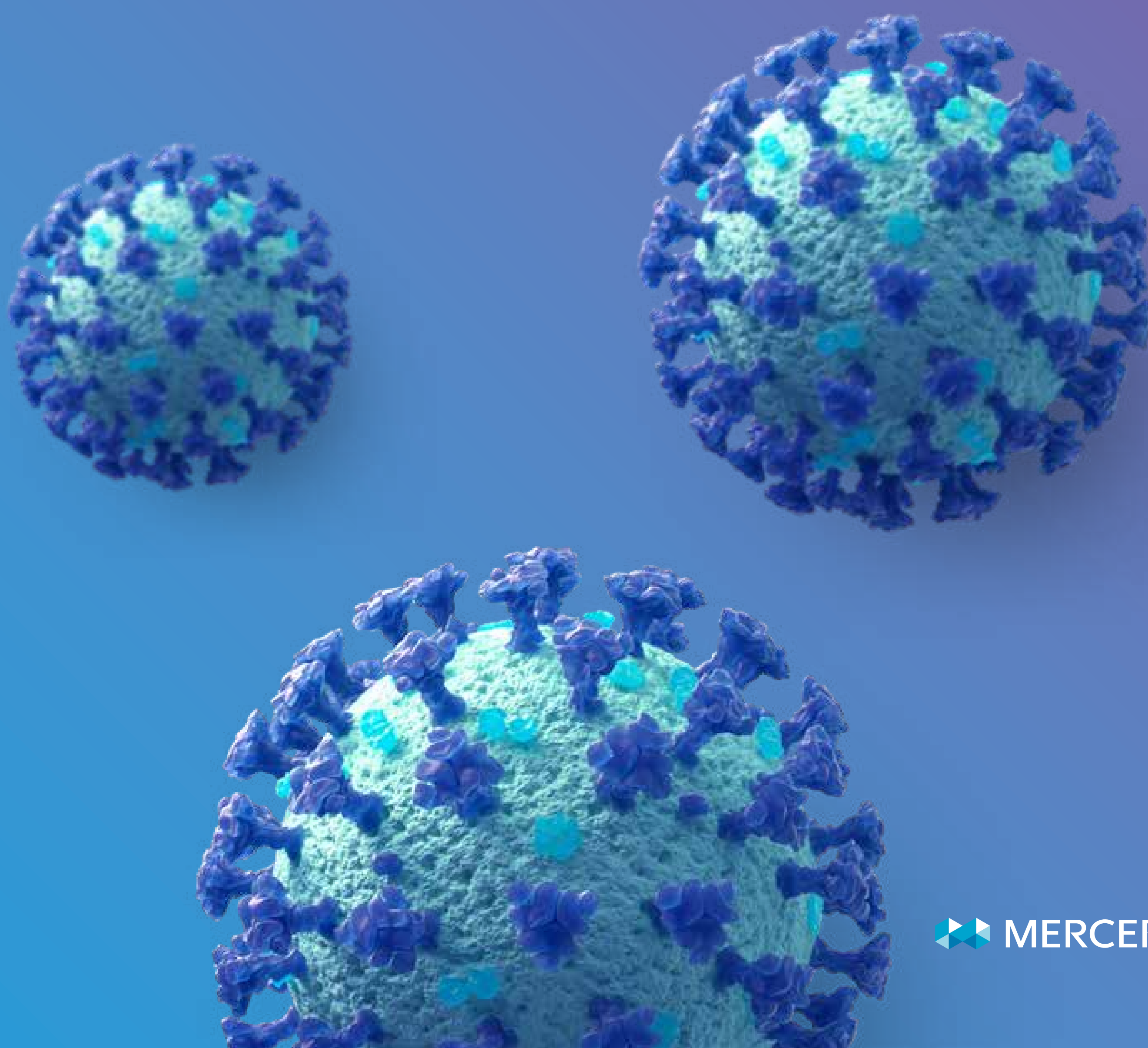
MERCER MARSH BENEFITS™

This Is Health | Point of View Series

Managing people risks through employee benefit plans — COVID-19



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There's nothing more critical to the health of a business than the health of its people. We believe it's essential to understand and address people risks, including the threats posed to a business if the physical, emotional and financial health of its workforce is compromised. Employee benefit plans can be a critical component of risk strategies while supporting firm-wide goals for community and social responsibility.

