

# EVERYONE BENEFITS

The Client Magazine of JLT UK Employee Benefits Group

[www.jltgroup.com/EB](http://www.jltgroup.com/EB)

August 2009

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Distinctive. Choice.



# Welcome

Welcome to the latest issue of our client magazine *Everyone Benefits*.

As we move quickly through 2009, JLT is continuing to focus closely on meeting our clients' needs. Of course, these needs continue to change, either through the extraordinary economic conditions, the effects of government policy or their own strategic requirements.

Within JLT, our 1100 staff nationwide are encouraged to adopt our strategy of 'One EB'. That is to say, a single business, with differing yet comprehensive areas of expertise, which can support our clients' entire range of employee benefit needs from top to bottom.

But those needs change constantly and that means a dedicated programme of innovation and product review. So, I am delighted to announce some of the new product developments we have just concluded and are ready to launch. These include:

- BenPal, our newly created online employee benefits system, which we believe will revolutionise the experience and management of employee benefits programmes.
- Trustee Governance Services, which is a team of experts who will support trustee boards with a range of risk, governance and secretarial services.
- Defined Benefit Risk Management, where our existing buy-out service has been greatly extended to include liability reduction exercises and longevity hedging advice.

I hope you continue to enjoy *Everyone Benefits*. There are many, many ways in which JLT can help you and your business and we have room to discuss only a few of them here. I thank you for your loyalty as a client and encourage you to talk to us about what we can do to support you in these interesting and challenging times.



Duncan Howorth,  
Chief Executive  
UK Employee Benefits Group



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**Contact us:** If you would like further information on any of the articles discussed within this magazine, please call **020 7309 8100** or email queries to [JLTBSenquiries@jltgroup.com](mailto:JLTBSenquiries@jltgroup.com)



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# News & views

## Making life easier for SIPP members owning property

The recent announcement of the easements agreed between the Association of Member-Directed Pension Schemes (AMPS) and HM Revenue & Customs (HMRC), which benefit all those operating in the self-invested pension scheme market, have been welcomed by Premier Pension Services (PPS) – a leading provider of Self Invested Personal Pensions (SIPPs) and Small Self Administered Schemes (SSASs) and a member of the JLT Group.

According to Nigel Manley, Head of Self Invested Pensions at PPS, the borrowing and property lease easements will be useful for clients and providers alike during difficult economic times. “Where the pension scheme is struggling to maintain its mortgage repayments, for example because rental income has stopped,” he says, “it will now be possible to re-mortgage, provided that no new borrowing is taken out.

“The test as to whether the borrowing is regarded as ‘new’ will be an arithmetical one only. The important point is that the re-mortgage cannot be greater than the outstanding capital sum – it is not possible to increase the amount up to say



«Clients using premises owned by their pension can be treated like a third party tenant.»

Nigel Manley,  
Premier Pension Services

the original borrowing level or to include outstanding interest. If interest is rolled into the new loan a tax charge will arise.”

The position where a mortgage is renegotiated because of an in-specie transfer between SIPPs is unclear, but it is hoped that HMRC will conclude that the same arithmetical test principle should apply.

“Prior to the AMPS announcement,” continues Manley, “PPS had sought its own guidance from HMRC about leases and it’s not surprising that our answer was verbatim that given to AMPS, so clients who occupy premises owned by their pension scheme can now be treated in the

same way as a third party tenant.

“HMRC are in principle happy for a lease with a connected party to be renegotiated, provided it is done on the same terms that an unconnected tenant would receive, and subject to the terms and conditions of the existing lease. It is the responsibility of the administrator to be comfortable that it can demonstrate this fact to HMRC.

“In reality this will mean the SIPP or SSAS trustees taking suitable independent advice, documenting their decision and ensuring this is in the best interest of the members,” says Manley.

£666

Every year UK businesses lose an average of £666 per employee due to sickness. » See page 20 »

## Innovative new service to help trustees

For some time now JLT has been delivering governance, risk and secretarial services to trustees. For some clients this is part of our full service offering. For others they are stand-alone services provided with administration, or are the only services we provide. Having recently carried out a review of these services we decided to establish specialist ‘Trustee Governance Services’. This new streamlined way of working means we can offer services to existing clients where deemed appropriate and new prospects in

a consolidated form – from one team. We will offer a consistent service (including governance support) as well as providing support, in acting as an interim pensions manager. There is a lot of initial work to be carried out, including putting together new marketing materials and presentation materials, but once again JLT is pleased to announce the launch of an innovative service to help clients meet their day-to-day challenges. For more information email Bob\_Folley@jltgroup.com or call 020 7895 8301.

## Customer service

## Online benefits come of age

The potential introduction of Personal Accounts in 2012 is seen as an unavoidable cost, generating little employee appreciation. But **Charlie Carrick** believes that integrated online benefits offer an opportunity for employers to redirect this spend for a more effective result.

THE ARRIVAL OF THE PENSION REFORM legislation could turn into a major headache for UK employers. To comply with the new rules, every company must automatically enrol all ‘jobholders’ – anyone with a contract of employment, including fixed-term contractors – into a Personal Account or an equivalent exempt arrangement. They must also make compulsory contributions to this account. Payments to a Personal Account will be online and employees, once enrolled, may then choose to opt out individually.

