Aon Hewitt
Consulting | Global Benefits

2015–16 Global Benefits Governance and Operations Study

Align Strategy. Manage Risk. Execute

Risk. Reinsurance. Human Resources.

American Benefits Council

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Align strategy. Manage risk. Execute.

Dear reader,

We are pleased to present our 2015-16 study exploring corporate governance of employee benefits within multinational companies. This is the second of an ongoing study the American Benefits Institute has conducted jointly with Aon Hewitt.

Increasing costs and risks posed by employer-sponsored benefits programs around the world continue to drive centralization trends of global benefits management. Yet companies struggle with making decisions in the absence of ready access to information and having the necessary infrastructure to execute their benefits strategy.

This recent study explores best practice in global benefits management and offers insights into what companies can do to improve alignment of benefits with organizational strategy and better manage the costs and risks of global benefits.

Over 200 multinationals around the world participated in the study. The study was shaped by leaders responsible for global compensation and benefits at some of the largest multinationals based in the U.S. and Europe. They offered guidance and deep insights into the challenges they face. We greatly appreciate their participation. Without their active involvement, this exercise would not have been possible.

We trust you will find the information and insights presented in this report of great interest and value.

With best regards,

James Klein	**Lynn D. Dudley**	**Cary Grace**	**Amol Mhatre**
President,	Senior Vice President,	CEO,	Senior Partner,
American Benefits Institute	American Benefits Council	Aon Hewitt Consulting	Aon Hewitt

About the 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.

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 risk while providing new levels of financial security, and redefine health solutions for greater choice, affordability and wellness. Aon Hewitt is a global leader in human resource solutions, with over 30,000 professionals in 90 countries serving more than 20,000 clients worldwide. For more information on Aon Hewitt, please visit: aonhewitt.com.

Executive summary

Multinational companies are routinely faced with many business risks, beyond market volatility which is out of their control, such as volatility of demand, competitive pressures, litigation, labor unrest, and reputational risks. Indeed it would be impossible for companies to conduct their business globally without incurring any risk at all. How effectively companies manage their risks often separates successful companies from those that fail. Therefore corporate governance is viewed as increasingly critical to a company's long-term success.

Annual costs of benefit programs, and legacy liabilities, often make up a significant portion of operating costs and balance sheets for many companies. So it is hardly surprising that boards and senior management of multinationals are concerned about the increasing costs and risks of their global benefit programs.

The impact of economic downturns over the past 15 years on pension liabilities, and rising costs of healthcare alone have driven many companies to consider transferring benefits-related risks to third parties and/or to employees. Yet multinationals – across multiple geographies – face many other benefits-related risks such as suboptimal designs that do not align with the needs of today's increasingly diverse workforce, and non-compliance with constantly-evolving regulations.

The benefits design, financial, and operational decisions companies make require oversight and controls to ensure that firms' return on investment in employee benefits is commensurate with the risks such programs pose. Therefore, the trend towards centralization, noted in our 2012 study, continues three years hence. However, the data suggests that companies have not moved as far they had hoped over the past three years.

So why do multinational companies struggle with governance of their employee benefit programs? Our second in-depth study of benefits governance and operations since 2012 offers some insights.

We noted two key challenges companies face in managing their global benefit programs:

Knowledge management. Companies do not have good processes and technology for ready access to their benefits data and market information; and companies do not have a good understanding of the business risks benefit programs create and potential opportunities to manage such risks.

Execution of risk strategy. Few companies employ formal governance protocols with proper allocation of roles and responsibilities at local, regional and corporate levels; and monitor their risks including the risk of misalignment with their organizational objectives and principles.

It is clear that best practices in global benefits governance and operations enable companies to design benefits that support business strategy, and manage benefit costs and risks. Both the 2012 and 2015-16 studies highlighted two key relationships between effective governance and business outcomes:

- **Formal adoption** of governance protocols is more effective than informal or ad hoc ones.
- **Effectiveness across all five measures of good governance** results in higher confidence in managing costs and risks of benefit programs, and better alignment of programs with organizational objectives.

Both the 2012 and 2015-16 studies focused on best practice of global benefits governance using five equally important measures of effective global benefits management. The 2015-16 study explored whether companies are more effective for each of the five measures than they were three years ago. Our findings show that while some progress has been made, companies expected to be much further along by now than they actually are. There was a modest increase in the number of companies that reported being effective across all five measures since 2012 from 14% to 20%.

Boards and senior management report rising costs and risks as their primary concerns related to global benefit programs. We expect to see a continued trend towards greater corporate involvement in global benefit management given the visibility of benefits costs and risks and lean staffing models with lack of benefits expertise and know-how in many countries.

There remains a strong desire among respondents to resolve these challenges, with 80% wishing to follow best practice by 2018. The question remains as to how there will be more progress than has been witnessed since 2012.

Defining best practice

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

1. Corporate HR and finance functions have the requisite **data and market information** on their global benefit programs.
2. Companies know their benefit **costs and risks, and the opportunities** to manage them.
3. Companies have defined **specific plan design and risk management policies** to manage 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 strategies.
5. Companies **monitor and report** such risks on an ongoing basis to corporate functions.

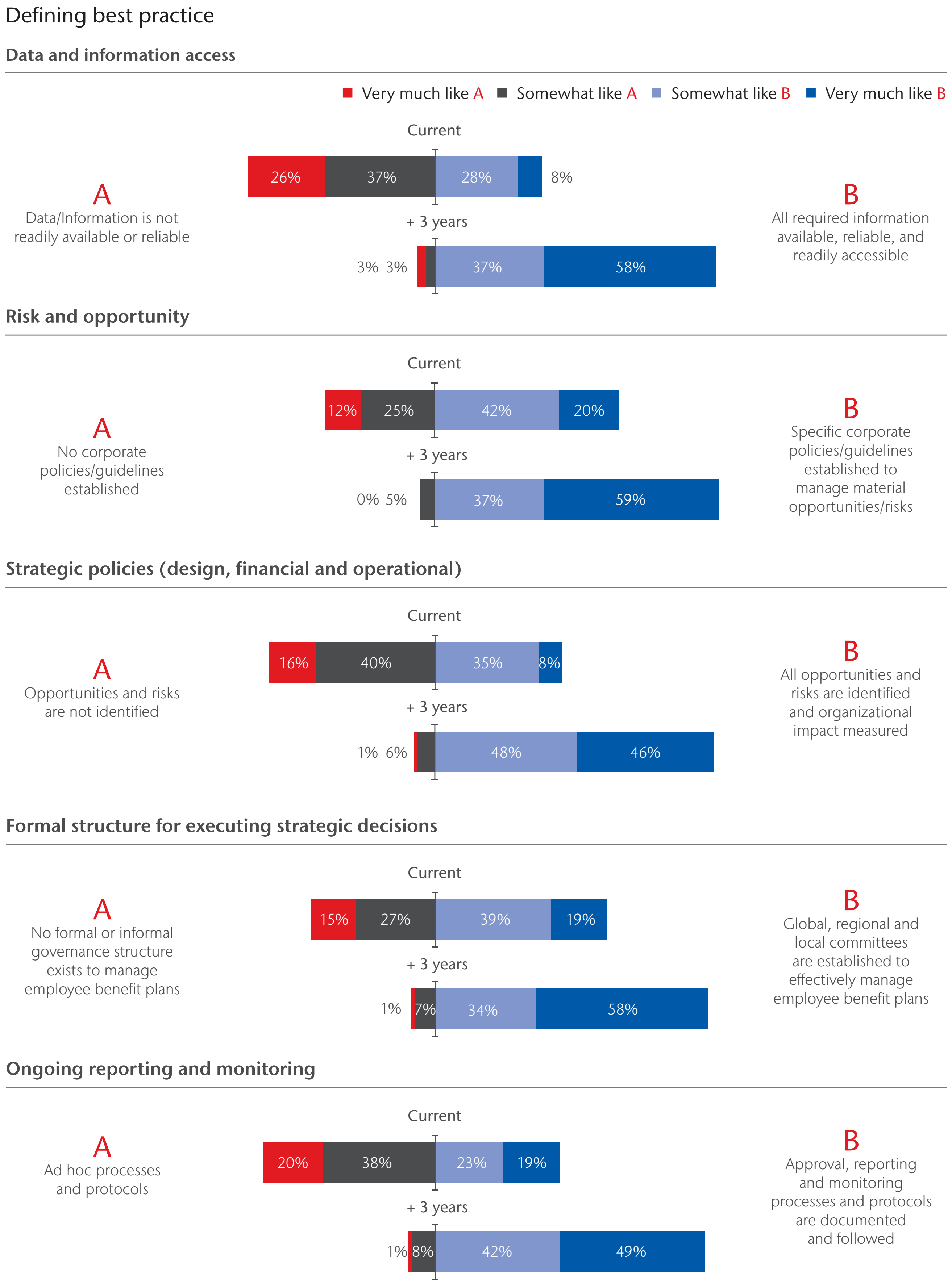
We refer to **best practice companies** as those who rated themselves as **effective across each of these five measures**. The responses reveal a difference in overall effectiveness between companies that meet some but not all of these measures.

Only 14% of respondents reported following best practice in global benefits management in 2012; in comparison we saw an increase to 20% in 2015. 80% wish to do so by 2018.

Throughout this report, we analyse how the so called 'Best Practice' companies operate differently to the rest of the survey respondents – referred to as 'Other' companies in the report. An examination of these practices provides invaluable insights into:

– what companies can do to improve the governance and operations of their global benefit programs, and

– how following best practice can help companies improve their return on investment and reduce unrewarded risks related to their benefit programs.



About the study

The 2015-16 Global Benefits Governance and Operations Study is the second in a series of ongoing studies jointly conducted by the American Benefits Institute (ABI) and Aon Hewitt. As in 2012, the study was shaped by a panel of 15 executives responsible for managing global benefits at some of the largest US and European-based multinational companies.

For the purposes of the study, ‘governance’ is defined as:

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*

In our analysis we explored whether approaches differ by geography of parent company or the size of the company. For this purpose we have categorized companies as Small, Medium and Large, defining Small as companies with less than 25,000 employees worldwide, and Large as those with more than 100,000 worldwide employees.

Interest in the topic of global benefits governance remains high, largely due to the increasing costs and risks posed by employee benefit programs multinationals sponsor around the world. In 2015, over 200 multinationals participated in the study as compared to the 2012 study when 140 organizations participated.

The primary goal of these studies is to understand how companies make and execute strategic design, financial and operational decisions related to their global benefit programs.

In addition to understanding how the governance trends have evolved since we conducted the first study in 2012, the 2015-16 study also focused on the operating models companies use to manage their global benefit programs.

Specifically, in 2015 we focused on three key areas of corporate benefits governance and operations:

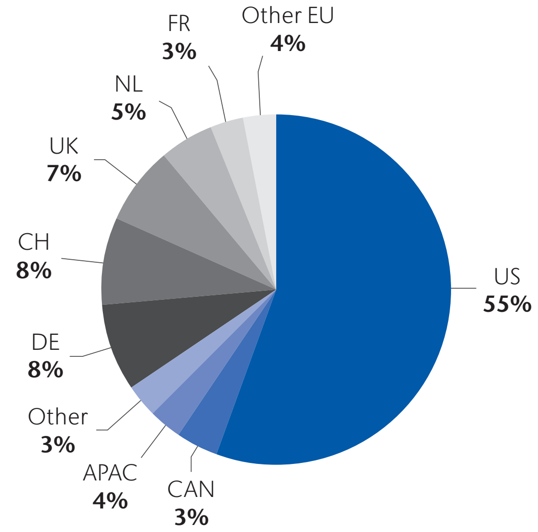
1. Drivers of corporate oversight and control	• What are the primary benefits-related concerns of senior management, and HR and Finance leaders? • Why do companies want corporate oversight and control over benefits decisions?
2. Effectiveness of global benefits governance	• How effective are companies in managing their global benefit programs? • How important is it for companies to establish a formal and disciplined governance model to manage benefits-related risks? • What is the correlation between business outcomes and best practice?
3. Benefits operations	• What are companies’ strategic objectives relative to their global benefit programs? • How do companies structure their benefits functions to manage global benefits? • What challenges do companies face in executing strategic design, financial and operational decisions?

About the participants

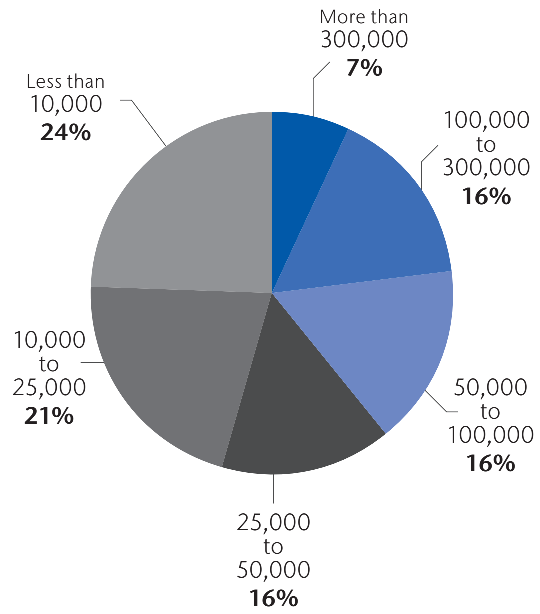
Over 200 multinationals participated in the study, compared to the 2012 study when 140 organizations participated. 55% of the participants are US-based multinationals, while the rest are largely multinationals based in Europe, with 7% being rest of the world. 7% of the participants had over 300,000 employees worldwide, 21% had between 10,000 and 25,000 employees and 24% had less than 10,000.

In 2012, almost half of the participants had less than 25,000 employees worldwide. Similarly to 2012, the majority of participants are HR leaders, and their jobs are no less complex, with the majority of the participating companies having their employees in international locations rather than their headquarters.

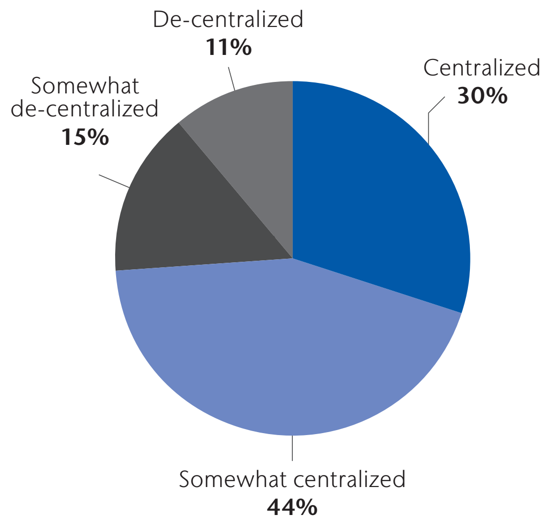
Corporate HQ location



Worldwide employees



Centralized management



Drivers of corporate involvement: why do corporate functions get involved in local benefits decisions?

Companies source and reward their talent locally, and in most cases labor costs are borne by local business leaders. However, managing costs and risks continue to be the primary drivers of corporate oversight and control for more than 80% of respondents. Regulatory complexity and corporate governance standards also remain important drivers for corporate involvement in managing benefit programs.

In mature markets, most companies continue to focus on cost management and reengineering operating models to counter concerns of sluggish growth and ageing populations. In emerging markets, where companies continue to invest heavily, labor force engagement, productivity and turnover are core concerns. However, as economic conditions improve and job markets tighten, these concerns are lessening.

We explore below the primary drivers of centralization and corporate oversight of local benefits-related decisions.

- Boards and senior management continue to be concerned about rising healthcare costs, and costs and volatility of pension obligations. 69% of senior management respondents and 92% of Corporate Finance respondents are primarily concerned about increasing costs and risks of benefits respectively (respondents were asked to select only one as the primary concern).

- However, the primary concerns of Corporate HR are more diverse, including low return on investment on benefits spends due to lack of appreciation, health wellness of employees, and compliance with increasingly complex regulatory requirements.

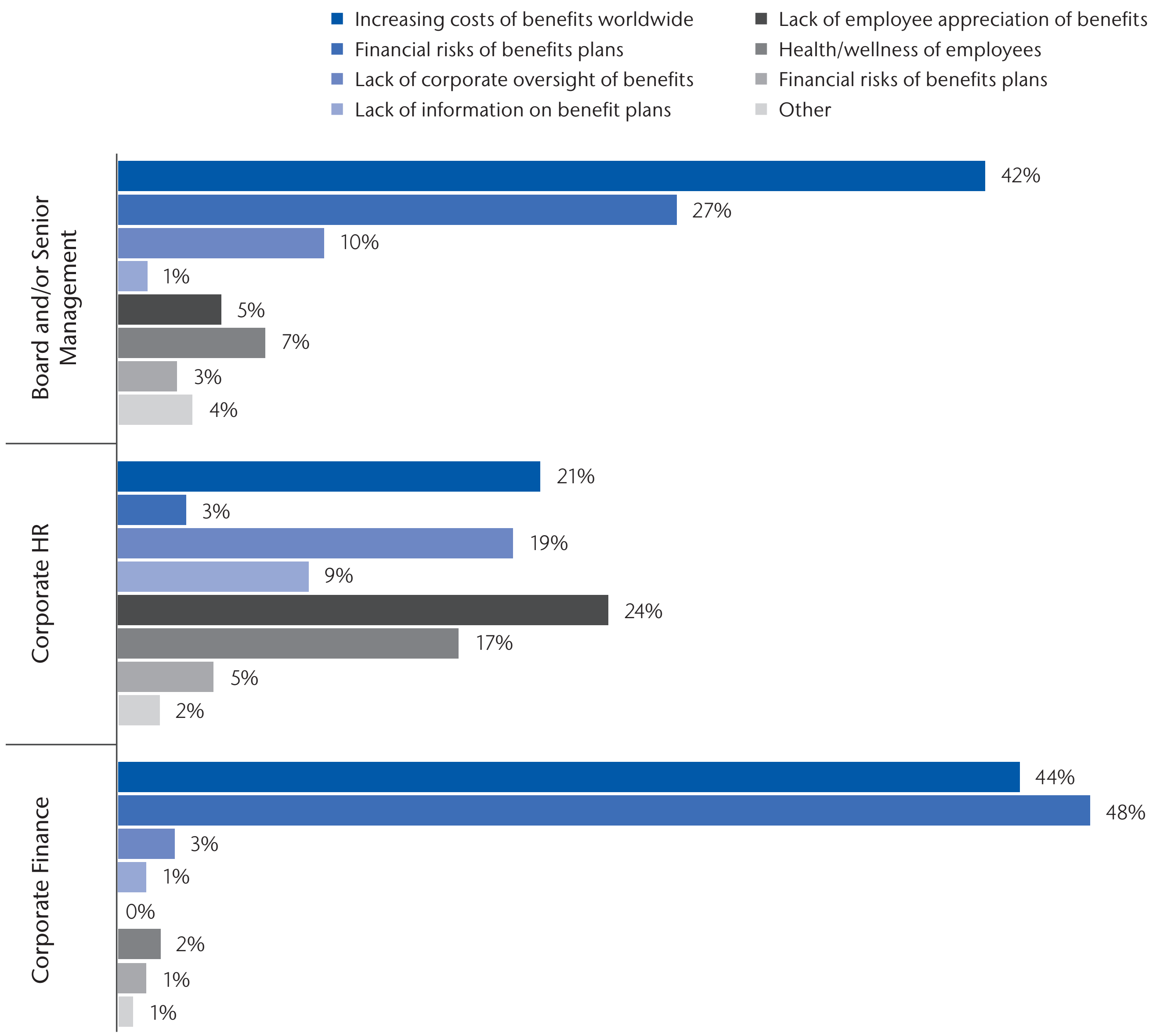
- On the benefits side – not surprisingly – healthcare and retirement costs (77% and 60% respectively), and pension risks (61%) continue to dominate as key issues in mature markets. This is in line with a broader business issue of managing costs. Surprisingly, lack of employee appreciation of benefit programs was rated as a key issue by more companies (69%) in mature markets. In 2012, more companies rated salary inflation due to talent shortage (69%), and demand for new or increased benefits (64%) as important issues in emerging markets. Interestingly, significantly fewer companies (fewer than 40%) reported these as issues in 2015.

- The list of actions companies are considering is long. Apart from the usual focus on managing costs, companies appear more focused on employees and their role in their own wellness: promoting individual responsibility, flexibility and choice, health wellness (fewer are focused on financial wellness), and improving employee communication and education in both mature and emerging markets.

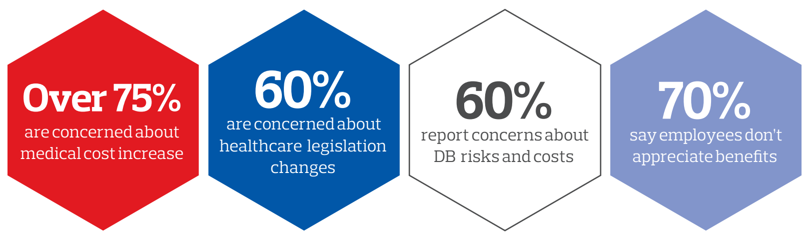
- Lean staffing models were reported as a challenge by more companies as compared to three years ago. A lack of local expertise is certainly a strong reason for involving global or regional expertise in decisions about local benefits, as well as in the operational delivery.

- In general, corporates have seen value in becoming more centralized in a range of areas of business governance. Many corporates have seen value from doing so in relation to defined benefit (DB) pensions risks and costs, and are expected to move on to similar centralization of other benefits next.

Drivers of centralization and corporate oversight



Mature markets



Emerging markets

Centralization trends: how are companies getting involved in local decisions?