The COVID-19 pandemic has highlighted the many ways that poor management of people risks can lead to business disruptions. Some of these risks have been clear for decades, such as lower output from business disruption or slower productivity owing to a disengaged workforce. But there are less obvious ones too: A business's reputation is more fragile than ever. Being seen as disorganized or indifferent can impede a firm's ability to recruit long after the worst is over. Likewise, the risks of safety incidents and data privacy violations increase during periods of crisis, which can lead to regulatory penalties.

However, these areas of vulnerability can also be made into positions of strength, allowing proactive firms to gain a competitive advantage over slower-moving rivals. By managing their plans judiciously, organizations can help support their business objectives and minimize unplanned costs and brand damage. In this paper, we identify crucial ways that health and benefit plans can reduce people risks at times of crisis.

COVID-19: An Employer's Guide

There's much to do during this crisis to sustain the health and safety of your people and business. Employers may feel overwhelmed and unsure of where to start. Download our point of view paper, "Ten Considerations to Support your Workforce," for guidance on:

- Support mechanisms for employees and their families
- Group medical and risk protection benefits
- Remote,flexible and adaptive working practices
- Impact on pensions and retirement savings
- Pandemic preparedness plans

A benefit plan's advantages typically far outweigh its costs

Our Health on Demand research shows that senior decision-makers invest in employee health and well-being for multiple reasons, starting with safety.

Employers cite workplace safety, morale and engagement, and improved productivity as the top three drivers of health and well-being initiatives.

Ranked in top three

As with any investment, strong governance — including transparency, specialist support and sound decision-making — is critical.

What's at risk

If benefits aren't managed for risk, companies can suffer from:

- Business disruption
- Low productivity and poor performance
- Unexpected financial risks
- Rising costs
- Damaged reputation
- Safety incidents and violations
- Compromised data privacy
- Regulatory penalties

Keys to managing risk

As a result of COVID-19, we expect to see an acceleration of best practice strategies like prioritization of people risks, incorporation of these into an enterprise risk management approach to planning and better alignment of benefits strategy to your talent strategy.[1] In addition, other critical actions can help reduce people risks and increase business resiliency in the long term.

1. Support the workforce to keep them healthy, engaged and productive
2. Choose suppliers carefully
3. Communicate effectively to employees
4. Centralize decision-making
5. Build a risk registry for employee benefits
6. Review your benefits regularly
7. Use risk finance optimization
8. Secure transmission of private data

[1] https://www.mercer.us/our-thinking/health/mercer-marsh-benefits-health-on-demand.html

Business continuity

Many successful companies have adopted an enterprise risk management approach to transform risk into sustainable competitive advantage. Yet until recently — despite the dependence of organizational success on talent — people risks have been seen as primarily an HR concern.

But what this crisis has made clear is that people risks are everyone's concern: COVID-19 has highlighted the need for better cross-functional team pandemic planning. According to the March 2020 Mercer Talent All Access COVID-19 Outbreak Spot Survey, almost a quarter of employers do not have a business continuity plan or pandemic preparedness plan in place to handle global outbreaks.[2] Effective pandemic plans help firms react quickly, adapt to changing scenarios and, above all, protect employees.