Auto-enrolment with mandatory contributions but individual opt-out presents a real challenge for employers, as it involves more administration combined with increased pension costs. If they opt for Personal Accounts as the apparent route of least hassle, they will get a one-size-fits-all pension silo with little control. By contrast, running an exempt pension plan on an online benefits platform offers a more flexible and cost-effective alternative and gives employers a roadmap for developing an integrated benefits strategy.

Consider costs savings first. Salary sacrifice is the method for collecting employee pension contributions that saves the employer 12.8% in National Insurance contributions. Available now as an option with an exempt pension plan, it is not clear whether this will be possible with Personal Accounts.

What about effective communication? Easy to achieve with a technology platform designed for this purpose, with one consistent look and feel to promote not only the company pension plan but other benefits too, and to all categories of employees. More difficult when the contribution constraints in Personal Accounts mean many companies with existing arrangements will need to run at least two schemes.

The key to securing the cost savings and efficiencies that come with running an online pension plan is managing the data so that everyone has a personalised experience and actively wants to use the system. In BenPal, the new online system developed by JLT, this is achieved with online enrolment and intelligent back-end processes to drive efficiency and productivity for all users. Employees can log in whenever it suits, on their computer or laptop at work and home, and via their mobile when on the move. Employers



www.BenPal.com

have their own area too, where they can manage employee and benefits data, draw down management information and control monthly payments.

Going online should be easy and fun but it can be difficult to tempt employees back in after the first visit. BenPal does this in a number of ways, including automated messaging, through email and SMS texts, to engage with employees when events are happening, like after a monthly contribution has been paid. What about costs – surely Personal Accounts are cheaper? Online benefits can deliver more than just pensions and yet still compete with Personal Accounts on cost.

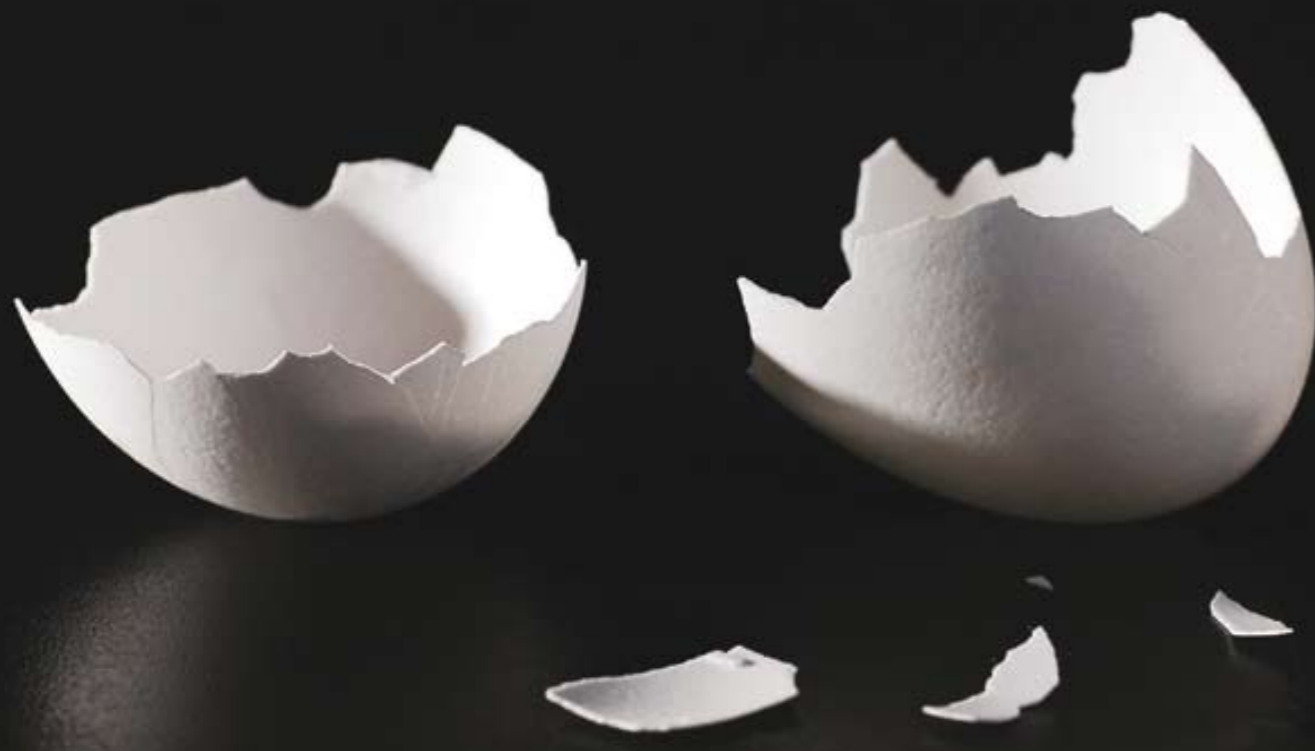
Many employers will see Personal Accounts as an additional, imposed pension burden. They are right, as the legislation means they cannot escape this cost. However, by directing it into an exempt pension plan through an online benefits solution, employers can convert the spend from an unpleasant cost into a worthwhile investment. **EB**



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# Protecting your pension nest egg



High earners who are committed to saving for retirement need to understand how the budget will affect them. They should review their pension plans sooner, rather than later. By **Diane Pepler**

THE BUDGET WILL HAVE A DRAMATIC EFFECT ON HIGHER earners. It immediately removed the availability of higher rate pension tax relief for high income individuals (with annual taxable income over £150,000) on large lump sum contributions. So higher earners who previously had scope to make large fully-tax-relievable contributions to boost their pension fund within the lifetime allowance (LTA) now have less scope to do so.