We expect to see more and more companies wanting to manage their global benefit programs centrally. Before we explore this trend, it is important to define what the term 'centralization' means when it comes to benefit programs. While certain companies do employ large corporate teams that are primarily responsible for managing their benefit programs worldwide, for the purposes of the study, we defined centralization in terms of how companies exercise corporate oversight and control over local benefits decisions. The table below defines centralization and also shows how best practice companies operate relative to other respondents in the 2015-16 study:

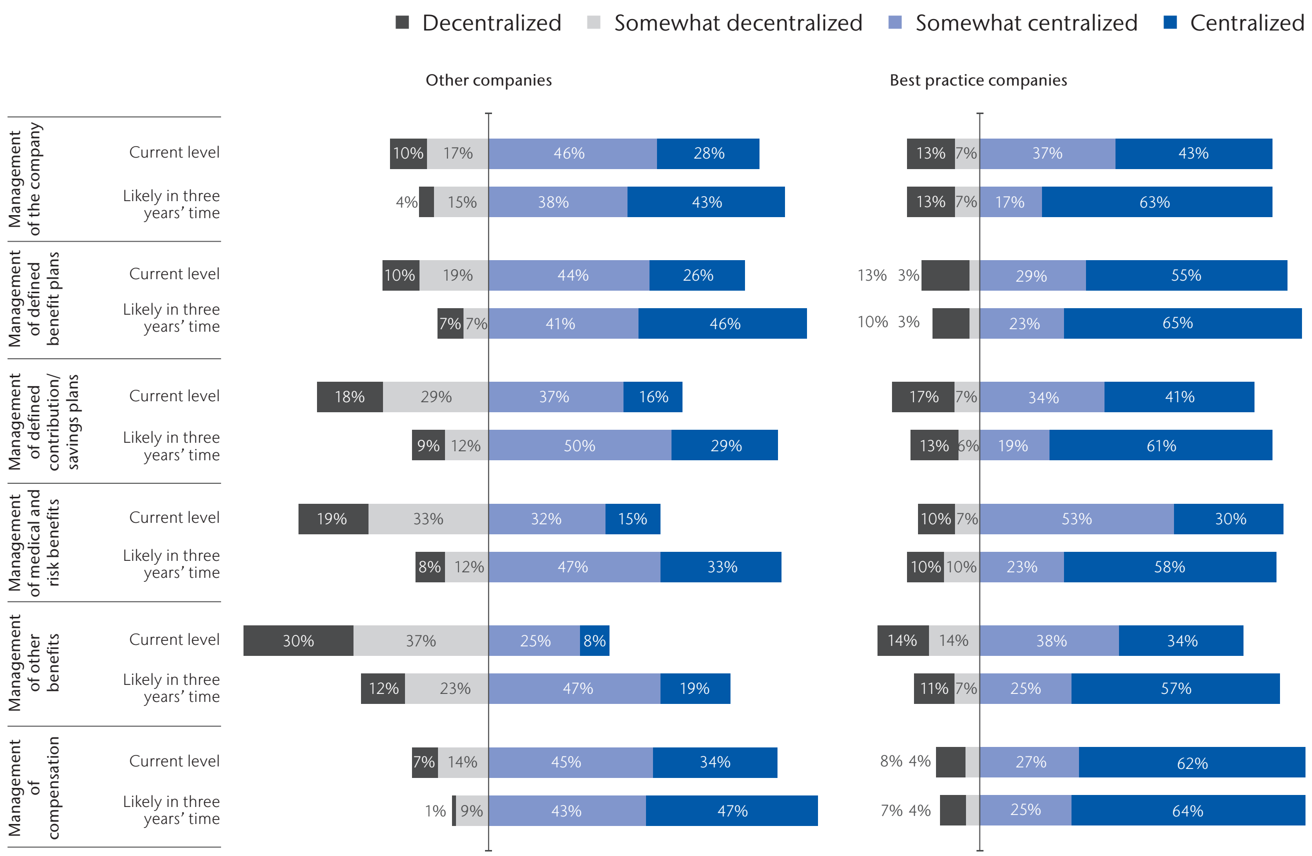
Defining centralization...	Best practice	Other
Benefits data is maintained on a global web-based technology platform.	70%	23%
There are specific and prescriptive corporate guidelines for making strategic design, financial and operational decisions.	94%	48%
Locals have clarity around when and how to seek corporate approval when making benefits-related decisions.	93%	62%
Companies employ Center of Excellence (COE) model to support local management, finance and human resource teams for benefits design and delivery.	62%	34%
Global providers with global service agreements (where possible) are selected to support global benefits management and to reduce cost of operations by leveraging global purchasing power.	63%	25%
Corporate audits are performed periodically to ensure compliance with company objectives and principles.	87%	25%
Formal governance protocols are established including committees with appropriate business and functional representation at corporate, regional and local levels to make and execute strategic decisions.	80%	30%

Most companies have aspirations to increase centralization of benefits management. 70% or more companies expect to say 'yes' for each of the above questions by 2018. In comparing the 2012 and 2015 responses for the same question, we noted companies had similar aspirations in 2012. However, the percentage of companies saying 'yes' to the centralization questions above didn't materially increase over the past three years. In the following section, we explore the challenges companies face in managing their global benefit programs.

In 2015 we also compared differences in centralization by various benefit types with centralization trends in operations and compensation programs.

- It appears that 75% of companies that participated in the study already operate their business centrally (or somewhat centrally). This trend is clearly maturing as only 10% more say they expect to operate centrally by 2018.
- Similar observations can be made regarding the centralization trend in compensation practices. 81% of companies already manage their compensation programs centrally, with an additional 10% saying they expect to do so by 2018.
- Most companies manage their DB pension plans centrally (74%) and 13% more aspire to do so by 2018. In comparison, fewer companies (57%) currently manage their defined contribution (DC) plans and insured benefits (54%) centrally, with 80% of respondents expecting to do so by 2018. Fewer than 40% of respondents said they were managing these benefits centrally in 2012.
- What is surprising is that while only 44% of companies manage all other benefits centrally, nearly three quarters of companies expect that they will manage all benefits centrally by 2018. Lean staffing and lack of benefits expertise at local country level are the likely causes of this aspiration.
- Data segmentation shows no variation between North American (NA) and European Union (EU)-based companies, and small or medium-sized ones. Large companies, however, reported a much higher degree of decentralization across many factors; eg, 83% manage their plan data and 74% manage plan audits on a local basis.

Levels of centralization across benefits, operations and compensation programs



Two key challenges in managing global benefits

Most companies report increasing senior management concerns regarding the costs and risks of their benefit programs. In 2012, companies reported that, in response, they would increase corporate oversight and control by 2015. However, 2015 data suggests that most companies haven't made much progress since 2012. So why do companies struggle with global benefits governance? We find that corporate benefits functions face two key challenges in managing global benefits:

- **Knowledge management:** lack of ready access to benefits data; insufficient knowledge of market benchmarks and trends; and lack of knowledge of risks (and opportunities to mitigate such risks).
- **Execution of strategy:** lack of strategic direction; lack of skilled resources and know-how; informal or ad hoc governance processes and protocols; and lack of coordination between corporate HR and finance teams, as well as corporate, regional and local teams.

Knowledge management

Without access to information, corporate teams simply cannot shape benefits design, financial and operational decisions, or have due oversight of local decisions. This, in our opinion, is the single biggest challenge in managing global benefit programs. Most companies struggle to collect the necessary information on their benefit programs, and more importantly, to derive insights from such information to make good risk management decisions. Yet some companies do manage to do so. What are the different actions taken by these companies?

- Most Best Practice companies utilize a global technology platform to collect and maintain benefits data, and all say that it is available and generally reliable. In comparison, we found that only 20% of the companies that do not follow best practice in global benefits governance – so called 'Other companies' – say they have access to benefits data at the corporate level; critically only 2% of this group said that their data is reliable and readily available. Less than a quarter of these companies use a global technology platform to maintain benefits data.
- Best Practice companies have access to data on all benefit types including DB and DC plans, insured benefits, and other benefits such as car policies in certain countries. This was not the case for the rest. In fact, we expected all companies generally to have better annual access to DB pensions data due to pension financial reporting requirements. However, only 52% of companies that do not follow best practice claim they can access pension data. Even fewer companies in this group said that they can access data on – in decreasing order – DC plans, insured benefits and other benefits.
- It is also important to note that Best Practice companies generally understand risks and opportunities related to their entire benefits portfolio globally. While more than 70% of the rest say that they know their DB pension risks, fewer companies have knowledge of risks posed by DC plans, insured benefits and other benefits.
- Not surprisingly, knowledge management is significantly better for Tier 1 countries ('Tier 1' being defined as companies' countries of operation with large employee populations and/or countries with material benefit obligations and/or any highest in any other measures companies may use to define such tiers), compared to other countries. What is interesting is almost all Best Practice companies seem to do a better job of information and knowledge management across all the countries of operations – and not just Tier 1 countries.

Execution of strategy

In addition to having access to information on benefit programs and their risks, companies need to do three things to execute their organizational strategy related to their global benefit programs:

- **Set strategic direction** by defining organizational principles that are specifically targeted to manage the risks that are deemed important.
- **Implement an operating model** to execute strategy depending on which risks are being managed and where within the organization they are best handled.
- **Monitor risks** and compliance with organizational principles by conducting audits of their local benefit programs.

Setting strategy

The study tested the importance companies place on establishing organizational design, financial and operational principles.

- In general the importance placed on all 12 principles we tested for (four each for design, financial management and operations of benefit programs) was relatively similar between Best Practice companies and the rest. However, the levels of comfort in achieving these principles, and the actions being taken, varied.
- We also note that Best Practice companies more commonly establish corporate guidelines for compensation programs and all material benefits such as retirement, medical, and risk benefits. They also apply these guidelines to all countries (not just for large operations), for all benefits, and across all business units.
- There were some interesting differences, however, by different principles. Companies placed higher importance on design principles as compared to financial principles – which may be explained by the fact that most survey respondents were HR professionals. However, the same group indicated that the primary concerns of boards and senior management were largely around costs and risks of benefit programs.
- Similarly, the data suggests that employee appreciation of companies' benefits spend was an important consideration. But fewer companies emphasized employee communication as compared to market competitiveness or regulatory compliance.
- We also looked at who gets involved in making organizational policy decisions around each of the 12 principles. Not surprisingly, very few companies cited involvement of finance functions in setting design and operational policies. However, roughly half the companies said that Corporate Finance is involved in defining policies around financing of benefit programs, investment strategy, pension de-risking and externalization of liabilities.

Operating model

In both the 2012 and 2015-16 studies, we noted a clear correlation between formal adoption of governance protocols, and their effectiveness. In 2015, we also explored how companies structure their benefits functions to manage their global benefit programs and what challenges they face.

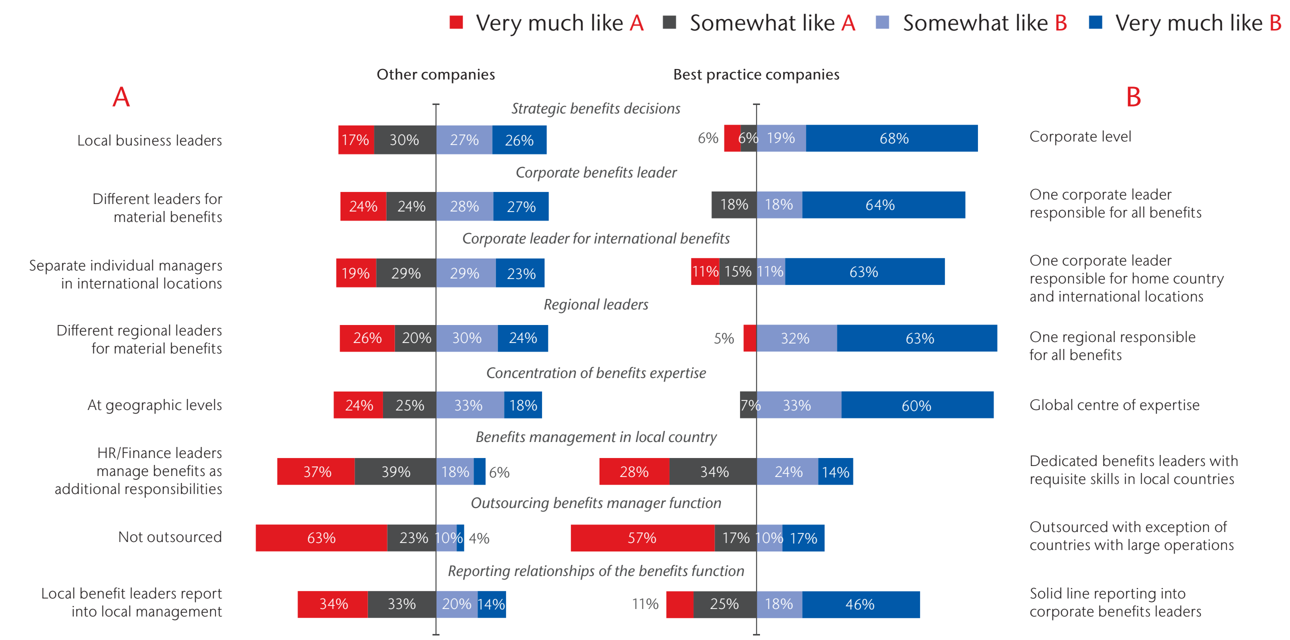
- In general, companies report that formally-adopted governance protocols are effective, while a significant proportion of companies adopting informal or ad hoc protocols say they are not very effective. As an example, 67% of companies say they have formal corporate approval protocols in place; most (72%) in this group say that such protocols are largely followed. In comparison, 24% of companies say they have informally adopted approval protocols; only a quarter of this group say that approval protocols are followed.
- Overall, around half or more respondents say they have formally established a global benefits committee, and allocated decision rights and responsibilities between corporate, regional and local committees. Generally a large proportion of such companies (~75%) report effectiveness of such measures.
- Fewer companies, however, have formal annual reporting (41%) or global technology for benefits data (33%), or conduct periodic audits to ensure that local decisions are aligned with corporate principles (26%).

Under each of the features of a governance model, please select an appropriate description of the current model

In 2015, the advisory panel wanted to get a better understanding of how benefits functions operate. Again, we noted a clear difference between how the benefits operations differ for Best Practice companies:

- Almost all (87%) Best Practice companies –compared to 53% of the rest – say they make strategic benefits decisions at the corporate level, with one corporate leader (and regional leader if applicable) responsible for all benefits. The corporate benefits leader is responsible for managing benefits across all countries (country of corporate headquarters and international locations) supported by global Centers of Excellence.
- That said, in general local HR and/or finance leaders manage benefits in addition to their regular responsibilities rather than employing dedicated benefits leaders with requisite skills in local countries. Almost 40% of Best Practice companies report having dedicated expertise in local countries as compared to 24% of the rest. Few companies (27% of Best Practice companies and 14% of Other companies) have outsourced the benefits management function to external providers to address lack of benefits expertise at local country level.
- Almost two-thirds of Best Practice companies say their benefits teams have solid-line reporting into corporate benefits functions; in comparison, only a third of Other companies follow this practice.

How centralized are responsibilities and decisions?



Monitoring

Many companies say they have established organizational principles and adopted governance protocols (formal or informal) to govern their global benefit programs. However, they most often fail to execute their strategic decisions because of lack of ongoing monitoring of their local benefit programs relative to their global principles, market norms, and legislative developments.

- All Best Practice companies say they generally monitor their risks on an ongoing basis as compared to a quarter of Other companies.

Furthermore, Best Practice companies routinely monitor risks related to all their benefit programs; in comparison, the remaining respondents largely monitor risks related to their retirement programs with material liabilities.

- 87% of Best Practice companies conduct periodic corporate audits to ensure that their benefit programs are aligned with organizational principles and local market norms; in comparison only 25% of the remaining respondents conduct such audits.

Correlation between best practice and business outcomes

We defined best practice in global benefits management using five equally weighted measures in an earlier question. So, do companies that follow best practice fare any better than companies that do not? In this section, we explore three key areas to test this hypothesis:

- Effectiveness of corporate oversight of international benefits.
- Alignment of local benefits with organizational objectives and principles.
- Companies' confidence levels in achieving cost and risk reductions.

Effectiveness of corporate oversight

In 2012, when we first asked how effective companies are in their oversight of their benefit programs relative to the importance companies place on such oversight, we found that companies report significantly higher effectiveness in managing the benefit programs in the country of corporate headquarters. This was hardly surprising due to the materiality of benefits and direct line of sight between corporate functions and benefits offered in countries of corporate headquarters. In 2015, we focused on effectiveness of corporate oversight in international locations by benefit types.

- In general, most respondents place importance on managing their global retirement (85%) and compensation programs (92%). In comparison, fewer companies place emphasis on corporate oversight of medical benefits (73%), risk benefits (50%), and other benefits (37%). Furthermore, there is not a noticeable difference between Best Practice companies as compared to the rest of the data in terms of the importance of corporate oversight.
- However, there is a noticeable difference when we ask how effective the current corporate oversight is if companies think such oversight is important. We found that more than 80% of Best Practice companies report satisfaction with their current oversight of all benefits in international locations. In comparison, about two-thirds of the rest report satisfaction with corporate oversight of international benefits.
- Furthermore, Best Practice companies significantly outperform Other companies when it comes to alignment of such programs with organizational objectives and their confidence in managing their costs and risks, as detailed below.

Alignment of benefits with organizational objectives

As in 2012, over 60% of companies report having defined organizational principles to guide local benefits decisions. We also noted that many companies do not routinely audit their benefit plans to ensure alignment with such principles. In 2015, we asked companies how important it was for them to have organizational principles related to the design, financial management and operations of their benefit programs, and more importantly whether their local benefits were indeed aligned with such principles. Specifically, we asked companies about the importance of/alignment with design, financial and operational principles.

- **Design principles:** market competitiveness, emphasis on individual responsibility, consistency of benefits within a geography across business units, and design efficiency (of output per spend).
- **Financial principles:** efficient financing, investment management, pension de-risking, and externalization of liabilities.
- **Operational principles:** administration or delivery of benefits, regulatory compliance, employee communications and vendor management.

We noted that the importance placed on having corporate or organizational principles under each of the 12 categories below was not materially different between Best Practice companies and Other companies (about 10% fewer companies in the 'Other' group placed importance on having an organizational principle as compared to Best Practice companies). However, Best Practice companies are more likely to establish guidelines for compensation programs and all material benefits, and for all countries, not just for countries with large operations. Best Practice companies are also more likely to communicate formally-documented policies and procedures, and require approvals when local decisions do not align with policies.

Consequently, the alignment rating – when companies say their local benefits are aligned with corporate policy – was significantly higher for Best Practice companies. The following table illustrates how Best Practice companies demonstrate higher alignment between organizational principles and their local benefit programs.

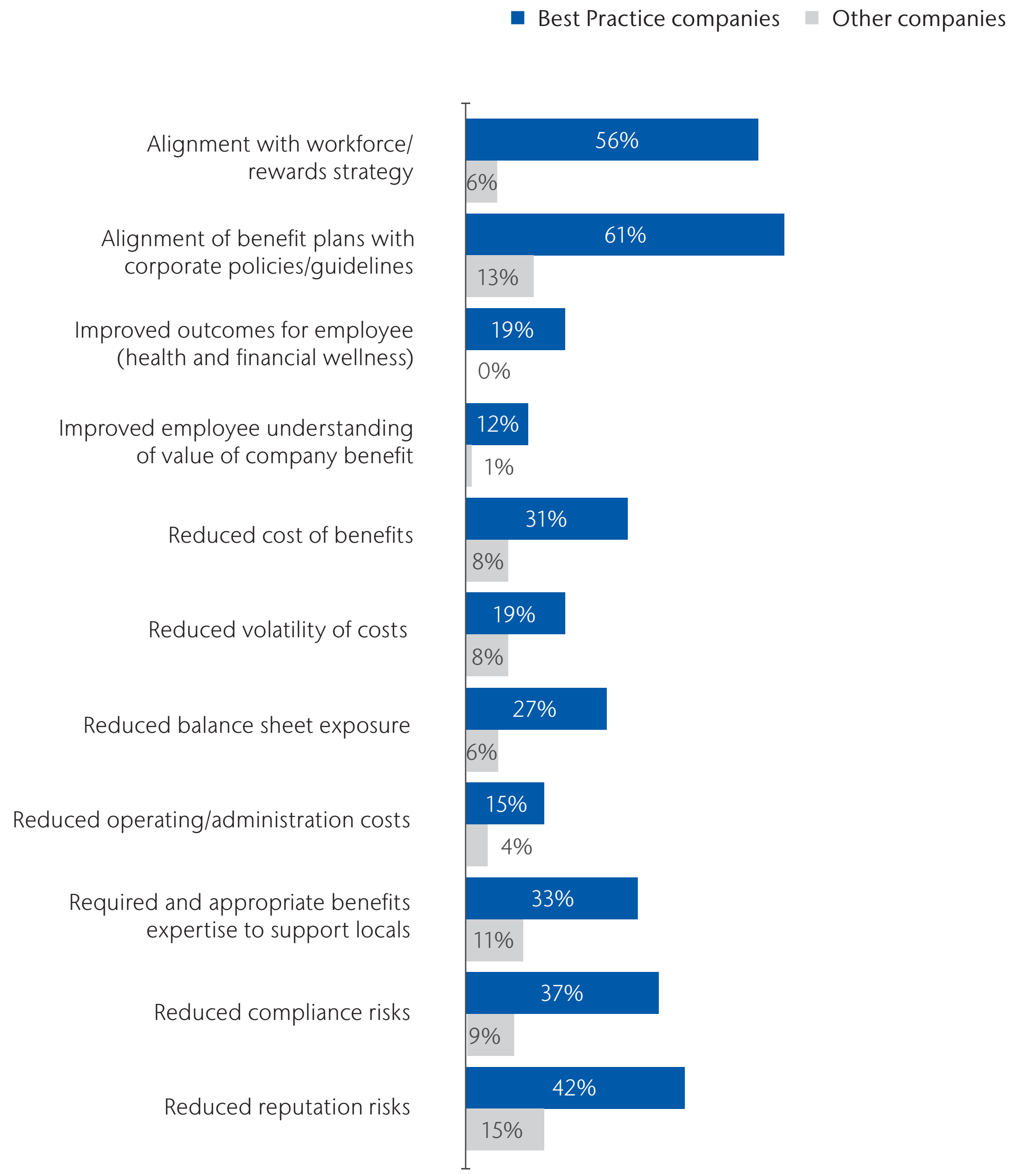
Organizational principles related to:	Percentage of companies that say their local benefit programs are aligned with organizational principle		
	Best practice companies	Other companies	Difference
	Design objectives or principles		
Market competitiveness	90%	59%	31%
Individual responsibility	78%	39%	39%
Harmonization	92%	52%	40%
Efficient design of benefit plans	76%	33%	43%
	Financial objectives or principles		
Efficient financing	73%	51%	22%
Investment management	87%	68%	19%
Pension de-risking	75%	66%	9%
Externalization of liabilities	69%	59%	10%
	Operational objectives or principles		
Administration	86%	67%	19%
Regulatory compliance	83%	67%	16%
Employee communications	64%	27%	37%
Vendor management	74%	41%	33%

Confidence levels in achieving business outcomes

As in 2012, we explored how confident companies are in achieving better business outcomes through better governance of their global benefit programs. It would appear that most companies do not show a great deal of confidence (more than 75%) in most categories we tested on. However, it is equally evident that the confidence levels of Best Practice companies are significantly higher when compared to the rest of the data.