Oliver Wyman's overview of potential COVID-19 pandemic scenarios stresses the need for employers to be proactive. One preliminary scenario shows that if the daily growth rate is 50%, a totally passive approach to managing the outbreak could result in a growth trajectory just shy of a truly exponential curve — 100 cases become almost 1,000,000 over an eight-week period.[3]

We urge companies to understand, quantify and address the risks to the physical, emotional and financial health and well-being of their workforce — and use their employee benefits to help mitigate these risks. Organizations should consider making health and risk protection benefits for employees critical elements of any risk management strategy. This is becoming increasingly essential since several converging trends are compounding the people challenges companies face:

- The **Fourth Industrial Revolution**, which is changing the nature of work through artificial intelligence, the internet of things and robotics
- The explosion of **social media**, which has radically changed the way and speed at which employees, customers and competitors get information
- **Changes in work** demanded by new generations of talent, including the desire for work/life balance, flexibility, adaptive working and mobility
- Employee **mental health** challenges ranging from depression and stress to alcoholism and drug addiction
- An **aging population** that's putting pressure on health and pension schemes, contributing to talent shortages, and demanding more flexible work arrangements that can keep people working later into life
- **Social and political upheaval**, including political polarization, social unrest and migration, which are creating new challenges for talent management
- A focus on **collective responsibility**, with businesses increasingly being judged — by employees, customers, investors and society at large — on their willingness to take positive action for their communities.

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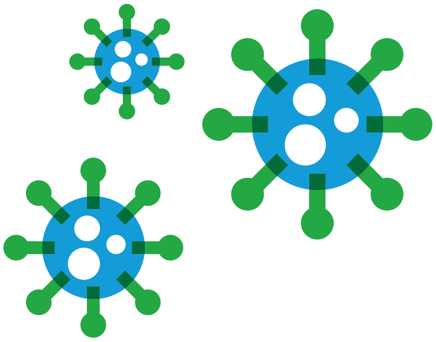
[2] Mercer. Mercer Talent All Access COVID-19 Outbreak Spot Survey, "Globally, How Are Companies Supporting Their Employees During This Outbreak," March 18, 2020, available at https://app.keysurvey.com/reportmodule/REPORT2/report/1479157/41188187/e0176b7809e3e4e0a08ef5f21b10a2f0?Dir=&Enc_Dir=8129ead7&av=IxnIBAm77ac%3D&afterVoting=45f9106942e8&msig=b69a8d67569063f9c374d5de6672aa83.

[3] Oliver Wyman. Responding to COVID-19: Primer, Scenarios and Implications, March 26, 2020, available at https://www.oliverwyman.com/our-expertise/insights/2020/mar/covid-19-primer-and-implications-for-supply-chain-and-banking.html

Identifying risks in your health and benefit plan

Risk managers must identify the risks and costs inherent in their employee health and benefit plans. If they don't understand how plan design, financing, administration and communication affect their people and, ultimately, their business, companies can suffer negative business outcomes.



The threats posed by COVID-19 underscore the critical importance of preparation and readiness.

1. Business disruption

Employee benefits that don't protect against talent shortages due to sickness can leave companies without the people to get the job done, endangering business continuity. According to a Marsh risk management benchmarking study for Latin America, talent availability is one of the top risks cited by employers in the region.[4]

The threats posed by COVID-19 underscore the critical importance of preparation and readiness. Businesses are facing complete or partial lockdowns for one to three months or even longer, resulting in business interruptions that will have dramatic impacts on revenue generation and financial liquidity. Organizations with inadequate people risk strategies are confronting substantial challenges, including how to optimize costs, navigate forced layoffs and stem frustration from employees who don't feel sufficiently supported during this crisis. Worker shortages, sickness and anxiety are also causing companies to struggle to mobilize their workforce.

