MERCER MARSH BENEFITS™

Benefits Benchmarking and Trends 2018

MARSH & McLENNAN COMPANIES

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Introduction

Mercer Marsh Benefits is pleased to share with you our *Benefits Benchmarking and Trends 2018* report. Based on the findings of the *Mercer Australia Benefits Review 2017*, our analysis assesses emerging benefit trends in Australia and offers employers insight into the practices of other organisations.

Importantly, the report also addresses the increasing need for the employer to take a more strategic approach to benefits in a climate where cost pressures are calling for benefits programs to do more with less.

A good benefits strategy starts with clearly defined objectives, which can be broadly categorised in three groups:

PROTECTION	PREVENTION	REWARD
Supporting employees through times of ill health	Keeping employees well and productive	Attracting and retaining employees in a competitive employment market

Organisations that can take a holistic view across the core objectives – protection, prevention and reward – can strike the balance between adopting a benefits program that achieves their key objectives and meets the needs of their employees, human resources, risk management, finance and leadership teams.

Conversely, undefined objectives and priorities, along with too great a focus on what the competition are doing, can often result in the employer struggling to effectively manage their benefits and associated costs. In the development of a benefits program that aligns with the overall business strategy, the key is for organisations to run their own race.

The objective of this report is to give you greater confidence in the benefits you are already providing your workforce and provide an indication of how your current strategy may be reviewed and enhanced to ensure a relevant program for the future.

Sarah Brown
Mercer Marsh Benefits Leader – Pacific

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Participant profile

The benefits data in this report is based on information collected from 290 organisations across major industry groups and sectors in Australia. An indication of the broad sector split and employer size of this group is provided below.

Fig 1: Broad industry sector

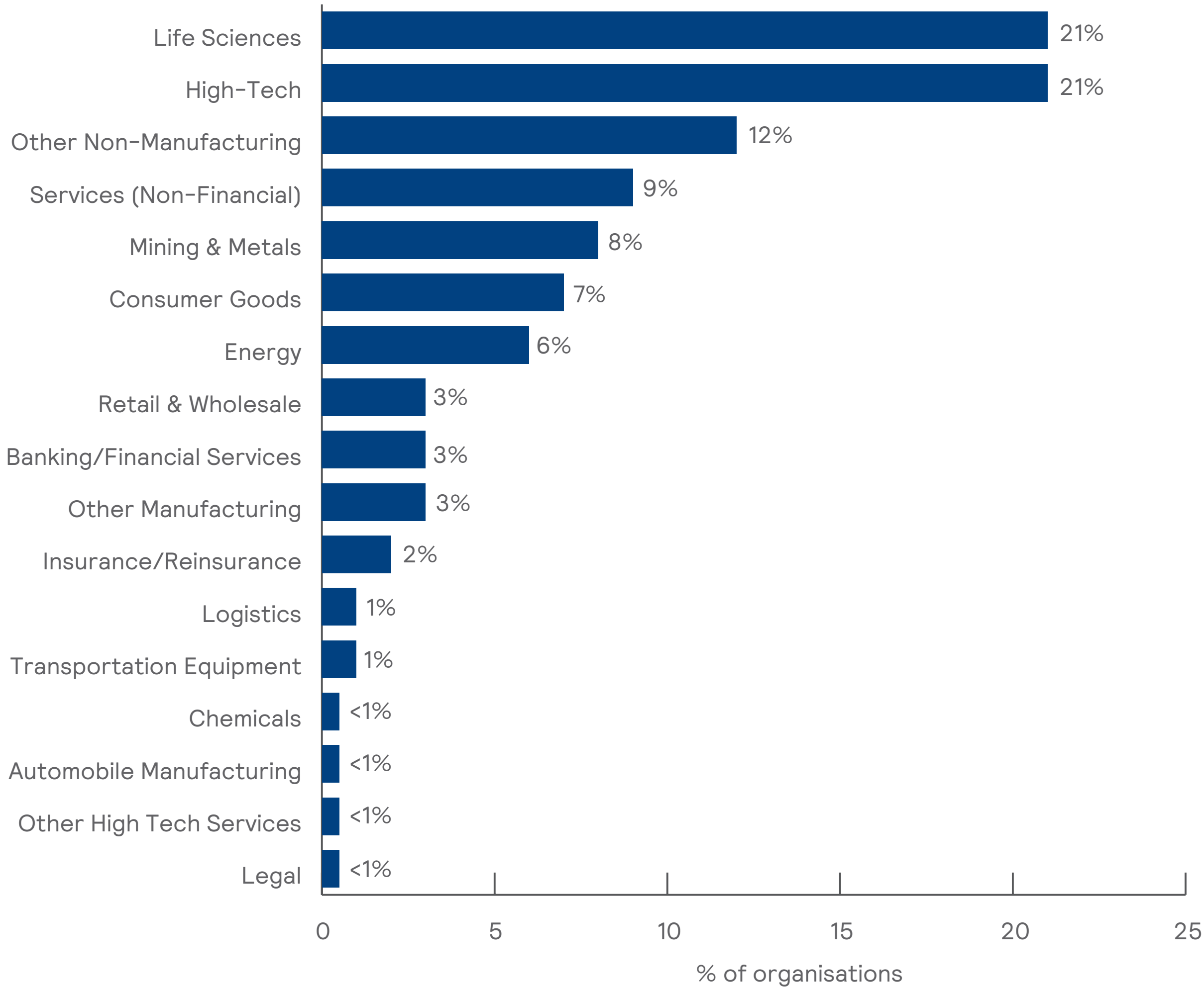
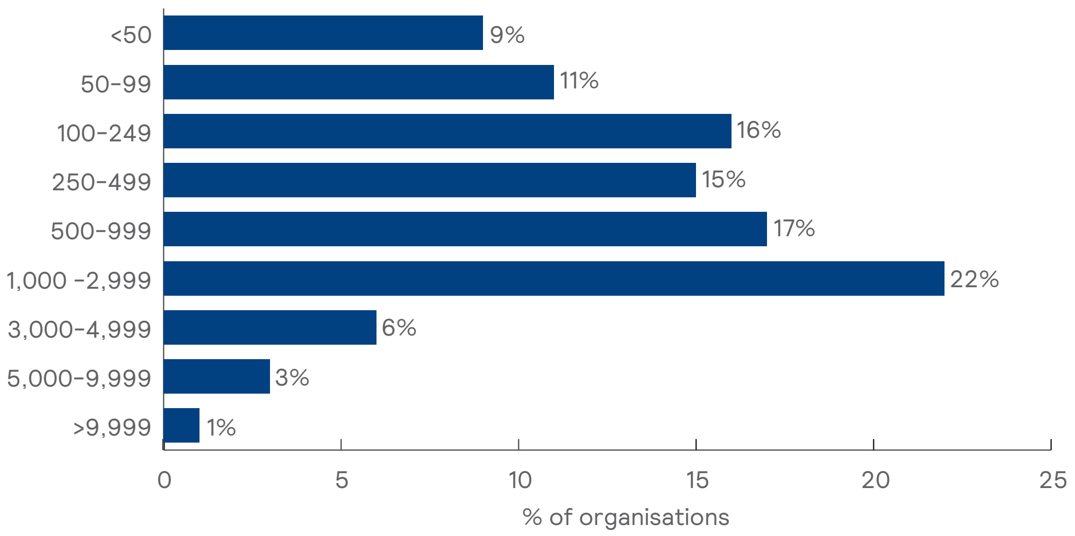