The freezing of the LTA until at least 2016 will also see more of the fortunate few with a pension fund value close to the LTA, having to pay a high tax penalty on any fund in excess of it.

It is therefore vital for high income individuals or anyone with a pension pot valued close to the LTA to review their future pension funding to ensure it continues to be tax efficient.

## Freezing the lifetime allowance

The LTA introduced in April 2006, limits the maximum pension fund that can benefit from full tax relief. Since 2006, unless eligible to register for transitional protection

from the allowance, any pension benefits in excess of an individual's LTA are subject to a 55% tax charge.

Since 2006 the LTA has risen to £1.75 million, and in 2010/11 it increases to £1.8 million. This planned increase to the LTA offered good scope for growing pension pots and was expected to increase further, but the pre-budget report ruled out any further increase after 2010/11 for at least five years.

Although most pension savers will not be affected by a frozen LTA, over time as its real value reduces, more people will accumulate pension funds over the LTA, and so pay a 55% tax charge on any excess when they draw their pension. Only those who stopped paying into their pension before 6 April 2006 who have registered for enhanced protection before 6 April 2009 are not subject to a potential LTA tax charge.

Although primary protection could be claimed for pensions already in excess of £1.5 million on 5 April 2006 to allow contributions to continue within an enhanced LTA, as most high earners could not register, they are still subject to the standard LTA. Others may not have registered for protection because they did not know they had to.

## Putting a cap on pension tax relief

Prior to the budget, the LTA still offered higher earners good scope to make large single pension contributions with the benefit of higher rate tax relief within the annual contribution allowance (£245,000 in 2009/10) and many made large contributions tax-efficiently.

The 2009 budget immediately restricts the amount of higher rate tax relief available on single pension contributions made by high income individuals (with annual taxable income over £150,000 in 2009/10 or the previous tax year) to a maximum of £20,000 per year, or the amount of regular contributions already being paid at least quarterly if higher.

Although high income individuals still have scope to make pension contributions within their annual allowance, any contributions in excess of the new limit now incur a 20% tax charge, increasing to 30% in 2010/11 when the new 50% income tax rate is imposed on incomes over £150,000.

Individuals with taxable earnings below £150,000 will continue to have scope to make fully-tax-relievable contributions, but it is now not possible for high income individuals to enter into pension 'salary sacrifice' arrangements to reduce their taxable income to avoid the new restrictions on higher rate pension tax relief.

Those with annual taxable income below £150,000 still have considerable scope to make pension contributions and benefit from higher rate tax relief. The withdrawal of the tax-free allowance at the rate of £1 for every £2 of income over £100,000 from 6 April 2010 will make the first £12,950 of income above £100,000 subject to a marginal tax rate of 60% and so pension contributions could reduce the tax burden here.

## Consider a range of options

An estimated 750,000 individuals will be affected by the changes to pension tax relief and the frozen LTA.

Some already close to the LTA may wish to continue pension contributions, despite the fact they will have to pay 55% tax on any fund over the LTA, for example where the employer's pension contribution comes on a 'take it or leave it' basis.

Where employers consider pension contributions part of senior employees' total reward budget and offer flexibility, a high income individual may wish to increase their pay and then consider alternative tax-efficient ways of saving for retirement.

## What can employers do?

**1 Provide access to advice.** Most responsible employers will provide all employees with access to pension advice. It helps employees to value their pension and understand how they can save for retirement tax efficiently. An adviser can also assist employees to access other types of tax-efficient saving, such as ISAs.

**2 Allow flexibility.** The best way to ensure maximum value for the package you offer, and to mitigate potential problems posed by the LTA and the restrictions now in place on tax relief for higher earners, is to allow higher paid employees flexibility to divert pension contributions into other benefits or additional salary.

For higher earners with taxable income below £150,000, a flexible remuneration policy could allow employees to boost their pension contributions through salary sacrifice to avoid tax at 50%.

Inevitably the restrictions on the availability of higher rate tax relief for pensions for high income individuals will make it more important to consider other tax-efficient ways of complementing their pension, such as using the individual savings account (ISA) allowances.

An adviser can review an individual's pension situation and put forward an appropriate solution for each individual's situation.

## Act now

For individuals who are near retirement and close to the LTA, this will be a pressing concern that requires urgent planning. For high earners further from the LTA, it may be harder to achieve tax-efficiency going forward due to the new restrictions on higher rate pension tax relief, so planning must be a priority. **EB**



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# Creative cuts

Employers are making tough calls in order to cut costs to the bone. But there are some creative solutions, which can bring down expenses and improve morale at the same time. By **Sarah Coles**

EMPLOYERS HAVE ONE THING ON THEIR MIND at the moment: cost. Business is slowing, so companies are looking at every available option in order to cut their outgoings and remain viable. Unfortunately, a large number have made the most difficult decision of all – to reduce headcount. This leaves them with an impossible situation. They must work hard to improve morale among the remaining employees, to build engagement and encourage productivity, whilst cutting back on their salary and benefits spend.