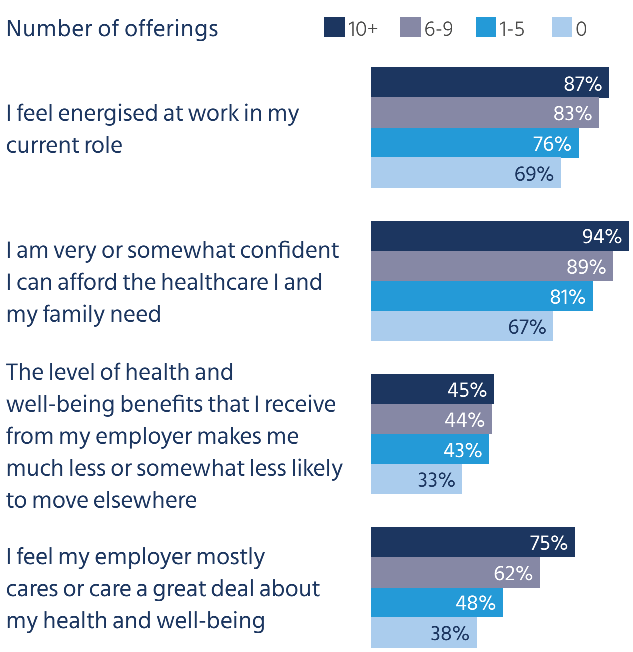
[4] Third Benchmark in Risk Management in Latin America – Reimagine, 2018 Report (p37)
https://www.marsh.com/mx/insights/research/iii-benchmark-de-gestion-de-riesgos-en-latinoamerica.html

Mercer research shows that 10.6 days of lost productive time per employee per year could be recouped by improving the health of the workforce.

2. Low productivity and poor performance

COVID-19 has exposed the gaps in outdated benefit plans — particularly in areas like mental health and financial well-being. Many employers have had to reactively seek support to help employees manage caregiving and volatility in retirement savings, for example. We expect COVID-19 will result in the modernization of plans to include, for example, mail order pharmacy, ergonomic benefits for building a comfortable home-working space, new hospitalization cash allowances and special caregiving benefits. Our Health on Demand research reveals the benefits of offering a range of programs to meet different workforce needs:

The more varied health and well-being resources in employer offers, the more workers feel energized and supported, and less likely they are to leave their employer.



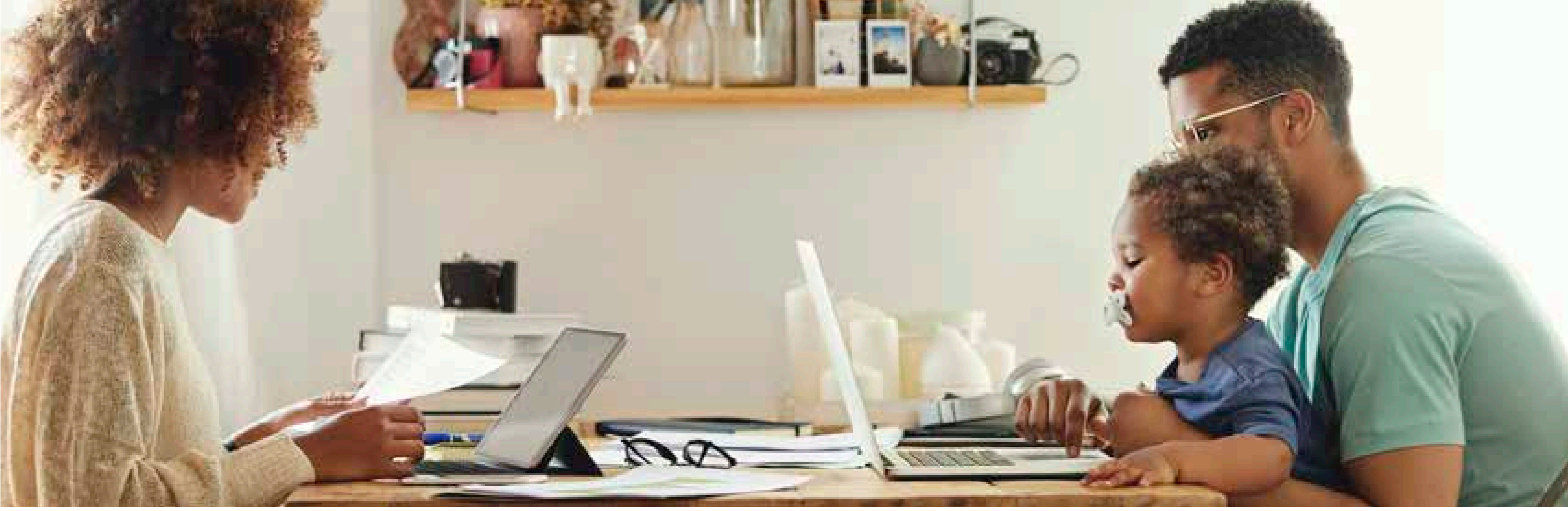
Poorly designed employee benefit plans, by contrast, can undermine health and engagement, hurting the bottom line. Sick employees who miss work can't contribute to company success, and employees who choose to work while sick can't give their all if they're suffering physically or psychologically.