- When it comes to alignment of benefit programs with workforce and rewards strategies, 56% of Best Practice companies report high confidence levels as compared to the rest (only 6%); similarly 61% of Best Practice companies say their local benefit plans are aligned with corporate guidelines with more than 75% confidence as compared to 12% of the rest.
- On financial metrics, fewer companies report a high level of confidence – due to the execution challenges we have noted, despite the concerns of senior management. Respectively 31%, 19% and 27% of Best Practice companies report high confidence in their ability to reduce costs, volatility of costs, and balance sheet exposure. In comparison, fewer than 10% of the Other companies have confidence in managing financial costs and risks due to their benefits programs.
- Only 15% of Best Practice companies say they can effectively reduce their administrative spend; while the rest are not at all confident – only 4% say they are confident that they can reduce administrative costs.
- A greater proportion of Best Practice companies are confident about managing their compliance risks (37%) and reputational risks (42%). In comparison, only 10% of Other companies can confidently say they can reduce their compliance risks and only 16% feel confident in their ability to reduce reputational risks.
- A third of Best Practice companies are confident that they have the benefits expertise to support local operations, as compared to only 11% of the rest.

Confidence levels in achieving business outcomes (75%+ confidence)



In conclusion

Governance of global benefits decisions is complex due to many factors such as number of countries, business lines, types of benefits, local legal frameworks, and stakeholders.

Multinational companies want to:

- Design benefit programs that are aligned with organizational, financial and talent strategies, and deliver economic value of scale to employees
- Minimize the cost of benefits through efficient financing and rewarded risks
- Reduce operating risks and deliver benefits efficiently to employees

However, knowledge management and execution of risk management strategies continue to be two key challenges most multinationals face due to lack of operational discipline.

While we cannot conclusively assert that centralization in itself drives better governance, the 2015 study significantly strengthens the 'why' before the 'how' argument of the 2012 study:

- What benefits risks are important to manage as an organization? Defining specific design, financial and operational objectives provides a context for systematically evaluating such risks and identifying opportunities
- Build operational capabilities to manage information and execute risk management decisions: implementing disciplined protocols to make and execute risk management decisions provides a framework for governing global benefit programs

We found that Best Practice companies that report effectiveness across all five measures of effective global benefits governance do a better job in improving outcomes and managing risks as compared to the rest.

We also found that most other companies have the same aspirations, and hope to achieve these aspirations in the next few years. The survey suggests that adopting all five measures will be necessary if these other companies are to achieve these aspirations.

Actions taken by Best Practice companies

Study data

In this section of the report, we review the aggregate response for each question, offering our insights. Where we find significant differences by geography or size, we analyse the difference. The questions fall within four main categories and are presented as such:

- The 'Why' of corporate oversight
- Centralization trends – How effective are companies in managing global benefits?
- The 'How' of global benefits management
- The 'So What' of global benefits management

The 'Why' of corporate oversight

1.1 Indicate which of the following business issues are affecting your company in mature and emerging markets.

1.2 What are the most important compensation and benefit plan-related issues you are facing in mature markets and emerging markets?

1.3 What actions have you taken or will you take over the next 12 months to respond to talent and benefits program issues in mature markets and emerging markets?

1.4 How concerned are the following corporate stakeholders about employee benefits in general and the level of corporate oversight and control over employee benefits decisions?

1.5 What is the primary global benefits-related concern of stakeholders?

1.6 Indicate the importance of the following factors that drive or will drive corporate involvement and oversight of benefit plans in your organization.

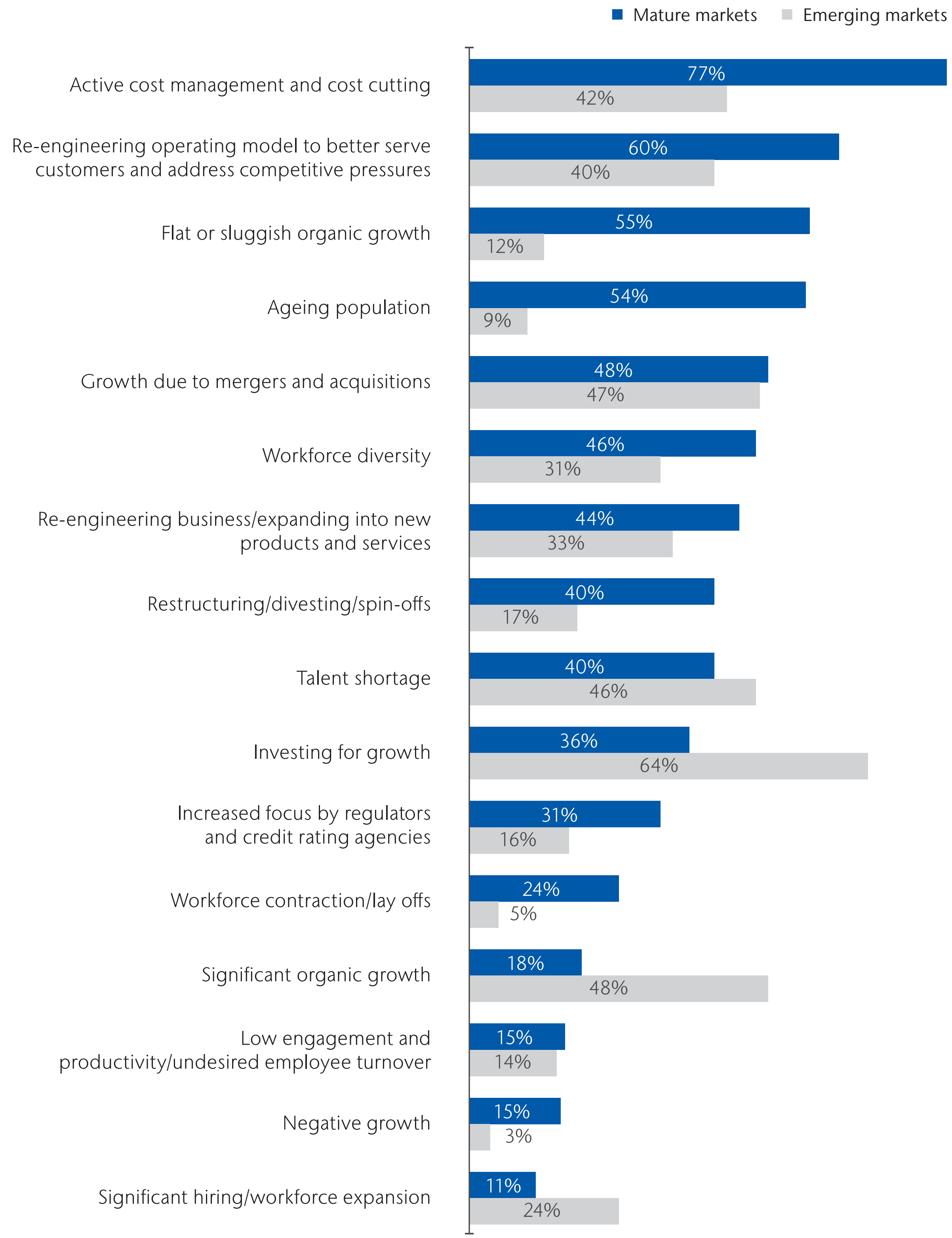
1.1 Indicate which of the following business issues are affecting your company in mature and emerging markets*

As in 2012, there are clear differences between mature and emerging markets when it comes to business and benefits-related issues. By 2015 there has been some narrowing of the differences by market, but some key differences still remain.

- North American and European companies defined western regions as their mature markets, and Asia (excluding Japan), Latin America, Africa and Eastern European countries as the emerging markets.
- In mature markets, active cost management and cost cutting is the most pressing issue, cited by 77%, followed by re-engineering the operating model to better serve customers and address competitive pressures (60%). 55% cited flat or sluggish organic growth as an issue, with 54% stating that an ageing population is a challenge. 48% see growth due to mergers and acquisitions as a top business issue, with 46% citing workforce diversity.
- In emerging markets, different concerns are evident. Investing for growth is the most-cited issue, at 64%. 48% see significant organic growth as a major issue, with 47% citing growth due to mergers and acquisitions. Talent shortage is an issue for 46%, and active cost management and cost cutting is a challenge for 42%. 40% see re-engineering the operating model to better serve customers and address competitive pressures as a key issue.
- Costs and financial risks of benefits in mature markets have risen significantly over the years – partly due to relatively generous retirement and medical benefits as compared to the benefit levels in emerging markets. Rising benefits costs in mature markets are also due to factors outside the control of employers, such as healthcare cost inflation, longevity improvements, economic cycles, and changes in social benefits and regulation.
- The emphasis in emerging markets continues to be on direct compensation and not on benefits, although less so than in 2012.
- Business and benefits issues in mature and emerging markets are similar between North American and European companies, regardless of the size of the company or the headquarter location.

Mature markets are markets in which the participating company has a long-established presence and emerging markets are those in which they are growing or expect to grow.

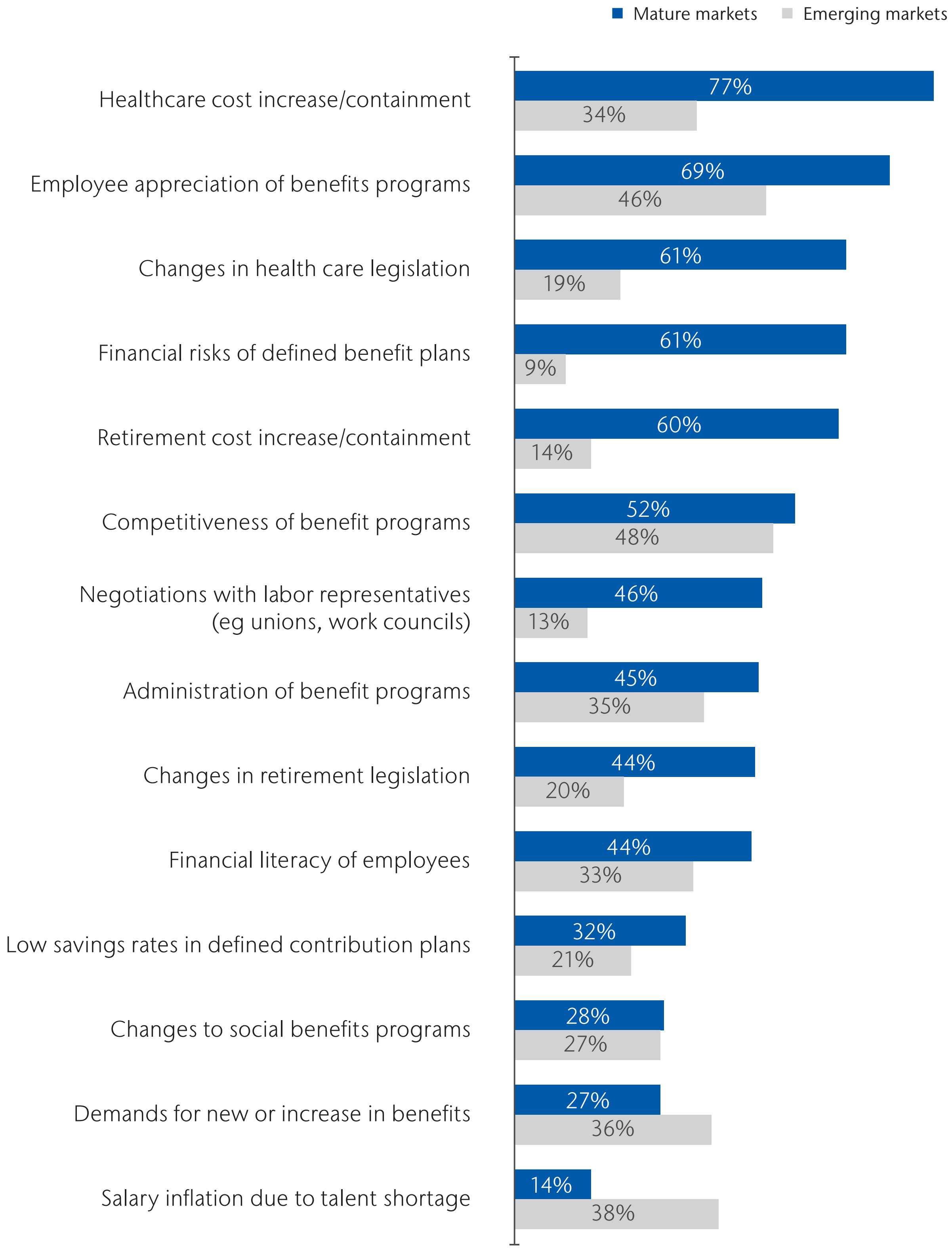
Business issues



1.2 What are the most important compensation and benefit plan-related issues you are facing in mature markets and emerging markets?

- Healthcare cost increase/containment is the biggest issue in mature markets, with 77% citing this, followed by employee appreciation of benefits programs at 69%. Changes in healthcare legislation and the financial risks of their DB plans are both cited by 61% of respondents, with 60% seeing retirement cost increase/containment as a major issue and 52% the competitiveness of benefit programs.
- The competitiveness of benefit programs is the topmost issue in emerging markets; 48% cited this. Employee appreciation of benefits programs is second-most cited at 46%. Salary inflation due to talent shortage is cited by 38%, and demands for new, or an increase in, benefits by 36%. These concerns are followed by the administration of benefit programs, cited by 35%, and healthcare cost increases/containment, by 34%.
- Naturally the much reduced existence of DB retirement plans and lesser health care provisions explain some of the greatest differences between mature and emerging markets.

Compensation and benefit plan-related issues



1.3 What actions have you taken or will you take over the next 12 months to respond to talent and benefits program issues in mature markets and emerging markets?

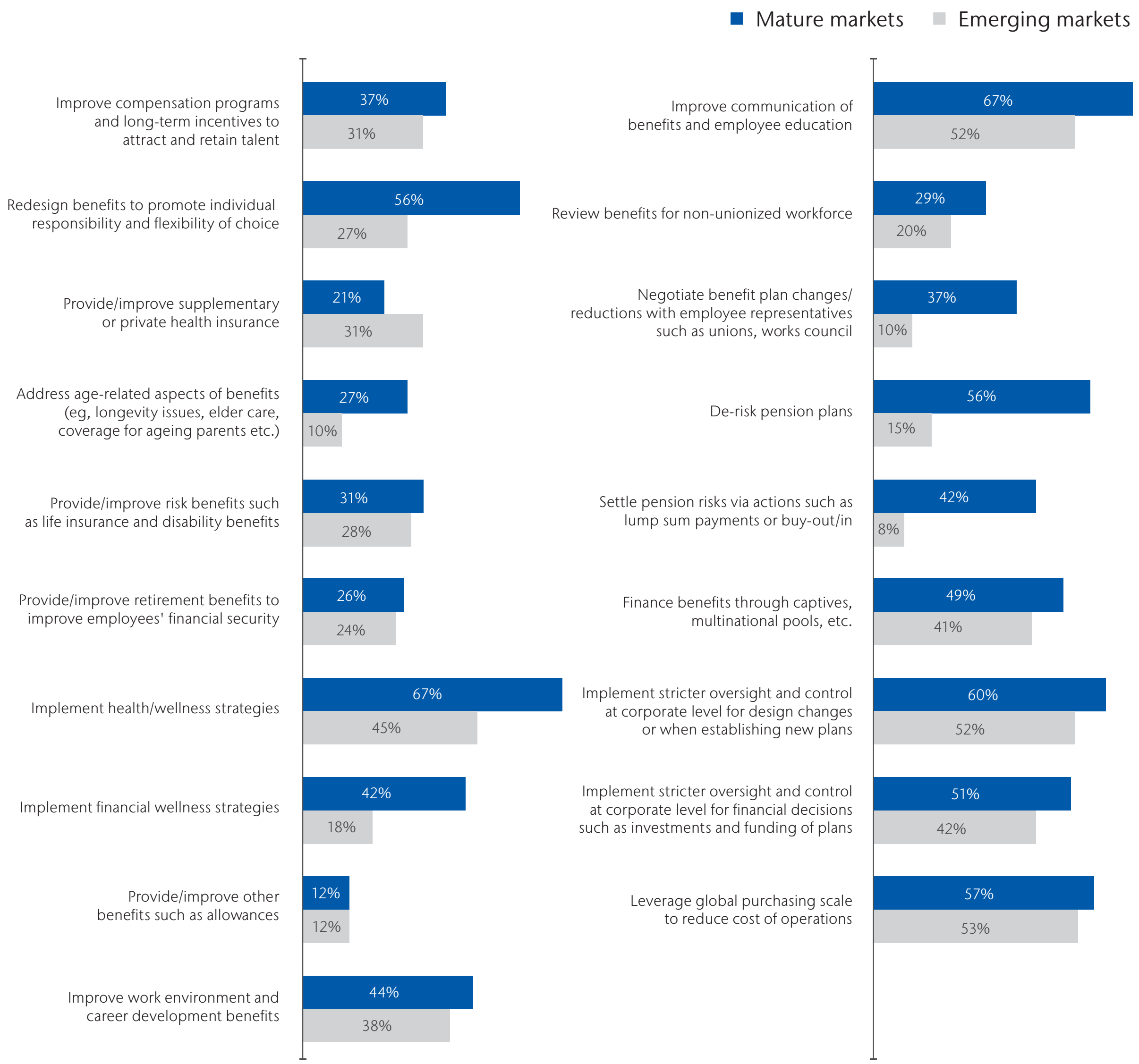
In 2012, the most common actions that companies were taking at a corporate level in both mature and emerging markets were:

- Implement stricter oversight and control at corporate level for financial decisions such as investments and funding of plans.
- Leverage global purchasing scale to reduce cost of operations.
- Look for effective ways to finance benefits.
- Improve work environment and career development benefits.

All of these continue to be addressed and now, in addition to these, companies wish to improve communications of benefits and employee education and implement health/wellness strategies.

- In mature markets, as in 2012, the focus continues to be on managing costs of benefits (‘redesign benefits to redistribute costs and risks to employees’) and financial risks posed by benefit plans (‘de-risk pension plans and settle pension risk via actions such as lump sum payments or buy in/out’). In addition to these, companies are now facing the implementation of financial wellness strategies and negotiating benefit plan changes/reductions with employee representatives such as unions and works councils.
- In 2012, companies were taking similar actions in emerging markets, but without the emphasis on DB plan de-risking. They were instead putting more focus than in mature markets on increasing direct compensation, private health insurance and retirement benefits. By 2015, the emphasis on increasing direct compensation had become more similar between emerging and mature markets.

Talent and benefit plan-related issues



1.4 How concerned are the following corporate stakeholders about employee benefits in general and the level of corporate oversight and control over employee benefits decisions?

Corporate and business leaders are facing the financial and operational consequences of benefit decisions made when their operating environment was very different from today. In mature markets, rising costs are also attributable to factors outside employers' control, such as longevity improvements driving costs of traditional pension arrangements and medical-cost inflation driving costs of providing medical coverage. At the same time, social coverage in mature markets is waning rapidly for much the same reasons, thereby increasing employees' dependence on benefits provided by their employers.

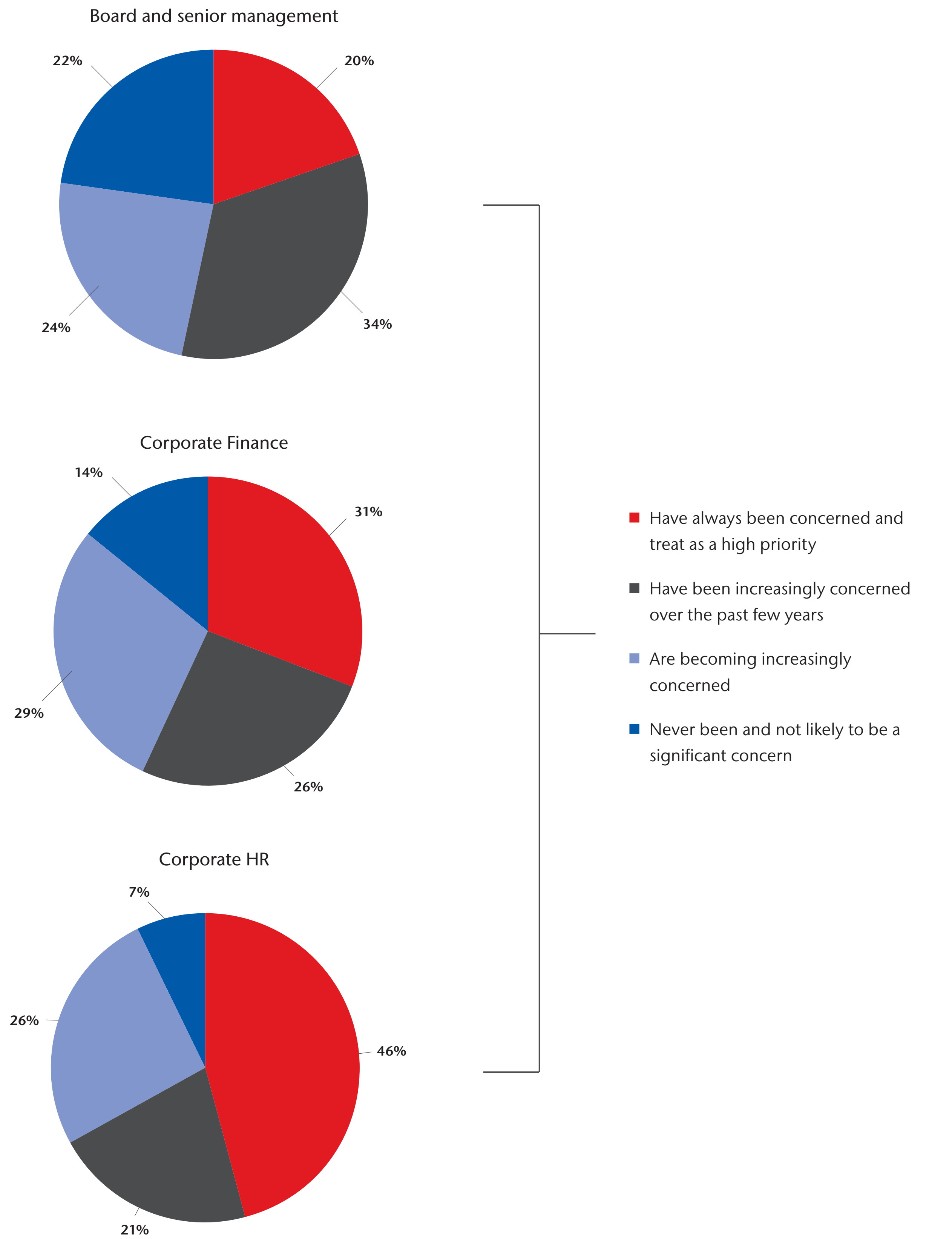
It is no surprise, then, that each corporate stakeholder shows concern towards benefit-related decisions:

- Around a quarter of respondents believe that corporate stakeholders are becoming increasingly concerned about benefits and benefit decisions. 46% believe that Corporate HR 'have always been concerned and treat it as a high priority'. 31% say the same of Corporate Finance, and 20% of board and senior management.
- 34% believe board and senior management have become 'increasingly concerned in the past few years' about benefits issues; 26% say the same of Corporate Finance and 21% of Corporate HR.
- For a significant minority, benefits are thought by the survey's respondents to have 'never been and not likely to be a significant concern'. 22% believe this to be the case among board and senior management, 14% among Corporate Finance and 7% for Corporate HR.

