

Flex Benefits: The Employees' Choice

An Emerging Trend in Rewards Strategy

By Erwin Sadorra with
Watson Wyatt's Asia Pacific Benefits team



EMLOYEE BENEFIT programs play a significant role in attracting and retaining talents in any company. When appropriately designed, they can drive the employee engagement to yield a strong commitment to business goals and improved performance. In recent years, employee benefits have gained increasing attention due to rising benefit costs, increasing diversity in workforce demographics, and more employers looking to differentiate themselves as the “employer of choice.”

In Europe and in the United States, employee choice programs (or flexible benefit programs as used in other literature) have been adopted by companies for over 25 years. A survey in the US shows that over 50% of all employer-sponsored benefit plans are now employee choice plans. Across Asia, employee choice programs have also received increasing attention. For those companies, majority of the considerations in adopting employee choice fall into the following objectives:

- to increase employee satisfaction by recognizing differing employee needs, and
- to manage employer costs of providing benefits to their employees.

On the surface, these objectives appear to be in conflict

with each other. However, a well-designed employee choice plan can achieve these both simultaneously, hence its appeal to many employers. This concept has in fact caught the attention of some of the big players in Asia Pacific.

One size does not fit all

In recent years, the typical “head of the family” employee has been replaced by dual income and single-parent households. At the same time, the workforce is getting younger, more tech-savvy and increasingly conscious of their lifestyles.

Naturally, a diverse workforce will have different employee profiles with differing benefit needs. A study on employee demographics shows that healthcare and life insurance benefits are highly relevant to employees who have family responsibilities. On the other hand, single and low-tenured employees are more likely to look for cash allowances in their benefit program.

Under a traditional benefit program, employees, regardless of their profiles, are given the same level of benefits. This ensures that employees get a piece of everything. However, an employee who needs a higher healthcare benefit may find the fixed benefit program inadequate. For a manager who has a car already, an option to convert his car plan to another



form of benefit or cash may be more logical. But these real-life situations are not easily addressed even by the high-end traditional benefit program.

Put simply, a fixed reward program may no longer be responsive to the needs of these employees. With employee choice plans, employees will be empowered to make the combination of benefits best suited to his/her own profile and needs.

How does an employee choice plan work?

Generally speaking, an employee choice plan is a mechanism that allows employees to replace some of his benefits with those that he/she would, at a certain point in his/her life, need more of. At the other end of the spectrum, benefits can be converted entirely to cash. Under a typical plan, each employee is given an allowance with which to “purchase” a selection of existing and new benefits, with any unused benefit allowance being available to buy other lifestyle benefits (defined later).

This allowance forms part of the total remuneration package of the employee. At the inception of the employee choice plan, the allowance should be equivalent to the value of the benefits under the existing fixed rewards program.

Using this allowance, the employee makes choices on which benefits he/she needs and on the levels of benefits he/she prefers. Each choice will have a price tag, which is credited against the allowance. At the end of the selection process, the remaining allowance may be encashed by the employee.

In effect, the employer’s benefit investment under the traditional plan becomes a shopping allowance for employees under the Employee Choice plan.

Depending on the company’s benefit philosophy, the employee choice plan menu could be designed with some restrictions or none at all. The following are the three types of employee choice plans.

1. Core Plus

While many employers offer a wide range of choices in an employee choice plan, most require at least a basic level of protection, thus providing a core level of benefits.

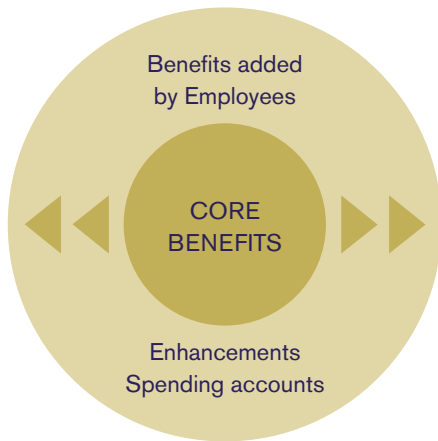
Employees may choose among a menu of benefit options to complement their core benefits. These options can be availed of using the employee choice allowance. There are three components of the “Core Plus” design:

Core benefits: A set of benefits which offers a basic protection for all employees. Examples are term life insurance and hospitalization.