Disengagement is major problem, costing approximately $7 trillion in lost productivity globally.

Thirty-three productive days per year are lost to moderate to severe depression by the 5.6% of employees who suffer from it, while 3.5 productive days per year are lost by employees with poor diets. But 10.6 days of lost productive time per employee per year could be recouped by improving the health of the workforce.[5] Employers have the opportunity to help employees at all stages of the health continuum — those who are well, at risk of illness or who are living with chronic conditions.

Disengagement is also a major problem, costing approximately $7 trillion in lost productivity globally.[6] Employee benefits that support well-being may help businesses recoup some of that lost productivity, given that 61% of employees rate health as a bigger concern than wealth or career.[7]

[5] Mercer. Mind the Productivity Gap: Why We Can No Longer Ignore the Impact of Health on Productivity, 2018, available at https://www.uk.mercer.com/our-thinking/ productivitygap.html.
[6] Gallup. State of the Global Workplace, 2017, available at https://www.gallup.com/workplace/238079/state-global-workplace-2017.aspx.
[7] Mercer. Global Talent Trends Study: Empowerment in a Disrupted World, 2017, available at https://www.uk.mercer.com/our-thinking/global-talent-hr-trends.html. l



3. Damaged reputation

Companies that fail to respond to the COVID-19 crisis will face shattered employee loyalty, disengagement and damage to their brand. Oversights or inequities in the delivery of health benefits can weaken a company's reputation and its ability to attract talent. Being seen as an organization that's disorganized, unwelcoming or that compromises people's health and safety could lead to higher hiring costs, operational problems and difficulties achieving growth plans.

Companies run the risk of reputational damage when their employees misunderstand their entitlement to benefits, or when they apply benefit rules inconsistently across the company. While differing regulations may call for variations in employee benefits around the world, global companies face increasing pressure to ensure employees have access to broadly similar coverage.

4. Unexpected financial exposure

Poorly designed benefit plans can expose companies to unexpected financial risks. These can arise from overly generous benefits, including post-employment benefits. Many companies, including those in the automotive sector during the 2008 financial crisis, have faced bankruptcy in part due to retiree medical liabilities. Those handling collective bargaining for the company should consider the potential financial consequences of promising benefits that are uninsurable. The high cost of pharmaceuticals and other treatments, such as biologics, also creates significant financial risks.

Insurer financial instability or spikes in disability claims can also leave companies open to unexpected cost, as can benefit financing methods that are misaligned to an employer's risk tolerance and budget process. Understanding the financial risks created by a company's employee benefits should be a core focus for companies. Mercer Marsh Benefits is assessing the short-, medium- and long-term claims and cost implications of COVID-19 on medical plan inflation. Expect more guidance from your local Mercer Marsh Benefits advisor.

Poorly designed employee health and benefit plans can expose companies to significant unexpected financial risks.

5. Rising costs

According to Mercer Marsh Benefits' 2019–2020 medical trend rate data, the global medical trend rate in 2019 was estimated to be 9.7% — close to three times that of economic inflation — and prior to the COVID-19 outbreak a similar increase was expected for 2020.[8] In the absence of using active plan management strategies, employers may need to allocate more of their remuneration budget toward benefits. This is at a time when the workforce is demanding a broader set of rewards.

