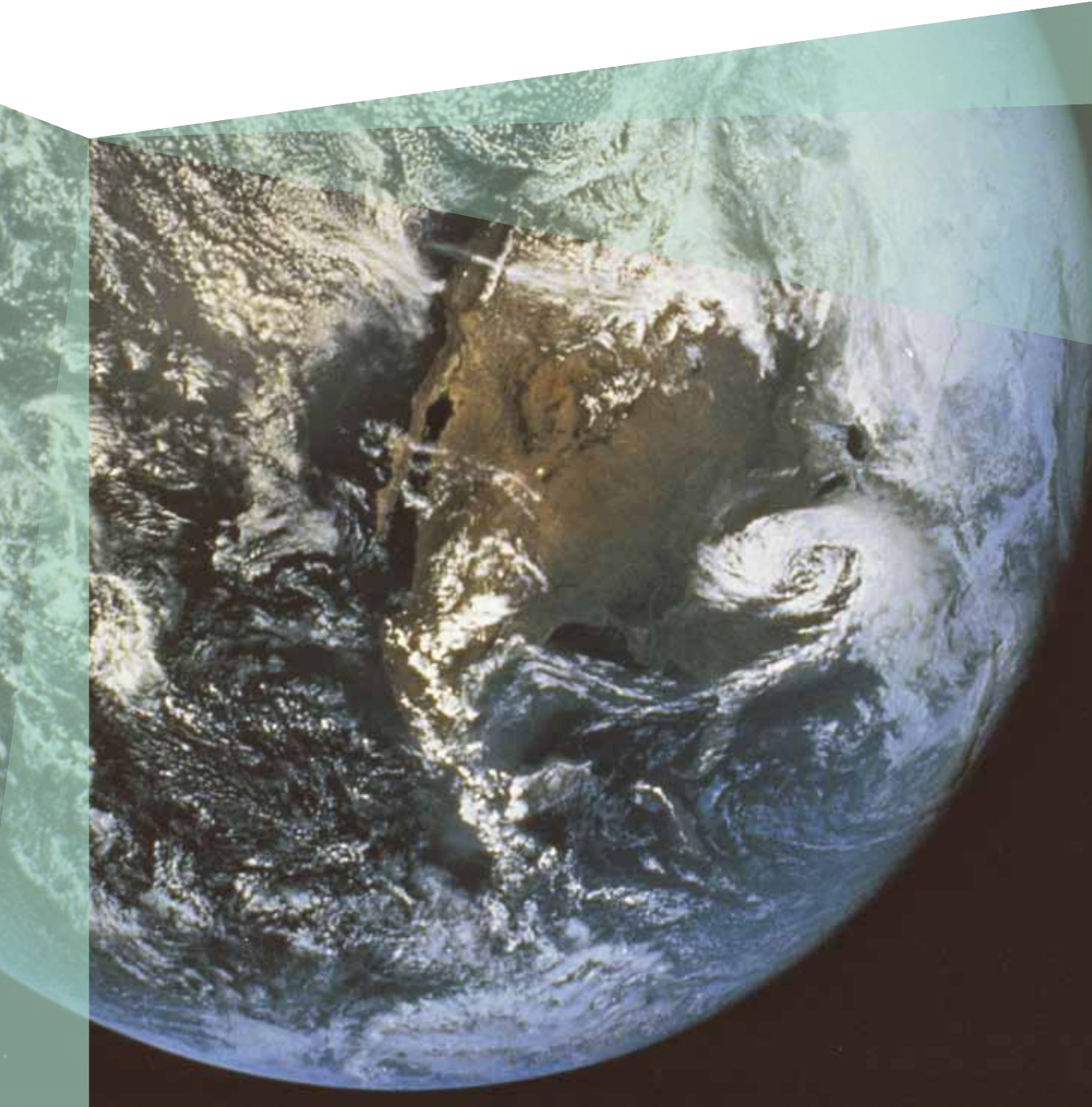


# MAINTAINING ATTRACTIVE BENEFITS PACKAGES IN A COMPETITIVE ENVIRONMENT



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Benefits packages have an expiry date, just like most other products and services. We need to continually assess whether they are fit for purpose in terms of attracting and retaining talent. The litmus test is their impact on engagement and productivity, which can be enhanced by addressing both the employee's needs and the organisation's needs. Hence, benefits packages work best when they are aligned to the company's strategic goals and objectives with regard to talent management.

