



News Release

Stephanie L. Poe

202 331 5210 / stephanie.poe@mercer.com

Mercer identifies the top 10 retirement, health and welfare benefit challenges shared by employers around the world

Employers in 48 countries face certain common challenges in providing retirement, health and welfare benefits to employees, underscoring need for global governance

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Multinational employers may operate in diverse economies around the world, but they face certain common global human resource challenges – chief among them the changing concept of retirement and the continuing rise in the cost of health care, according to a new Mercer survey of benefit programs in 48 countries.

Mercer's 2008 *Introduction to Benefit Plans Around the World: A Guide for Multinational Employers* (available online at www.mercer.com/bpaw) helps global companies assess, compare and provide retirement as well as medical and other group benefits to their employees. The 2008 edition of this report identifies the top five retirement challenges and the top five health and welfare challenges faced by employers the world over.

Top five retirement challenges/trends

1. The concept of retirement is changing and many will be forced to postpone full retirement. Many governments are extending the retirement age, as an aging workforce means that the pool of retirees is growing faster than the number of productive workers who contribute to state or private-sector sponsored retirement programs. This will require employers' programs for older employees to change significantly. Whereas previous cohorts of retirees in high-income countries viewed retirement as a period of leisure, current generations are increasingly expecting some employment in old age.

"The concept of retirement is changing at an unprecedented pace, driven by a number of related trends," said Giles Archibald, retirement leader of Mercer's international benefits specialty group. "Falling birth rates and rising life expectancy mean people will need to keep working and retire later, while the shift to defined contribution plans can make it difficult to save adequately for retirement, particularly in challenging financial times."

2. Defined contribution (DC) plans are becoming the norm. Many multinationals have explicitly stated a preference for establishing only DC plans in the future. While several countries still have predominantly employer-sponsored defined benefit (DB) plans (South

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Korea, Philippines, Japan, Canada, Mexico, Belgium, Israel, Netherlands), it is rare for an employer to set up a new one anywhere in the world. Reductions in Social Security benefits and talent wars are raising employee expectations for improved, portable employer-provided benefits, but employers are not rushing to meet this need.

- 3. As more responsibility for retirement is shifted to the individual, there is a disturbing lack of employee understanding of how to ensure a secure retirement.** With participation optional and contribution level left up to the employee, many employers are finding that individuals contribute less, start contributing late, invest conservatively and retire too soon. Employers need to ensure employees understand their retirement plans through more effective communication.
- 4. Retirement benefits may be inadequate for many employees.** Unless supplemented by personal savings, many employees are likely to find their benefit plans cannot deliver sufficient retirement income to ensure a comfortable retirement at the age the employee might expect.
- 5. Global governance is on the rise to ensure compliance and competitiveness in all markets in which a company operates.** There is a pronounced trend toward more global corporate oversight of benefit programs. “We are seeing more companies conduct global benefits inventories and analyses of where the plans are – or are not – in compliance or competitive,” said Mr. Archibald. “This is true of health-related benefits as well.”

Top five health and welfare challenges/trends

- 1. Rising employee expectations for state-of-the-art health care conflict with private sector concern about the rising costs.** Health care costs continue to outpace inflation in many countries. Aging populations, health risks, new technologies and pharmaceuticals, consumer demand and continuing system inefficiencies are among the driving forces. Exacerbating the situation, governments are trying to shift costs away from state-sponsored plans to the private sector.

“Health and benefit costs are likely to increase due to higher-than-average stress levels and high utilization of discretionary health services by employees who are being laid off,” said Linda Havlin, global leader for health and benefits research. “Compounding those increases will be efforts by insurers to recoup investment losses and improve their profitability.”

- 2. Workers differ on the value of individual benefits, depending upon their age and personal circumstances.** Flex benefits and total rewards programs are two ways to address these different preferences. Young employees often prefer lifestyle/life event-based benefits, resulting in the rapid growth of flex programs, particularly in emerging markets. Companies continue to emphasize, however, the value of benefits as part of the overall remuneration or “total rewards” package.
- 3. Lifestyle diseases are on the rise, straining health care budgets.** Some infectious diseases, eliminated in many developed economies, are still realities in the recruitment pools

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in emerging markets and are re-emerging in some developed economies (e.g. Italy). Chronic/psychological conditions (e.g., diabetes, stress, obesity) also are on the rise. More companies are implementing programs to keep employees well and productive. They are also reconsidering health plans that exclude chronic diseases and implementing measures to control the underlying disease profiles that drive health benefit utilization and cost.

- 4. Understanding and managing how changing health risks can affect employer liabilities is essential but often overlooked.** Most multinational employers provide health benefits to their employees, but few understand the health risks or the implications for employees and their productivity. Employers also need to better understand the potential liabilities hidden within these benefit promises and programs.
- 5. Tracking global health benefit costs and ensuring good governance of programs worldwide is a challenge.**

“More employers are establishing global guiding principles for the design, placement and management of their employee health and benefit programs,” said Robyn Cameron, health and benefits leader of Mercer’s international benefits specialty group. “Having such policies in place, and processes to support them, can help ensure appropriate decision making and information flows, and an appropriate balance between local-country and global considerations.”

Notes for editors

Mercer’s 2008 *Introduction to Benefit Plans Around the World: A Guide for Multinational Employers* contains a wealth of information on retirement and health and benefit plans collected from multinational and leading local employers in the 48 countries surveyed. Two-page snapshots for each of 48 countries are included – one page on retirement and another on medical/sickness/disability/death benefits. Each snapshot shows mandatory and typical employer practices and the current legal and regulatory environment.

It is available to Mercer’s multinational clients at no charge. More information can be found online at www.mercer.com/bpaw .

About Mercer

Mercer is a leading global provider of consulting, outsourcing and investment services. Mercer works with clients to solve their most complex benefit and human capital issues, designing and helping manage health, retirement and other benefits. It is a leader in benefit outsourcing. Mercer’s investment services include investment consulting and multi-manager investment management. Mercer’s 18,000 employees are based in more than 40 countries. The company is a wholly owned subsidiary of Marsh & McLennan Companies, Inc., which lists its stock (ticker symbol: MMC) on the New York, Chicago and London stock exchanges. For more information, visit www.mercer.com .

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