“The employee choice plan could be designed with some restrictions or none at all”

Benefit enhancements: A set of benefits which can be purchased by the employee to upgrade their core benefits. Examples would be dependents' coverage or additional vacation leaves.

Spending accounts: A menu of benefits which employees can avail through to address their lifestyle needs that could not be addressed by the core and benefit enhancements. A good example is a wellness program which is typically not found in most traditional benefits program.



Core Plus is the most prevalent employee choice plan design because it gives minimum coverage for all employees while providing a range of choices for add-on benefits. The following illustrates how Core Plus works.

Example: Company ABC provided employee X with a core benefit of term life insurance protection equal to 24 times his monthly basic salary (MBS). Using his employee choice allowance of US\$220, employee X upgraded his life insurance to 36 times his MBS. The price tag for the coverage upgrade is US\$130. Employee X then used the remaining US\$90 to enroll in a gym.

2. A la Carte or Full Choice

A “Full Choice” plan allows employees to decide which benefits they choose without maintaining any core benefit. Employees have the freedom to pick which benefits should be in their package, hence the term “à la carte”.

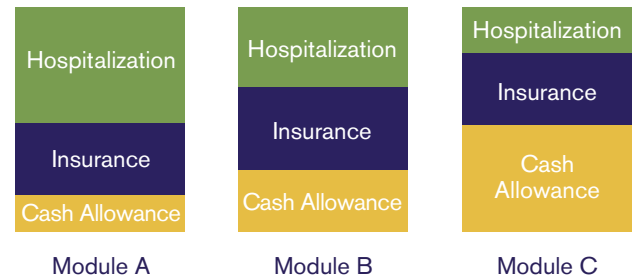
One advantage of this plan is its simplicity in design. This plan however, may not be consistent with the company's benefits philosophy. As an example, an employee may decide not to get any life insurance coverage. If an unfortunate event occurs, the result will be detrimental to his/her family, to the corporate image, and have financial implications. This may not be consistent with the company philosophy of providing support for the individual and his family in case of these contingencies.

3. Modular Plan

Unlike the individual options in Core Plus or Full Choice, a Modular Plan offers employees a choice among benefit

modules which are pre-designed. In selecting their benefits, employees will need to decide on the module that best suits them. The freedom of choice is available to employees but they are restricted by the benefits defined under each module.

A typical menu under Modular Plan may provide employees with specific levels of benefit choice as shown in the illustration.



The Modular Plan was popular in the early years of employee choice plan but does not have as much appeal to employees now due to limited choices?

The business drivers for Employee Choice

In most start-ups for an employee choice plan, the key drivers have been employee satisfaction and benefit costs. Striking a balance between these two parameters may be the cause of birth pains for adopting employee choice. But once this is achieved, the employee choice plan becomes a focal point in the over-all business objectives of the company.

Experiences of established employee choice plan companies have shown that the key drivers have shifted significantly. Now, it is much more focused on delivering benefits to the business itself. Over the years, the employee choice plan provides a venue to:

- Control the cost of employment by reducing employee turnovers.
- Define and support the employer brand in establishing the organization as an “employer of choice”.
- Reinforce cultural changes within the organization.
- Differentiate the organization in order to attract and retain key talents.
- Respond to differing and evolving employee needs.
- Promote the use of technology
- Reduce administration costs through increased efficiency.

A key part of any feasibility is to understand what is driving the business to consider employee choice, to assess whether it will, in fact, achieve the objectives set, and to build an appropriate business case to support this.