Motivation has undoubtedly taken a hit in the current climate. Employers are going through major changes and downsizing, and the messages they are putting out to employees are overwhelmingly doom and gloom. Many employers, whether they realise it or not, are almost trying to scare them into increasing productivity.

The problem is that it is these employees who are going to see the business through this difficult time. If they are de-motivated, they will not give their best, and it is at this particular time when you need the remaining workforce to be as productive as possible.

To add to this, if they are feeling unappreciated and insecure, they will start to look elsewhere – regardless of the economic pressures around them. It may not mean

they move immediately, but you are sure to lose your most valuable employees when the economic situation improves.

This issue around motivation closes off the most obvious avenue for cost-cutting: it is a dangerous move to just cut benefits, as it gives off all the wrong messages about how much you value your staff. So employers need to be creative about how they reduce expenditure and how they communicate the change. What can be done? ▶

*«It is a dangerous move to just cut benefits, as it gives off all the wrong messages about how much you value your staff.»*

### Lower cost: same benefits

Some solutions aim simply to bring the expense down without having to shrink the package. So, for example, many employers will renegotiate rates. They can review their benefits, to get better rates on healthcare, life cover, income protection and so on. This process can unearth some great savings, particularly where an employer has not revisited its cover or its provider for some years. They may find that a newer supplier is more suited to their needs at a lower cost. Alternatively they may have built up favourable claims experience with their current provider, which will enable them to negotiate better rates. This is a good annual exercise to undertake, even in better economic conditions.

Another approach is a full audit. One JLT client has reviewed all the benefits that each individual is supposed to get and at what level. There have been instances where the employer has been paying too much for a particular employee, providing coverage they are not entitled to. Even more worryingly, there were places where employees did not have the cover they had been told to expect. If they had made a serious claim without the right cover in place, then it would have created all sorts of issues and potential costs for the employer. This sort of audit may initially seem like a cost, and one employers can ill-afford at the moment. However, it can create immediate savings, and will avoid potentially massive expenses further down the line.

Employers can also look at online solutions, which can dramatically improve efficiency. They allow benefits to be managed through one site. It takes the administrative burden away from the company, freeing HR to work more strategically and to create further efficiencies elsewhere. It can also empower employees to manage their benefits.

### Lower cost: better benefits

Other solutions go further than cutting costs without reducing benefits: they can enhance the package at the same time. One of the most effective ways to do this is through tax-efficient benefits, operated through salary exchange.

Here the employee agrees to a cut in salary, and the difference is put into tax-efficient benefits, such as the pension. The employee gains, because they save on tax and National Insurance, which can be put back into the benefits or increase their take-home pay. Meanwhile the employer saves on National Insurance. So everyone is happy.

« The employee gains, because they save on tax and National Insurance, which can be put back into benefits or increase their take-home pay. The employer saves on National Insurance. So everyone is happy. »

With a benefit as costly as the pension, the difference is dramatic. Employees save 20% basic income tax and 11% National Insurance, while employers save 12.8% National Insurance. With a pension bill running into thousands, or even millions, 12.8% can represent a substantial sum.

Employers can make this even more attractive by sharing their saving with employees, while others are returning the entire saving to employees in order to improve benefits. This is a good way to boost the benefits without increasing the cost to the business.

If employers want to have even more impact, they can build on this by putting a number of tax-efficient benefits into a flexible benefits package, such as childcare vouchers and bike-to-work schemes.

### Lower cost: better appreciation

To boost the perceived value of the package still further, employers can extend the flex package to other benefits in the organisation. Again this does not have to cost any more, they can simply offer the same sum they were already spending on benefits, or an allowance that enables employees to trade off and choose the benefits that they really value at a point in time. In a traditional package, an awful lot of money is spent on things employees do not use and do not appreciate.

Flexible benefits can be part of the process of boosting perceived value, but their role does not end here: they are also key to controlling future expense. Flex enables employers to cap cost increases in future, because instead of having to keep pace with the inflation of things like insurance premiums, they can increase the flex pot by a particular percentage, or even freeze it, and it is up to employees whether they choose to continue buying that benefit once it becomes more expensive.

Employers can go further, boosting appreciation and understanding of benefits, through total reward statements. These will put a value on every part of the benefits package, and list it alongside salary, so employees understand the full value of the reward they receive from the business, rather than concentrating solely on salary. It always shocks people to see what their total reward looks like.

Whereas a couple of years ago it was a powerful retention tool, now it is a way to motivate staff, to show how much they are appreciated, and how much the company is supporting them. These statements do come at a cost, but they boost the value that employees place on every part of their package.

Boosting benefits at a time of reducing headcount may seem counter-intuitive, but while employees have seen their colleagues go, they are concerned for their own position and financial wellbeing. Increasing the perceived value of the benefits or stretching their take-home pay will show employees you are committed to them and that you appreciate how the economy is impacting on them too.