Fig 2: Number of full-time equivalent staff in organisation



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Benefit snapshot

In capturing the emerging trends in Australia, it is clear that employers are becoming increasingly sophisticated in their approach to program design. Much of this has evolved as a response to rising benefits costs over successive years.

There is also now a greater focus both from buyers and the insurance market on early intervention and rehabilitation, mental health issues and offering more employee choice as employers adopt a holistic framework to the security and wellbeing of their people and recognise the need for more personalised and flexible benefits.

Benefits available to employees

Most organisations in Australia continue to focus their benefit spend on death, total permanent disability (TPD) and salary continuance programs, with a growing number (62%) investing in health and wellbeing programs as a tool to minimise health risks and keep their employees healthy and productive. However it should be noted that health and wellbeing initiatives are predominantly reported as flu vaccinations, health and wellbeing sessions, fruit baskets and gym memberships.

Fig 3: Benefits offered by employers

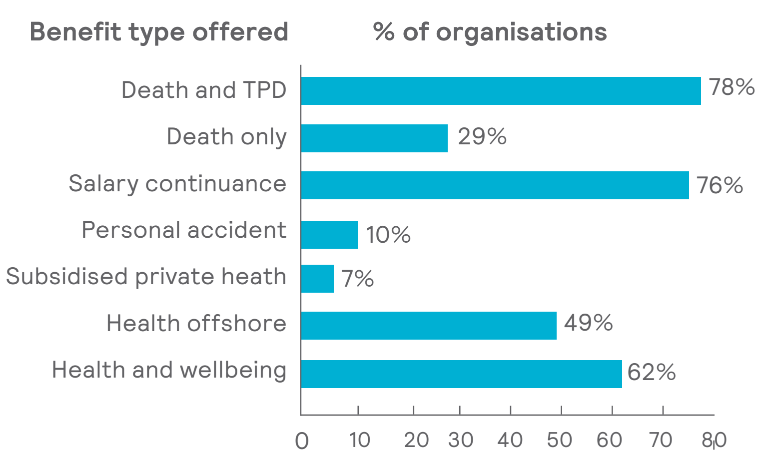

Fig 4: Measures adopted in response to increases in cost of providing insurance benefits

Cost saving measure	% of organisations
Cost sharing with employees	13%
Absence management strategies	19%
Return to work strategies	34%
Benefits reduction (including benefit formula, maximum cover limits, reduced automatic acceptance limits etc)	28%
Employee assistance program	36%
Review OH&S strategies	36%
Other (including absorbing costs, monitoring increased costs)	21%

Note: Some organisations have indicated the use of multiple strategies to contain benefit costs

Responding to rising benefit costs

In recent years, the insured benefits markets in Australia have been marked by successive premium increases across the board, with the most significant jump seen in group disability insurance where rates have increased by up to 200% over the past four years.

While the life markets have settled in the main, we are still seeing increases of up to 30% in long-term disability insurance premiums. Furthermore employers are still feeling the pain as premiums for private health insurance continue to outpace inflation. International medical schemes are impacted by increases in global medical costs of 9.9%, three times the rate of inflation, and local medical plans increasing by 3.95% on average. The increasing expense of benefits is therefore sharply on the minds of employers, which has driven the focus on cost containment strategies.

Over 50% of organisations reported benefit cost increases, with a number adopting strategic measures to offset rising prices. Nearly a third of organisations have reviewed and made changes to their benefit design. The question is whether these changes have been in direct response to organisational pressures to reduce costs or are part of a more strategic consideration of the balance between business and benefit objectives.

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Protection

The biggest employee benefits spend in Australia is on protection against ill health, with major insurance classes comprising life and disability insurance, personal accident insurance, and private health insurance.

Most organisations want to ensure their employees are taken care of. They have a genuine desire to protect their employees during ill health, support them through recovery, and ensure they are rehabilitated back into the workforce as quickly as possible – while helping their employees manage financially during times when they need it most.

