# The Global Added Value of Flexible Benefits

**by Rosaline Chow Koo**

Flexible benefits, or “flex,” is a strategic human resources solution that can give companies a truly competitive edge in winning the global war for talent and containing costs. Several companies in Asia plan to implement flex in the next few years, and a number of emerging best practices in flexible benefits design are being developed. This article discusses the many advantages of flex, flex best practices emerging across Asia, and important considerations for employers when designing flexible benefits. Finally, the author shows how one global company in Singapore found flex to be an effective differentiator for attracting and retaining talent as well as helping manage employee health care costs.

In today’s world of multinational organizations, the recent economic crisis has had a varying impact, with the mature economies of the West hit hardest, while the emerging economies of the East—China, India and beyond—continue to experience solid growth. But amidst a fierce global war for talent and the prospect of a postrecession economic boom, today’s multinationals have in common the challenge of attracting and retaining the talent they need for their competitive futures.

Where, then, can organizations add value to their value propositions? Often it comes down to employee benefits, and in the emerging business landscape, flexible benefits have a distinct advantage for organizations that are determined to attract the generation of workers who value greater choice in all aspects of their lives. Indeed, according to the *Mercer 2010 Talent Retention Survey*, implementing a flexible benefit plan that allows more employee choice was seen as the top benefit strategy for employee retention and satisfaction.

There’s no question that flexible benefits, or *flex*, have been a strategic win for many global employers. Across Asia, however, according to the results of the *Mercer 2009 Survey on Employee Choice in Benefits*, on average less than 20% of companies offer any choice, with fewer still offering a fully flexible benefit plan to their employees. Offering one benefit plan for staff and a separate plan for executives may seem like a reasonable approach, but as talent becomes a key focus, this approach may not work.

Our research shows that, for baby boomers, various components of pay and benefits (for example, health care, life insurance, bonus pay and availability of nonspousal dependent coverage) are strong turnover deterrents, while for Generations X and Y, incentives such as profit sharing, along with recognition, promotion and job autonomy play more of a role in retention. In fact, salary alone consistently ranks lower as an employee satisfier at every age group.

Our survey participants indicated that the following employee groups had the highest turnover rates during the past two years:

- Employees who have been with the company for one to two years
- Employees aged between 26 and 35
- Individual professional employees.

**FIGURE 1**

**TYPICAL FLEX MODEL TYPES FOR DIFFERENT COMPANY SIZES**

Complex

FLEXIBILITY AND COMPLEXITY

| | Below 100 | 100-300 | 300-500 | 500-1,000 | Above 1,000 |
|---|---|---|---|---|---|
| Core Plus Options | | | Core Plus Options | Core Plus Options | Core Plus Options |
| Modular Plans | | Modular | Modular | Modular | Modular |
| Voluntary Benefits | Voluntary | Voluntary | Voluntary | Voluntary | Voluntary |
| Flexible Spending Account (FSA) | FSA | FSA | FSA | FSA | FSA |
| Wellness Spending Account (WSA) | WSA | WSA | WSA | WSA | WSA |

Simple

Company Employee Headcount Size



Using benefit offerings to address the different stages in employees' lives can at times be achieved by restructuring the existing benefit plan spending into more than one modular offering, with different components that reflect the needs of particular employee demographics. The plan design can therefore address the desire for cash, vacation time, cars and career training for those aged 20 to 35; more work/life balance choices, along with life and medical coverage, for those in their late 30s and 40s; and more emphasis on pension and medical for those aged 55 and older.

For the young and single, a very basic benefit plan can be offered that provides some money back for the other things that are important to them. For healthy workers with family and dependents, the benefit offering would include more coverage but at the same time add additional cost sharing. And for those employees who may have higher health risks or suffer from chronic conditions, the plan would be more comprehensive with commensurate cost sharing coupled with more support resources for the individual to help navigate the very complex medical system that is typical of most Asian countries. For individuals with medical needs, the lesson learned from other markets around the world is that better quality care is the most cost-effective and provides the best outcomes.