Rising costs may ultimately impact an organization's bottom line. For example, in Brazil, the cost of a medical plan for a workforce dominated by professionals is approximately 8% of total labor cost. Assuming labor makes up 25% of the total operating budget, this means that medical plans are about 2% of operating expenditures. While still a seemingly immaterial price to pay relative to the operational stability and positive labor relations benefits bring, a 10% increase to health costs translates to a 20 basis points reduction to profit margin.

The true "cost of risk" (premium + retained loss + claims handling) from a benefit plan and healthcare cost perspective is often hidden. The retained risk loss component may be ambiguous, as money spent could be tracked inconsistently. For example, special exceptions to approve denied personal claims in unique circumstances could fall under an employee relations budget while provision of onsite medical services could fall under occupational health. Adding up and managing the different components of spend on medical and risk protection benefits is a worthwhile exercise, making the investment in prevention programs more meaningful.

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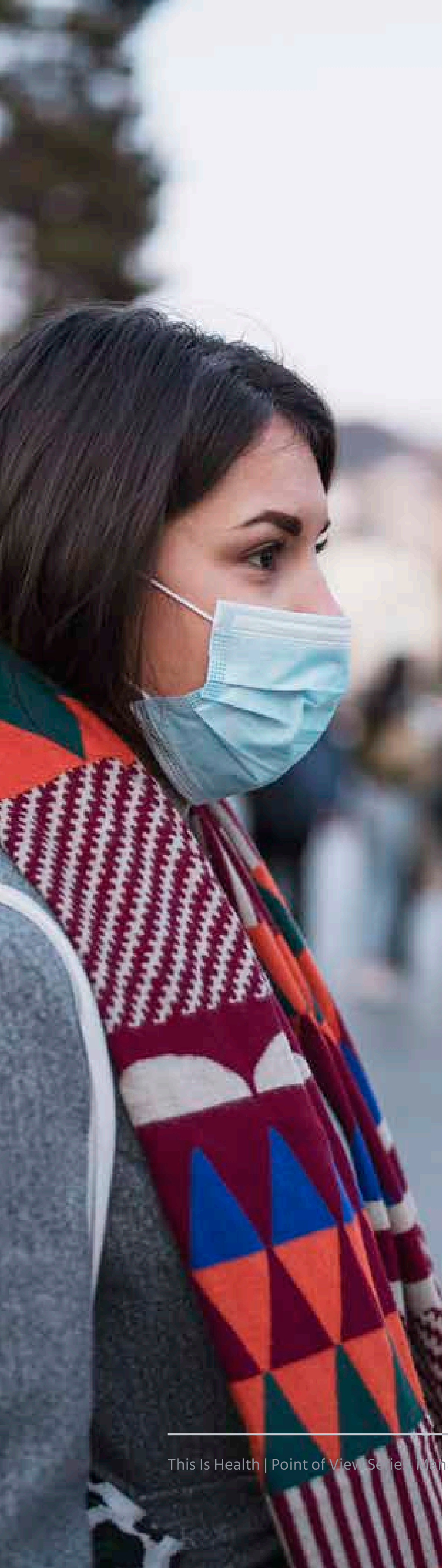
[8] Mercer Marsh Benefits. 2019 Medical Trends Around the World, 2019, available at https://www.mercermarshbenefits.com/en/intellectual-capital/2019-medical-trends-around-the-world1.html.



6. Safety incidents and violations

Unmanaged health risks, like lack of sleep, can cause safety incidents that hurt the business. Sleep deprivation increases the likelihood of a workplace accident by 70%.[9] Workers with sleep problems have a 1.62 times higher risk of being injured than workers without sleep problems.[10] Performance and communication deteriorate significantly in people who are tired, as does their ability to moderate behavior. Lack of sleep causes more errors on the job, greater risk-taking and driving impairments that mimic the effects of alcohol.[11]

As businesses resume operations and individuals return to work during the COVID-19 recovery phase, employers must manage fitness for work and other occupational health practices to keep their workforce safe.