Delivering a program that protects employees, is utilised and positively impacts the company and employees' good health, requires knowledge of what is happening in the market. Where does your company fit on the benefits curve? Have you considered your employee profile, benefits philosophy, and goals, which may be quite different to your peers?

TREND ALERT: Prioritising early intervention and rehabilitation

Early intervention and rehabilitation programs are mainstream practice within the workers compensation space. Most organisations – through their workers compensation insurer or agent – have a robust approach to facilitating return to work for work related injury or illness. However, for **non-work related illness and injury,** this has been an underutilised strategy, which some employers are now taking advantage of for its potential to positively impact disability insurance premiums (personal accident and sickness or salary continuance).

Presently, 34% of organisations implement return-to-work strategies to help contain benefit costs (for income protection or salary continuance benefits) and we believe more will follow as the approach gains momentum among employers and insurers alike.

Fig 5: Mechanism used to provide life and disability insurance

Benefit type offered	Within superannuation fund (may be corporate, retail or industry)	Company-owned policy (risk with the insurer)	Company self-insured (risk with the company)	Do not offer
Life and TPD	67%	11%	1%	21%
Salary continuance	42%	30%	5%	23%

Life and disability insurance

Life and disability benefits (TPD and salary continuance) are placed in the life insurance market. These benefits are commonly provided through the organisation's default superannuation fund, making benefits easy to administer (especially offered as an employee-paid arrangement) and easy to communicate as part of the superannuation annual benefit statement.

However, employers cannot be assured their staff will elect to join (or remain members of) the default super fund, which can then jeopardise the financial support provided in the event of death or disability via the super fund. This in turn erodes the employer's value of the benefit, leaving a gap in cover for a portion of the employee group. While the provision of death and TPD benefits within superannuation certainly remains the most tax efficient way to access these benefits, employers need to find ways of providing this benefit to all employees, removing the connection between retirement savings and how the employee and their dependents are protected in the event of a major career-ending medical issue or death.

However, salary continuance insurance within superannuation does not benefit from the same tax efficiences and, consequently, we are seeing an increase in the number of organisations considering moving salary continuance insurance benefits outside of super to a company-owned policy.

Group life insurance

Most organisations provide one of the following group life benefit designs:

- Multiple of a salary, commonly three times
- Future years of service at a fixed percentage of salary

EMPLOYER PAID SALARY CONTINUANCE INSURANCE:
Why are organisations moving this insurance from super?

- **Reduction in the concessional contributions cap to $25,000 pa***
  Insurance premiums contribute to the cap, reducing the amount of retirement savings an employee can contribute at a concessional tax rate
- **Increased number of employees electing "Choice of Fund"**
  In most instances, if an employee elects to contribute to a super fund other than the company's default fund, they will lose their insurance entitlement connected to the company fund
- **Perceived value of employee benefit**
  If the company pays the premium for this benefit, employees simply see this as a superannuation benefit, not as a valued company-paid benefit
- **Reduced control**
  The company relinquishes control over the insurer, the rates and may reduce the interaction or implementation of rehabilitation services to get the employee back to work faster

*applicable for the 2017/2018 tax year

Fig 6: Lump sum design

Design of lump sum group life and TPD insurance benefits	% of respondents
Fixed dollar amount	6%
Dollar amount varying by age	12%
Multiple of salary	39%
% salary x future years of service	38%
Other*	5%

* Other includes % salary x number of years to age 65, by occupational group, dependant on salary, number of units and member age

Fig 7: Cover level

Cover level provided where plan design is based on 'multiple of salary'	% of respondents
1 x salary	11%
2 x salary	16%
3 x salary	25%
4 x salary	22%
5 x salary	12%
More than 5 x salary	5%
Other*	9%

* Other includes death and TPD benefits, which are provided under a group salary continuance policy

Fig 8: Waiting period

Waiting and benefits period applied to SCI/TTD benefits	% of organisations
30 days waiting period with 2 year benefit period	10%
30 days waiting period with 5 year benefit period	3%
30 days waiting period with benefit period to age 65	3%
60 days waiting period with 2 year benefit period	4%
60 days waiting period with 5 year benefit period	2%
60 days waiting period with benefit period to age 65	3%
90 days waiting period with 2 year benefit period	39%
90 days waiting period with 5 year benefit period	4%
90 days waiting period with benefit period to age 65	21%
Other*	11%

* Other includes 14 days waiting with 2 year benefit period, employee selects policy, choice of 30, 60 or 90 days with 2 year benefit or the choice of 30, 60 or 90 days with benefit up to age 65, 90 days waiting but either 2 or 5 year benefit depending on year of employment

