

2015 Global Benefits Governance and Operations Study

American Benefits Institute and Aon Hewitt

Summary

Corporate governance is critical to a company's risk management strategy. Annual costs of benefit programmes and plan liabilities often make up a significant portion of companies' operating costs and balance sheets. So it is not surprising that rising costs and risks of benefit programmes are the key drivers of global benefits governance. In fact, three in four multinationals say their boards and senior management are concerned about the increasing costs and risks of their global benefit programmes.

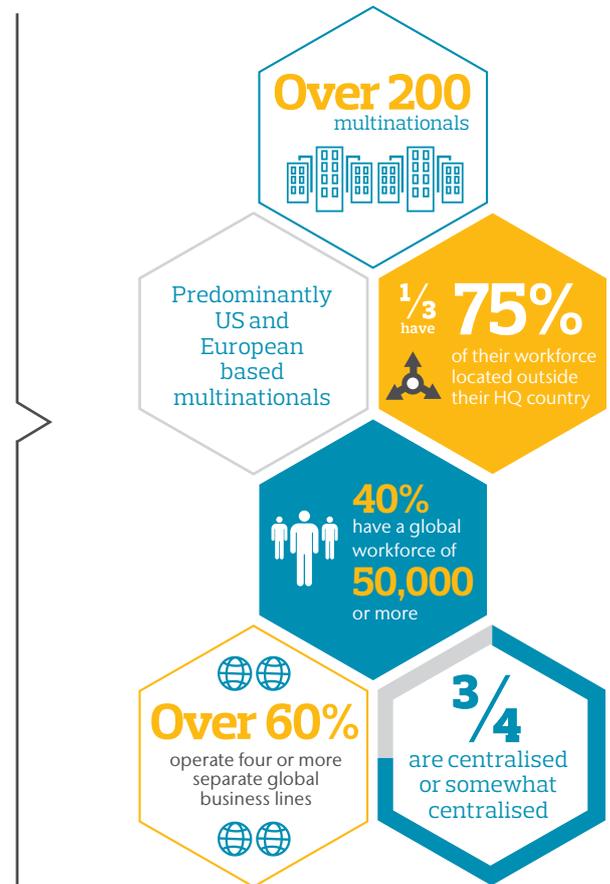
Aon Hewitt and American Benefits Institute conducted their second in-depth study in 2015 of more than 200 multinationals headquartered around the world. The study suggests that corporate governance of global benefits continues to be a challenge for many companies.

Among the highlights:

- Overall effectiveness of **global benefits management has not progressed** as much as companies had hoped three years ago.
- **Execution of risk management strategies** continues to be a challenge for multinationals, despite the cost and risk concerns of boards and senior management.
- The trend towards companies wanting to **enhance corporate management** of their global benefit programmes continues.
- It is clear that **strong governance protocols** enable companies to design benefits that support business strategy and manage benefit costs and risks.
- Both the 2015 and 2012 studies highlighted two key relationships between effective governance and business outcomes:
 - Formal adoption of governance protocols is more effective than informal/ad hoc ones
 - Best practices in global benefits governance result in higher confidence in managing costs and risks of benefit programmes and better alignment of programmes with organisational objectives

The number of companies that have implemented best practices in global benefits governance increased to 20% (up from 14% in 2012).

* Best practice companies are defined as having established each one of the five measures of good governance, shown on the following page.



Five measures of good governance

Both the 2012 and 2015 studies tested the effectiveness of global benefits management using five equally-weighted measures of governance.

Best practice companies are defined by the following framework:

- 1 Corporate HR and finance functions have the requisite **data and information** on their global benefit programmes
- 2 Companies are aware of benefit **costs and risks, and the opportunities** to manage them
- 3 Companies have defined **specific plan design and risk management policies** to reduce risks that they believe are important to manage
- 4 There is an **operating model** with roles and responsibilities allocated at corporate, regional and local levels to execute the company's risk management strategies
- 5 Companies **monitor** such risks on an ongoing basis and report to corporate functions

Effectiveness of global benefit management

In 2012, companies reported their intention to make significant progress across all five measures. However, the 2015 position shown below represents only small improvements from the 2012 position.

Almost **60%** have established global policies and guidelines re: plan design, financial management and operations

Only **1 in 5** **However** are confident that their local plans are aligned with such policies

Other excerpts from the survey worth noting:

Less than **1 in 10** have readily available data and information

Only **1/3** have ready access to global DB plan data; even less so for DC, medical and insured plans, and other benefits

Only **1/3** fully understand their global plan costs and risks. Knowledge outside of so-called Tier 1 countries is even weaker

Only **1/4** have well established monitoring and reporting protocols



Less than **1 in 10**

have readily available data and know their risks



1/4

have requisite benefits expertise in their local subsidiaries.

Yet only 16% would use external expert resources to fill these gaps.

Only 1/3

have direct line reporting from their local benefit team(s) to the corporate benefits function



40% have strict control over local DB decisions

Centralisation of benefits operations

All evidence suggests that companies are centralising their global benefits management. Increasingly this means appropriate allocation of responsibilities between corporate functions and local management, and not just strict corporate control.

- Corporate involvement in managing compensation practices and defined benefit plans will continue to be strong.
- Companies are increasingly concerned about governance of defined contribution plans as they become more prevalent. Increasingly, DC plans are the primary retirement plan rather than a supplementary savings vehicle.
- Increasing cost of healthcare and economies of scale are driving central oversight of medical and risk benefits.

