

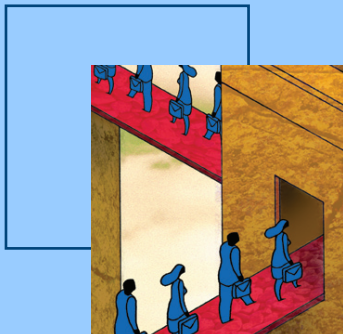
Preparing for a Pandemic

Review of Insured and Self Insured Benefits

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AVIAN FLU

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In response to client concerns on the human resource implications of the avian flu outbreak, Mercer developed a series of papers to help organizations prepare for a potential pandemic

It is difficult to predict how insurance companies will react should an avian flu pandemic occur.

The avian influenza could propagate more quickly and more efficiently than any other recent outbreaks and may result in a sudden increase in the morbidity and mortality incidences of the affected population. Such a scenario could significantly impact insurance companies who would receive more claims than expected.

Recent experience dealing with SARS may serve as an indicator of possible outcomes where some insurance companies made it their policy to cover SARS related claims while others excluded such claims. For some countries, the issue was non-existent due to the government's decision to finance all SARS related treatments for their citizens. Effective risk management demands that organizations prepare for the worst case scenario.

In the event of a pandemic, organizations need to have confidence in the benefits package adequacy for their staff.

To help you prepare for a pandemic we have identified 5 steps that organizations should include in their avian flu preparedness plan.

- **Define your organization's benefits objectives**
What will your benefits package communicate about your organization in the event of a pandemic?
- **Identify the current benefits package**
Do you know what benefits are currently offered to your employees? Insured and self-insured?
- **Understand the benefits and their limitations**
Will avian flu related events be covered by your benefits package, insured and self-insured?
- **Gap Analysis**
Are there any gaps between your current benefits package and your objectives?
- **Solutions and Implementation**
How can you bridge the gaps? What are the possible solutions and the associated cost implications? How can the chosen solution be implemented effectively?

Define your organization's benefits objectives

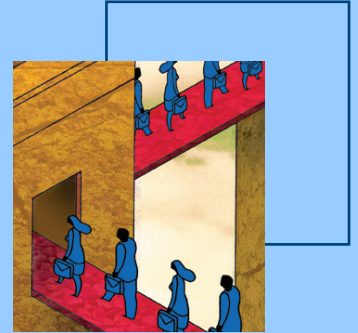
The emergence of an external threat such as a pandemic or similar crisis demands that organizations review their benefits policy and structure to ensure that it is consistent with the broader human resources strategy.

Some of the questions to ask during this exercise are:

- Do we want to offer financial support to our employees needing services linked with avian flu? For what type of services? Healthcare? Leave and salary continuance? Psychological counselling resources?
- Do we want to offer the same level of benefits to all our employees? If we do group segmentation, what is our reasoning? What impact may this decision have?
- Do we feel a responsibility to financially support services linked with avian flu for our employees' dependents? If so within what limits?
- Will we subsidize the cost of a vaccine or anti-viral drugs? Partially? Fully?
- If an employee must stay home for quarantine, what level of compensation and benefits will we provide? Do we need to insure this risk?

How Mercer can help

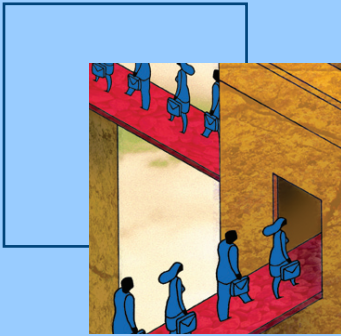
We can conduct focus group sessions with key decision makers and business representatives of your organization, where we will share the ideas and preferences of your leadership. We will then discuss and prioritize objectives, and work with you to define your organization's avian flu benefit policy.



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Identify the current benefits package

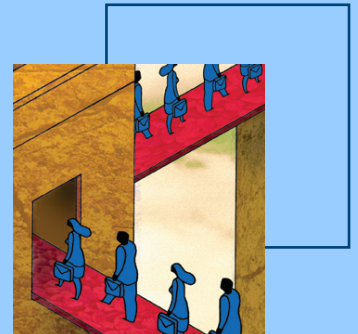
Identifying benefit plans and understanding their terms and conditions is an important step towards the assessment of your organization's benefits package in the event of a pandemic. Remember, benefit promises are not limited to insured benefits. Consider all employee benefits, insured and self insured.

You may need to make an inventory of all relevant employee benefits throughout the organization (including any foreign subsidiaries and global policies). Information collected should include:

- Coverage type
- Eligibility
- Benefit description
- Details of plan financing
- Definitions, Exclusions and Terms & Conditions
- Inclusion of nominated beneficiaries
- Insurance company contact details and policy numbers (where applicable)
- Contact persons for enquiries (contact person within your organization, broker, insurer)
- Copy of contract / plan description

How Mercer can help

We have an established framework for information collection including an on-line collection tool.



Understand the benefits and their limitations

Insured benefits are subject to different terms and conditions depending on the insurer, the type of risk and the local practice and regulation. You should be aware of any wording that could lead to exclusions or interpretation during a pandemic. Furthermore, you should ensure the insurance policy matches your desired risk exposure, liability and objectives.

A comprehensive, country by country, review of all insured employee benefits will allow you to identify risks faced by your organization. The review should include any global policies such as medical benefits for expatriates or business travellers.

The contract analysis should highlight all potential issues. Generic examples are provided as there are many different policy wordings available.