In difficult times, employers may be overwhelmed by a drive to cut costs, and engaging employees may not seem a top priority. Businesses may not think they need to focus attention on reward that aids recruitment and retention, as employees are staying put in the current environment. But by putting benefits on the agenda, and finding creative ways to boost the package, they are having a positive impact on their staff, through increased commitment and dedication to support the business through this difficult economic time. Don't isolate them, engage them. **EB**



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# International rescue

Expatriate workers based in areas of the world where the medical facilities may be inadequate can incur huge costs. In emergency situations reducing cover can be a false economy, with catastrophic consequences for the employee and family. By **Matt Gale**

A UK NATIONAL IN HER EARLY 30s WORKING in the Middle East for a multinational conglomerate was diagnosed with cancer. Unfortunately, the surgery and chemotherapy required were not readily available in the region so she was repatriated to the UK for urgent medical care. Over 18 months, the cost of her repatriation and treatment amounted to around £100,000.

A 50-year-old South American based in Central Africa suffered a serious head injury following a fall. The injury was subsequently discovered to be life threatening and because of the poor quality of the medical facilities that were immediately available, he was airlifted to South Africa for treatment. The total cost? Well over £100,000.

A European national in his late 20s working in the Middle East was diagnosed with a chronic and acute long-term illness. Over the course of some three years his treatment cost in the region of £250,000.

Expatriates in remote parts of the world where medical facilities are inadequate may need emergency evacuation in the event of an accident or sickness. Sadly, there are plenty of cases where families have had to pay tens if not hundreds of thousands of pounds to have a loved one airlifted so that they could be moved to access suitable treatment. The cost

of the medical care itself may also run into thousands over a period of years. An acute cancer claim can run up costs of well over £500,000; a big hit for any profit and loss account, but utter destruction for an 'everyday family'.

## Regional variations

The international private medical insurance (PMI) market is highly competitive, with many providers, so it can be difficult for employers to know what to look out for and how to choose the right cover. First of all, there may be regional issues, depending on the area of the world to which employees are being sent. For example, some countries in the Middle East, such as Abu Dhabi and Dubai, are putting more licensing arrangements in place for international PMI, effectively imposing more stringent rules on the products.

Any product has to meet minimum requirements to be accepted, so that the burden is taken off the country's own healthcare system. Everyone entering the country is required to have a medical plan with no waiting periods before the cover starts. Also, there must be 'medical history disregarded' (MHD) terms offered. In other words, previous medical conditions that might be excluded from cover under an ordinary UK-based PMI plan must be covered.

«An acute cancer claim can run up costs of well over £500,000. That is a big hit for any profit and loss account, but utter destruction for an 'everyday family'.»

## Expacare – flexible and responsive

Expacare, an international PMI provider, covers many expatriate workers based in areas of the world where the medical facilities may be underdeveloped or simply inadequate. The firm has highly experienced staff and flexible underwriting teams which enable it to set up MHD cover for as few as five employees. Most schemes offer MHD cover for a minimum of ten (or even more) employees only. Expacare also offers a Corporate Advantage plan which will even cover single employees.

Medical assistance organisations offer 24-hour access to assistance and services via Expacare, wherever scheme members are located. Our professional partners boast qualified medical staff ready to respond to any kind of emergency or call for assistance, a fleet of air ambulances and expertise in international patient transport services. We ensure that all necessary arrangements for evacuation and emergency inpatient treatments are made, meet all the costs and claim the money back from Expacare. In some regions a membership card need only be shown and bills are settled direct with the insurer.

Expacare provides cover right until the very end of treatment up to an overall limit of \$8.5 million per scheme member.



« Reducing cover could jeopardise health and safety. An employer's decision to cut back on chronic cover could prove a false economy. »

Where there are no medical exclusions or waiting periods, the cover is inevitably more costly, as the risk of claims and the potential for payouts is a lot higher. It is another aspect of international healthcare cover that employers need to be aware of – but in many cases employees have to have an acceptable policy to acquire and retain visas and work permits.

### Read the small print

All providers say that they will cover chronic conditions such as cancer, but the small print in policies will often reveal that they are covered only up to a very limited amount or for acute palliative treatment only. For example, in the third example above, many products would not have paid out because they exclude chronic or acute conditions or cap the amount payable under the policy. What employer or family member can say “I’m sorry but we can’t afford any more care”?

Other policies simply do not provide enough cover for the duration of the treatment, and most will impose some kind of financial cap on the cost of treatment. Most plans will include options for excesses as standard, however, the lower the excess, the more cover the employee has.

In these credit crunch times, employers are looking to extract greater value, reduce their spend on benefits, or at least use them more efficiently and effectively. However, reducing or removing cover altogether could jeopardise employees' health and safety. An employer's decision to opt for a higher excess or cut back on chronic cover, for example, could prove to be a false economy. The case studies themselves illustrate the potentially huge costs that could be incurred. Not only is international healthcare insurance vital for protecting the health and wellbeing of employees based overseas, it also represents a high value benefit for employers looking to recruit and retain excellent staff.