Research suggests that a greater level of flexibility in benefits packages creates higher employee engagement. The flexibility of the benefits design has to take into account changing lifestyles, the multigenerational workforce, various health needs and demographic diversity.

## A VUCA WORLD

We are living in a world that is increasingly volatile, uncertain, complex and ambiguous (VUCA), and the same old benefits won't help us navigate this challenging and sometimes exciting universe. The big prize, of course, is being able to work and being able to love, according to Sigmund Freud – or achieving a good work/life balance, as we are calling it in the 21st century.

At least in the Western hemisphere, we are faced with lower birth rates and an increasing life expectancy, which puts pressure on public finances and has led to an increase in or abandonment of the default retirement age in many countries. An ageing workforce is facing a number of health epidemics – cardiovascular disease, diabetes, cancer and Alzheimer's, for example. And if these weren't enough, we find that stress and depression are also on the rise in the working-age population. That's the bad news. The good news is that lifestyle choices can play a major role in health and disease, which makes us, to a certain extent, the masters of our destiny. For instance, cardiovascular disease is related to high cholesterol, elevated blood pressure, lack of exercise, being overweight and eating an unhealthy diet. These are, in part, modifiable risk factors. And we will be even more successful in adopting healthier behaviours if we are supported by our environment – for example, our workplace.

Systematic interventions based on a meaningful health and wellness strategy can positively affect the epidemiology of many chronic diseases, and that's good for the individual employee and the organisation alike, as expressed in productivity gains.

The ageing demographic of the Western workforce doesn't allow for complacency, and most organisations find it hard to attract the right talent, especially given today's economic constraints – hence, it has become imperative to maintain a healthy and engaged workforce.

There are many global imperatives for investment in health management. Topping the list are increasing health care costs, an ageing workforce with associated increasing health risks, the war for talent in emerging markets, and employee engagement and productivity in all geographies. Managing health risk is important from both cost management and human capital management perspectives. The transformational message to all those concerned with corporate health care is to move from focusing on reactive methods of disease identification and claims reviews to promoting ways to live and work with energy and vitality.

## THE EVOLVING HEALTH AND BENEFITS LANDSCAPE

We are seeing an increase in chronic diseases, such as diabetes and cardiovascular disease. As a consequence, health care costs in Europe and the Middle East keep rising, as they do globally, reaching rates that are almost double the general rate of inflation. While European businesses have traditionally been protected from the full weight of medical inflation, this is no longer entirely true because the sovereign debt crisis is accelerating the shift from state funding to private funding. Public funding is further compounded by the low birth rate across Europe.

Some of the most common health problems, such as back pain, elevated cholesterol and high blood pressure, are relatively inexpensive to treat, but if we do nothing, these problems will progress to the next level and be much more costly – economically and personally. An assessment of the full cost of health and disease is vital for creating a sound business case when prioritising an organisation's health and well-being programme.

Driven by increasingly complex lifestyles, such as transitional families, delayed birth of children, dual care responsibilities for the young and elderly, higher geographical mobility, health status and other diversity factors, employees are seeking compensation packages that include a broader choice of benefits to suit their individual circumstances. Responsive employers are testing innovative models with more evidence-based benefits design. Motivating factors include attraction and retention of talent, maintaining or increasing productivity, and facilitating a swift return to work of absent employees.

## BUSINESS RISK

Most organisations incur very high costs for the treatment of employees suffering from ill health, which tends to be a proportion of 5%–25% of the workforce, but they don't invest enough or invest nothing at all in the health of the remaining 75%–95% of employees. The main reason is that these employers don't know anything about this population's health needs, and hence they don't manage the very significant business risk associated with it.