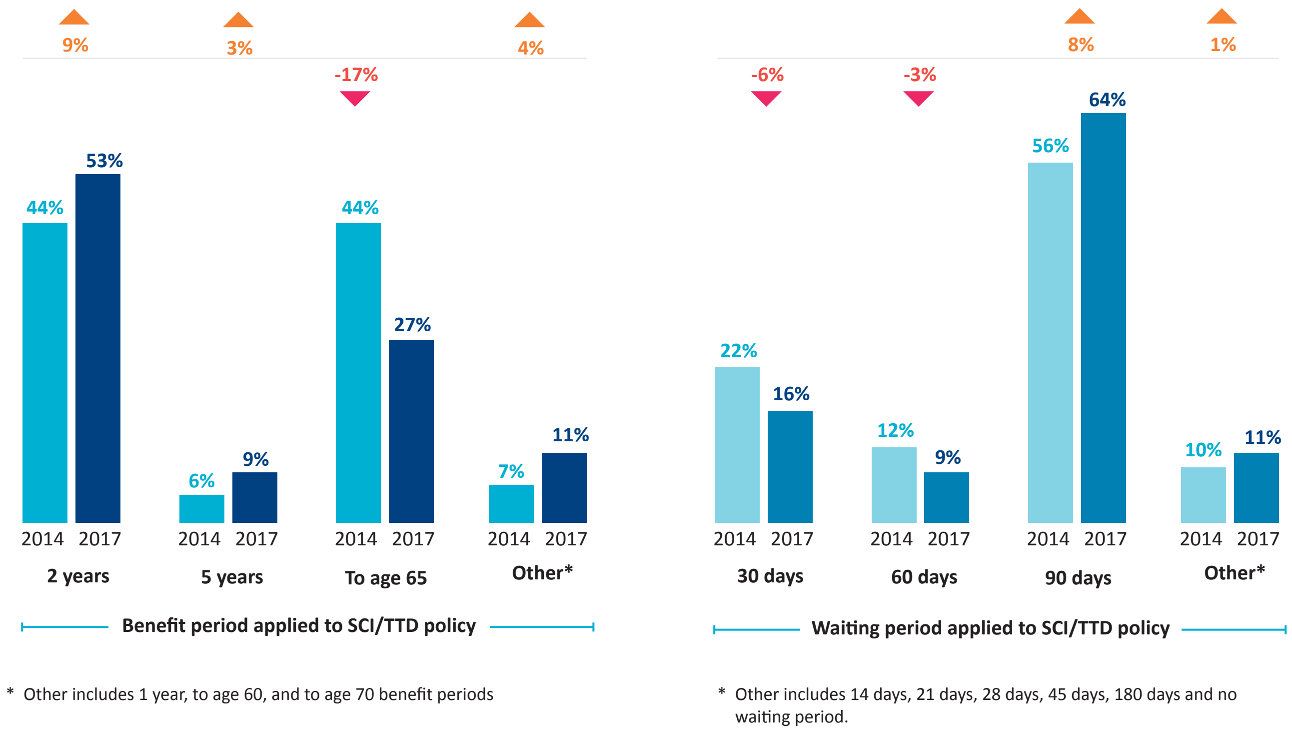
Group salary continuance insurance

The provision of benefits to ***age 65*** has reduced by over 15% since 2014, with a significant increase in the number of organisations instead offering two-year and five-year benefit periods. However we are still seeing investment into the to age 65 benefit from certain industry sectors and organisations looking to maintain a competitively valued benefits package.

There has been a shift away from the shorter waiting periods of 30 days and 60 days, with the most common waiting period of 90 days increasing in prevalence by 8% since 2014.

This longer waiting period should not impact the insurer's ability to engage early intervention strategies, provided the employer is engaged in employee rehabilitation with suitable procedures in place.

Fig 9: Benefit and waiting periods



Personal accident insurance

Group personal accident and sickness insurance is a form of income protection, insurance similar to salary continuance but placed in the general, rather than the life insurance, market. It also has a shorter term and more restrictive limits than life insurance.

With only 10% of employers making this cover available to employees, it is more typically provided to blue and grey collar workforces, where project work is prevalent and the cost of a comprehensive salary continuance insurance in the life insurance market can be prohibitive for this demographic.

These insurances are often written in as part of an enterprise agreement.

Insurances provided under an enterprise agreement are typically fully funded by the employer, and have traditionally been linked to a union-preferred insurance provider. There is a growing trend that has seen organisations writing out named union providers from enterprise agreements, opting instead to secure more cost-effective terms from the broader competitive market and the ability to have greater control over the management of claims.

One-third of policies provide cover for 100% of remuneration. However, insurers are reluctant to place this level of cover as it removes any financial incentive or motivation to return to work. Despite market resistance to the 100% replacement level, many enterprise agreements nonetheless stipulate a 100% replacement, which may leave organisations with a level of self-funding to cover the gap between 85% (or less) and 100%.

Fig 10: Personal accident and sickness insurance

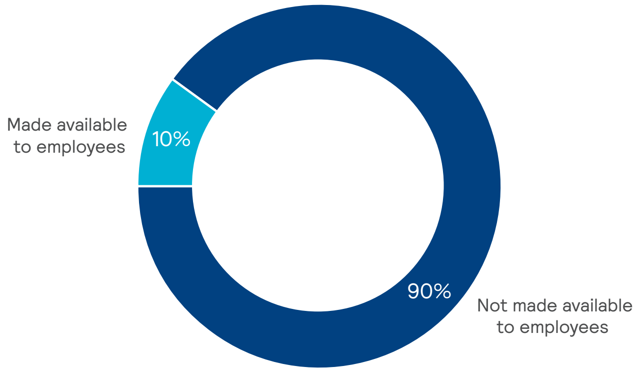


Fig 11: Lump sum benefits offered under personal accident insurance

Type of benefit offered	% of organisations
Not offered	24%
Death benefit	57%
TPD and/or specified events benefit	67%

Fig 12: Proportion of remuneration

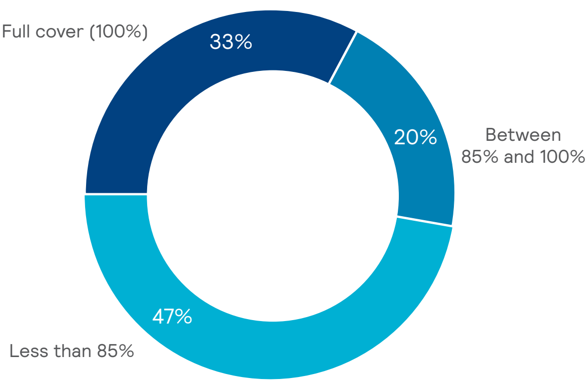
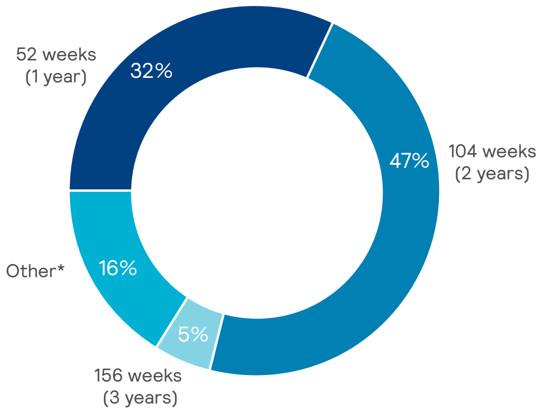