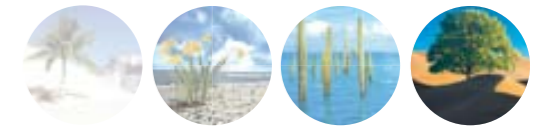
Ultimately, international medical insurance needs to be as comprehensive as it can be to meet every eventuality, so that lives and lifestyles are preserved. It can bring peace of mind to employers, employees and their families alike, knowing that they are covered in the event of any sudden accident or illness. **EB**

### Looking for the right international health insurance

- 1 Area of cover.** Ensure the area of cover also includes any other countries likely to be visited, be it for temporary business or pleasure.
- 2 Underwriting terms.** Make sure the underwriting terms of the plan meet your requirements. Most providers will exclude all pre-existing conditions, no matter when they occurred. Do not accept such restrictions.
- 3 Cancer treatment.** Find out how long cancer treatment is covered for. Many providers will only cover this for a maximum of 5 years – ensure they cover this in full. The same applies for chronic conditions. Many providers only cover acute or palliative treatment – ensure chronic conditions are covered in full, providing it is not a pre-existing condition.
- 4 Adequate cover.** Try to gauge how much coverage may be needed. For example, if the insureds are moving to the UK and will be paying social security contributions, they will be entitled to treatment under the NHS, for a period of time. But, if they require private treatment, or the waiting time on the NHS is too long, then a higher level of cover would be advisable.
- 5 Family cover.** Remember that families can also be added to cover, so make sure the benefits cover all eventualities for a whole family.



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# Are your systems ready for action?

Quick-fix solutions may have been an acceptable compromise in the past as pensions administration evolved, but new rules will make the case for a joined-up system inescapable. By **Martin Freeman**

PENSIONS SYSTEMS RARELY START WITH A CLEAN SLATE; they grow organically over time. Whether it is the result of tweaking the benefits here and there, or something more dramatic like accommodating a new scheme in the aftermath of a merger, it does not take long for a shiny new automated system to become a complex maze of manual manipulation. This is not only a major headache for administrators, it also creates serious dangers for the business, so it is worth revisiting systems, to squeeze out any complexity and risk, and build a joined-up solution.

### Sticking plasters do not work

The problems begin when you make changes to the pension and the automated systems cannot easily be changed to keep pace. It means the systems do their calculations, and then you have to manipulate it manually for some members. You end up with a series of spreadsheets, to accommodate these changes. It looks superficially attractive because it

is quick and easy to set up, but over time it is difficult to maintain accurately and as legislation changes there is no immediate update, so you have to work out how to make these amendments yourself.

You can then have what seem like small technical legal changes, which have a disproportionately large effect on schemes. So, for example, the change to the upper earnings limit means the information the payroll has to provide to the pensions scheme is fundamentally different. If there is no core system automatically updating, it can create upheaval, as all the spreadsheets in the different parts of the organisation need to be updated.

In addition to the extra work, by running everything separately and manually, you expose yourself to a number of risks. Say, for example, your employer payroll produces information that needs to go to the administrator, but it is not quite right, so they export that to a spreadsheet and add columns manually. They may not add it the same way each

time, so they rely on the scheme administrator to pick up, for example, that this month they are showing net salary and last month was gross. If the administrator does not spot this, and they use the wrong information to buy units, the member may lose out on a heap of money and decide to sue. It is a huge chain reaction.

If you make a mistake, it costs a lot to unravel it and decide how much you need to pay to compensate the member. Plus the management time taken up in dealing with an irate member is enormously expensive. There are also a variety of unpleasant sanctions that can befall you if you make a mistake. The regulator can have a go at the trustees and impose fines. But the worst thing is the effect of not treating members fairly, which does an immense amount of damage to the employer's reputation.

Even if you are lucky enough not to make a mistake, the organisation is still losing out. Administrators end up spending their time doing stuff that should just happen

automatically through technology, so they do not have the time to do the things that people are better at. They are too busy to talk to members, making sure they are getting the right amount of money, they understand what they are getting and they are happy with the service. The pension should be all about the experience of the members; the system cannot be effective if administrators are not focused on that.

Plus there is the risk that lies in the fact that informal systems will be run by a small number of key people. If only a few individuals know how these systems work, you have to ask what happens if those people leave.

### Situation will get much worse

At the moment, a number of organisations are choosing to live with these risks. But on the horizon is something that is going to make them much worse: the new pension rules coming in 2012. These will require all employees to be automatically enrolled in the scheme when they join the

## A seamless future

One of the most recent developments in pensions technology is straight-through processing, which in this context is dealing with investments electronically.

At the moment things tend to be done on paper, where the employee selects funds by ticking a box and that document is faxed through to the fund manager. This is just about manageable at the moment, but when the volume of defined contribution members goes up in 2012 there is no way a paper system relying on faxes is going to be sustainable. There are going to be hefty errors and omissions as a result of a manual process and it will take time and money to correct.

If you move to processing electronically, the experience of the member improves because they can make selections online and see valuations of their portfolio online.

In addition, you get into a virtuous circle. The process is quicker, lower risk and offers a better service. And if it is built into the rest of the systems, it can simultaneously empower the member and reduce the burden on the administrator.

company, which will create a huge amount of work for the pensions department.

The systems need to be able to handle auto-enrolment. At the moment the scheme administrator tends to know enough details about each employee at the time they choose to join the scheme, and the employee has had time to get to grips with details of the pension. Now it is a case of everyone who joins the employer joins the scheme, so all these details need to have been established before the employee starts. There will need to be fundamental changes in process.