Flexible benefit plans can be adapted along a wide range of cost, elements and implementation strategies and may vary in flexibility and complexity (as shown in Figure 1) by the various flex model types for organizations of different sizes.

The key to success in offering benefits that will help fulfill business goals and play a major role in attracting, retaining and engaging talent lies in using benefits in a strategic, integrated fashion as part of the overall organizational workforce plan. It begins with taking credit for what is currently being spent through branding and total rewards reporting and extends to offering benefits that are aligned with a firm's demographics, needs and goals.

## BEST PRACTICES AND THE FLEX ADVANTAGE

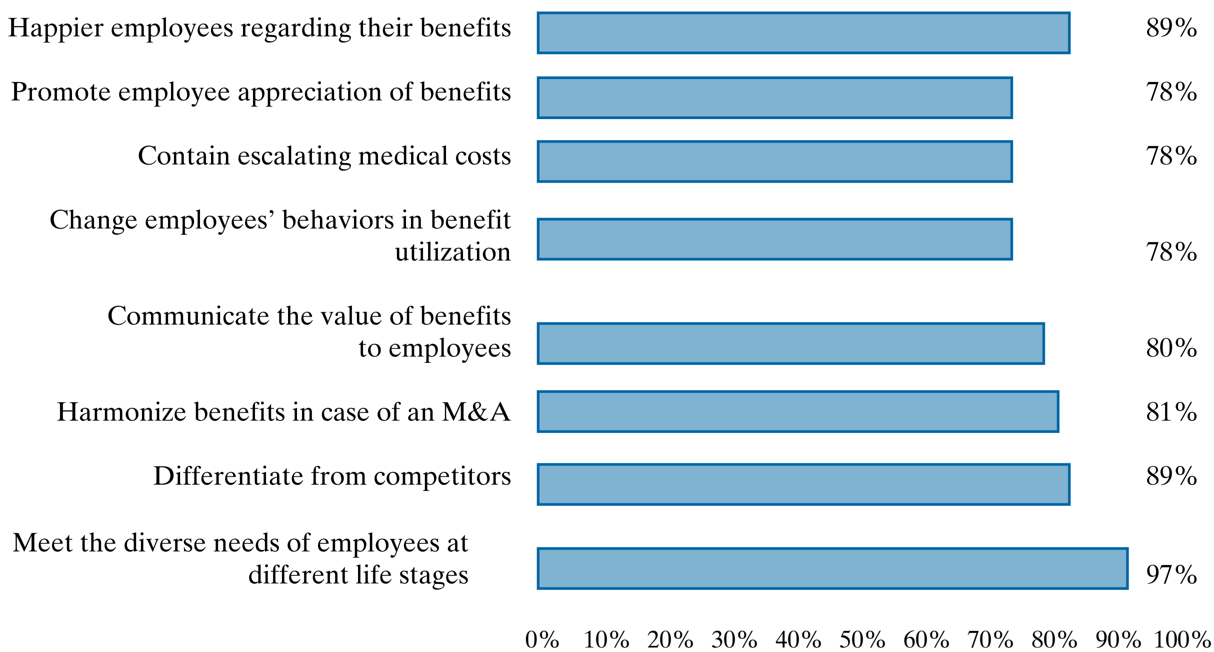
The evolution of benefits design is a reality for all geographies, but in Asia especially, a number of emerging best practices in benefits design are being developed. For example:

- India—Employers are rethinking their traditional approach toward providing medical coverage to parents of employees.
- Singapore and Hong Kong—Employers are implementing and better communicating incentives to utilize the region's high-quality public health facilities instead of expensive private hospitals.
- Philippines—Employers are introducing hospital deductibles to discourage unnecessary hospital stays.