Fig 13: Benefit periods



* Other includes 5 years, one time payment

Private health insurance

While 54.6%[1] of Australians have private health insurance, only 7.1% of employers[2] pay the premium for private health insurance for their staff. It is far less common in Australia for this benefit to be subsidised by the company than in other countries because the Fringe Benefit Tax (FBT) presents a tax penalty for most employers.

Notably, where premiums are subsidised by the employer, there is a higher prevalence in certain industries such as pharmaceutical, high tech, mining and US-parented companies, where company-paid health insurance is either a standard offering or used as an attraction and retention tool. There is also a higher prevalence of subsidised private health insurance benefits at the senior executive level.

With an increasing rate of medical inflation, the cost of private health insurance continues to increase year-on-year at a rate double that of the Consumer Price Index (CPI), prompting a growing number of members either downgrading or dropping cover all together.

With this rapid rate of premium increase, many employers who provide support for private health insurance no longer offer a full subsidy, with approximately one-third of employers moving to a fixed dollar figure per employee to contain this rising benefit cost. This trend has become more pronounced over the past four years.

It is interesting to note however that more than half of all employers still do not provide access to a voluntary plan for their employees. Voluntary plans provide discounted rates and enhanced benefits levels compared to retail plans, and are offered at no cost to the organisation. Employee access to a voluntary private medical plan has increased by 23% since 2014. Given the high take-up of private health insurance across the Australian population, provision of this benefit to employees could be seen as a highly valuable addition to a benefits program.

Cover for non-residents

As part of migration legislation and the visa application process, overseas visitors working in Australia (Temporary Skilled Shortage (TSS) visa holders, and those on the grandfathered Temporary Work (Skilled) subclass 457 visa) are subject to the Department of Home Affairs health insurance standards, which require those workers to hold a specified level of private health insurance.

While the onus for insurance rests with the individual, many employers are attracted to the benefits of an employer funded group plan, which provides consistency of coverage, process, membership, and can leverage group savings. Indeed, some 60% of employers insure or subsidise their non-resident workers with the majority of these plans also including coverage for accompanying spouse and dependents during their period of residence in Australia.

1. APRA Private Health Insurance Quarterly Statistics, March 2018

2. Where a group private health insurance program is made available to employees, of the organisations that elaborated on how this benefit is funded, 7.1% stated they subsidise premiums

Of some concern, however, is a finding in Mercer's *Australian Benefits Review 2017* Survey indicating that a number of companies rely on global plans, which may not in fact be offering compliant coverage.

Fig 14: Financing private health insurance for non-residents (temporary visa holders)

	% of organisations
Employer provides fully subsidised comprehensive hospital/medical cover only (no ancillary)	7%
Employer provides fully subsidised minimum visa level entry requirement (public hospital cover only)	6%
Employee funds own cover	43%
Employer provides fully subsidised comprehensive hospital/medical and ancillary cover	35%
Employer provides set dollar amount	9%

Cover for expatriates

As Australian employees continue to be hosted overseas as expatriates, almost 50% of employers are offering private health insurance for workers on overseas assignments.

Fig 15: Financing private health insurance for off-shore/overseas workers paid from Australia

	% of organisations
Employer provides fully subsidised comprehensive hospital/medical and ancillary cover	66%
Employer provides fully subsidised basic level public hospital cover only	8%
Employee funds own cover	26%

Of the employer provided plans, 75% of these are fully subsidised covers with the balance being funded by employees themselves. The majority of plans provided to expatriate staff are a fully comprehensive hospital/medical and ancillary health plan. These figures have remained largely unchanged since 2014 as globalisation of the workforce reaches a plateau.

In line with the increasing adoption of localised employment contracts (or earlier transfer to local contracts), 25% of employers have moved from a traditional expatriate medical package to a localised health plan in the host country. This trend supports earlier risk transfer back to assignees and the desire for equity of benefits to be retained in-country.

According to the Mercer Marsh Benefits ***Medical Trends Around the World 2017 Survey,*** the medical insurance rate increases are expected to reach 9.7%, almost three times the rate of global inflation.

Meanwhile, across Asia, the projected medical trend rate remains persistently high at 10.2%, with little variation in medical trend values from 2016. The most prevalent cause for increased medical trends in the region can be largely attributed to the cost of medicines and technologies.

With no end in sight for rising global medical costs, insurers remain cautious when it comes to pricing, and are frequently imposing benefit moderations and limits at renewal. Cost containment measures also remain a priority for most organisations, with many adopting or considering the following options:

- Health screening prior to assignment
- Greater emphasis towards insurers who offer cost mitigation via medical networks and closer claims scrutiny
- Introduction of employee co-contributions to share the cost
- Targeted wellbeing programs to promote a healthier workforce and reduce the incidence of claims

Compliance with the host country's laws and regulation should be a governance concern for all organisations when considering assignees and expatriate health insurance. Such compliance issues include non-admittance (insurance that is not locally approved), taxation, visa requirements, payments to local country bank accounts and trade sanctions. All too often, an employer discovers compliance issues with the health insurance policy only at the time of claim, resulting in financial penalties or impacting the validity of local visas.