In addition, there are added layers of complexity. You have to put employees in the scheme and give them time to opt out. In that time they may have made one or two contributions and these need to be refunded to the employee. It is essential to get the systems right. If you flail around manually, you will not be able to handle the volume.

The new legislation also brings in all the people who are most difficult to deal with. Schemes may not have been concerned with these sorts of employees before, because they were the sorts of people who do not tend to join schemes, such as those who work for each company for a short period, or those with several jobs, so they will be more difficult to administer.

It is not just the volume that will catch you out over time. The world is changing: pensions do not exist in isolation any more. They used to be in a different world, now they are integrated into benefits structures like flexible benefits systems and HR systems (see box, right).



«Joining systems does not have to be expensive. Look at the areas with most risk and address those. Spend money gradually to realise benefits quickly.»

If the systems do not join up seamlessly, you will hit difficulties as they have to talk to each other more.

### Joined-up solutions

The logic is inescapable, but still many employers are not keen on investing in joined-up systems. Part of the problem is organisational. People are attached to the old ways. There is a different person responsible for each system and they want to continue doing what they have always done. Everyone has a vested interest in keeping their own system and having the rest of the organisation change around them. In these situations it is difficult to get agreement on what the new systems should look like.

There is also concern over the possible cost of a solution. Employers do not realise that things have become more affordable as they have been commoditised. They also think you have to overhaul everything. Of course, you can start with a clean slate and get all the systems in the business from one provider, working together, filling things in automatically and pre-populating each other as they go through the business.

However, it does not have to be so dramatic or expensive,

### Think your systems don't need to talk to one another?

Consider the communications involved in making a monthly contribution:

- 1 Employer sends contribution details to administrator.
- 2 Employer sends contribution payment to bank.
- 3 Administrator checks money is in bank.
- 4 Administrator sends order to fund manager.
- 5 Fund manager confirms price and units bought.
- 6 Administrator instructs bank to make payment.
- 7 Bank sends money to fund manager.
- 8 Administrator sends transaction details to accounts.
- 9 Accounts reconciles transactions and money in bank.

because you can do things in an incremental way. You can look at the areas where there is most risk and address those, spending money gradually and realising benefits quickly. A workflow package, for example, can track each job you do, communicate between the systems, and join them up. The workflow should not just deal with systems from one software provider, but work with a variety of systems and integrate them all.

In many organisations, there is hesitation about tackling the gaps in systems and joining them up, because there is a perception of the time and cost of putting things right. They think it is not worth it, given that things are not that broken and they seem to be muddling through. However, they do not realise the potential cost of not putting things right, the risks involved, and what that can cost in terms of money, time and reputation. If they do not see the problems now, they will when the volume escalates in 2012. The sensible thing is to tackle it now and avoid giving yourself a major headache. <sup>EB</sup>



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# A cure for sickness absence

Employers should not ignore the cost of employee absence to their businesses. The overall expense is surprisingly high, and there may be simple ways to control it. By **John Pascoe**

EMPLOYEE SICKNESS ABSENCE COSTS UK BUSINESSES A significant amount of money. The annual survey produced by the Chartered Institute of Personnel and Development (CIPD) in 2008 reveals that UK employers lose around £666 per annum per employee. The average employee misses eight days' work a year, the survey says. It also reports that around 90% of UK businesses say that sickness absence is a significant cost to the business, yet only 40% monitor the cost of it.

So what can businesses do to get this under control and what are the trigger points to look out for? The first step for at least 60% of UK businesses, if the CIPD's survey is to be believed, is to put some kind of system in place to monitor sickness absence. It doesn't have to be complicated or come at a premium, but if an employer fails to record or measure absence, then how is it to know how much it is costing the business and how can it be controlled?

## Identifying trends

Unless there is some kind of tracking process in place employee sickness absence may be open ended. For example, an employee may call in sick habitually with a migraine, but unless these situations are recorded, absences can build up and trends go untargeted. It is vital that patterns are quickly identified and trigger points built into a system. Once the employer has management information, then they can look at managing the individual and the cause of absence, whether there be an underlying issue or otherwise.

The main causes of short-term absences are colds and flu, stomach upsets, stress, musculoskeletal conditions and family reasons. Short-term absences are probably the hardest to measure and identify. However, if not carefully monitored, they can easily become long term. For example, where short-term absence is caused by stress, but

left unidentified in the first few weeks, it can turn into depression and potentially require cognitive behavioural therapy – which can be expensive.

For UK employers, stress is the number one cause of long-term sickness absence, followed by musculoskeletal conditions. A long-term sick employee is often best managed through occupational health rehabilitation programmes. However, some private medical insurance (PMI) and group income protection (GIP) providers now offer rehabilitation or back-to-work programmes in order to assist employees if the nature of absence can be managed or treated.

## Tracking absence

Absence can be tracked manually through HR or line managers but recently some employers have been considering third-party systems and software, at a cost typically between £5 and £10 per employee per month.

Using a third-party telephone service, on the first day of absence, the employee dials into a helpline and speaks to a qualified nurse for advice and gives an expected return to work date. That information is then passed on to the employer to deal with.

