MEDICAL BENEFITS

• In the 2012 survey, the percentage of companies providing medical benefits is fairly consistent with 2011.

• Six percent of surveyed companies offer their employees the option to enhance their core basic hospital, supplementary major medical, and outpatient benefits. Few companies offer voluntary vision (1% of those surveyed), medical checkup (2%), and dental benefits (3%).

• For those companies not offering supplementary major medical benefits in 2012, more than 55% would consider offering this benefit in the next two years. More than 15% of respondents would consider offering dental and/or checkup benefits in the next two years if these have not been provided.

Exhibit 1: Percentage of Companies Providing Medical Benefits

- Basic hospital: Almost all of the surveyed companies provide their basic hospital benefit through an insurance arrangement, which is consistent with the past three years’ results.

  The overall median maximum reimbursement amounts vary by the type of hospital service and type of hospital accommodation. The median maximum reimbursement amounts for most of the hospital services remain stable.

Due to rounding, percentages in charts may not total 100%.
• **Supplementary major medical**: The majority of schemes reimburse a percentage of the claims cost up to the maximum reimbursement amount after a deductible. The overall median reimbursement amount remains at HKD 140,000 in 2012. The 2012 median changes from the 2011 survey vary by the type of hospital accommodation.

• **Outpatient**: In 2012, 88% of surveyed companies offered general doctor consultation which has been at a stable prevalence over the past few years. However, the number of companies offering Chinese herbalist consultation has increased significantly from 68% in 2009 to 79% in 2012. The median maximum reimbursement amount is HKD 280 for general doctor consultation which is consistent with findings in the 2011 survey. Also, the median maximum reimbursement amount for Chinese herbalist consultation has retained a median of HKD 220 since 2011. All other outpatient services medians have remained fairly constant over the past few years.

• **Maternity**: Hong Kong employers providing this benefit still aim to provide a level of maternity benefit that partially funds the cost of childbirth, as opposed to full funding. The median maximum reimbursement amount varies by the type of service and hospital accommodation. Most of the maximum reimbursement levels have remained stable from 2011.

• **Dental**: We have seen more companies providing dental benefits through insurance arrangements – the proportion of companies grew from 65% in 2009 to 78% in 2012, while self-insurance and panel dentist arrangements decreased slightly as a result. While overall median benefit levels have remained fairly consistent with 2011, private dental median maximum reimbursement amounts have increased from HKD 5,000 for fillings/extractions to at least HKD 6,000 for fillings/extractions. Conversely, ward median levels have dropped from HKD 2,000 for these services to HKD 1,500 and HKD 1,750 respectively.

• **Medical checkup**: For those companies providing this benefit, the majority (80%) provide this via an insurance arrangement and the overall median maximum reimbursement amount is HKD 350, which is consistent with medical levels last year. While overall median benefit levels have remained fairly consistent with 2011, the private median maximum reimbursement amount has increased by 50% from HKD 1,000 in 2011 to HKD 1,500 in 2012.

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### Median Benefit Levels – Medical Benefits

<table>
<thead>
<tr>
<th>Medical benefits</th>
<th>Class of scheme</th>
<th>Overall HKD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private HKD</td>
<td>Semi-private HKD</td>
</tr>
<tr>
<td>Basic hospital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Daily room and board</td>
<td>3,000</td>
<td>1,500</td>
</tr>
<tr>
<td>Hospital expenses in HK (only)</td>
<td>80,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Surgeon’s fee – complex</td>
<td>170,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Supplementary major medical</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deductible</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Maximum per disability</td>
<td>250,000</td>
<td>170,000</td>
</tr>
<tr>
<td>Outpatient</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General doctor consultation, per visit</td>
<td>650</td>
<td>350</td>
</tr>
<tr>
<td>Specialist, per visit</td>
<td>1,200</td>
<td>650</td>
</tr>
<tr>
<td>Chinese herbalist, per visit</td>
<td>350</td>
<td>250</td>
</tr>
</tbody>
</table>
Medical benefits
Median maximum reimbursement amounts

<table>
<thead>
<tr>
<th>Class of scheme</th>
<th>Overall HKD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private HKD</td>
</tr>
<tr>
<td><strong>Maternity</strong></td>
<td></td>
</tr>
<tr>
<td>Normal delivery</td>
<td>38,707</td>
</tr>
<tr>
<td><strong>Dental</strong></td>
<td></td>
</tr>
<tr>
<td>Fillings – amalgam</td>
<td>6,000</td>
</tr>
<tr>
<td>Extractions – uncomplicated/simple</td>
<td>6,120</td>
</tr>
<tr>
<td>Scaling/oral examination</td>
<td>1,600</td>
</tr>
<tr>
<td><strong>Medical checkup</strong></td>
<td></td>
</tr>
<tr>
<td>Annual maximum</td>
<td>1,500</td>
</tr>
</tbody>
</table>

• By employee classification

As expected, top management median benefit levels far exceed the benefit levels of other job levels, whereas the management and general staff median level of benefits are much closer to each other in magnitude.