5

Prevention

Prevention is part of the risk management strategy of all forward thinking employers.

TREND ALERT: Spotlight on mental health

Mental illness is the leading cause of long-term sickness amongst Australian workers[1]. At any given time, one-in-five people in Australia are living with a mental health condition, and nearly half of the population will experience a mental illness at some stage in their lives.

Much of the mental illness seen in the workplace, work-related or otherwise, is treatable and potentially preventable depending on the level of workplace support.

The increase in awareness around mental health, together with the prevalence of the issue and the opportunity for prevention, means that mental health has a place on the agenda of many Australian organisations. PwC's report ***"Creating a mentally healthy workplace"*** found that on average, every dollar spent to promote good mental health in the workplace reaped a return of $2.30, which is an undeniable return on investment. And with mental health claims significantly impacting insured disability insurance costs (including workers compensation costs), many employers have implemented preventative measures.

However there is still considerable opportunity for employers to take steps to enhance the mental health and wellbeing of both their healthy and the "at risk" employees, by understanding psychological risk factors posed by specific roles, minimising psychological hazards, providing individual wellbeing and resilience programs, management of occupational violence and bullying and ensuring early intervention and support by managers.

1. Australia's Health 2016, Australian Institute of Health and Welfare

Workplace health and wellbeing programs help engage and empower employees to adopt healthy behaviours, and make changes that reduce the risk of developing chronic diseases, illnesses and other stressors that impact employee health, productivity and engagement.

Physical, mental and financial wellbeing

The traditional version of wellness benefits, aimed at keeping an employee physically healthy, has evolved into a more holistic concept of 'wellbeing', which encompasses far more than simply ill health prevention.

Organisations are now considering health and wellbeing across all facets of an employee's life:

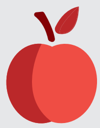
- Physical
- Mental
- Financial

Physical and mental wellbeing

Health and wellness programs incorporate a range of initiatives designed to identify one or more health risks and motivate behavioural change to address them, such as health checks and online health risk assessments as well as onsite activities and education designed to encourage and equip employees to manage their health risks.

Fig 16: Physical, mental and financial wellbeing

PHYSICAL



- 1-in-4 adults are classified as obese.
- 5 million classified as overweight.
- Obesity has overtaken smoking as the leading cause of premature death and illness in Australia and has become the single biggest threat to public health in Australia.

MENTAL

- 1 in 5 Australians (20%) will experience a mental illness each year[1].
- Mental health is the fastest growing cause of disability and workplace absence in Australia.[2]

FINANCIAL

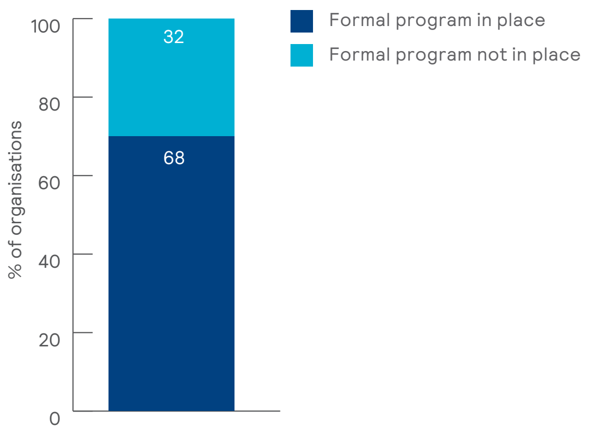
- Personal financial issues impact professional performance, with the Australian working population spending an average of 13 hours a month worrying about money[3]
- Significant diversity exists in the financial state and wellness of individual employees and there is no single predominant cause of financial stress[4]

1. Australian Bureau of Statistics. (2009). National Survey of Mental Health and Wellbeing: Summary of Results, 4326.0, 2007. ABS: Canberra.
2. Based on claims experience of the Mercer Marsh Benefits client portfolio
3. Mercer Global Talent Trends 2017: Australia Dashboard
4. Mercer Inside Employees Minds – Financial Wellness 2017

While as much as 33% of the workforce report low satisfaction with the wellness programs currently provided by their employer[1], 48% of Australian workers want greater focus on health and wellness[2] as part of their total rewards package. As organisations take notice of the importance and value their employees place on these benefits, more health and wellness programs are being formalised in the workplace. In 2017, 68% of organisations in Australia had a formal program in place, an average increase of 8% across all employee levels since 2014.

With this trend expected to continue, there is an opportunity for organisations to increase their investment in employee health and wellbeing, which in some cases may be a small spend, for a **significant reward impact**. It is important that the spend is made strategically, so that the company can make a return on investment by way of increases in productivity, reduced absenteeism, and reduced claims costs on disability insurances and avoid duplication of programs that the employee may already have access to (e.g. wearable devices and other online programs).

Fig 16: Prevalence of a formal health/ wellness program



While flu vaccinations remain by far the most popular health and wellness benefit provided to employees in Australia (90%), the emergence of many new programs has proliferated since 2014, including online health risk assessments (40%), cancer screening (50%), health education sessions (79%), and onsite activities such as yoga (42%) and massage services (40%).

The use of technology around health and wellbeing is also taking hold, primarily through wearable devices (e.g. Fitbits, Apple watches, Garmin). Many companies have embraced technology through the implementation of online health risk assessment tools and health education content. The benefit of these types of programs is that they can provide valuable aggregated data on the employees' health risks, behaviour and status, which in turn can be used to design a needs-based targeted health and wellbeing program. But as with any program, take up and ongoing utilisation can be a challenge.

The greatest challenge with online programs, as with any health and wellness program, is to maintain employee engagement and the ongoing use of tools available.