What are the execution challenges?

Why haven't companies improved their governance effectiveness over the last three years in spite of best intentions?

- Continued challenges to obtain data and insights into risk and market practice
- Absence of global technology platform for knowledge management
- Resource constraints and lack of benefits expertise in the local markets
- Corporate control and approval requests becoming a 'rubber stamping' exercise
- Informal governance protocols are not followed



Key stakeholder viewpoints

- Boards of directors, senior management and finance leaders are concerned about increasing costs and risks of benefit programmes
- Corporate HR leaders' concerns are more diverse, ranging from employee appreciation of the benefits provided and the health and welfare of employees to managing costs

Other factors driving corporate oversight of benefits

- Lean HR/benefits budgets and staff in local offices
- Regulatory compliance and local fiduciary requirements
- Changes in internal corporate governance mandates

Cost and risk mitigation

viewed as **primary drivers of greater centralised governance** by more than 4 in 5 companies

Only **1/3** are confident their plans support organisational and workforce objectives

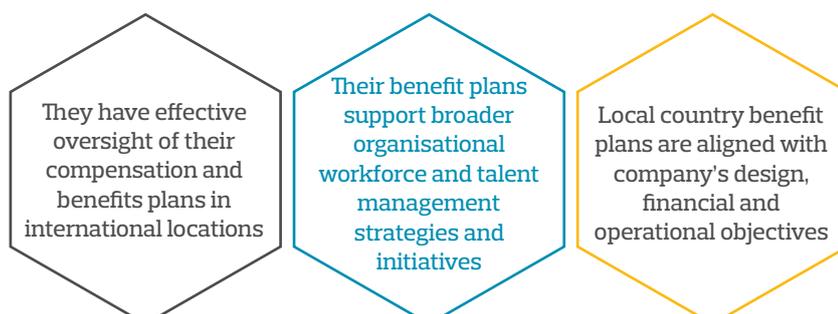


Best practice in global benefits governance

Best practice companies follow similar patterns in infrastructure, operations and governance:



Companies that report effectiveness across all five measures of good governance more commonly say...



Next steps on the governance journey

The 2015 study further strengthens the **risk-view of effective global benefits governance** that was noted in the 2012 study.

If companies understand the costs and risks of their benefit plans, they can then decide (i) where in the organisation these risks are best managed and (ii) who are the right people to manage the risks they consider important.

We strongly advise companies wishing to make improvements in their global benefits governance to:

1. **Define specific design, financial and operational objectives.** These provide a context for systematically evaluating risks and identifying opportunities to better manage these risks.
2. **Implement disciplined protocols to make and execute risk management decisions.** These provide a framework for governing global benefit programmes.

The why

What benefits risks are important to manage as an organisation?

- Evaluate how the local plans align with organisational policies that govern plan design, financial management and operational objectives, as well as market norms.
- Prioritise actions to align plans with strategy, reduce risks and increase financing efficiencies.

The how

Build operational capabilities to execute risk management decisions:

Implement the tools and infrastructure aligned with company's operating model to execute risk management decisions.

Inventory and baseline

- Use global web-based technology to maintain requisite plan information.

Operating model

- Provide the support and functional authority to execute strategy.
- Establish committee structure, reporting and approval protocols.

Monitoring

- Monitor plan costs/risks against risk policies.

We're here to empower results

For more information on the issues raised in the survey, or advice on how you can use the findings to make improvements in your own approach, please contact your usual Aon Hewitt consultant or email us at talktous@aonhewitt.com.

About Aon Hewitt

Aon Hewitt empowers organisations and individuals to secure a better future through innovative talent, retirement, and health solutions. We advise, design, and execute a wide range of solutions that enable clients to cultivate talent to drive organisational and personal performance and growth, navigate retirement risk while providing new levels of financial security, and redefine health solutions for greater choice, affordability, and wellness. Aon Hewitt is the global leader in human resource solutions, with over 35,000 professionals in 90 countries serving more than 20,000 clients worldwide across 100+ solutions. For more information on Aon Hewitt, please visit aonhewitt.com

Follow Aon on Twitter: twitter.com/Aon_plc

Sign up for News Alerts:

<http://aon.mediaroom.com/index.php?s=58>

About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance brokerage and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 72,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative risk and people solutions. For further information on our capabilities and to learn how we empower results for clients, please visit: <http://aon.mediaroom.com/>

Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone.

Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated. This document is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by any third party. This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything. Any opinion or assumption in this document is not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance or compliance with legal, regulatory, administrative or accounting procedures or regulations and accordingly we make no warranty and accept no responsibility for consequences arising from relying on this document.

Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority. Registered in England & Wales. Registered No: 4396810.

Registered Office:
The Aon Centre
The Leadenhall Building
122 Leadenhall Street
London EC3V 4AN

Copyright © 2015 Aon plc

aon.com

About American Benefits Institute

The American Benefits Institute is the education and research affiliate of the American Benefits Council. The Institute conducts research on both domestic and international employee benefits policy matters to enable public policy officials and other stakeholders to make informed decisions. The Institute also serves as a conduit for global companies to share information about retirement, health and compensation plan issues.