For most hospital benefits, the top management median benefits are at least 30% higher than the management level. Additionally, the management median benefit levels are at least 20% higher than the general staff level. The median SMM maximum per disability increases by HKD 50,000 with every job level, starting at HKD 100,000 for general staff level.

<table>
<thead>
<tr>
<th>Job levels</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management HKD</td>
<td>Management* HKD</td>
</tr>
<tr>
<td>Basic hospital</td>
<td></td>
</tr>
<tr>
<td>Daily room and board</td>
<td>2,200</td>
</tr>
<tr>
<td>Supplementary major medical</td>
<td></td>
</tr>
<tr>
<td>Deductible</td>
<td>500</td>
</tr>
<tr>
<td>Maximum per disability</td>
<td>200,000</td>
</tr>
<tr>
<td>Outpatient</td>
<td></td>
</tr>
<tr>
<td>General doctor consultation, per visit</td>
<td>400</td>
</tr>
<tr>
<td>Specialist, per visit</td>
<td>800</td>
</tr>
</tbody>
</table>

*Management includes the top management sharing the same plan design with management

**General staff includes top management and management sharing the same plan design
GROUP RISK BENEFITS

- The percentage of companies providing risk benefits has decreased slightly from the last year, with the exception of TPD, which has retained a prevalence of 42% from 2011.

- Among the group risk benefits, term life is still the most common insurance benefit offered by the surveyed companies (78%), followed by AD&D (52%) and TPD (42%).

- Only a few companies offer their employees the option to purchase additional term life, AD&D, and TPD benefits, and it represents 1%–2% of surveyed companies.

- Although critical illness is the least common coverage offered by employers, 11% of respondents are considering implementing this benefit in the next two years.

Exhibit 2: Percentage of Companies Providing Risk Benefits

- For term life, AD&D, TPD, and personal accident, the sum insured of 36 x BMS remains the most common level. The percentage of schemes offering 36 x BMS increased by 1%–3%. It should be noted, however, that the salary definition varies between schemes and companies. In terms of trends, there is a clear progression toward providing 36 x BMS.

- For critical illness, the sum insured offered is generally lower than other life insurance benefits. For those companies offering this benefit, 45% offer less than 24 x BMS and 9% offer coverage of HKD 100,000 or less.

- Disability income benefit (that is, income continuation) is still not commonly offered, with only 5% providing this benefit – a 1% decrease from 2011. Half of schemes provide the replacement level of 70% of BMS, and 28% of schemes provide the replacement level of 60% of BMS. For those schemes offering disability income benefits, 30% of schemes offer two layers of replacement ratio and all of them offer a 50% replacement ratio.

- In general, more companies offer higher benefit levels to top management than to general staff.
BENEFIT CHANGES AT THE MOST RECENT RENEWAL

• For medical benefits, the majority of surveyed companies reported no change at the last renewal. Between 0% and 2% of respondents reported a reduction in some type of medical benefits (for example, basic hospital and outpatient). In 2012, the focus of benefit increases was on basic hospital and outpatient benefits – 26% and 30%, respectively – which was similar to the past two years’ survey results.

• For risk benefits (that is, term life, TPD, AD&D, personal accident, critical illness, and disability income), between 85% and 94% of respondents reported no changes at the last renewal but 5% to 15% reported benefit increases in these areas, particularly personal accident. Among the risk benefits, 15% of surveyed companies reported an increase their critical illness coverage. Only a few companies reported a benefit reduction.

COSTS BORNE BY EMPLOYERS

• Almost 100% of companies questioned in the 2012 survey bear the full premium cost of hospital, outpatient, dental, maternity, annual checkup and risk benefits for regular full-time employees. As per previous years, most scheme components, particularly medical and dental, provide coverage only up to a specified limit, with the remaining cost of treatment being borne by employees.

• From 89% to 94% of surveyed companies reported that they bear the full cost of dependent coverage, depending on the types of benefits. This range is similar to survey results in 2011.

COSTS AS A PERCENTAGE OF ANNUAL PAYROLL

• Most respondents reported that the cost of risk benefits (such as term life, AD&D) represented less than 1% of their annual payrolls. However, the cost of medical benefits (such as hospital, outpatient) represented a greater percentage of annual payrolls for many respondents; only 10% of respondents reported the cost to be less than 1% of their annual payroll.

STAFF TRANSFERRING FROM HONG KONG TO CHINA

• A total of 64% of respondents indicated that they cover transferred staff under a Hong Kong scheme and within this group of respondents, 60% retain the transfer staff in the existing Hong Kong scheme. These findings are similar to 2011 survey findings.

