

Impact of COVID on Corporate Benefit Strategies

Summer 2020

Fidelity's international benefits newsletter focuses on key issues surrounding employer-sponsored benefit plan management globally. This edition highlights how employers are adapting their long-term benefit strategies to address short-term issues caused (or accelerated) by COVID. Additionally, there are legislative updates in the Netherlands, Norway, and New Zealand, that require action from employers to ensure local compliance, as well as a market update regarding the closure of the AIG multinational pooling network.

What's Inside

- Legislative Updates
- Multinational Pooling Network Update
- Impact of COVID on Corporate Benefit Strategies

Netherlands



Further details on the reforms to the supplemental employer-provided pension market have been agreed by the government, unions, and employers.

The legislation is expected to be approved by parliament and would take effect as of January 1, 2022. All pension arrangements would have to switch to a new contract by January 1, 2026.

The key areas of change:

- Pension accruals would no longer be age-dependent, and DC contributions will be on a flat-rate basis (although existing DC plans would be permitted to retain their existing design for current employees).
- Tax-favored DB accruals would cease, and all future accruals would be on a DC basis (individual account or collective), and new DB plans will not be allowed.
- Accrued DB benefits would be transferred to DC contracts. Certain exceptions may be available, or certain member groups would receive compensation, if the transfer would be detrimental.
- Individuals would be subject to annual tax-advantaged contributions, with the cap based on their pensionable earnings.
- A new type of DC contract would be available – a collective investment pool – with notional accounts, and fixed contribution rates. Benefits would not be guaranteed, and subject to investment and demographic experience.

Action Required

Legislation and associated regulations are expected to be finalized by the end of 2021.

Organizations can prepare for change in advance by reviewing transitional arrangements, including determining compensation payments for those adversely affected by changes in corporate plans.

Norway



A new law has been passed which impacts private-sector employer DC plans. Currently, an employee who changes employer has the voluntary option to transfer their DC balance to their new employer's plan, although in practice most do not. The new law will automatically consolidate the balances into the new employer's DC plan.

Consolidated balances should promote economies of scale, resulting in lower asset management and administrative costs, with the ultimate goal of higher account balances.

For transferring legacy account balances, employees will have the choice to elect not to consolidate accounts, and to choose a different pension provider than their current employer's provider. Employers are responsible for covering any administration costs incurred.

Target implementation date is January 1, 2021. Regulations and market solutions are currently under development.

Action Required

Communications will need to be issued to employees to inform them of the new rules and their available options.

Companies should also determine their policy on receipt and payment of transfer values.

New Zealand



As of July 1, 2020, statutory Paid Parental Leave (PPL) has increased from 22 to 26 weeks.

Eligible members receive a weekly payment from the government while on leave from work (to look after a child under age 6).

Payment floor and cap thresholds are adjusted annually to reflect the rise in the average wage. As of July 1, 2020, the maximum weekly payment has increased to NZ\$606.46 (~US\$400), up from NZ\$585.80 (~US\$385).

Action Required

Ensure leave policies are compliant with the additional four weeks of leave and update HR leave policies.

Multinational Pooling Network Update

Multinational pooling networks are utilized to aggregate insured risk benefits across countries as a way of leveraging vendor consolidation and economies of scale to improve governance and reporting, while aiming to achieve overall cost savings. AIG has announced the closing of their Global Benefits Network.

Contracts on the network will generally cease to be pooled as of January 1, 2021, but will continue to be insured by the local AIG insurance partner. Certain contracts, by design or practicality, will remain pooled through March 2021. The final pooling reports for the 2020 calendar year, which will identify any pooling dividends or deficits, will be issued in 2021.

Opportunities for employers

Employers with AIG pools in place will need to understand close-out implications and actions on both a global and local basis. This includes, for example, final dividends or deficits, impact on non-pooled or non-employee benefits insurances, and to consider re-marketing these insured policies.

Upon revisiting multinational pooling strategies, organizations may consider alternative pooling networks, or depending on their size, consider global underwriting with select insurers. Global underwriting allows for organizations to receive pricing discounts upfront, rather than potentially receiving a dividend based on past performance.