Investing in well-being makes business sense. While sickness incurs high treatment costs, maintaining wellness is usually much more cost-effective. An investment strategy of maintaining good health avoids the otherwise "natural" progression of a significant proportion of the employee population from the low-health-risk to the medium- and high-risk groups and, ultimately, to the proportion of ill employees who incur high treatment costs and show reduced productivity through absenteeism and presenteeism.

Plenty of evidence shows that employee engagement correlates directly with higher customer satisfaction, productivity and profitability. Also, the drivers of engagement have been studied carefully over the past years; they include opportunities to learn new skills, motivational leadership, fair pay, consistency, input into decision making, collaboration with colleagues, and senior management acting to ensure the organisation's long-term success and taking an interest in employee well-being.

The latter two drivers are currently moving to the forefront of researchers' inquiries – the first because the credit crunch has shown that "short termism" in business can have catastrophic consequences and the second because it is becoming increasingly clearer that business sustainability and engagement depend on healthy individuals.

The recognition of health and well-being as a necessary investment in business success should change our thinking and planning around risk management. Although all of us recognise that financial, environmental and infrastructure risks are high on the agenda, we are slowly appreciating that operational risk is not just about processes and systems but, first and foremost, about people. And people will achieve high levels of productivity only when they are healthy.

## ENGAGEMENT THROUGH CHOICE – EMPLOYEES’ LIFECYCLE NEEDS

Employee needs change as they progress through their lifecycle. While, for instance, workers in their 40s and 50s are very concerned about their retirement packages, younger employees entering the workforce tend to be “switched on” by cash allowances, cars and career training. A decade or so later, when they start a family, their needs will have changed again and they will worry about buying a family home, securing childcare and finding work/life balance.

On closer inspection, the true picture gets even more complex in the 21st century. For instance, young employees who are fortunate enough to work in high-salaried jobs with excess income *are* looking for investment opportunities – even pensions. On the other hand, middle-age employees may have just entered their second marriage and have young children again. The number of single households is increasing, and so forth.

It becomes very obvious that we need a tailored solution in terms of benefits provision to really engage employees and achieve the goal we set out to achieve – namely, to increase productivity by addressing the real needs of employees and the organisations they work for. Otherwise, benefits lose their value to the business.

The results of Mercer’s *Inside Employees’ Minds Survey*<sup>1</sup> clearly show that employees value choice in benefits and are even keen to participate in salary sacrifice schemes, as long as these schemes help to meet employees’ lifecycle needs and their very personal circumstances.

Employers feel the pressure to adapt their benefits strategy and are offering more and more flexible platforms. Although concern remains that the administration of such a scheme would be onerous, once it is adopted, most employers change their minds and report high levels of satisfaction with the programme.<sup>2</sup> When asked if they intend to curtail their choice strategy given the economic climate, 62% said they didn’t want to change their flex strategy and another 13% replied that they even wanted to accelerate their plans to add a greater degree of choice.

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<sup>1</sup> More findings of this *What’s Working™* research, conducted in 17 key markets around the globe in 2010 and 2011, are available at <http://inside-employees-mind.mercer.com/home>.

<sup>2</sup> Source: Mercer’s EMEA-wide *Employee Choice in Benefits Survey*, 2011, available at <http://www.mercer.com/articles/European-employee-choice-benefits-survey>.