- **Claims Limit.** Some contracts contain catastrophic limits which are maximum amounts that will be paid by the insurance company for overall claims related to a single event. Examples include:
 - "Benefit is not paid for an event resulting from abnormal disturbance to the extent that such events significantly alter the actuarial basis of the policy"
 - "The insurer will not pay more than 25 times the average sum assured covered... for the total of benefits which may be due as a consequence of any occurrence and resulting in claims in which two or more persons die within a period of twelve months"
- **Definition.** Even if avian flu could be construed as within one of the definitions of cover, it is likely that insurers may, law permitting, impose restrictions on cover if a pandemic occurred.
- **Exclusions.** It is very unlikely to find exclusions specific to avian flu in contracts although more recent contracts may include such exclusions. The wording of some exclusions may however imply the applicability to avian flu. Common exclusions/wording to look out for include:
 - "Benefit is not paid for an event caused by infectious and contagious disease"
 - "Any communicable disease requiring isolation or quarantine by law is excluded"
 - "Insured is 'proven' to have acted negligently in not taking steps (or sufficient steps) to adequately prevent the spread of the disease"
 - "The insurer is not liable for any defaults, failures to assist or delays in the delivery of services which are due to causes beyond the insurer's control including but not limited to epidemics"

Self-insured benefits present the advantage of greater control in applying and administering your own benefit policy. However, self-insured benefits may prove to be hard to manage with adverse financial implications if the policy is not clearly stated and the financial risk is not properly assessed. Similar to insured benefits, you should verify the terms and conditions of payment of self-insured benefits, and ensure that the benefit matches your desired risk exposure, liability and objectives.

How Mercer can help

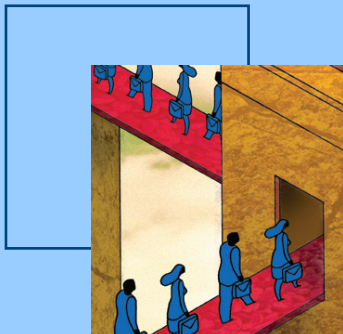
We can provide support in identifying the key issues in particular countries. Our local teams have extensive knowledge of the typical exclusions and sensitive areas of the contracts for the largest insurers in Asia-Pacific.

Our database of typical exclusions together with our experienced consultants ensure potential issues are highlighted quickly and thoroughly.

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Gap Analysis

Your organization now has all the information necessary to assess its readiness for a pandemic. The next step is to highlight the discrepancies between the:

- Current benefit philosophy vs. your organization's objectives
- Current insurance contracts and self-insured plans vs. your organization's objectives

The gap analysis will meet the following requirements:

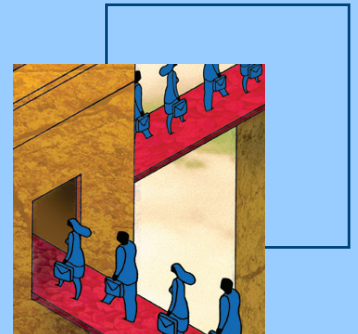
- Provide clear and concise information
- State facts
- Allow key decision makers to obtain a list of all relevant issues
- Provide a preliminary priority ranking

Sample of gap analysis report:

Category	Potential Risk	Objectives	Gap	Priority
Group Life	Insurance policy covers only employees who work more than 20 hours per week.	Provide coverage to all employees	Some of our key employees work part-time and may not be eligible for the cover	High
Group Life and Medical	Insurer's exclusions apply to special conditions such as pulmonary disease.	Provide all employees with adequate medical coverage for critical illness.	Avian flu can lead to severe respiratory diseases	Medium
Group Medical	Expenses for any hospitalization confinement brought on by communicable disease in epidemic proportion as declared by the government are excluded.	Offer financial support for hospitalized employees. Financial support shall take the form of: - salary continuance - coverage of incurred medical costs	If the Government does not finance hospitalization costs, employees /organization will have the burden of the cost.	High

How Mercer can help

Mercer's gap analysis enables you to prioritize the efforts and resources needed to achieve you organization's objectives.



Solution and Implementation

We have condensed all the subtasks leading to implementation and communication with your employees in this final step. This process is not specific to avian flu hence the condensed format. Using the gap analysis priorities, all energy will be put into defining a work plan to address the potential risks.

Key activities will include:

- **Identifying possible solutions.** Work your way down the list of priorities from high to low. Do not limit your solutions at this point. List all ideas: both the methods and financing arrangements that are brought forward.
- **Quantifying possible solutions.** Figures are important to understand the reach, impact and cost of each issue. Where relevant, indicate concerned headcounts and use statistics. Quantify the risks. Obtain costings for the solutions you listed above, Where self insurance is used to finance your liability, obtain cost projections.
- **Revisiting priority rating.** Based on the preliminary quantification of the issues you may need to review some priority rating. This step should be repeated every time new information becomes available. Priority rating will impact the segmentation of the project. To use all resources effectively, prioritization is key.
- **Selecting solution.** Documented solutions (details, feasibility, and quantification) should be provided to the decision makers. They should have been appointed during the priority rating phase. All facts including a recommendation should be provided to allow informed decision making. Document decisions and interactions to provide guidance to the implementation team.
- **Implementing solution.** Ensure a communication line between the implementation team and the avian flu preparedness committee to allow monitoring of progress.
- **Communicating to employees.** Your employees are critical to the success of your business. The protection of their health and well being is a critical consideration. Inform your employees of the results. They will expect clear, concise communication on all issues pertaining to a potential pandemic. Let them know your organization has taken appropriate measures.

How Mercer can help

More information on these steps is available by contacting Mercer at avian.flu@mercer.com. We are available to meet your organization and discuss how your organization is preparing for an avian flu pandemic.

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