Impact of COVID on Corporate Benefit Strategies

As companies manage emergence from the pandemic, we are seeing a change in global benefit strategies to reflect evolving business needs and objectives. In particular, there is an acceleration of some long-term strategic initiatives to address immediate employee and business needs, specifically:

- Supporting employees who are struggling through being furloughed, receiving reduced pay, or worried about their job security.
- Unprecedented levels of anxiety and mental health issues in the workplace from the pandemic's impact on society and concerns about returning to work.
- Managing lost revenue through preserving cash flow and optimizing available cost savings.

So, what are companies doing and what strategic initiatives are being implemented to support individuals and to help companies increase productivity in these unprecedented times?



It is critical to note that the appropriate strategy or intervention will vary by industry and company specifics; however, there are some common themes emerging focused on driving cost savings and re-engaging with the workforce.

COVID impacts on benefit programs

Many companies have long-term reward strategies to ensure provision of relevant and valued benefit programs support the business objectives and focus on engaging the workforce. Over recent years we have also seen an increasing number of companies promoting a culture of well-being across the organization, and elements of these programs have been invaluable in supporting employees during the pandemic. Specifically, COVID and dealing with its implications has led to a shift in focus from long-term business objectives to short-term tactical actions to meet immediate needs. From an operational focus many organizations are looking to manage, if not reduce, their costs to survive the downturn in the economy and consumer demand. In a well-being context, we are seeing more resources being spent on helping employees with short-term financial education in areas such as managing budgeting and debt management; and, promoting and providing support to manage mental health issues and working from home.

Keeping the lights on

With many industries coping with a drop in consumer demand, facility closures, or the impact of historically low oil prices, many companies are focused on preserving cash flow and driving overall cost savings. While financial efficiency has always been a long-term strategic focus, many companies are looking for immediate short-term savings to help support struggling businesses – even if some of the actions to ensure survival run contrary to their long-term strategy.

Although some companies have taken advantage of temporary government aid packages (such as furlough support, pension funding easement, and deferral of state social contributions) they have also embarked on accelerating several cost-saving initiatives. We have supported a number of different initiatives to deliver financial efficiencies and these have included:



Negotiating with insurance providers:

Claims experience has been impacted by individuals being under lockdown resulting in lower general insurance claims, and elective medical procedures. This profitable experience will not be built into future rates, but many insurers are offering one-off rebates as credits to companies. As an example, we assisted one of our clients with operations in APAC in establishing a profit-sharing agreement with their insurance provider that is expected to return 10% of the paid 2020 premium.



Reductions in benefit levels:

Although reducing benefit levels may be a last resort, we have seen companies who are in very difficult financial positions, reduce benefits levels (for example, a reduction in retirement contributions) or introduce co-payments, or co-insurance in their supplemental medical coverage. These measures, which have been communicated as temporary, have delivered immediate cash flow savings to the company.



Reviewing global providers:

Reviewing commission levels and fees paid locally, against the value of services delivered. We have found opportunities to deliver significant saving to organizations, particularly where global purchasing has been leveraged. Where such reviews have explored the value delivered by local providers, we have seen significant premium savings.

As expected, there is a wide range of potential actions that companies are taking. While some companies are purely focused on keeping themselves operational, others are keen to build in efficiencies to reduce benefit costs, without impacting benefit levels.

Supporting and re-engaging the workforce

It is no surprise that as employees return to the workplace, companies are seeing unprecedented levels of anxiety and absenteeism. According to a recent internal Fidelity survey, despite working more hours in total remotely, only approximately 25% of the workforce stated that they felt comfortable returning to the office at the current time— forced returns can therefore be seen to have adverse effects on the workforce.

While companies have traditionally been deploying total well-being strategies focused on areas such as physical health and nutrition, the focus is shifting significantly to the pillar of mental well-being. We are also seeing an increased focus in the aspects of financial wellness which support employees with short term financial worries which have been caused or escalated by the impact of the pandemic. Practical examples of what organizations have done include:



Extending remote working:

Where possible, extending remote working to help individuals to come back to the workplace when they feel it is right – for some organizations they have gone further and said individuals can continue to work remotely. We are seeing employee sentiment improve when employers are communicating to reassure their staff on their plans for re-entry which include the message of employee safety being a key focus. A number of companies who are actively supporting remote working are seeing lower sickness rates and higher productivity.



Promoting support services:

There is an opportunity to promote and better leverage existing benefit services, this includes mental support services from health care providers through to broader counselling provided through EAP providers. For one organization, the promotion of their EAP services saw page views increase more than ten-fold.