In 2012, the same question was asked only in relation to board and senior management. Then, the figures were broadly similar:

- 23% stated that their board and senior management 'have always been concerned and treat [benefits and benefit decisions] as a high priority'.
- 27% felt that board and senior management were becoming increasingly concerned, and 38% believed that they had become increasingly concerned in the past few years.
- Only 12% of companies felt that board and senior management thought that benefits have never been a concern and are not likely to be a significant concern.

How concerned are your corporate stakeholders about employee benefits and oversight/control?



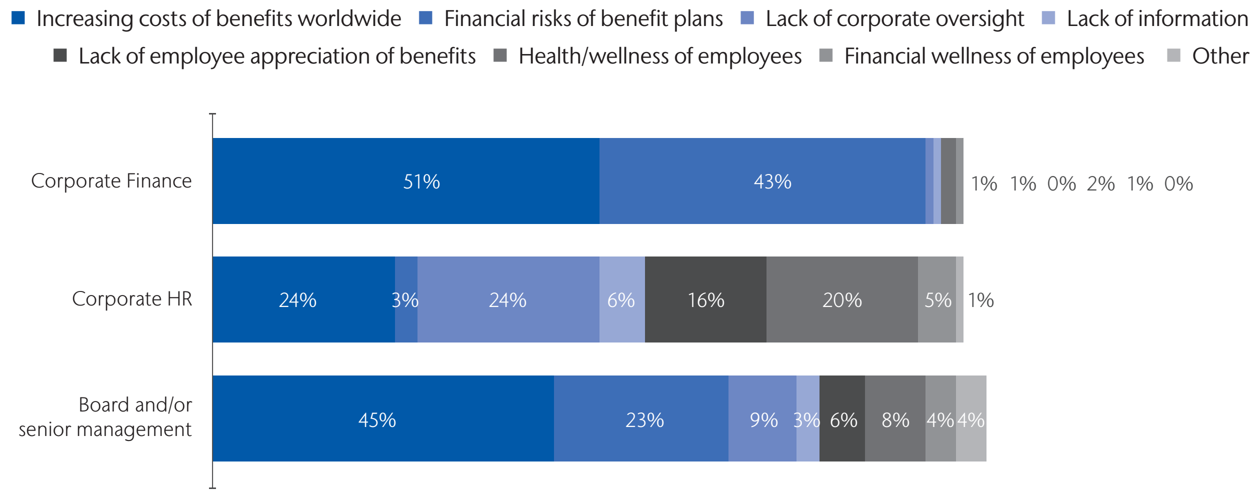
1.5 What is the primary global benefits-related concern of stakeholders?

When asked about the primary concerns of key corporate stakeholders, there was consistency between the views of senior management and finance leaders. However, HR leaders report diverse concerns as their primary ones.

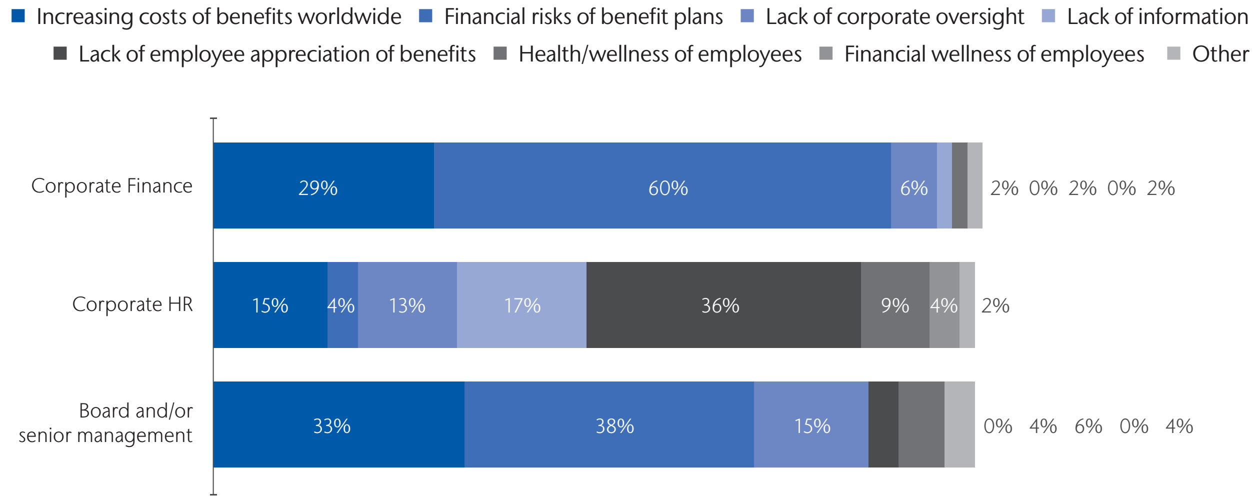
- In 2012, two-thirds of respondents said that the execution of strategic policies falls on local operations. We tested the level of corporate involvement by asking if and when local operations are required to inform, consult or seek approval from corporate stakeholders. At the time, the strongest corporate involvement was seen in design policy decisions and the least in operational decisions.
- Interestingly, in 2012 only a third of companies expressed a strong corporate involvement in financial decisions (selecting financial vehicles for employee benefit plans, funding policy and establishing investment strategy) with another third stating that corporate were to be consulted when making decisions.
- The prediction for 2015 was for this to increase to almost 90% of companies to be consulted or require corporate approval for employee benefit-related decisions.
- It is no surprise then that, in 2015, the majority of companies, across all three stakeholder groups, consider the financial risks of benefit plans and the increasing costs of benefits worldwide to be the primary areas of corporate involvement in employee-related benefit decisions.
- This is most evident among senior management and Corporate Finance where 69% and 92% respectively are concerned about these measures. Corporate HR, in contrast, has a much broader array of concerns and, perhaps surprisingly, demonstrates less concern towards the financial risks associated with benefit plans, though this may reflect the extent to which DB pension risks are now legacy liabilities rather than forming ongoing benefit provision.
- Although the responses from North American and European companies do not differ significantly, there are differences in perspectives between Corporate Finance and Corporate HR that are worth noting:
  - 3% of North American HR and 4% of European HR cited 'financial risks of benefits plans' as a primary driver of greater corporate oversight of benefit plans. This compares to the 43% of North American Corporate Finance and 60% of European Corporate Finance who consider this a primary driver of corporate oversight.
  - 24% of North American HR and 15% of European HR consider 'increase in costs of benefits worldwide' as a primary driver, compared to 51% of North American Corporate Finance and 29% of European Corporate Finance.
  - 36% of European HR respondents believe a 'lack of employee appreciation of benefits' is seen to be the biggest concern for Corporate HR, compared to 16% of North American HR. 24% of North American HR cite a 'lack of oversight of benefits' as a concern compared to 13% of European HR.
- Generally speaking, rankings from the three stakeholder groups regarding the four levels do not vary significantly based on size; the responses are similar and track closely to aggregate response levels.

Primary global benefits-related concerns of stakeholders

North America



Europe



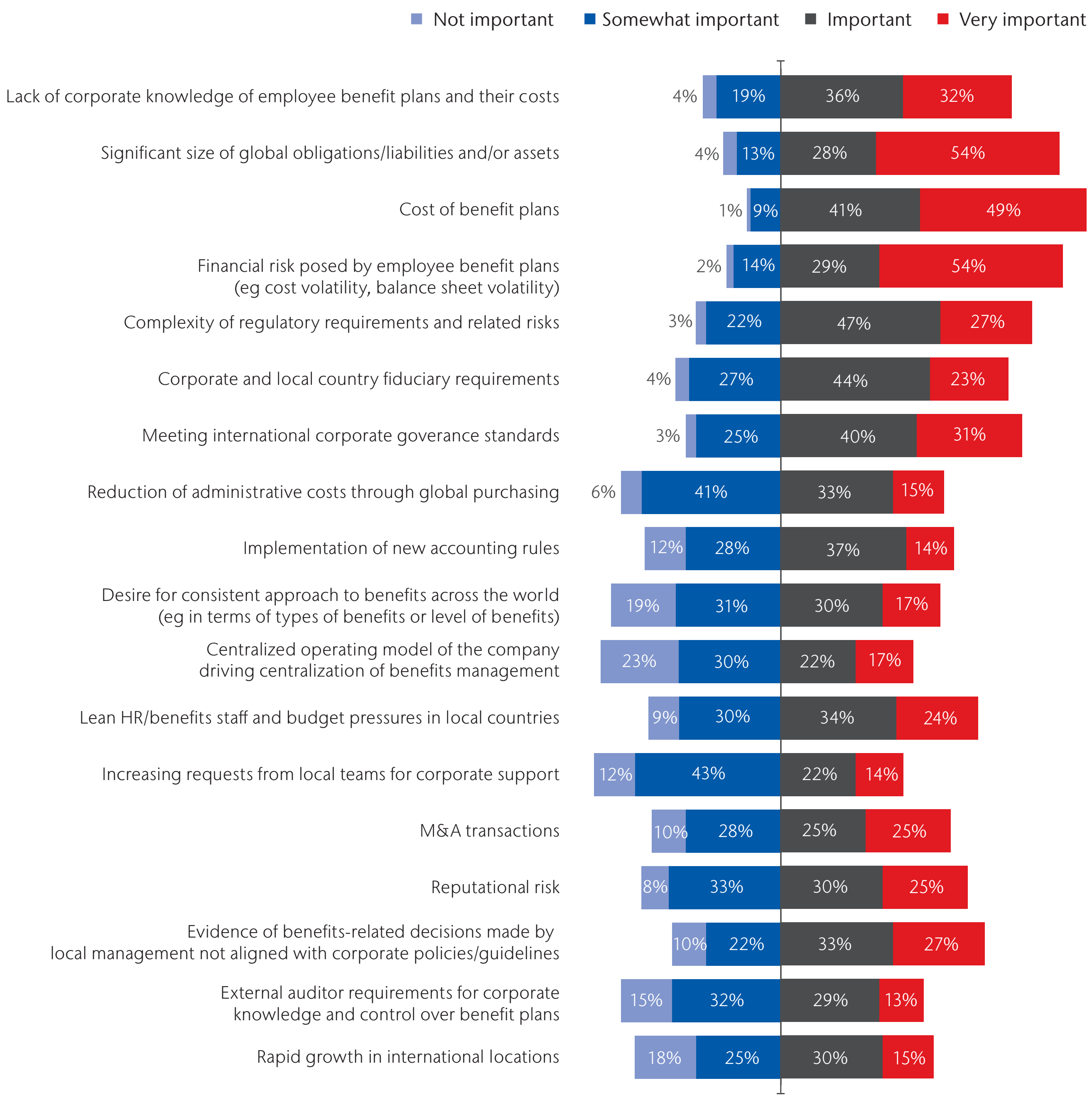
1.6 Indicate the importance of the following factors that drive or will drive corporate involvement and oversight of benefit plans in your organization

We asked companies to rate the importance of various factors in driving corporate involvement in local benefits decisions. In the absence of forced trade-offs (we did not ask companies to rate the factors by order of importance), participants rated many factors as important. Financial factors are more commonly rated highly compared to operational factors such as the operating model of the company, local HR/benefits staffing, and compliance with regulations.

The results show similar patterns to the 2012 findings, with financial risks and challenges being the biggest drivers of corporate involvement in benefits.

- The factor with the largest change since 2012, has been a reduction by half in the number of companies that report the 'evidence of benefits decisions not aligned with corporate guidelines' to be very important. The only exception to this is a two-fold increase in the number of companies that consider 'lean local HR/benefits staff and budget pressures' to be very important in 2015.
- The most cited answers in 2015 are 'significant size of global obligations/liabilities and/or assets' and 'financial risks such as cost and balance sheet volatility', each seen as very important by 54% of respondents.
- 'Costs of benefits plans', with 49% of companies responding very important, is the next most important driver. A 'lack of corporate knowledge of plans and their costs' is seen as very important by 32% of respondents. These were also the top answers in 2012; little has changed in terms of the importance of corporate involvement in benefits.
- In 2015, while costs and financial risks of benefits were the most commonly-cited drivers of corporate involvement, large companies (more than 100,000 employees) more frequently referred to risks as the primary driver as compared to companies with fewer employees.
- Smaller companies (fewer than 25,000) rate the lack of corporate knowledge as driving their desire for greater corporate involvement.
- In 2012, almost half of the respondents indicated that a centralized operating model is an important driver of corporate involvement; now only a third reports the same. This suggests that a centralized operating model and centralization of benefits management are not correlated, and that the trend towards centralization is not necessarily the cause of increasing corporate involvement in management of global benefits.
- As in 2012, more than half of companies said reputational risk was an important driver of corporate oversight. The importance of this factor increased by the size of the company. In 2012, large companies more frequently referred to the risks other than costs and financial risks associated with benefit plans as the primary driver for corporate involvement. More recently, large companies place less importance on the lack of corporate knowledge and the complex regulatory requirements of benefit plans. Financial risks are now key drivers for large companies and over two-thirds state that the significant size of global obligations is very important.
- Small and medium-sized companies' drivers of corporate involvement have, by and large, remained the same with a slight increase in the number of companies giving a response of 'very important' for all factors. This trend follows for both European and North American-based companies.

Indicate the importance of the following factors that drive or will drive corporate involvement and oversight of benefit plans in your organization



Some respondents also indicated that the factor was not applicable to their organization

Centralization trends: How effective are companies in managing global benefits?

2.1 What is the current and expected future level of centralization in managing benefit plans for the various factors listed below?

2.2 How has the management of your company and your approach to managing global benefit plans evolved over time?

2.3 For each of the five key measures of effective management of global benefit programs, rate your current position as being more like best practice today as well as the expected position within the next three years.

2.4 How do the five measures of effective global benefits governance vary for different types of benefits?

2.5 How do the five measures of effective global benefits governance vary for Tier 1 countries versus other countries?

2.1 What is the current and expected future level of centralization in managing benefit plans for the various factors listed below?

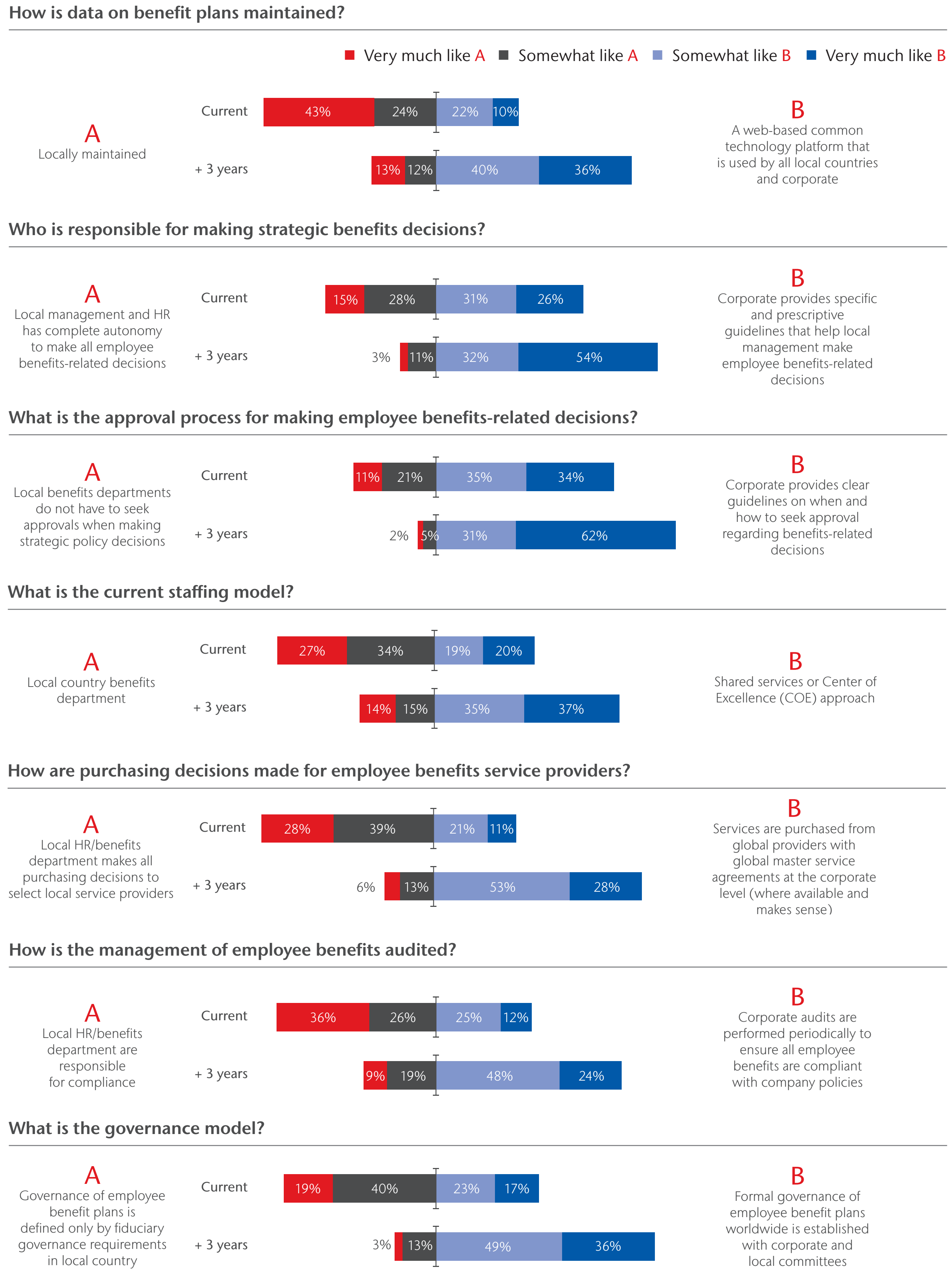
In the 2012 study, respondents were asked to rate their performance in a series of benefits management activities as being more like one statement or another. They were also asked to predict how they anticipated their performance in these areas to change by 2015. In 2012, twice as many companies, across all factors, aimed for a more centralized structure in three years than they had at the time. The results from the 2015-16 study show that many have been unable to achieve this, with only a minority having increased their level of centralization.

- In 2012, 71% of respondents expected that they would have a web-based common technology platform for local countries and corporate teams. In 2015, only 32% cite that this is 'somewhat' or 'very much' the case.
- 94% of 2012 respondents expected that corporate would provide specific and prescriptive benefits guidelines by 2015; this is the case for 57% of 2015 respondents.
- In 2012, 92% expected that corporate would provide clear guidelines on when and how to seek approvals for decisions. In 2015, 69% of respondents have achieved this.
- 66% of respondents in the 2012 survey anticipated having a shared services or Center of Excellence approach; in reality, only 39% of 2015 respondents cited this to be true.
- 81% of those completing the 2012 survey expected benefits to be delivered by global providers with global master service agreements, although only 32% of those responding in 2015 report that this is 'somewhat' or 'very much' their current position.
- 76% of 2012 respondents expected that benefits would be audited periodically by corporate to ensure compliance with corporate policies. This is the case for 37% of those responding in 2015.
- In 2012, 74% anticipated that by 2015 they would take a formal approach to governance, with corporate and local committees established. In 2015, this is somewhat or very much true for 40%.

The 2015-16 study also asked respondents to anticipate where they would be in three years' time – 2018 – for the same set of activities. As in 2012 there is an expectation of continuous improvement in benefits governance:

- 76% expect that they will use a web-based common technology platform for local countries and corporate teams by 2018.
- 86% anticipate that corporate will provide specific and prescriptive benefits guidelines by 2018.
- 93% expect that corporate will provide clear guidelines on when and how to seek approvals for decisions.
- 81% expect to have global benefit providers with global master service agreements.
- 85% anticipate that a formal governance model will be established by 2018, with corporate and local committees overseeing benefits governance.
- Slightly fewer anticipate operating a shared services or Center of Excellence approach (72%) although this still sees an increase on the 2015 reality, where 39% currently achieve this.
- 72% expect that corporate will regularly audit employee benefits to ensure compliance with corporate policies; currently only a third of respondents do this.
- Data segmentation suggests that there is little difference between North American and European companies relative to the rating scores assigned to these seven factors. Large organizations, however, report a much higher degree of decentralization across many of the factors. For example: 83% of large organizations maintain plan data somewhat or very much on a local basis and 74% manage their plan audits somewhat or very much on a local basis.
- Companies report a significant movement towards centralization of their global benefits plan management across all seven factors. Roughly three quarters of companies expect they will be somewhat or very centralized in these areas by 2018. Large organizations report, however, lower levels of centralization for data management at 69% and lower levels of centralized governance at 77%.
- European companies report a slower adoption rate of global or multi-country plan providers through master service agreements and slower adoption of a shared services or Center of Excellence (COE) global benefits staffing model.

