HOW TO CUT BENEFIT COSTS FOR YOUR FOREIGN SUBSIDIARIES

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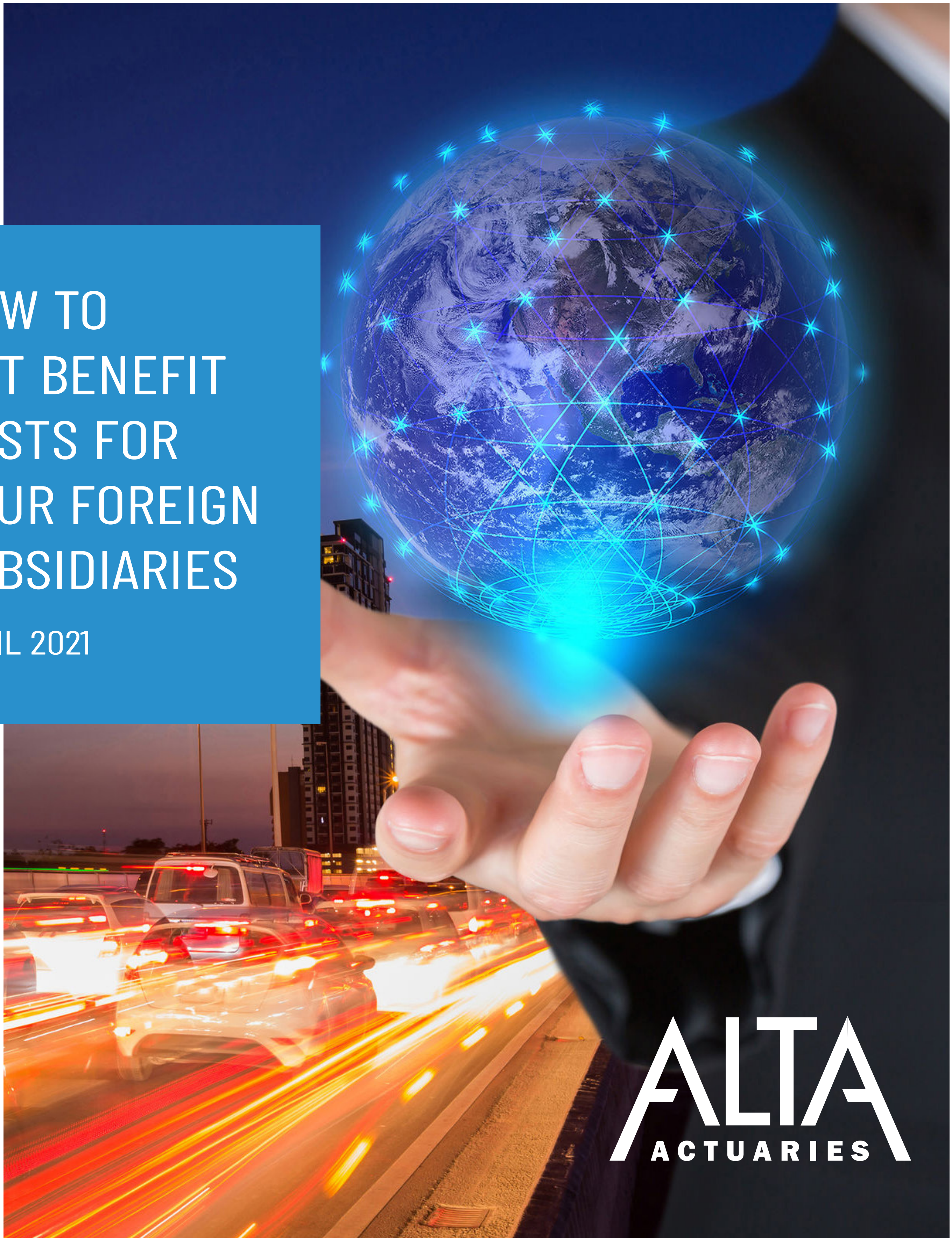

Pooling Your Coverage

Managing Brokers

Implementing Benefit Governance

Investing in Benefit Plan Administration

CUTTING BENEFIT COSTS THROUGH POOLING COVERAGE

For multinational companies, the cost of purchasing benefit plans for their foreign subsidiaries is expensive –more than buying the same benefits in the United States. These high costs are driven by several factors, and while there is no way to avoid them entirely, there are some ways to mitigate them and make them more manageable.

Pool Your Coverages

The basic economics of having a workforce spread across several countries -- each with their own tax and labor law requirements, in particular placing benefit coverage separately with locally licensed carriers – is a major driver for benefit costs. Add to that an insurance underwriter's cost of hedging of risk of large claims for small groups and you have a recipe for potentially steep premium rates. One way to address high rates is to pool your coverages.