1. Metlife Australia Employee Benefit Trends Study (2017)
2. Mercer Global Talent Trends 2017: Australia Dashboard

Fig 17: Health/wellbeing program benefits

	% of organisations
No health and wellness benefits provided	1%
Participation in corporate sporting events	58%
Free access to healthy food options (e.g. fruit baskets)	60%
Flu vaccinations	90%
Executive health checks	36%
Health risk questionnaire (online or paper based)	24%
Gym/healthclub (discounts or subsidy)	60%
Health & wellbeing education sessions	66%
On-site fitness classes (e.g. yoga)	41%
Biometric testing (blood pressure, cholesterol, BMI, etc.)	43%
On-site massage	26%
Smoking cessation program	15%
Cancer screening	12%
Weight control program	7%
Absence management program	3%
On-site medical services	7%
Chronic disease management programs (for diabetes, asthma, cancer or hypertension/heart disease, etc)	3%
Cash reimbursement for health related expenses	9%
Other	12%

Financial wellbeing

In Australia it has become common practice for organisations (45%) to offer financial advice/education services to help employees manage their finances across all employee levels. This trend is expected to increase over the next year with a further 16% of organisations currently considering introducing financial wellness benefits to all employees within their businesses. This may be linked to their default superannuation fund's service or provided as a specific benefit separate to the superannuation provider.

The studies reported in the Mercer 2017 ***Inside Employees Minds – Financial Wellness*** report, confirms that financial wellness (or more specifically, a lack of financial wellness) is a concern that affects employees and can impact productivity, absenteeism and employee health issues. It is also apparent that employees face diverse financial concerns, and change is most likely to occur through small steps to build financial courage. Traditional approaches (such as trying to build financial literacy by giving employees as much information as possible) are less likely to promote financial wellness than simply providing employees with tools that enable them to make good decision and take action on their own.

Fig 18: Provision of access to financial advice/education services to help employees manage their finances

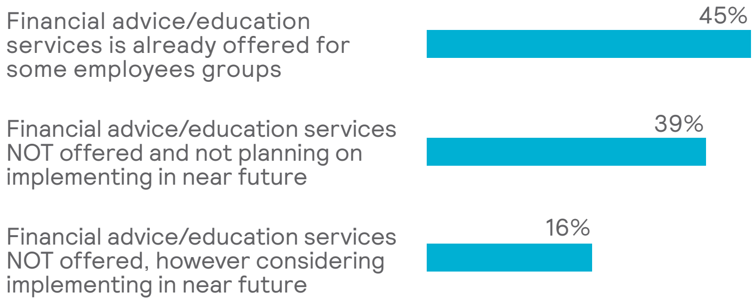
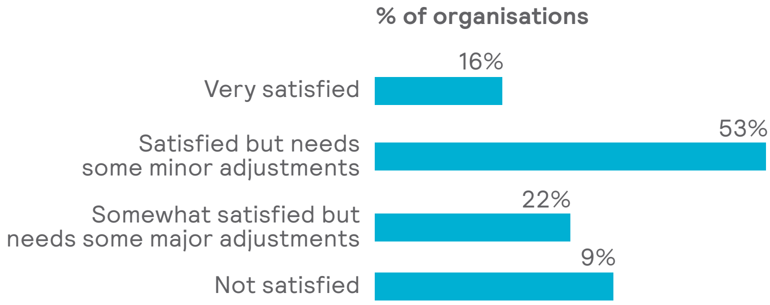


Fig 19: Satisfaction with success of health/wellness/financial wellbeing program



THE IMPORTANCE OF A STRATEGIC APPROACH TO WELLBEING

In many workplaces, benefits programs have gradually evolved over time to incorporate ad hoc provision of services (such as flu vaccination, screening programs) but lack an overarching strategy or the necessary alignment to key areas of risk. An approach that reviews available data, identifies health trends and risks, sets measurable objectives and is delivered in a way that will resonate with the target group is more likely to be successful and deliver a return on investment than a series of ad hoc initiatives.

Organisations need to assess where they are on the journey to a healthy workplace and establish a program that moves through various stages such as awareness and participation to behavioural changes and risk reduction.

A strategic wellbeing program should not only enhance the productivity of an organisation's workforce, but should also aim to improve claims experience and the cost of its people insurances. While there has been a general awakening among employers to the importance of physical and mental wellness benefits, a majority (84%) of organisations are not entirely satisfied with the success of their wellbeing programs, indicating Australia has a way to go with managing the complexities of a wellness program that delivers real and impactful results.

6

Rewards

Wage increases remain stagnant across all sectors and industries, and employees will continue to seek more from their employers in other forms of compensation such as benefits, health and wellbeing, career guidance and flexible work arrangements.

Employees are navigating an increasingly integrated work and home life, and a resulting shift in business dynamics as well as employee expectations.

Traditional rewards, while valued, are not enough to retain and engage employees – which are major issues in an increasingly competitive environment.

In our experience, employees call for choice in their benefits, but when given the choice – none is made.

TREND ALERT: Choice in benefits or benefit of choice?

Employees today live in an age of personalisation where choice is paramount and flexibility across all facets of their lives is prized. In spite of this preference, employers should consider that what employees say they want and what they actually do are not always congruent.