Current and expected future levels of centralization

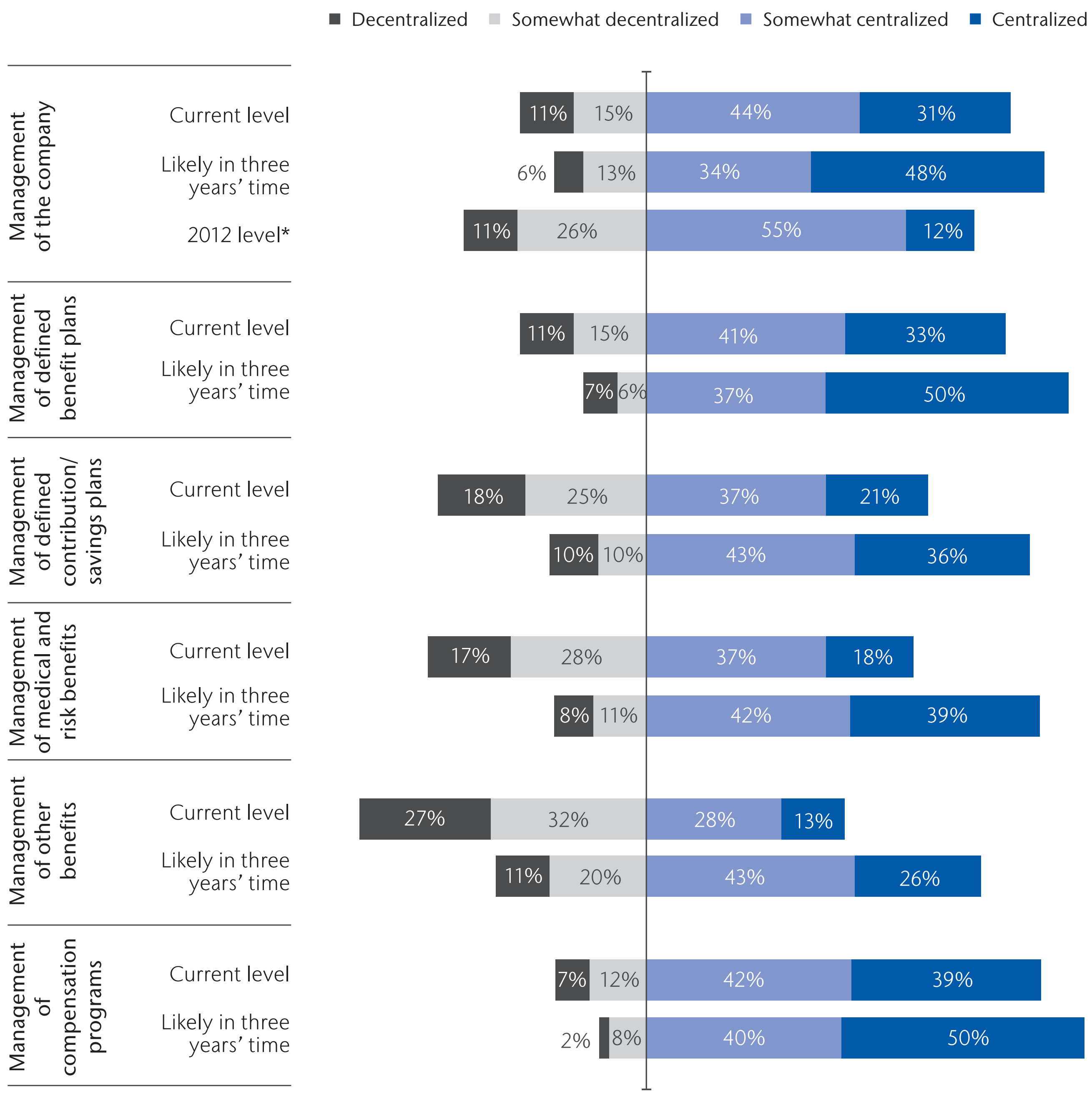


2.2 How has the management of your company and your approach to managing global benefit plans evolved over time?

We asked respondents to rate their level of centralization for their business structure and each type of benefit. This question was not posed in the previous study; in 2015, in light of this, we asked companies for historic information in relation to their position in 2012.

- The majority of companies are centralized or somewhat centralized in their business structure and how they manage their compensation and DB plans. In contrast, companies manage DC plans, insured medical/risk plans, and ancillary benefits on a more decentralized basis, with many of the decisions and operations delegated to local management teams.
- A comparison of company ratings today vs. three years ago shows that significant efforts towards centralization have been made across all respondent groups. The number of companies in the 2015-16 study citing a response as somewhat decentralized and/or decentralized has decreased significantly compared to 2012. Although big changes are seen in how companies manage their DC plans and health and risk benefits, the 2015 data still reports a noticeable prevalence of a decentralized approach to both.
- Companies across all segment groups, employee headcount and headquarter location expect to move towards centralization for all plans over the next three years. There are, however, some differences worth noting. Expected migration towards centralization of management, for DC plans and health and risk plans, is reported to be lower for European companies, at 69% and 71% respectively, slightly lower than the other four respondent groups.
- Two more notable differences between North American and European companies are their approaches to DC and health/risk benefit plan management. 70% of North American companies report managing both of these programs on a somewhat centralized or centralized basis, compared to 40% of European companies.
- Responses from small and medium-sized companies do not vary significantly from the aggregated numbers taken from all respondents. Large organizations, however, report a lower degree of centralization of their DC plan management, at 43% compared to roughly 60% for small and medium companies.

Strategic policies (design, financial, operational)



**The other questions in this table were not asked in 2012*

2.3 For each of the five key measures of effective management of global benefit programs, rate your current position as being more like best practice today as well as the expected position within the next three years

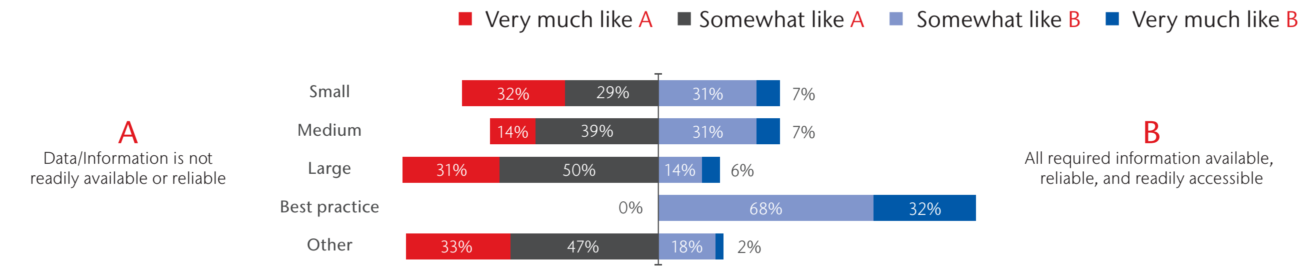
In order to understand how effectively companies manage global benefits – irrespective of the level of centralization in doing so – we used five key metrics. In the survey, we asked companies to rate their position between two end points on each of the measures of governance.

Measure	Less effective	More effective
Access to reliable information	Information is not readily available or reliable	All required information available, reliable, and readily accessible
Assessment of business risks due to employee benefit plans	Opportunities and risks are not identified	All opportunities and risks are identified and organizational impact measured
Strategic policies to manage global benefits	No policies/guidelines established	Specific corporate policies/guidelines established to manage opportunities/risks important for corporate structure
Governance structure to execute strategic policies	A formal or informal governance structure does not exist to manage employee benefit plans	Global, regional, and local committees are established to effectively manage employee benefit plans
Operating model to monitor risks	Ad hoc processes	Approval and reporting processes are documented and followed

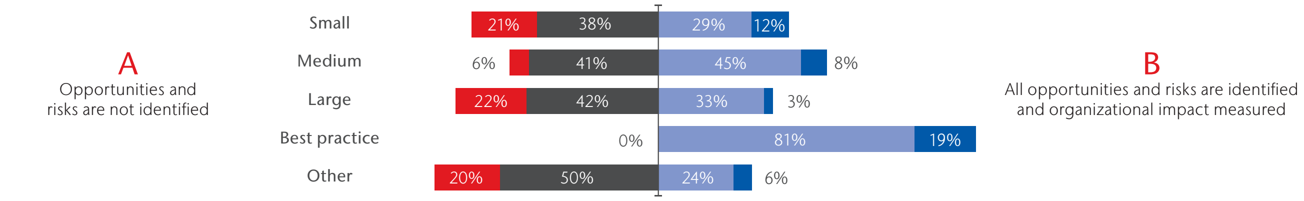
- As shown on page 7 of this report, the median position for four of the five metrics above suggests that companies struggle with having access to reliable information to understand risks at the corporate level, and with executing their strategic benefits policies. However, more than half the companies say that they have established some sort of corporate policies/strategic guidelines for their global benefit plans.
- In general, more medium-sized companies, compared with small and large-sized ones, rate themselves as the most effective under all five measures described above.
  - About 50% of medium-sized companies say they do not have reliable access to information on benefit plans, compared to 61% of small companies and 81% of large ones.
  - Over half of medium-sized companies have assessed risks and opportunities relating to their global benefits, compared to 41% of small companies and 36% of large ones.
- Since 2012, all segment sizes report having fewer companies with reliable access to information. For all other measures there has been a general increase in the number of companies aligned with best practice in 2015.
  - For each segment of size, around 65% of companies have established corporate policies to guide local benefits decisions.
  - For each segment of size, around 60% of companies have established formal or informal governance structures.
  - Nearly two-thirds of medium-sized companies have ad hoc reporting processes, while for the small or large companies only around a third report the same.
- Companies across all segment sizes, best practice or otherwise, expect to move towards centralization of their global governance operations and plan management over the next three years. Responses range between 80%-96% towards centralization in the five areas measured by 2018.

Strategic policies (design, financial, operational)

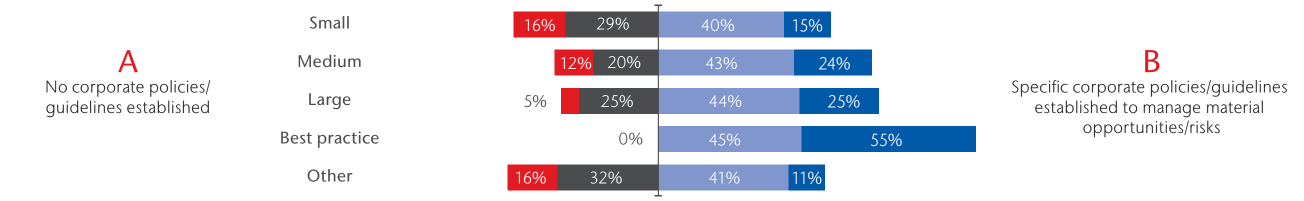
Ready access to data and information



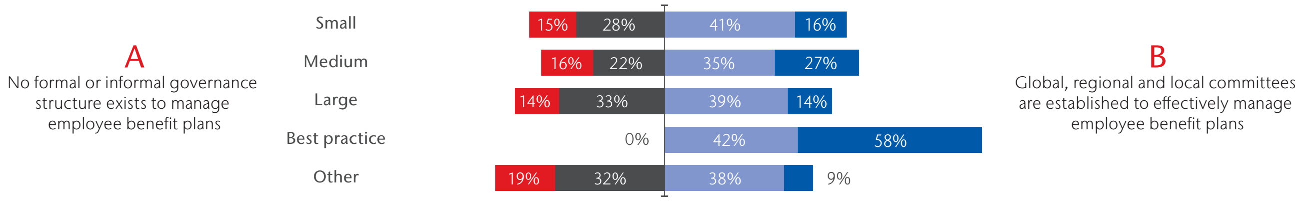
Knowledge of risks and opportunities related to employee benefit plans



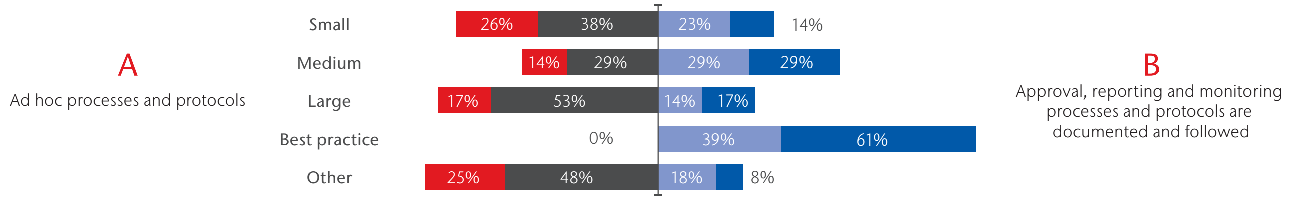
Organizational principles/guidelines (design, financial and operational) targeted to managing material risks and opportunities



Operating model and governance structure to execute strategy



Ongoing reporting and monitoring protocols



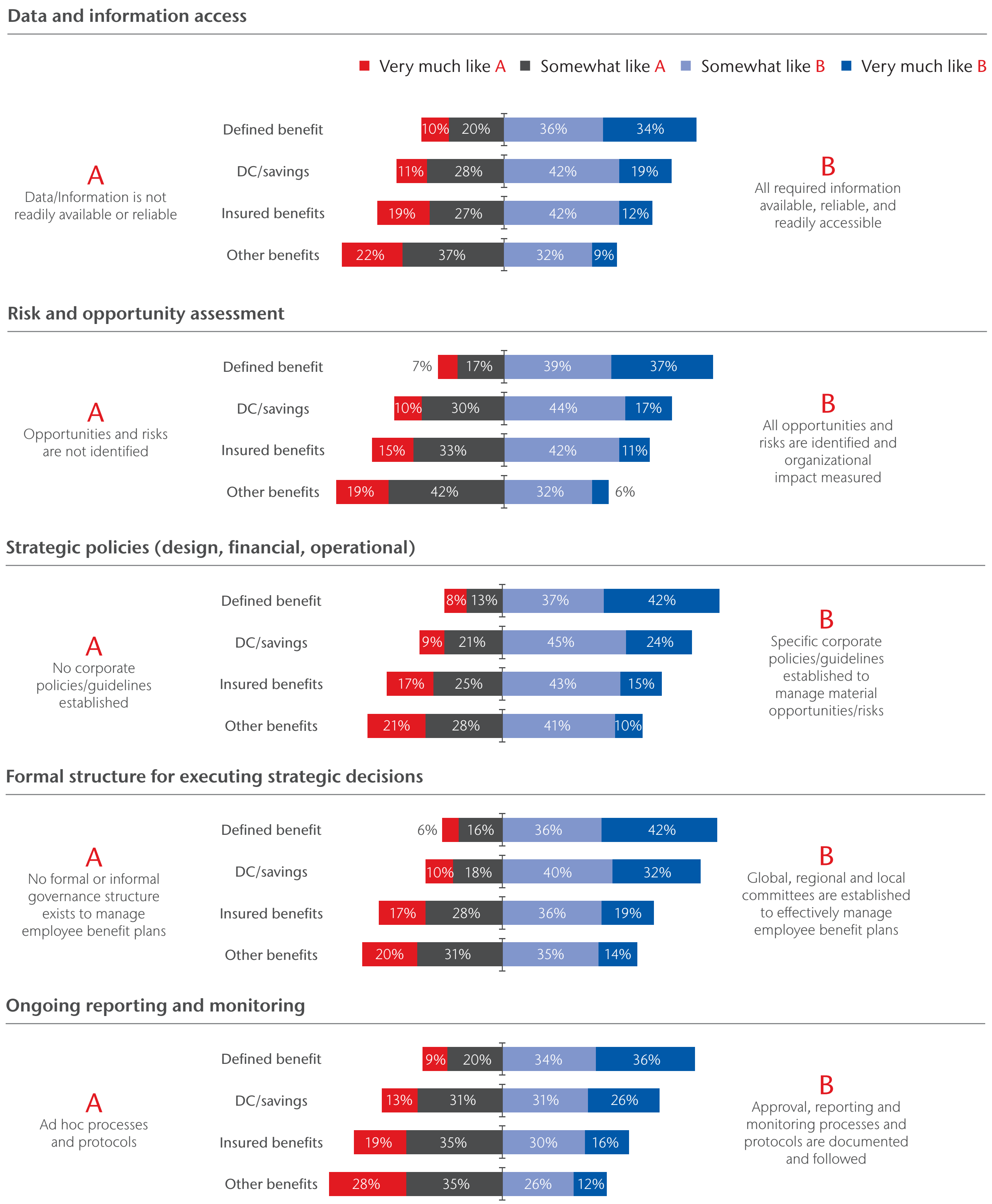
2.4 How do the five measures of effective global benefits governance vary for different types of benefits?

In 2012, we asked companies to confirm the highest level at which each type of benefit plan was governed within the organization. The majority of companies responded that all types of benefits were governed, in some form, at a corporate level: DB 77%; DC 62%; Insured 50% and Other 59%. This makes each type of plan important for a strong governance structure of employee benefits and a significant factor towards whether companies are able to follow best practice.

In 2015, the data suggests that companies continue to expand their corporate oversight of DB pension plans. The level of centralization for managing DC programs and insured benefits is much lower, but is expected to increase over the next three years.

- With regard to their DB pension plans, nearly one third of companies report that they lack the requisite data on their DB risks and opportunities; a surprisingly low performance score given the scrutiny and disclosures associated with pension plans and pension plan accounting.
- Companies are challenged by the oversight of their DC plans, with 39% not having full data, also a surprising score given that DC plans have become more prevalent and are increasingly the primary (or only) retirement vehicle for many companies.
- Generally speaking, there are not any notable differences between North American and European companies relative to their rating scores across the different plan types. It is worth noting that 65% of US companies have specific policies for their health and risk plans compared to 52% of European companies.
- Some of the differences worth noting are in DB plan management: 40% of large companies report their DB plan data is maintained on a local basis, compared to 14% for small companies and 23% for medium companies. Prevalence of plan-specific policies for DB plans is also lower for large companies, as is their management of ongoing monitoring and reporting compared to other companies.

How do the five measures of effective global benefits governance vary for different types of benefits?



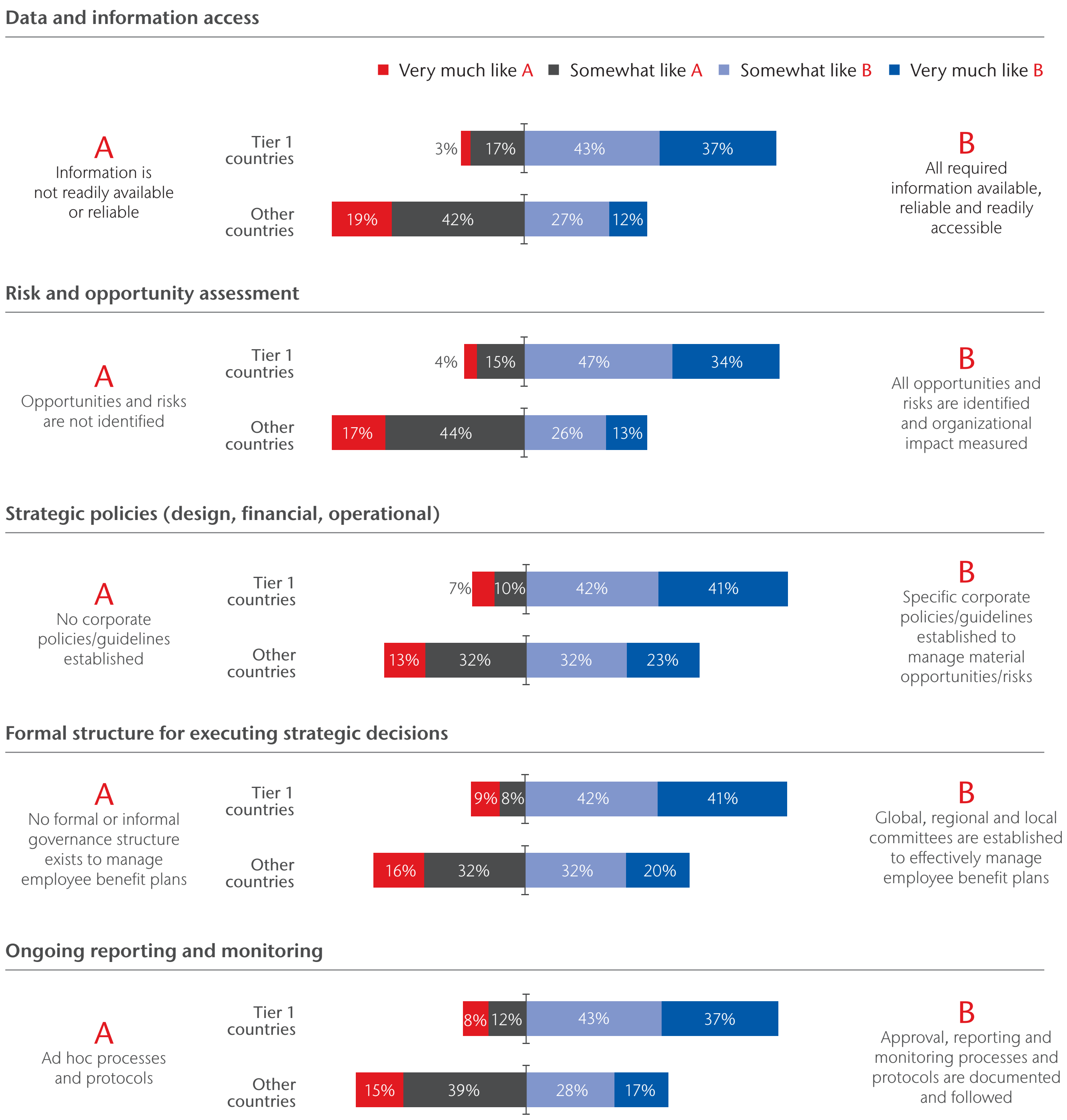
2.5 How do the five measures of effective global benefits governance vary for Tier 1* countries versus other countries?

To further explore at what level companies are unable to follow the best practice principles, we asked respondents to rate their effectiveness for each of the five measures for Tier 1 countries and other countries:

- For Tier 1 countries, prevalent practice is to centralize plan management and operations in these markets using corporate oversight on local plan decision making, reporting and monitoring protocols.
- For other countries, the data suggests a reverse approach is used. Companies rely on a locally-based and/or ad-hoc approach to managing benefits in these markets.
- Generally speaking, there are no notable differences between North American and European companies relative to their rating scores across the five effective measures relative to plans in Tier 1 countries and other markets.
- Differences worth noting are the effectiveness ratings for large organizations compared to small and medium companies in 'other markets'.
- 82% of large organizations have not fully identified their risk and opportunities of benefit plans, as compared to roughly 55% of small and medium companies.
- Large organizations also report a higher incidence of lacking adequate plan data; 78%, compared to 52% and 59% for small and medium companies

*Tier 1 countries are defined as those with largest employee populations/complexity/strategic importance and/or countries with material benefit obligations and/or any other measures firms may use to define such tiers

How do the five measures of effective global benefits vary for Tier 1 countries?