Regardless of location, there are keys to success-

**FIGURE 2**

**OBJECTIVES OBTAINED THROUGH THE IMPLEMENTATION OF FLEX IN ASIA**




*Source: Mercer Client Survey.*

fully designing cost-efficient benefit plans. They include:

- Benchmarking plans to determine whether they are more generous than industry competitors
- Considering more limits or coinsurance or copays for inpatient and outpatient expenses
- Adopting defined contribution approaches, such as Singapore's Medical Saving Accounts, which create accounts for each employee and reward lower utilization
- Removing coverage, such as luxury rooms, that does not lead to better health outcomes.

Again, the needs of specific employee segments should be considered. For example, young single employees have very different needs than older employees with families. While these approaches are sound, there is a risk in continually shifting costs onto employees since it can result in eroding overall benefit value and the employer's reputation. Thus, less intrusive cost-containment tactics should also be considered.

Thus, the flex benefit solution—which encompasses a menu of benefits and cost-shifting mechanisms—is especially relevant in the emerging economic geographies of Asia. And while its implementation has costs, flex can pay off significantly in the long term. Flex allows employees to choose the mix of health insurance and other benefits that suits their personal needs, while it increases the employer's control over total benefit spending. The cost-shifting aspect of flex can reduce employer expenditures as health care costs continue to rise. Figure 2 shows the advantages companies in Asia have derived from implementing flex.

## A FLEX EXAMPLE

Not surprisingly, companies now offering flex in Singapore, Hong Kong and the Philippines have told us that they intend to continue doing so. For example, a large global bank with approximately 1,500 employees in Singapore has found flex to be an effective differentiator for attracting and retaining talent as well as a way to help manage health care costs.

Before flex, the company's medical spending was skyrocketing by 30% per annum. The company turned to human resources (HR) as a strategic business partner to manage these costs and attract the right workers. In 2001, the company introduced a flex program. The scheme focuses on health care with every employee given a yearly "spending account" based on the experience of the employees' average health care costs. Employees manage their own accounts, and a percentage of any unused benefits is rolled over for future use.

The program has proven to be a win-win solution for employees and management. Employees are empowered to take charge of their own health and medical choices while being rewarded for properly managing their spending accounts.

Thus, instead of sharing costs with employees, the bank now shares savings, creating an incentive for employees to spend less. The company has contained the costs of medical benefits with total savings of nearly $1 million in the past four years. Today, the bank registers staff retention at a rate that is 20% better than the industry norm and experiences increased productivity due to lower absenteeism, better employee engagement and improved employment branding.

As this case study illustrates, flex is the sort of strategic HR solution that can have a major impact in winning the war for talent and containing costs. Several companies in Singapore, Malaysia, Hong Kong, Taiwan, China and Thailand plan to implement flex in the next few years. As companies in Asia move toward a system of employee benefits that better reflects a total-rewards approach tailored to employees' needs, flex can be a powerful weapon in a strategic business arsenal, providing Asia's organizations with a truly competitive edge.

Flex lives up to its name by being responsive to the individual needs of employees in dynamically changing or challenging economic conditions. Additional voluntary benefits can be added as part of the flex program without incurring extra costs and can include individual insurance programs that can financially protect employees between jobs by allowing them to buy insurance at highly discounted rates for hospitalization, accidents or loss of income.

In addition, compassionate employers may consider subsidizing coverage over a period of time to ensure employees and their families have adequate cover. In addition, this approach helps ensure they retain their reputation as a good employer. Flex programs can also include reimbursement of training costs for employees who must learn new skills in preparation for new jobs.

It all comes down to understanding what employees need and value and repurposing the benefits spending accordingly. It calls for the creation of a culture of health through wellness programs and benefit plans. And it calls for choice in benefit plan design to address diverse workforce needs and generate greater employee engagement within the organization. These basic benefits strategies have the potential to address the key drivers of talent attraction, retention and engagement—not only in Asia, where the war for talent is fiercest, but also on a global basis, as multinational firms face a freshly competitive future in every geography. ◀


## ▶ THE AUTHOR

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