A slightly cheaper option would be to set up an automated service, where the employee phones in to explain the reason for absence. An email to the line manager is generated and the trends can be monitored. Once the trends are plotted, the employer can see if absence is looking genuine or not and if there are underlying problems that need to be addressed that might otherwise lead to costly long-term absence.



## Reviewing solutions

Health and wellbeing programmes can be put in place to help combat both long-term and short-term sickness absence. Indeed many employers will have benefits such as PMI and GIP to refer sick employees for specialist treatment and to cover salary liabilities. But there may be other added value wellbeing programmes that can help to keep down the cost and length of claims. For example, an employee suffering from stress or depression might be able to claim for psychiatric care under a PMI policy, but if there is an employee assistance programme (EAP) in place then this may prove a cheaper alternative in the first instance. Clearly these policies should stand up on their own but employers should also ensure that they have the right policies and that they dovetail where appropriate.

EAPs can help control employers' spend and claims experience, possibly helping to highlight any potential long-term problems and ensuring that employers meet their duty of care to employees.

A lot of benefit providers now offer added value options to their products. For example, BUPA offers a 24-hour helpline alongside its medical insurance and income protection products. Unum offers its GIP members a free EAP which includes free face-to-face counselling sessions.

There are also basic wellbeing programmes that employers can put in place to enhance employee health, such as access to counselling services, stop smoking support, gym facilities and discounted membership and healthy eating options in staff restaurants. They can even

have a GP or physiotherapist on site for a few hours every week, which will avoid people having to take time out of the working day to visit their own practitioner.

## Balancing priorities

Should a business have a healthy workforce at any cost? The headline priority for the Finance Director will be to control costs, but what about, say, HR? It is important to find the right balance and look for a return on investment through robust wellbeing programmes, whilst taking into account the overall business needs and aspirations.

It is important that employees are healthy and that line managers are informed so that they can identify where that is not the case. Employees may be unwell, but not be absent from the workplace. A healthy, happy workforce is a productive one.

Employers also need to ensure that they get the correct message across to their employees so that they are aware of and appreciate the health and wellbeing benefits put in place for them. Using flex and total reward statements is one way to communicate and ensure that employees know what their employers are providing. Employers should be saying: 'We care about you and want to engage with you.' **EB**



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# Breaking the law of feedback

JLT Administration keeps a watchful eye on client satisfaction. In the second quarter of 2009, 95% of client scheme members were happy with the service. So where did it all go right? By **Mark Adamson**

IT'S THE IMMUTABLE LAW OF FEEDBACK: YOU NEVER HEAR from people when things are going well, only when they go wrong. But JLT Administration's client scheme member satisfaction research has broken this rule: satisfaction ranged between 94% and 96% on a variety of measures in the second quarter of this year.

The statistics speak for themselves and are reward for the skill and dedication of our administration teams, but how do we get this feedback and this level of performance?

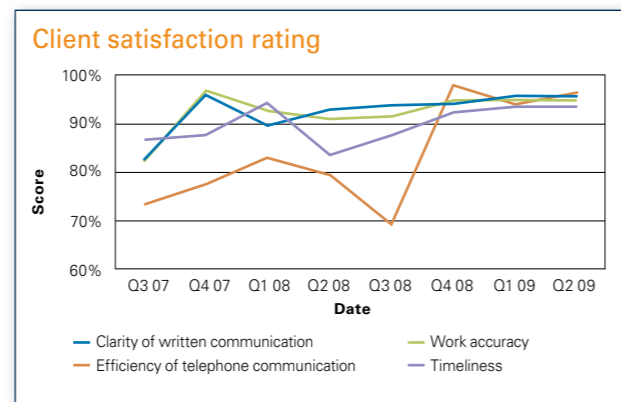
To answer the first question first, while many pensions administration outsourcing firms focus on service level agreements linked purely to turnaround times, JLT has a broader balanced scorecard approach to performance monitoring and reporting. One cornerstone of this is a questionnaire we send to members every time we complete a piece of work, asking them to rate our performance. The feedback from this helps us assess and develop our service.

## How have we achieved these results?

There is no single answer. It comes from a combination of initiatives that have emerged over a long period from our continuous improvement programme, some helping members directly, others indirectly.

Some are major developments, such as the creation of the India office for back office processes. It proved popular with clients and staff, as it brought great efficiencies to our standard processing. All client contact is handled from the UK, but passing over processes freed our experienced UK staff to devote their attention to non-standard cases; as well as spending a greater amount of their time talking to clients and members.

Another key change is the introduction of our Validator service. There may be issues of quality when data is passed from an employer to an administrator. This is something the Pensions Regulator has taken a strong interest in, and is coming to the fore. So we introduced Validator to give trustees comfort that the quality of the data is good.



We also developed proactive death alerts. When a retired member dies, sometimes the scheme is not informed, either by accident or deliberate fraud, so they continue paying the pension. We check all the death registers on a monthly basis and alert a scheme if a member has died.

We are rolling out an online forum for clients, allowing them to exchange ideas and talk to each other, as well as asking us in-depth questions. Other initiatives are less obvious, but all of them come together to make JLT Administration ever more effective.

It is this commitment to constant improvement that motivates members to respond, and makes their responses so positive. But it's not just about new initiatives. It's the commitment and capability of our people, and their determination to use the tools available to them effectively, that produces such good performance. **EB**



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