The 'How' of global benefits management

3.1 Who is involved in defining the organizational policy and approving any deviations from the policies?

3.2 How true are the following statements for the corporate objectives and the decision-making and consultation in your organization?

3.3 For each benefit function please state whether it is managed by one leader or managed separately by many leaders today as well as the expected position within the next three years.

3.4 Under each of the features of a governance model, please select an appropriate description of the current model.

3.5 How true are the following statements of your governance model?

3.6 From the list below, please select how challenging each of the factors for global benefits governance is in your company.

3.7 From the list below, select what support you need from the provider industry in managing your global benefit programs and how effective the current market solutions are.

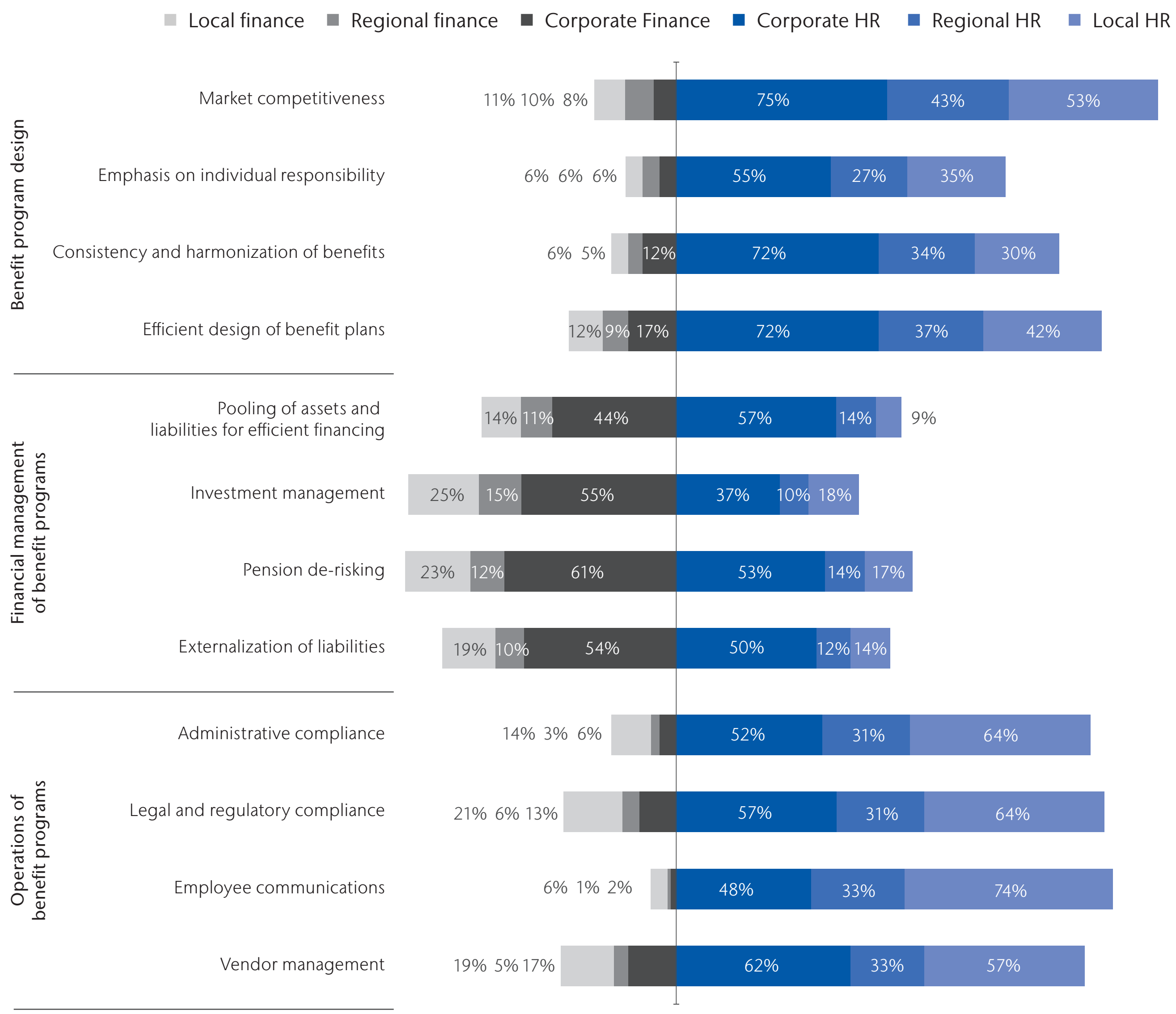
3.1 Who is involved in defining the organizational policy and approving any deviations from the policies?

In 2012, almost all companies responded that the design of benefit plans currently offered was important to global leaders.

In 2015 the same remains true; 93% of respondents confirm the continued importance of market competitiveness. It is no surprise then in 2015 that corporate stakeholders have a large amount of involvement in benefit plan decision-making:

- All elements of design and operations require significant involvement from HR, particularly by corporate and local teams.
- Benefit program design requires a large amount of input from Corporate HR, specifically market competitiveness, harmonization and efficient design of benefits.
- The operations of benefit design are mostly governed by local HR teams; Corporate HR is often involved as well. In 2012, the oversight of financial, funding and investment policies all had 60% or more of companies agreeing on its importance. In 2015, the trend has continued for financial management objectives; the majority of companies respond that Corporate Finance is making decisions. This correlates to the importance stated by corporate stakeholders.
- Financial management responsibilities were split largely evenly between finance and HR; the majority of companies say that Corporate Finance is the main stakeholder that defines organizational policies.
- These trends apply for all segregations of companies, regardless of company size or headquarter location.

Who is involved in defining the organizational policy and approving any deviations from the policies?



3.2 How true are the following statements for the corporate objectives and the decision-making and consultation in your organization?

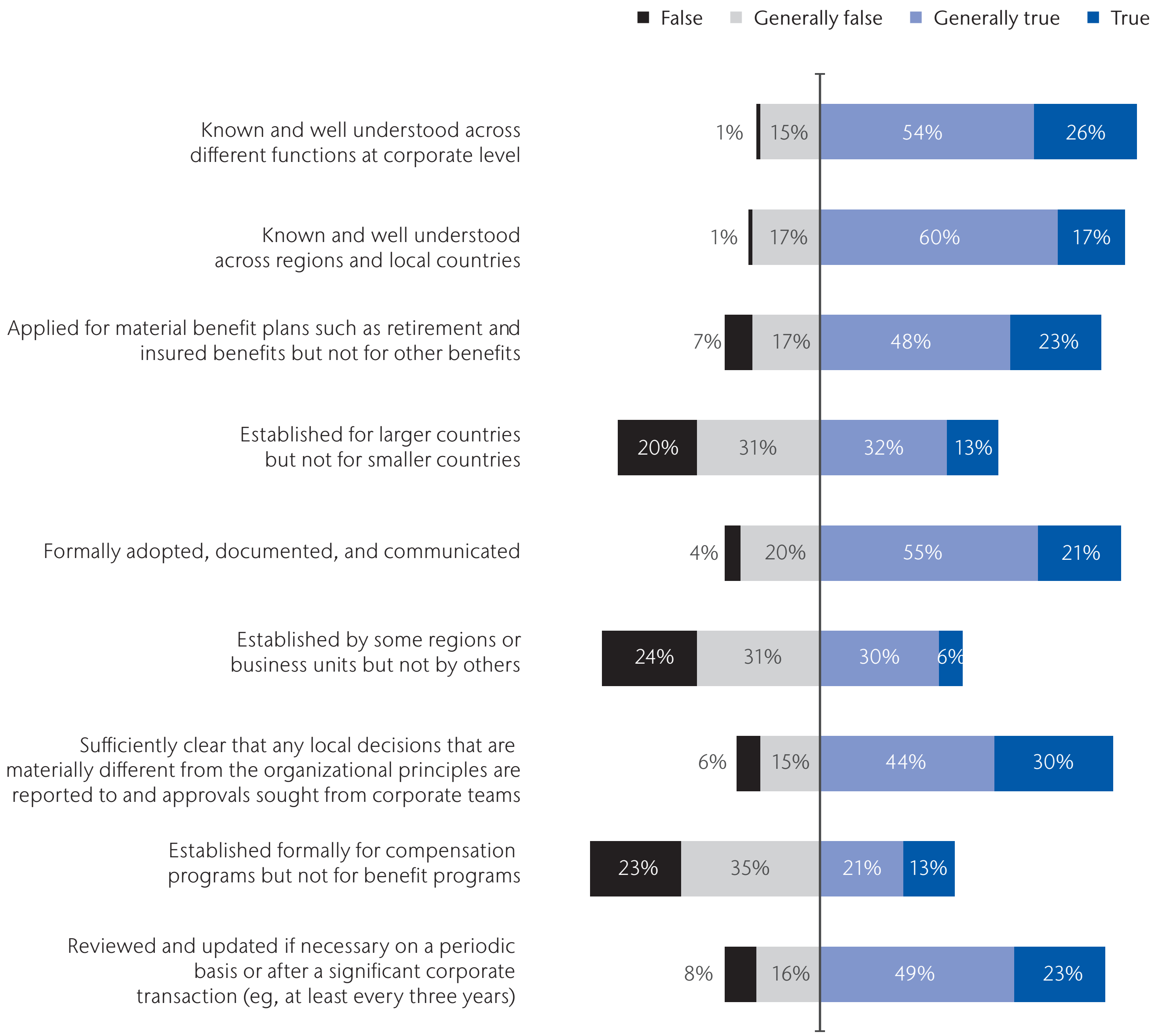
In 2012, we asked how important a number of factors were in order to successfully implement corporate oversight and control over employee benefit plans. The majority of companies rated all the stated factors as important. The key results (companies that responded important or very important) from this were:

- Collaboration between HR, finance and legal (92%).
- Reliable data on benefit plan design and financials with regular updates (89%).
- Knowledge of local labor agreements laws and regulations, and market practices (all greater than two-thirds).
- Formal documentation and clarity of corporate policies/guidelines with decision-rights allocation, roles and responsibility for execution (89%).
- Formal establishment of global benefits committee (66%).
- Regular audit of benefit plans against corporate policies/guidelines (66%).

All of these factors were rated as important. In 2015, companies are responding positively to the knowledge structure and reporting protocols across countries of different size and for all types of plans:

- Over three-quarters of companies state that corporate objectives are generally well known and understood across different functions at corporate level. A similar number indicated that they apply for material benefit plans such as retirement/insured benefits but not for others. Roughly the same number of companies indicated that it is sufficiently clear that if local decisions are materially different, these are reported/approvals sought from corporate and reviewed and updated, if necessary, on a periodic basis or after a significant event.
- A fairly even split of companies reported that benefit plan objectives are established only for larger countries, or for all countries.
- The majority of companies show that corporate objectives are established irrespective of the region or type of business unit and are established formally for both compensation and benefit programs.
- These trends apply for all segregations of companies, regardless of company size or headquarter location.

How true are the following statements for the corporate objectives and decision-making and consultation in your organization?



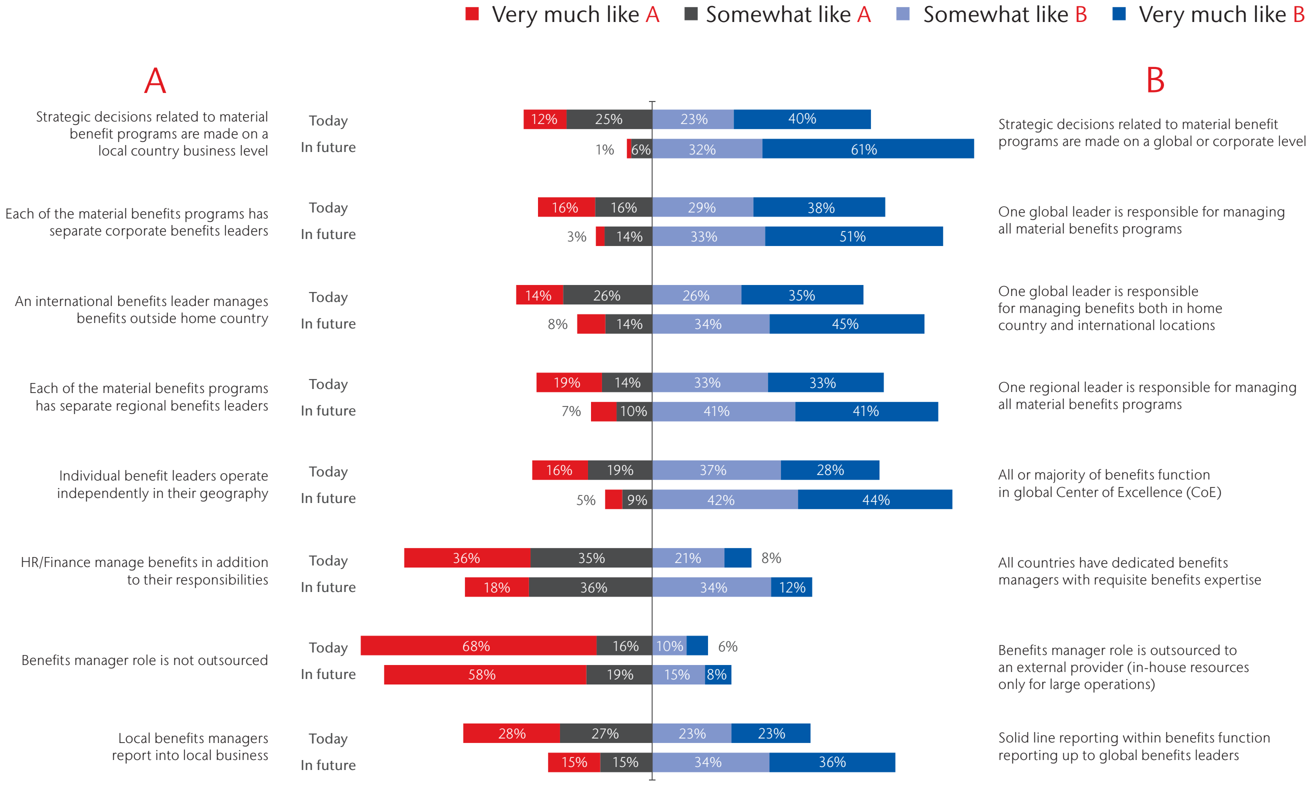
**Some respondents also indicated that the factor was not applicable or not known*

3.3 For each benefit function please state whether it is managed by one leader or managed separately by many leaders today, as well as the expected position within the next three years

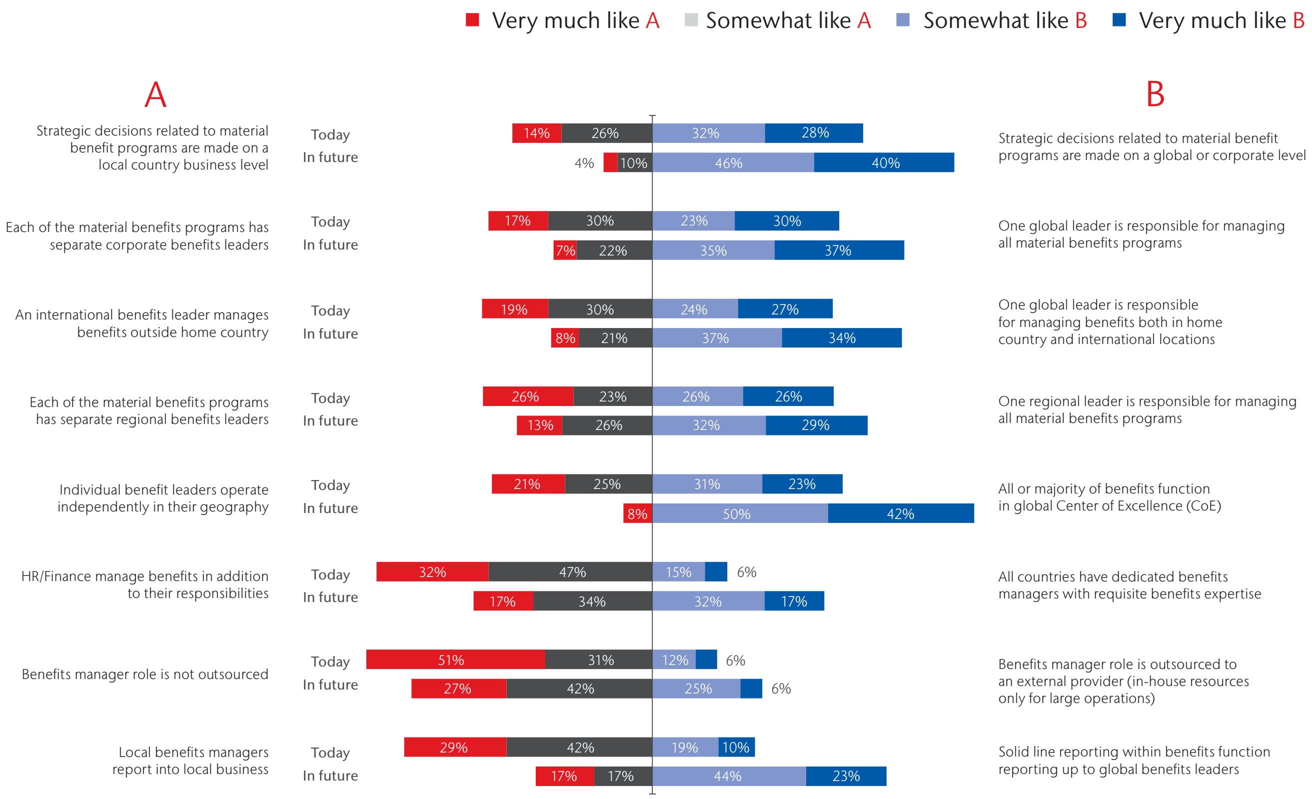
- Approximately half of companies believe that benefit function decisions are made at a corporate level, by one corporate leader responsible for all benefits, irrespective of location and for all material benefits programs, utilizing a global Center of Excellence and reported directly back to corporate benefit leaders.
- As expected, there is a growing trend of companies wishing to have a more centralized model, from half of companies now to approximately 80% in three years (2018).
- Presently, benefits in local countries are managed by HR/finance leaders as additional responsibilities. In the future, the prediction is for an even split of companies who place the responsibility on the HR/finance leaders and dedicated benefits leaders with requisite skills in local countries.
- Only a small number of companies outsource benefits management functions and this looks unlikely to change in the future; the exception is for large companies, where a third expect to outsource the management of benefits in three years' time.
- North American companies are more likely to have the majority of benefits functions managed in a global Center of Excellence and are less likely to predict that they will outsource benefits management within three years, compared to European companies.
- Currently, large companies have less control of benefit management at a corporate level and are hopeful that this can shift towards more corporate involvement, in line with the increase in centralization.