7. Compromised data privacy

The use of digital tools to manage benefits will likely accelerate because of COVID-19. Employers can capture and analyze big data on employee health and benefits to understand cost drivers and help make their plans more sustainable. But without proper administration, the privacy of personal data is at risk.

In the US, data breaches are increasingly common, with more than 176 million health records hacked between 2009 and 2017.[12] This carries reputational risk and can mean stiff penalties for failing to meet regulatory standards. Keeping employee data secure is critical, but manual administration processes that are dependent on vendor capabilities and resources can increase the risk of financial exposure. IBM Security found that human error accounted for 49% of data breaches studied. The global average cost of a data breach increased to $3.92 million in 2019, with lost business the biggest contributor to data breach costs.[13]

9 National Sleep Foundation. "The Relationship Between Sleep and Industrial Accidents," available at https://www. sleepfoundation.org/excessivesleepiness/content/the-relationship-between-sleep-and-industrial-accidents.

10 Uehli K, Mehta AJ, Miedinger D, et al. "Sleep Problems and Work Injuries: A Systematic Review and Meta-Analysis," Sleep Medicine Review, Volume 18 Issue 1 (2014): pp. 61–73.

11 Smith S. "The Ten Dangers of Sleep Deprivation for Workers," EHS Today, November 24, 2015, available at https://www.ehstoday.com/safety/ten-dangers-sleep-deprivation-workers.

12 "Healthcare Data Breach Statistics," HIPAA Journal, available at https://www.hipaajournal.com/healthcare-data-breach-statistics.

13 IBM Security. 2019 Cost of a Data Breach Report, 2019, available at https://www.ibm.com/security/ data-breach.

8. Regulatory penalties

Employee benefits are heavily regulated in most regions, but those regulations can vary considerably by location. This leaves employers vulnerable to non-compliance issues and penalties. Companies may have to pay if their plans aren't meeting government minimum requirements. Employers need strong benefits governance and specialist advice to ensure compliance and avoid penalties.

Employee benefits are heavily regulated in most regions, but those regulations can vary considerably by location. This leaves employers vulnerable to substantial non-compliance issues and penalties.

Keys to managing risk in your health and benefit plans

Here are some vital ways health and benefit plans can reduce people risks at times of crisis and for the long term.

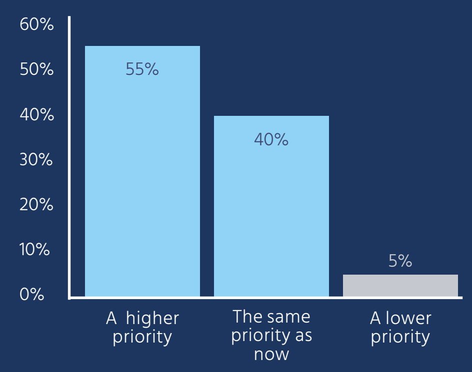
1. Support your workforce to keep them healthy, engaged and productive

Identify the benefits most important to employees (for example, virtual care, management of chronic conditions and mental health) and confirm with leaders that they support the business strategy. Then conduct a gap analysis to develop the roadmap to reach your vision. Our Health on Demand research showed that 95% of company decision-makers expected to invest more in health and well-being in the coming five years.

2. Choose suppliers carefully

Pick proven and stable providers with robust information security protocols who can offer valued support. Many insurers are offering extra features in response to COVID-19, including virtual care options and extra cash lump sums to ease hospitalization stays. Consider not just the actions offered by insurers during times of crisis, but also their positions on delicate claims and the level of procedural flexibility in areas such as missed renewal and premium payment deadlines.