Conclusion

Across Asia Pacific, some leading-edge companies have already adopted employee choices benefits and many more

Case Study:

Making a commitment to be the “Employer of Choice” through Employee Choice

One of the leading telecommunications company and among the top 10 corporations in its country, this organization (let's call it ABC), specializes in the wireless and wired voice and data solutions such as mobile services, landline services, internet broadband and connectivity infrastructures. Its headquarters is located in an Asia Pacific country.

Given the nature of its industry, ABC recognizes that in the war for talent, the company faces the risk of losing its highly skilled technical employees and seasoned managers to competitors, both local and foreign. Tasked to keep its attrition rates in check, the HR team decided to explore a different approach to benefits delivery, with the hope of making its benefits program a key differentiator in the employment experience of ABC's over 5,000 employees.

XYZ, one of its subsidiary companies, was already under a flexible benefits plan. ABC's management wanted the shift to be the result of careful and deliberate planning. The ABC HR team, after a careful search, decided to work with Watson Wyatt in coming up with the feasibility study.

The need for a more responsive benefit program

Analysis showed that the existing benefits package was at par with the target market group, and that it followed the traditional rule of “one size fits all.”

Data on demographics, however, suggested a diversified workforce of varying lifecycles. Singles dominated the lower bands, while the females slightly outnumbered the males.

Focus group discussions revealed that for most of the

ABC Telecom at a glance

- Established in 1981
- Jointly owned and managed by a national telecom conglomerate and a family-owned local holdings company
- 2007 revenue of US\$1.37 billion (an 11% increase from 2006); net income after tax of US\$0.29 billion.
- Placed third in Telecom Asia Awards' Best Global System for Mobile Communications (GSM) Carrier Category

employees, benefits such as hospitalization, medicines, vacation leave credits and car program for certain job levels were the most relevant items in their package. Single employees do not value life insurance and health care as much as the older and married employees do.

A study on benefits utilization showed that the bulk of ABC's benefit costs were used in healthcare, its car program and in the monetization of unused sick leaves. The results linked closely to the findings in the focus groups.

All these results provided a compelling business case to pursue a flex plan design that will be responsive to the differing needs across the varying lifecycles of the employees.

Core Benefits + Flexible Choices

For ABC, the choice of flex plan design was obvious—Core Plus provides employees a reasonable and adequate set of benefits plus a menu of flexible choices. On top of the statutory requirements, the flexben team ensured that the design follows ABC's rewards philosophy and strategy.

Some of the highlights of the recommended design are:


- Selling and buying of vacation leaves—a minimum number of days of vacation leave entitlement is prescribed for all to promote work-life balance.
- Managers can exercise flexibility with their car benefit.
- Healthcare is maintained for all employees but can be upgraded through flex points.
- Employees may spend their flex credits on various lifestyle benefits.

Another round of focus group discussions were conducted to get the buy-in of the employees on the design which was very well received.

In the presentation of the findings and the recommended design to the management committee, discussions on the cost of the flex plan were raised. The flexben team addressed these by showing that the incremental cost is a very small fraction of the total remuneration expense of ABC. The flexben teams from both Watson Wyatt and ABC explained that the projected increase in cost is due to the expected rise in the utilization of benefits, which should result in greater employee satisfaction.

The new flex plan, branded as myChoice was rolled out to all ABC employees, with a take up rate of 85%. Already, plans are afoot on the various possible enhancements for myChoice Year II.

are considering it. Employee Choice, in a way, represents change and for some companies, change is not always easy.

But as business models evolve, the importance of employee benefits has increased as companies strive to deal with the challenges of managing the knowledge workforce and becoming the employer of choice in the war for talent. Establishing and maintaining a benefit program that individuals value highly and perceive as relevant is critical for the continued strength of any organization. If the company finds a good business case to pursue Employee Choice program, it may offer the needed leverage to achieve a successful employee benefit program. 



Erwin Sadorra
Associate Consultant,
Watson Wyatt Worldwide

erwin.sadorra@watsonwyatt.com