Benefit function management today and in the future

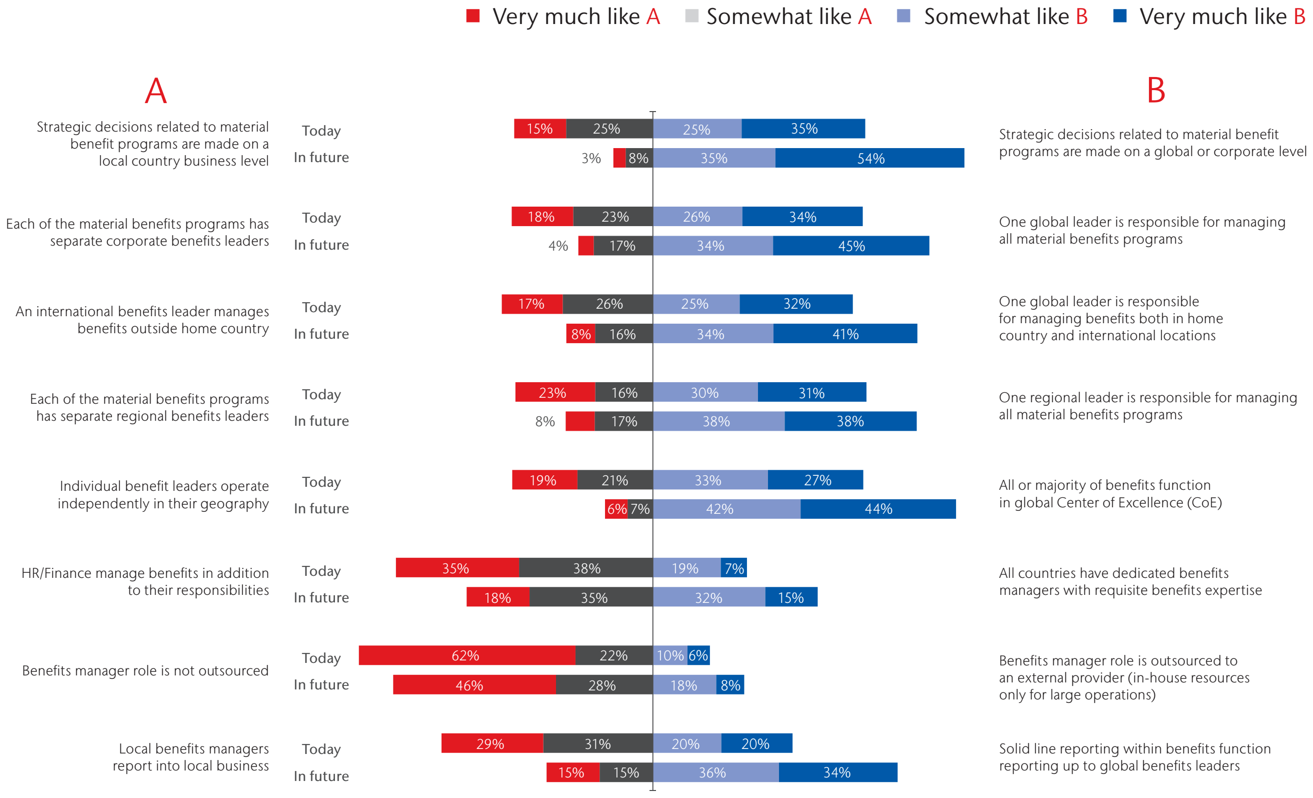
North American



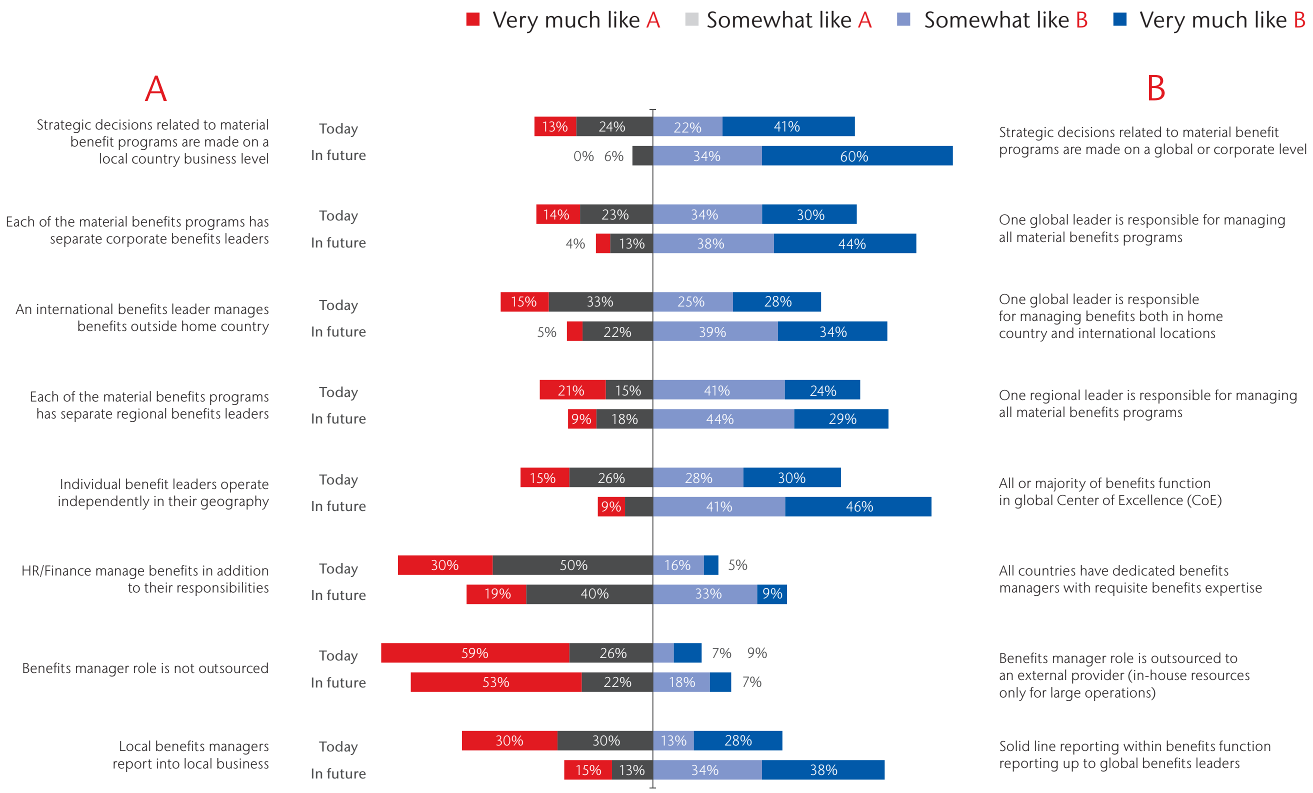
Europe



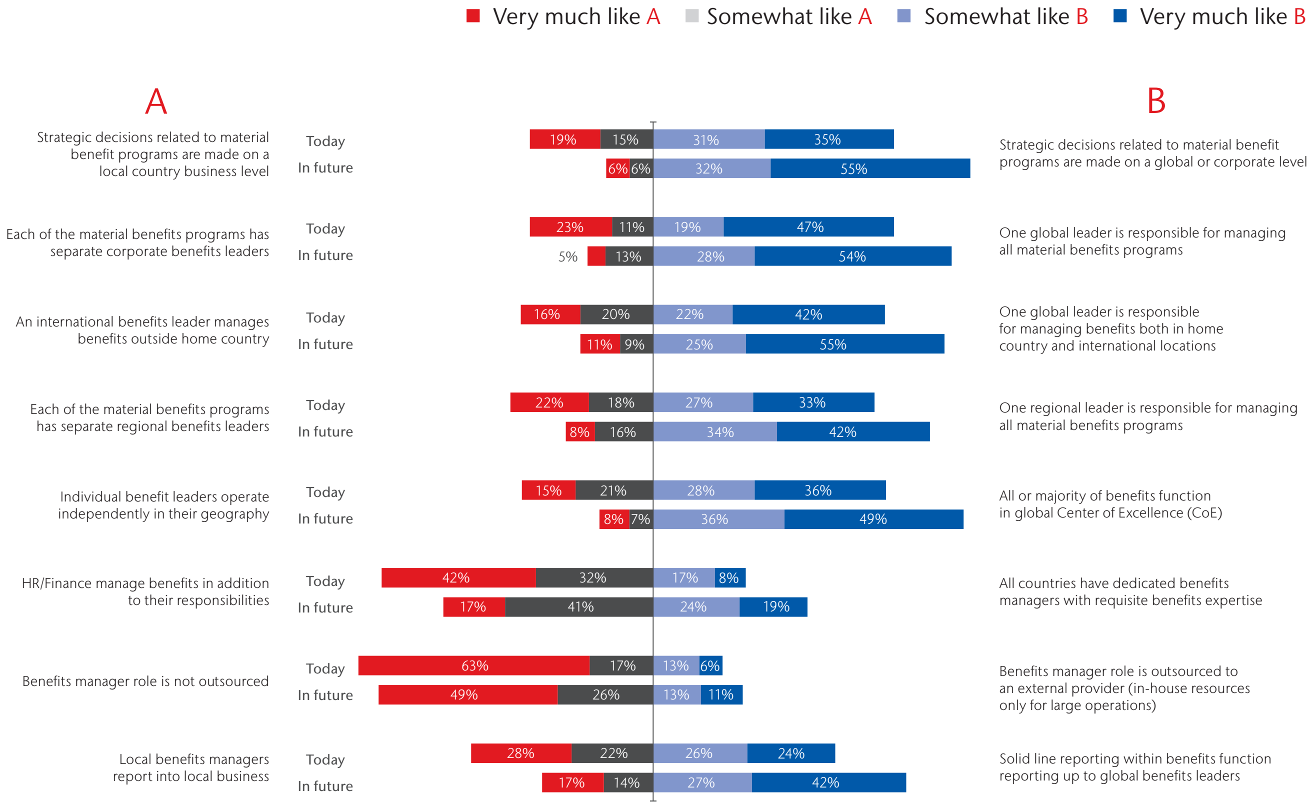
Small



Medium



Large



3.4 Under each of the features of a governance model, please select an appropriate description of the current model

We wanted to understand what types of formal (or informal) structures are used by companies to exercise corporate oversight of local benefits decisions. Therefore we explored the correlation between the existence of various structural elements and current levels of effectiveness of the structure in executing corporate policies.

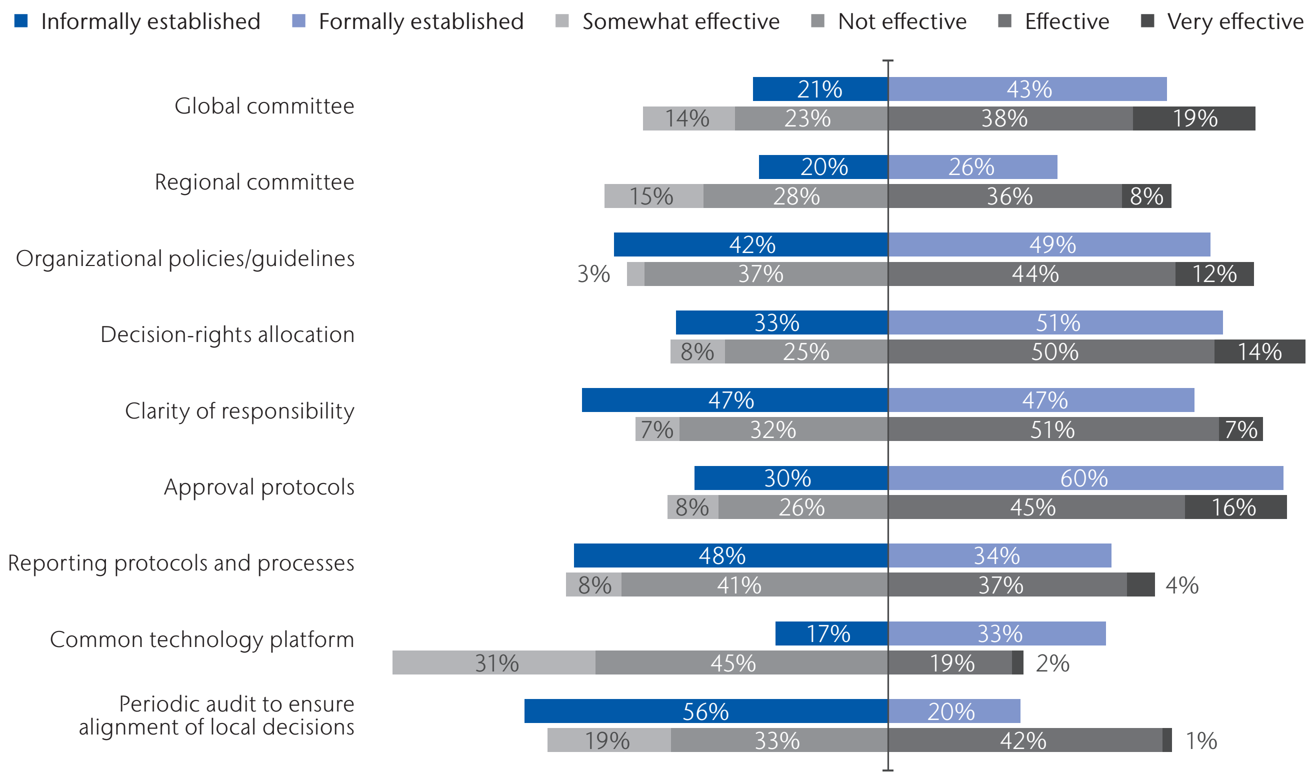
In 2012, we asked the same; however, we additionally explored the importance of each feature; the majority of companies agreed that all features were important.

- The results showed that there was a material gap between the importance placed by companies on various structural elements for executing strategies and how well they worked.
- There was some correlation between the existence of a formal structure/protocols and the effectiveness of execution. However, the data does highlight the operational challenge companies faced. Not all the respondents with formal protocols in place said that such protocols were effective:
  - Technology to manage data and information on benefit plans appeared particularly challenging for companies.
  - Fewer respondents had formal committees established at regional and local levels and they saw little value in establishing such committees. At the time it was suggested that corporate committees tended to execute their policies by working directly with regional and local HR and benefits staff.

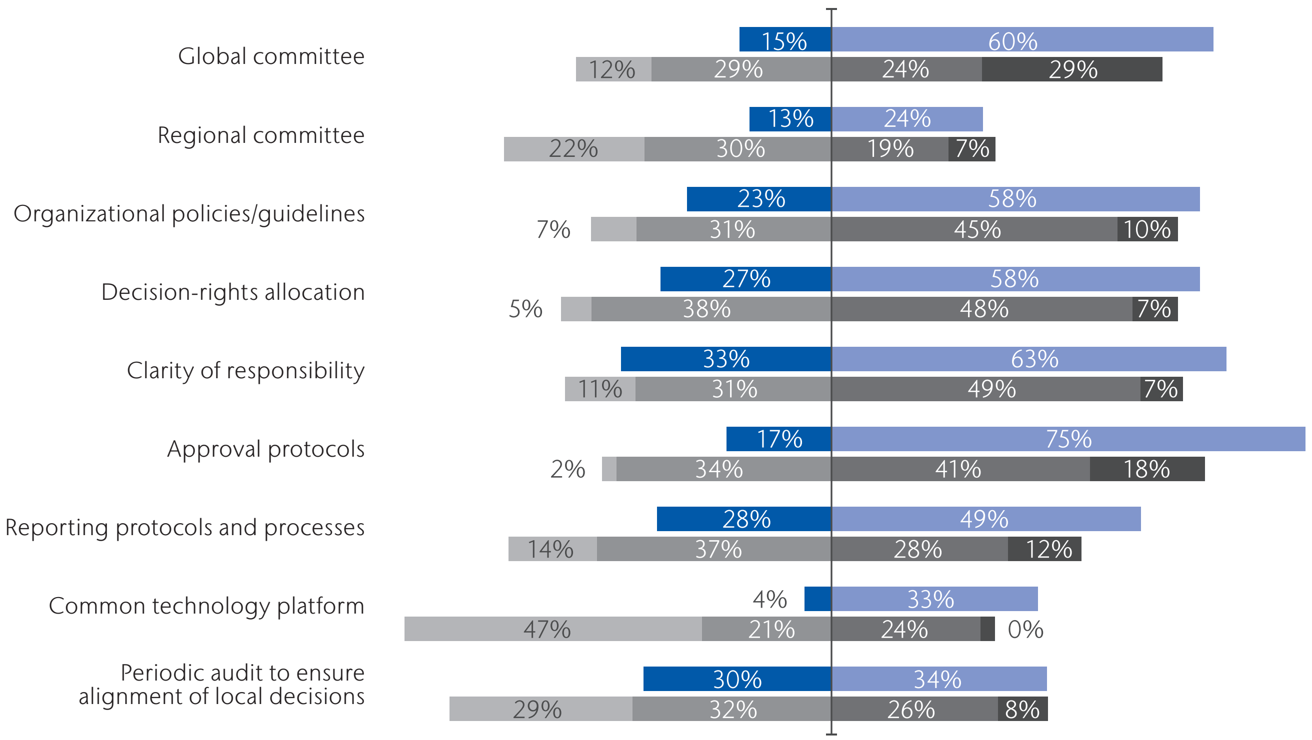
In 2015, the trend continues to be an increase in the effectiveness of a governance model if it has been formally adopted, as opposed to being informally adopted. Formality is particularly prevalent in global committees, organizational policies, decision rights allocation, clarity of responsibility and approval protocols.

- The only area that does not follow this trend is a common technology platform, where a three to one ratio of companies has formally adopted this but two-thirds are reporting it as being ineffective.
- Regional committees are less common, 17% informally and 26% formally established, with approximately an even split of companies reporting effectiveness in North America, but much less effectiveness amongst European headquartered companies.
- Approval protocols are the most common formally-adopted element of governance, with two-thirds of companies reporting this as effective.
- Companies that are headquartered in Europe report a greater degree of formality compared to companies based in North America. Interestingly, European companies report less effectiveness than North American companies for some of their formal features.
- The trend regarding company size appears to be that as the company gets larger, there is an increased prevalence of formally-adopted features but a reduced effectiveness.

North American



Europe



3.5 How true are the following statements in relation to your governance model?

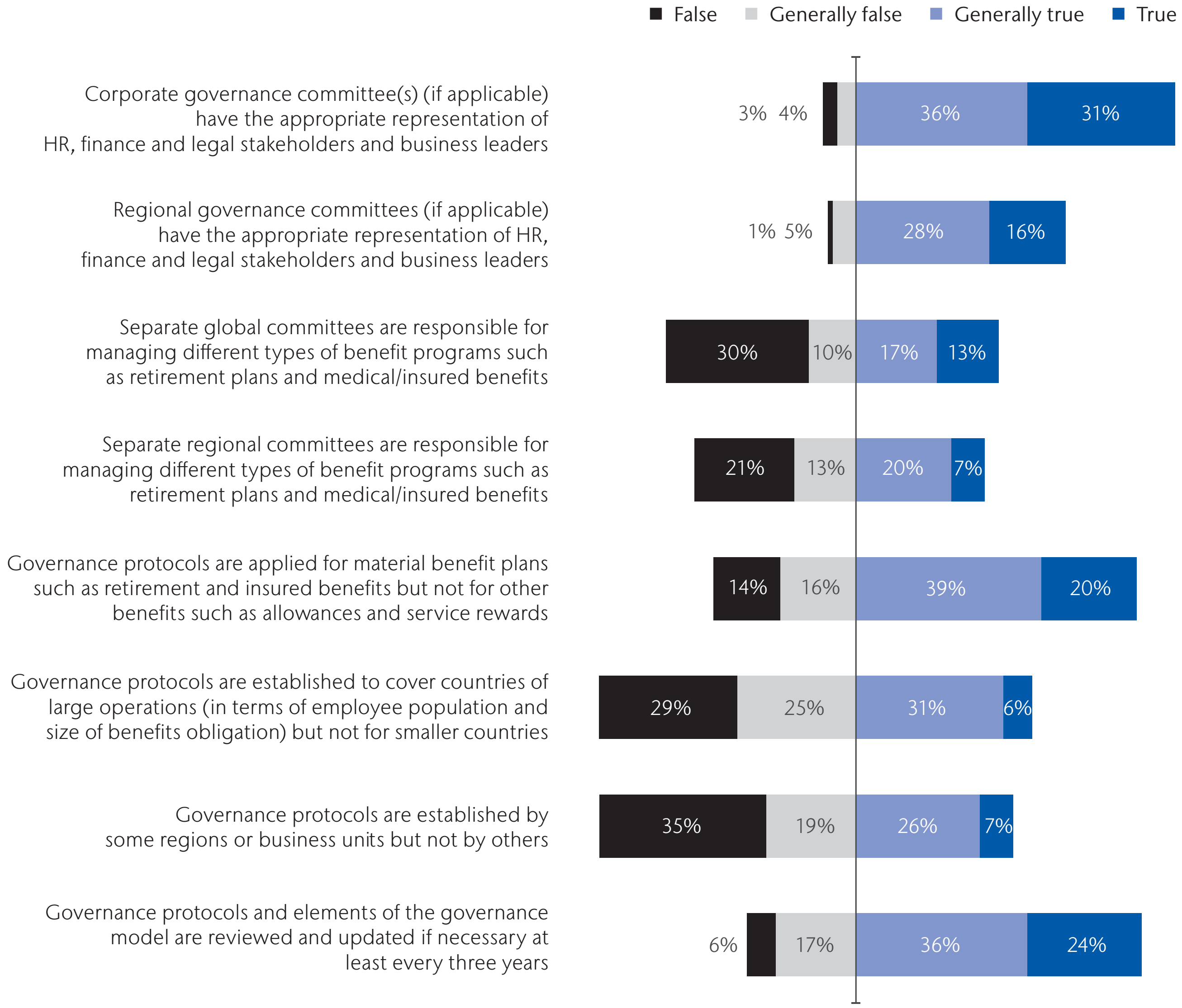
In 2012, we asked companies about the highest level at which employee benefit plans were governed and who was important when managing global benefits centrally.

- The trend at the time showed that the majority of companies had corporate involvement for material benefit plans. However, other benefits, such as work environment and career development, were managed on a regional basis. Medical/health and risk benefit plans had an equal split of companies responding between corporate and regional/local involvement.
- The stakeholders that were rated as most important by global benefit directors were:
  - Local country management;
  - Local HR and finance departments;
  - Corporate legal and finance departments; and
  - Senior management of the company.
- We also asked the importance of a number of factors to successfully implement corporate oversight and control. The responses showed that the majority of companies thought that the collaboration between HR, finance and legal; reliable data on benefit plans' design and financials with regular updates; all factors regarding local involvement; and protocols for approvals and resolving issues were all important.

In 2015 we posed the issues differently by asking companies to confirm whether a number of statements match their governance model. The responses show that the trend has continued from the 2012 survey.

- Where committees exist, there was strong agreement that these have an appropriate representation of HR, finance and legal stakeholders and business leaders. Although nearly all agree with these statements, only 74% and 50% find the statements regarding corporate and regional committees respectively to be applicable (ie, not all companies gave a response for this measure).
- The majority of companies report that they do not have separate global committees for managing different types of benefits. Two-thirds of companies with governance protocols indicate they have them for material benefit plans but not for other benefits.
- Three quarters of companies with governance protocols indicated that these are reviewed and updated at least every three years.
- There appears to be little difference between North American and European-based companies and between different sizes of company.
- There is no obvious trend for governance protocols being established by the size of country or the type of business unit.

How true are the following statements in relation to your governance model?



**Some respondents also indicated that the factor was not applicable or not known*

3.6 From the list below, please select how challenging each of the factors for global benefits governance is in your company

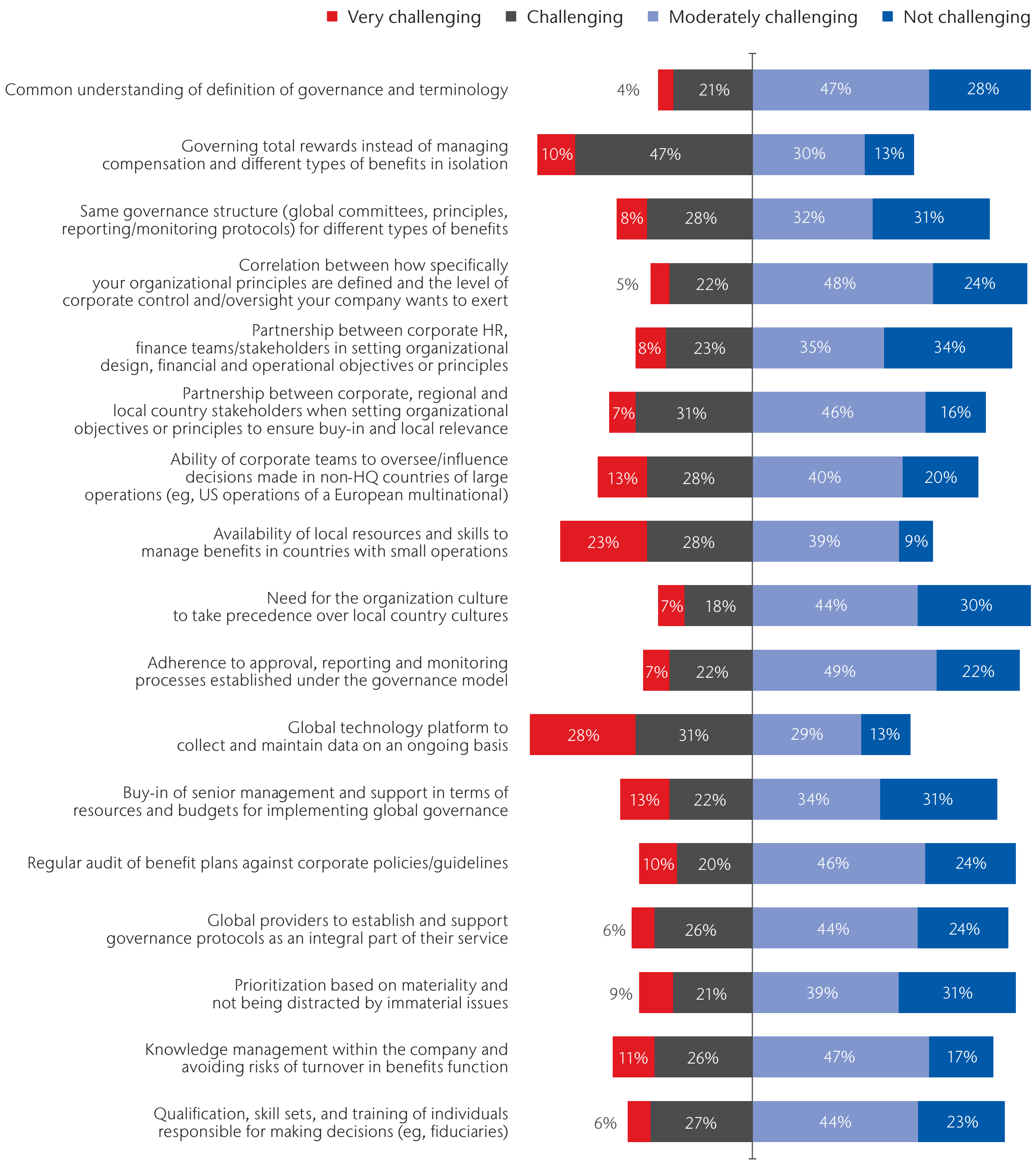
In 2012, we asked companies to rate the importance of many of these factors. The majority of companies responded that each was important.