Supporting financial well-being:

There has traditionally been a significant focus on long-term and retirement savings, but this has shifted with companies providing guidance and education on short-term financial needs. Individuals have been taking early distributions from their retirement plans, there has been increased use of early salary payments – companies are therefore providing debt counselling services and budgeting resources to help people get back on track.

A shift in strategy to short-term needs

For those companies focused on financial survival and achieving short-term financial savings we have seen a shift from the long-term reward strategy to implementation of short-term tactical actions. These steps, while difficult, have been necessary.

For employee well-being, the strategy has changed from broader well-being strategy (including areas such as nutrition and activity) to prioritize mental health and financial well-being support in response to employees' immediate needs.

The learning for multinationals in these times is to be agile in the implementation of their benefit strategy and to prioritize short-term needs as part of a temporary divergence from their long-term strategy, though this shift should not impact on long-term business goals.

For more information

For more information on any areas covered by the newsletter or to discuss your international benefits or global mobility programs, please contact:

Iain Jones

+1 617-563-3345 • iain.jones@fmr.com
Irvine, California

Mark Sullivan

+44 (0)207 184 3557 • mark.sullivan@fmr.com
London, United Kingdom

About Fidelity Workplace Consulting Global

Fidelity's Workplace Consulting Global team is independent and focuses on supporting clients in meeting their business objectives through the provision of impartial, but tailored, advice reflecting market trends and best practice.

Global Benefits Governance	International Defined Contribution Governance	International Retirement & Financial Wellness	International Health Care & Wellbeing	International Mobility	International Miscellaneous
<p>Design / implementation of a tailored global benefits governance structure</p> <p>International audit and compliance review of overseas plans</p> <p>Benchmarking and development of global policies and standards</p> <p>Independent ongoing support to global benefits committees</p> <p>Advice on global financing opportunities, including risk financing</p> <p>Training on best practices in international benefits management</p>	<p>Developing fiduciary and compliance oversight and policy for international DC plans</p> <p>Cross border implementation of best practice and group policy</p> <p>Development of preferred provider arrangements to drive operational and financial efficiency</p> <p>Support on enhancing employee experience through developing & implementing communication best practice</p> <p>Ongoing support to global benefits committees</p>	<p>Retirement</p> <p>Benchmarking/ setting of globally consistent financing assumptions</p> <p>Advice on opportunities for de-risking in respect of retirement plans</p> <p>Consolidation of financial reporting & budgeting</p>	<p>Health care</p> <p>Vendor selection for international health care policies</p> <p>Advice on strategies to improve employee behaviors and reduce health care costs</p> <p>Development of health care policies to improve financial/ operational efficiency</p>	<p>International Mobility Policy</p> <p>Overall assessment / design of mobility framework and policies</p> <p>Vendor assessment and selection</p> <p>Alignment with talent strategy and assignment goals</p> <p>International Benefits Programs</p> <p>Support with design and implementation</p> <p>Support with stakeholder engagement</p> <p>Ongoing Support</p> <p>Day-to-day plan management</p> <p>Support with budgeting</p> <p>Support with complex cases</p> <p>Vendor management</p>	<p>Development of global insurance programs to reduce costs / commissions and improve operational efficiency</p> <p>Advice on country benefits practice (both mandatory and typical practice)</p> <p>Support for benefit aspects on mergers, acquisitions and divestitures / splits</p> <p>Independent second opinions on local advice</p> <p>Strategy to respond to legislative changes</p> <p>Facilitation of global stock plan advice</p> <p>On-site support and benefits leadership</p>
		<p>Financial Wellness</p> <p>Benchmarking/ implementation of global best practice</p> <p>Design/ implementation of programs to support financial well-being</p> <p>Vendor selection and oversight for globally consistent local implementation</p>	<p>Wellbeing</p> <p>Global wellbeing education strategies & programs</p> <p>Benchmarking and deployment of global wellbeing programs</p> <p>Vendor selection for International providers</p>		

945447.1.0

This material is issued by FMR Investment Management (UK) Limited ("FMRUK"). FMRUK is authorized and regulated by the Financial Conduct Authority in the UK FCA registered no. 476031. FMRUK is incorporated and registered in England and Wales under company number 5942395 with a registered address of 1 St Martins Le Grand, London EC1A 4AS
 Information provided herein is not a recommendation or an offer or solicitation to buy or sell any security or for any investment advisory service.