• The vast majority of respondents provide transferred staff with benefits that are identical to those enjoyed by their colleagues in Hong Kong of the same grade and/or responsibility, and 15% provide more generous benefits to transferred staff.
MEDICAL BENEFITS CLAIMS COST CONTROL

- Much of the market is aware of the rising cost of medical benefits and many companies have adopted cost-control measures. A total of 78% of respondents expressed concern about the rising cost of medical benefits in 2012 compared with 83% in 2011 and 2010. In addition, 51% of respondents had introduced cost-control measures compared with 55% reported in 2011.

- Among the organizations that have implemented cost-control measures, 57% believe that the measures were effective. Forty-three percent implemented wellness programs and restricted panel arrangements.

EMPLOYERS’ PERCEPTIONS

- The 2012 survey results show that the three most important factors for employers to consider when selecting an insurance service provider are cost, accuracy of billings/claims settlement, and efficient administration; this is consistent with 2011 findings.

- The top three most important factors for employers to consider when designing a group benefit plan were revealed to be cost efficiency, competitiveness of benefits, and ease of administration.

EMPLOYEES’ PERCEPTIONS

- Forty-seven percent of respondents reported that their employees commented on insufficient benefits, compared with more than 50% in 2011.

- In terms of quality of service from providers, the average respondent scored their current service provider roughly 3.5 on a scale of 1 to 5 (1 = least satisfied and 5 = most satisfied) on claims reimbursement time, claims settlement accuracy, customer service, and flexibility with special cases. The majority of respondents ranked their service providers as a 3 or 4 consistently across each category.

- Regarding the services from panel doctors, feedback on the prescribing of generic rather than brand name drugs decreased from 27% in 2011 to 24% in 2012. The perception of insufficient drugs prescribed from panel doctors remained stable at about 22%. Seventeen percent felt there was a lack of incentive to use panel doctors.

HEALTH CARE REFORM

- The Hong Kong government has proposed a voluntary Health Protection Scheme (HPS) under health care reform and it hopes that it will shift some of the medical cost burden from the public sector to the private sector. Only 5% of respondents would consider integrating the HPS into their group scheme for employee options (compared with 24% in 2011) and 64% do not have enough information to decide.
FLEXIBLE AND VOLUNTARY PROGRAM

• For all respondents with an existing employee choice program, the top two reasons for implementing such a program are to respond to diverse workforce needs and values and to increase employees’ appreciation of their benefits.

• The cost and the complexity of administration are always the top two challenges to the employee choice program.

RETIREMENT PROGRAM

• Since the Mandatory Provident Fund (MPF) system launched in December 2000, much discussion has taken place about whether MPF contributions alone are sufficient to provide for an employee’s retirement.

• The majority (71%) of respondents provide retirement benefits that are more generous than the statutory minimum level of benefits.

• The Employee Choice Arrangement, which allows employees to choose their own MPF product for their employee account balance, was implemented in November 2012. Eighty-five percent of respondents indicated that they are likely to undertake some action.
ABOUT MERCER MARSH BENEFITS

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

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- **Value-added consultative broking**: In addition to our basic broking service, we help companies with benchmarking, benefits plan design, and claims analysis. We also provide a client employee hotline to better serve your employees.

- **Innovative services**: We offer a wide range of innovative solutions, including flexible benefits, regional benefits management, and cost-containment consultancy services. We also offer solutions for small and midsize businesses through our Enterprise Momentum branding and voluntary insurance for employees.

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Our detailed benchmarking studies help you understand how your benefits plans are positioned relative to the local market and ensure that you stay abreast of employee benefits trends.
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Flexible benefits not only provide employees with the ability to choose benefits that meet their diverse needs, they also help companies manage the increasing cost of health care and brand them as an “employer of choice.” Our flexible benefits specialists will work with you to develop a program that meets your company’s unique requirements.

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<table>
<thead>
<tr>
<th>Broking</th>
<th>Consulting</th>
<th>Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Benchmarking</td>
<td>• Cost containment</td>
<td>• 24/7 web system</td>
</tr>
<tr>
<td>• Claims analysis</td>
<td>• Benchmarking and plan design</td>
<td>• Online enrollment and recordkeeping</td>
</tr>
<tr>
<td>• Plan design</td>
<td>• Flex benefits design</td>
<td>• Claims submission and reimbursement</td>
</tr>
<tr>
<td>• Insurer negotiations, quotations, and placement</td>
<td>• Mergers and acquisitions harmonization</td>
<td>• Flexible benefits</td>
</tr>
<tr>
<td>• Claims intervention</td>
<td>• Health management</td>
<td>• Insurance and self-funded benefits</td>
</tr>
<tr>
<td>• Hotline</td>
<td></td>
<td>• Hotline and email</td>
</tr>
</tbody>
</table>

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- Dedicated consultant as a single point of contact for HR across the region
- Local benefits expertise delivered by specialists in 17 countries
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