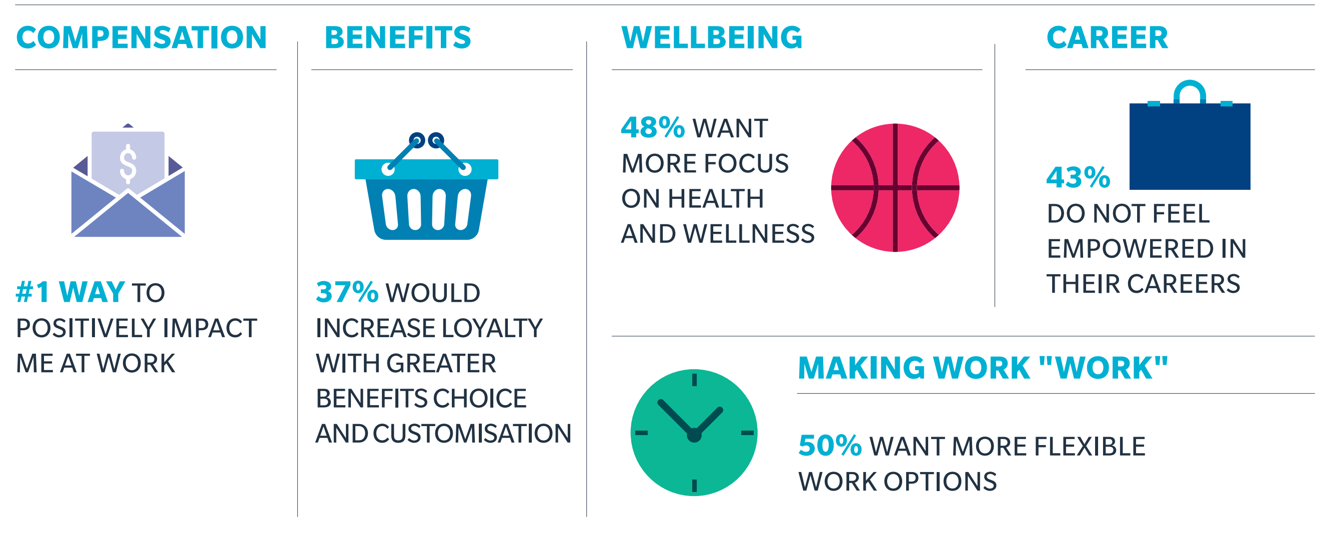
However the observation can be made that higher employee satisfaction levels remain when choice is given, regardless of whether employees exercise this choice.

In other countries, the move towards a "flexible benefits" program is giving employees greater autonomy and choice to spend their benefits package in a way that best suits them. Unfortunately in Australia, this type of arrangement is cost prohibitive due to the application of the FBT.

While full flexibility of how employees spend a "benefit allowance" is difficult to achieve, there are ways in which employers can illustrate employee choice of the benefits they utilise, satisfying the perception of choice.

Ultimately, in line with an organisation's desire to protect their employees against financial stress, we believe compulsory insurance arrangement remains the best safety net that an employer can provide. It is then the job of an effective communications strategy to illustrate how the benefits (and which ones) can help the employee.

FIG 20: Australian employees' rewards expectations and needs are changing



Source: Mercer Global Talent Trends Study 2017

Organisations need to think differently about their “rewards” programs to drive business outcomes, and to take a more holistic (or whole person) approach to make benefits work.

Today's diverse workforce requires a compelling employee value proposition (EVP) – in other words, "total rewards plus". EVP is the total value an employee receives from the employer: compensation, benefits, career management, workplace/lifestyle and employee pride. The EVP defines the commitment the company will make to develop the employee in exchange for the effort the employee puts in to benefit the company.

In benefits or protection programs (life, health and disability insurances) there has been a gradual transition of the cost and responsibility burden from the employer to the employee. As this continues, it is likely we will also see more individual choice that allows for greater personalisation and employee-driven decision making, while employers take a secondary role of offering more voluntary, top-up and discounted programs in partnership with healthcare and other providers.

There has also been a noticeable shift from traditional health and wellness or prevention programs to a more holistic concept of employee wellbeing. Historically employers focused on the health and wellness of their employees to drive reduced cost. But the focus has now turned to the physical, mental and financial wellbeing of the workforce as employers recognise these factors can both reduce premium costs and increase employee engagement and productivity.

Stable and predictable career options with fixed work schedules and locations are being replaced by more employee-driven career paths with flexible work options. Employees are asking for the flexibility to make work "work" for them, both in terms of time and place. Meanwhile, the dramatic shift to more independent and contract work is being driven from both directions – employers in the tech sector with gig workers, and employees desiring and demanding more freedom and autonomy.

Employee engagement

Providing carefully considered employee benefits programs can give organisations a strategic advantage in attracting and retaining highly skilled employees. But communicating with employees about the benefits and programs on offer is an oft-forgotten crucial last step.

Businesses with the most successful benefits programs are those that build internal branding and awareness to foster a strong connection between employees and their organisation. Communication plays a critical role in ensuring employees are aware of the benefits their employer is providing. In our experience, around half of employers communicate their benefits offering just once a year, while nearly 20% do not communicate it at all. A rewards program cannot deliver value, or be appreciated by employees, if they are not aware of it.

The key to effective messaging is to translate benefits choice into personal value. Targeted or personalised communication focuses on individual messages that promote benefits awareness, appreciation and motivation.

Generally, when rewards do not deliver the results that an organisation is looking for, it often relates to how they execute, or fail to execute, on their program.

For further information, please contact your Mercer Marsh Benefits advisor or visit our website at ***marsh.com.au***

About Mercer Marsh Benefits

Mercer Marsh Benefits™ provides clients with a single source for managing the costs, people risks, and complexities of employee benefits. In Australia, Mercer Marsh Benefits is operated by Marsh Pty Ltd. The network is a combination of Mercer and Marsh local offices around the world, plus country correspondents who have been selected based on specific criteria. Our benefits professionals located in 135 countries and servicing clients in more than 150 countries, are deeply knowledgeable about their local markets. Through our locally established businesses, we have a unique common platform which allows us to serve clients with global consistency and locally unique solutions.