By bringing together the insurance coverages of as many foreign subsidiaries as possible and placing them with a single global carrier network under an overlaying pooling contract, a company can create a substantially larger group. This creates greater economies of scale and reduces the risk to the insurer.

The actual mechanics can be done in different ways. Most commonly it is done through a concept known as 'multinational pooling' where the

MANAGING THE BROKERS

company participates in favorable underwriting experience. Another common tactic is "bulk purchasing," sometimes referred to as global underwriting. These transactions generate premium discounts up front. And a third option is a captive fronting program whereby the local insurance policies are reinsured through the global carrier to the business's captive insurance company. The drawback here is that the client is effectively assuming the risk but saves on the elimination of the insurer risk premium loads. These measures can save anywhere from 3-20 percent of baseline premium costs, but there are pros and cons to each. An experienced benefits consultant can help sort through the options to make the determination about which is most appropriate.

Now, we'll examine another way to reduce your global benefits spend.

Managing the Brokers

We have discussed the high cost of benefits abroad relative to those purchased in the U.S., and the importance of pooling global coverages as a way to contain it.

> ***An experienced benefits consultant can help sort through the options to make the determination about which is most appropriate.***

It is common practice today for employers seeking benefits outside the U.S. to use brokers to select the local carriers. Employers, particularly in non-Anglo-Saxon countries, tend to prefer compensating brokers through commissions included in the premiums rather than paying fees for their services. These commissions vary widely and can reach in excess of 30 percent of the contract size – a figure that is

IMPLEMENTING A BENEFIT GOVERNANCE SYSTEM

often passed on to the employer through the premiums without much visibility to the multinational. The brokers do provide services such as benefit advisory and administration services that support their commission rates, but it is important for the company to know the value they are getting for the commissions included in their premiums. More concerning is the fact that the broker relationship is susceptible to conflicts of interest, not only in the placing of the contract, but also in the benefit advice they provide.

> ***"... selecting a broker can help to identify commission arrangements, the services included, and to minimize biases in their advice."***

The solution is simple. Even a modest amount of due diligence when selecting a broker can help to identify commission arrangements, the services included, and to minimize biases in their advice. This knowledge helps when negotiating contracts, by putting the employer in a position of strength.

Next, the well-known, yet under-appreciated task of management and administration of benefit plans.

Monitor and Manage Your Plan's Performance

As already illustrated, risk pooling and transparency with broker arrangements can help reduce benefit costs. However, one area that is often overlooked or not fully scrutinized is benefit administration.

Most companies rely heavily on the carriers and brokers, who as part of their engagement, perform many crucial plan administration tasks.

ADVICE REGARDING DISCIPLINED PLAN ADMINISTRATION

Plan administration performance standards outside of the U.S. are set at low expectations, if set at all. Smaller plans tend to be the most vulnerable to inadequate plan administration as the process is often ad-hoc and face higher risk of failure in critical tasks. Typically, the affected areas are assessment of deductibles and co-insurance, unwarranted use of expensive medical facilities, ineligible individuals using the system, and under priced voluntary benefits. Failure to scrutinize the benefit adjudication, claim processing, and employee education procedures could have a significant effect on plan costs.

All multinational employers should devote attention to the plan administration function to avoid these and a host of other preventable mistakes. Plan administration oversight is a valuable addition to the global benefit governance process. Some of the routine activities that are performed come with cost-saving advantages, such as mandating periodic third-party benefit audits and monitoring claims for patterns that might suggest abuse or even fraud. The audit recommendation can also introduce incentives for the brokers, plan administrators, or carriers to minimize unwarranted leakage of plan resources through ineffective plan administration.

> ***"Smaller plans tend to be the most vulnerable to inadequate plan administration as the process is often ad-hoc and face higher risk of failure in critical tasks."***

All of these cost-savings measures are just some of the most common methods for deriving greater efficiencies with global benefits. However, an experienced advisor should be considered to get the most value from your company's global benefits plan. These experts can examine your strategy through the

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lens of the corporate HQ as well as the individual subsidiaries and provide the guidance to meet your goals.

About Alta Actuaries

Alta Actuaries & Consultants, LLC is a boutique firm of highly specialized actuaries and total rewards consultants that uses its deep global expertise and cutting-edge technology to deliver premier services to multinational companies. Our innovative approaches, unbiased perspective, powerful tools and personalized service delivery ensure the clients' satisfaction, while our efficient operating model and transparent practices help us keep our clients' consulting dollars at affordable levels.

Alta is committed to fairness for our clients, employees and communities. We hold ourselves to the highest ethical and professional standards.

Alta's Mission

Alta's mission is to optimize the performance of our clients' benefit programs around the world and empower business leaders to make the best decisions about their investments in total rewards.

We seek to accomplish this by leveraging the talent of our experienced professionals and an innovative business model to provide independent, best-in-class global total rewards consulting and strategic solutions.

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