For most measures, the majority of companies find that these factors are not challenging or only somewhat challenging. In general, European-headquartered companies found most aspects more challenging than their North American counterparts.

In 2015, the factors that cause the most issues are: governing total rewards instead of compensation and benefits in isolation; availability of local resources/skills in countries with small operations; and the lack of a global technology platform to collect and maintain data on an ongoing basis. The availability of resources in small countries and technology usage appear to be major problems, with 23% and 28% of companies respectively reporting these as being very challenging.

The size of company has no obvious impact in terms of the challenges facing global benefits governance.

Please select how challenging each of the factors for global benefits governance is in your company

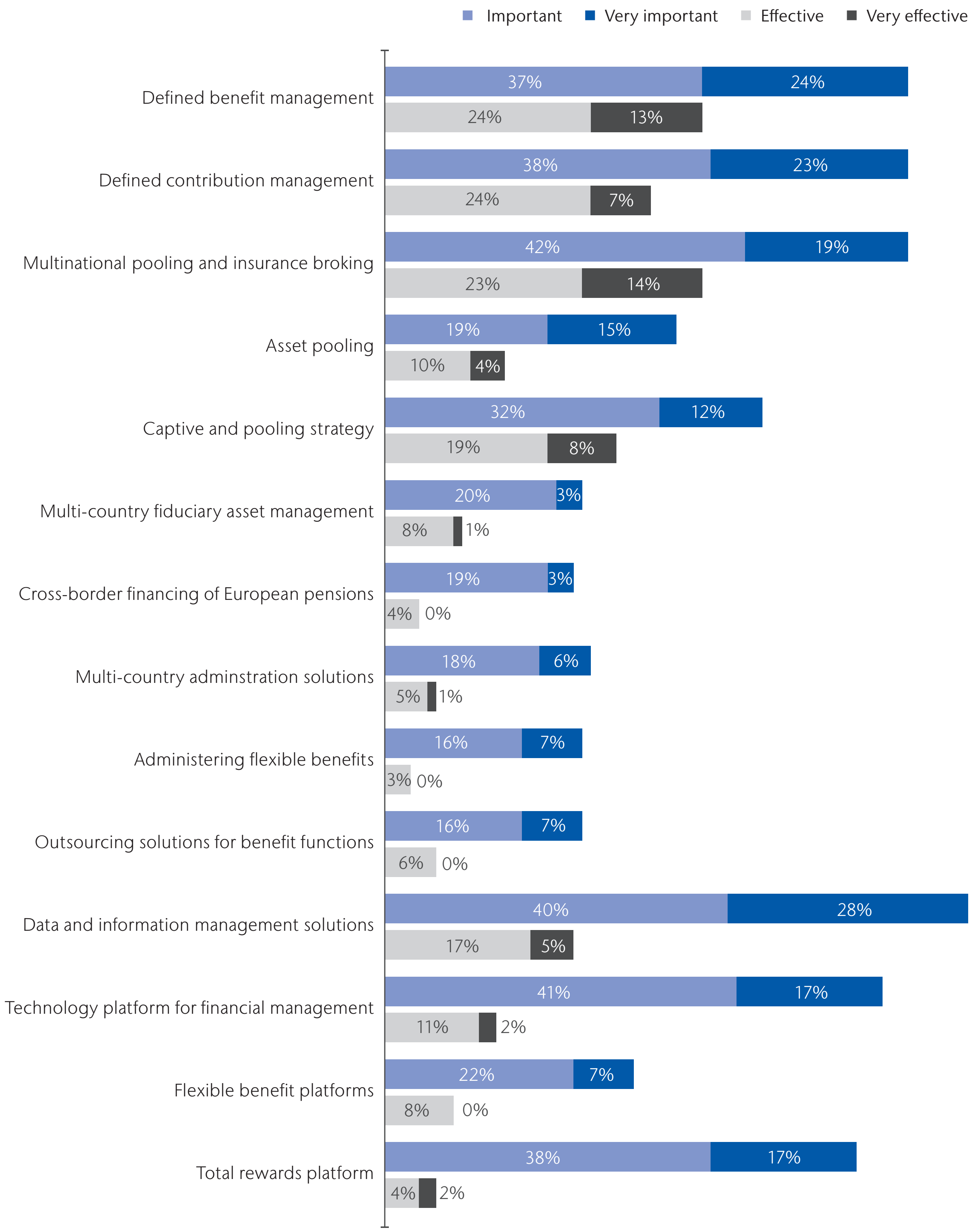


3.7 From the list below, select what support you need from the provider industry in managing your global benefit programs and how effective the current market solutions are

Global providers play varying roles in helping companies manage their global benefit programs. As an example, global actuarial consolidation provides companies with a central repository of financial data related to material DB retirement plans around the world. Similarly, global brokers consolidate financial data for insured benefits and help companies manage financial outcomes related to such benefits at the corporate level. We asked companies what types of global benefit solutions currently available in the market were important for managing global benefits and about the effectiveness of these solutions.

- In 2012, 46% of companies responded that multinational pools for insured benefits were important and most of those stated their effectiveness. In 2015, the number that states this as important or very important has increased to 61%; however, only around two-thirds of these companies report that this support is effective.
- Only 6% of companies stated that cross-border financing of European pensions was important in 2012; in 2015, 22% respond that it is important. Very few indicate that it is effective, though perhaps it is too early for this to be clear.
- As expected, both in 2012 and 2015, companies place high value on technology platforms for financial management, 55% in 2012 and 58% in 2015. There has been a significant reduction in the number of companies reporting effectiveness; only around one-tenth of companies consider this measure effective in 2015. This is in line with the results from other questions covered in the survey, for example page 56 has only 25% of companies responding that they have an effective common technology platform.
- In 2015, the majority of companies respond that DB management, DC management, data and information management solutions and the total rewards platform are important, but few also report these same measures as effective. For example, 68% of companies state that data and information management solutions are important or very important, and yet only 22% say that they are effective.
- There appears to be a direct correlation between the importance of an issue and its effectiveness; however, the results for data and information, technology platforms and total rewards platforms show very low effectiveness relative to the importance placed on these measures.
- Trends are largely similar between companies, regardless of their headquarter location or size.

Support needed from provider industry and effectiveness of current market solutions



The 'So What' of global benefits management

4.1 State how effective the corporate oversight currently is for each of the following benefit and compensation programs if you consider it important.

4.2 Alignment of local benefits with organizational design, financial and operational objectives.

4.3 Rate the probability of achieving the business outcomes listed below today by implementing a global governance model.

4.1 State how effective the corporate oversight currently is for each of the following benefit and compensation programs if you consider it important

Companies provide a number of benefits to their employees worldwide. Often the types of benefits and related costs are determined by the prevalence of different types of benefits in different countries. We wanted to understand which types of benefits companies think are important to manage from a corporate perspective and how satisfied they are with the corporate oversight of benefits they deem important.

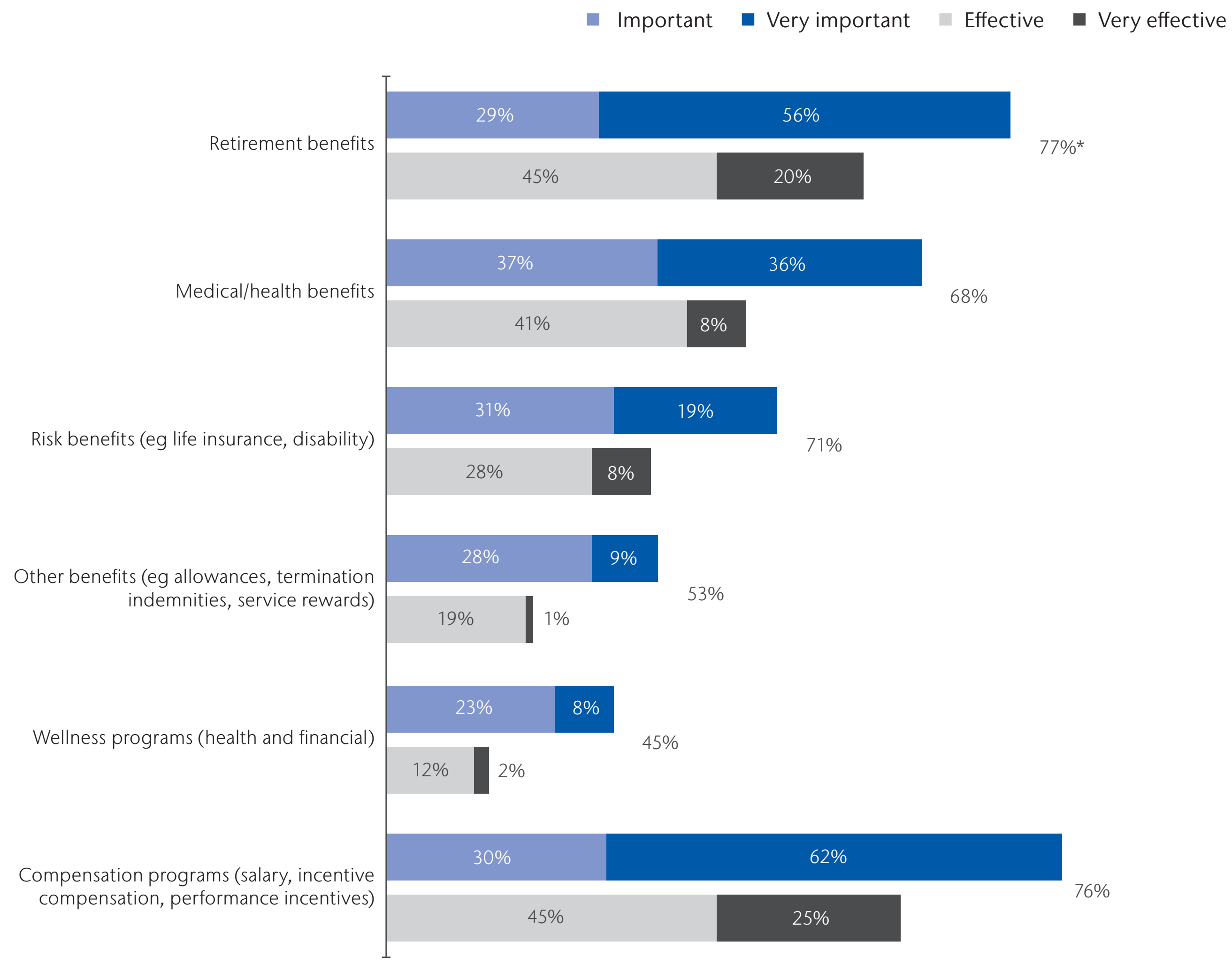
- In both 2012 and 2015, 'retirement benefits' was the area most important to respondents, with 91% in 2012 and 85% in 2015 citing it as important. There has been a significant fall in companies reporting satisfaction with the effectiveness of corporate oversight of retirement benefits. In 2012, 87% said they were satisfied or very satisfied with the oversight of retirement benefits; in 2015, only 75% report that this is effective or very effective.

- Medical benefits continue to be highly important with over two-thirds of companies responding that this was important or very important in both 2012 and 2015. However, just under half consider their current oversight to be effective.

- This emphasis generally correlates to the costs and risks of benefit plans and the size of obligations. For example, the emphasis placed on retirement and medical benefits is significantly higher than the emphasis placed on wellness programs. Also, not surprisingly, companies place the highest emphasis on compensation programs compared to other benefit programs. In 2015, the emphasis placed by companies on oversight of benefit programs based upon the headquarter location was, in general, the same for various types of benefits.

- Large companies consider corporate oversight of 'other benefits' as less important compared to their smaller counterparts and place more importance on corporate oversight of wellness benefits.

How important and effective is corporate oversight for each of the following benefits and compensation programs?



Effectiveness rating = % of companies reporting oversight is effective/very effective if they consider such oversight important

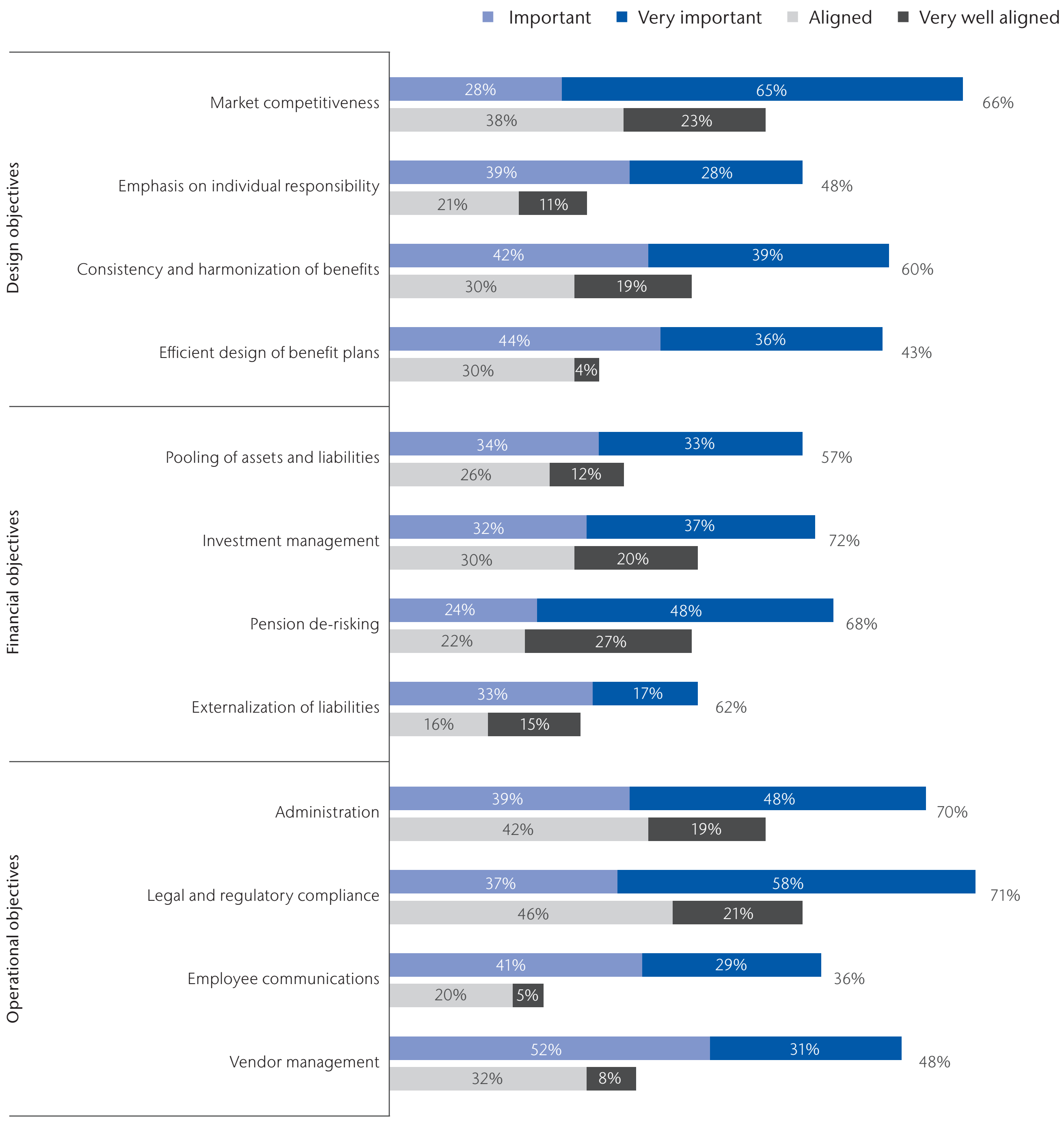
4.2 Alignment of local benefits with organizational design, financial and operational objectives

Using the three organizational policies that guide global benefit plan management and strategic decisions (plan, design, financial management and plan operation), companies report on the importance of local plan alignment and the degree to which their plans are aligned to these stated objectives.

- Local plan alignments to corporate policies on plan design and plan operations are considered to be more important than local alignment to financial management objectives (that 88% of responders were from HR might partially explain these rankings).
- The importance of plan alignments to financial objectives, although lower, indicates that once established as important, the drive and ability to align local plans to the corporate mandate would be more consistent.
- The areas highlighted as least aligned when deemed important, are those that are typically localized activities – employee communications and efficiency of local plan design.

Generally speaking, there are no notable differences between companies based on size. European companies generally place higher importance on alignment of their local plans to their corporate policies than their North American counterparts – particularly in plan design. Responses in other areas were similar.

Alignment of local benefits with organizational design, financial and operational objectives



**Alignment rating = % of companies reporting that local plans are aligned or very well aligned with organizational principles if they consider such principles important*

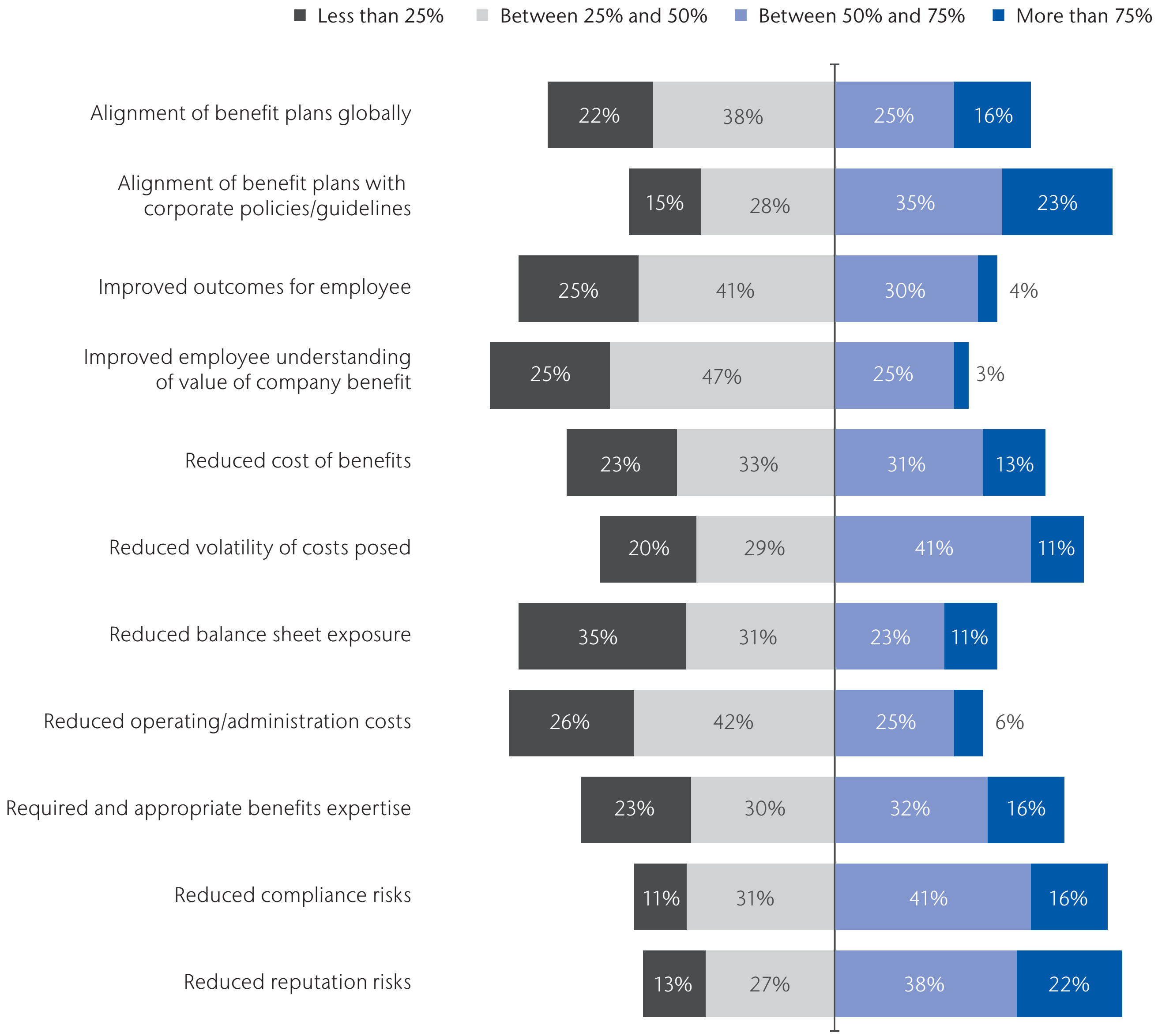
4.3 Rate the probability of achieving the business outcomes listed below today by implementing a global governance model

Using eleven business outcomes or goals, companies report on the probability of achieving these outcomes.

- While the drivers for establishing a global governance model are varied, companies generally expect to make improvements through reduced cost volatility, effective management of compliance and reputational risks, and achieving local plan alignment with their corporate policies and guidelines.
- There is less confidence that global governance reduces operations and administration costs, reduces balance sheet exposure, improves employee outcomes, and improves employee understanding of the value of company benefits.

Generally speaking, there were not any notable differences between North American and European companies, or between companies based on size; the responses are very similar.

Probability of achieving the business outcomes listed by implementing a global governance model



If you would like to know more about the topics covered in this study, or about Aon Hewitt's Global Retirement Management proposition, which helps multinationals to achieve better benefits governance, please contact us at

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About the 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.

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