95% of employers believe investment in health and well-being will be the same or greater priority in future



Health On Demand: – Employers study: From what you know, is your company's investment in employee health and well-being becoming a higher priority, a lower priority or a similar priority in future, compared to where it is today? Total; Weighted to 100 per country: base n=1391

3. Communicate effectively to employees

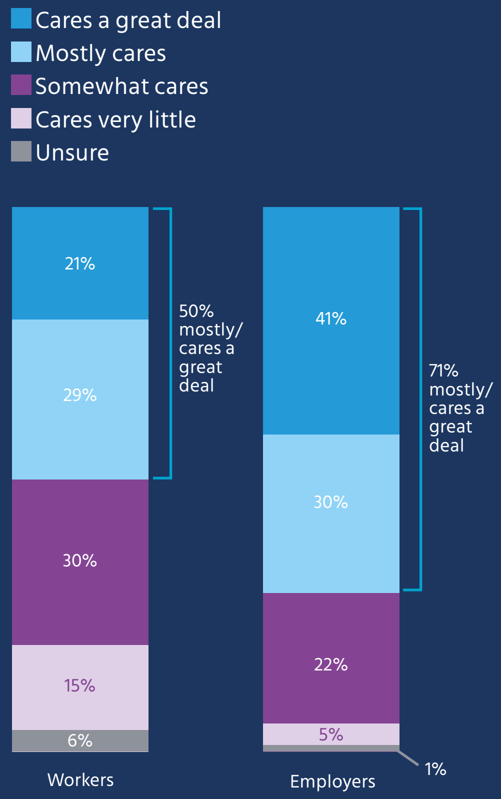
Even the best benefit program is only as good as its level of employee engagement. Benefits are often complicated, and misunderstandings can not only cause unpleasant surprises for employees, but also harm your brand.

- Make employees aware of the benefits that are available to them in times of crisis. Eighty-four percent of employers responding to the March 2020 Mercer Talent All Access COVID-19 outbreak spot survey said they're communicating regularly with employees. But only 18% of employers are promoting telehealth or digital health options, and only 24% are promoting employee assistance plans.
- Spotlight health education. COVID-19 has underscored the need for reinforcing basic hygiene practices to maintain health like hand washing, staying home when ill and getting a flu shot.
- Show employees you care. Our Health on Demand research indicates there's a gap between employers' perception of how much their company cares for its employees, and how much employees feel cared for. Sharing information about employee support programs, for example, can go a long way toward demonstrating empathy for your people.

4. Centralize decision-making

Assigning responsibility for key decisions related to the design, delivery and financing of programs can help you make your programs more visible to stakeholders. Consider setting up a committee of stakeholders from across the business to meet regularly to review programs and make joint recommendations that fit your organization's risk tolerance.

How much do you feel that your company cares about the health and well-being of its employees generally?



5. Build a risk registry for employee benefits

See all essential data related to your benefit offerings quickly, including financing, cost, utilization and regulation. Particularly important to understand are the scope of exclusions, such as those relating to catastrophic events.

6. Review your benefits regularly

Periodic reviews by independent specialists can help companies eliminate blind spots, ensure compliance and avoid regulatory penalties. Be most aware of areas like digital and mental health, where advice and strategies are changing rapidly.

7. Use risk finance optimization

Maximize the value of benefits while protecting against unexpected exposure. This includes evaluation of whether to insure or self insure. Through this process, you can consider, for example, whether a defined contribution health plan is the right approach to protect your firm from rising healthcare costs.

8. Secure transmission of private data

Online benefits platforms like Darwin™ can provide a safe way of sending eligibility information back and forth between payroll and benefit providers to minimize the risk of breaching data privacy laws.

Periodic reviews by independent specialists can help companies eliminate blind spots, ensure compliance and avoid regulatory penalties.

Employer-sponsored benefit plans are playing a vital role in helping individuals and companies cope with the COVID-19 crisis. However, we believe that improvements can still be made. We encourage organizations to be proactive in their approach to identifying and managing people risks, and to evaluate and adapt their health and benefit programs regularly. By adopting this approach, organizations can better protect their employees and improve business performance.

For further information, please contact your local Mercer Marsh Benefits office.

Mercer Marsh Benefits provides a range of solutions to help you manage people risk, including:

- Brokerage of core employee benefits as well as expatriate and special risks like business travel accident
- Advice and support for health and well-being, plan member communications and benefit plan financing
- Digital solutions to engage plan members in their health and benefits

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