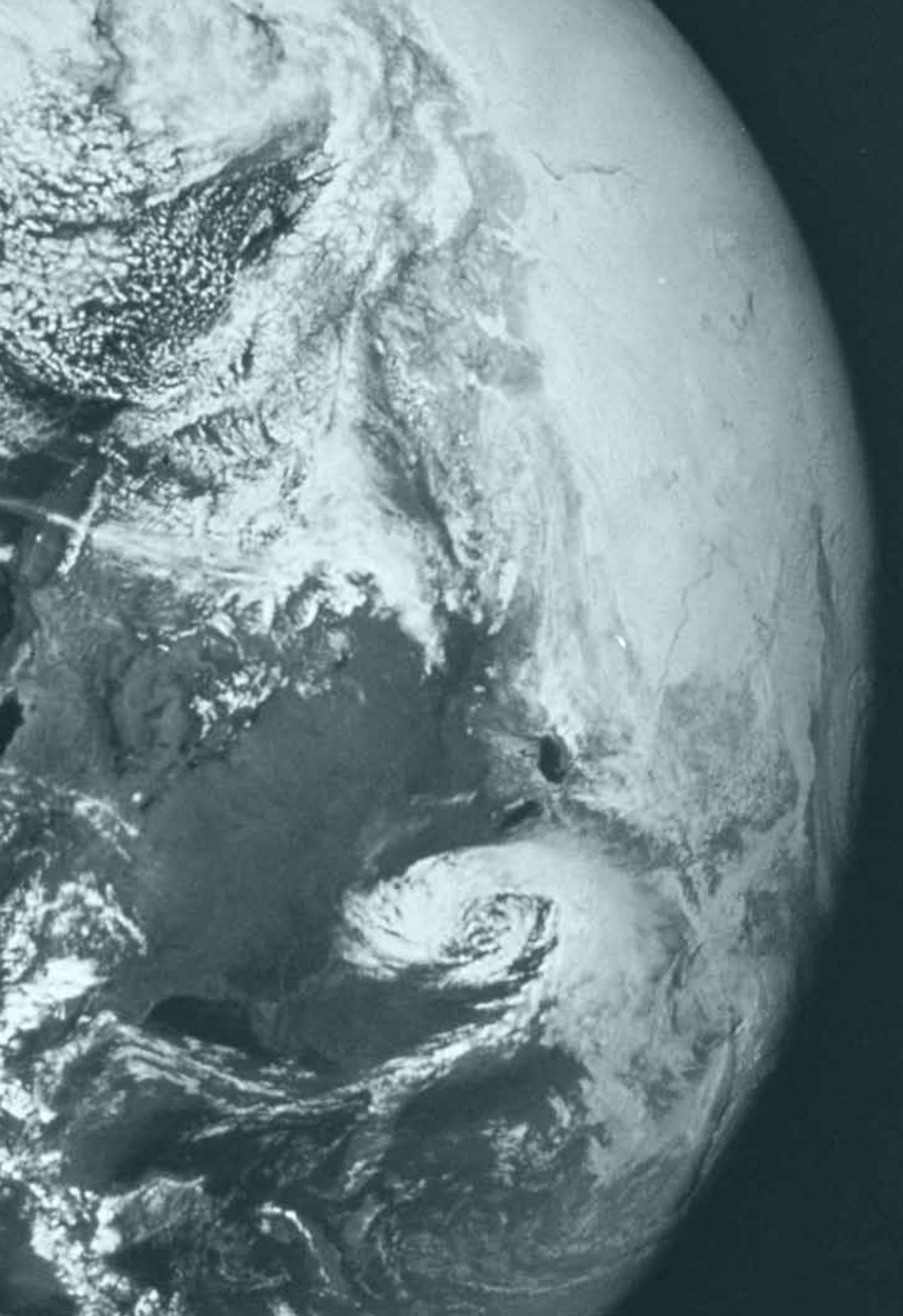
## BENEFITS VALUE

As mentioned throughout this article, a sustainable benefits programme will meet a sufficient number of both employee and organisational needs. If it doesn't address both sets of needs, it will lose momentum and engagement. It is hard to measure the increased level of engagement and productivity as a consequence of the availability of various benefits packages, but it is easier to assess the impact of specific services offered and taken up as part of the package. For instance, a high-performance culture – and who doesn't work in an environment where targets become more stretched every year! – is based on engaged employees who have access to appropriate health care at the appropriate time so that they don't become unnecessarily distracted by unmanaged health issues. That means that the availability of good health care and an organisational culture that fosters resilience and fitness do indeed translate into productivity gains.

The design of powerful benefits packages has become a diversity issue. If planned carefully, the programme may become a tool for attraction, retention and productivity. Relevant variables to be measured are productivity, staff turnover, absenteeism, presenteeism, compliance costs, business continuity and engagement, to name the most important ones. The bigger prize at the end is a sustainable workforce and a more caring response to the needs of an increasingly diverse employee population.

## ABOUT THE AUTHOR

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