

EVERYONE BENEFITS

The Client Magazine of JLT UK Employee Benefits Group

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Recent research provides a snapshot of key trends



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Constant innovation in the private healthcare market



Working towards your endgame

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Welcome

During 2008, we at JLT have continued to evolve our business in pursuit of meeting our clients' needs and providing the services they value and that we are able to deliver.

In the last year employers have focused further on risk management within defined benefit pension schemes and on ongoing developments in governance by trustees. We've seen an increased interest in wider employee benefits and our recent survey revealed that there is a renewed focus on online benefits administration and communication, and on flexible benefits. These insights are key to enabling us to support our clients in the future.

During the year so far, we have:

- developed a buy-out service for employers and trustees who wish to review whether it is right for them to secure their pension liabilities within the growing buy-out market
- increased the size of our SIPP business through the acquisition of Arbuthnot Latham's self-invested pensions portfolio and through the launch of our group SIPP
- begun developing new technology to deliver online benefits administration and recruited a team to lead our business in this area
- completed the development of an improved annuity service aimed at trustees and scheme members, which will be launched in the coming weeks
- developed a range of web services for our administration clients.

Apart from that, it's business as usual, which means that we have continued to develop our resources, increased the size of our Private Clients team and grown our corporate advisory service, Pension Capital Strategies. These all reflect demand for the solutions that our clients seek.

I hope very much that you enjoy this latest issue of our client magazine. My senior colleagues, as well as myself, are always very interested in any feedback.

Duncan Howorth
Managing Director
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**

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News & views

COMING SOON – online benefits platform

JLT Employee Benefits has made a substantial investment in an online benefits platform. The aim is to match the firm's traditional strength in defined benefit pensions with a stronger presence in the wider employee benefits market, covering defined contribution pensions, group risk, healthcare, employee communications and flexible benefits.

The platform will enable employees to access all their benefits information from a single source and use specific retirement and benefits planning tools. It will supplement JLT's Benefits Portal, which is already available to clients. It will also enable employers to promote the value of their own employee benefits programmes.

Increasingly, clients are looking for online benefits management and the platform will help them gain greater returns on their benefit spend, through improved understanding of the value of the benefits on offer and greater take-up and usage of benefits programmes.

As part of this development, JLT has added to its considerable in-house expertise by hiring senior individuals from the management team of Orbit Benefits, currently the leading online benefits company. The new team members, which include the CEO, Jim Carlton, will lead this new business, joining once they have fulfilled their contractual obligations at Orbit. *Creating the wow factor, page 6.*

Dental plans get teeth

Employers who want to improve recruitment and retention should offer dental plans to their workforce. Survey after survey shows that they are one of the most consistently requested benefits among staff.

Typically, plans will reimburse the full cost of regular visits to the dentist for check-ups and hygiene treatment – whether privately or on the NHS. Charges for X-rays, fillings, crowns or bridges are also covered. Even employees who visit a dentist only when they succumb to pain will appreciate a dental plan that reduces what could otherwise be a large bill.

Since the cost starts at around £6 per employee per month, it need not break the bank. It can be cost-effective for the

employer, too, since payment flexibility means the company is not required to meet the total cost. Employee loyalty can be rewarded and take-up rates increased over a voluntary arrangement through the use of seed funding. This could mean, for example, an employer contribution of £2 per employee per month in year one, £3 in year two, rising to £5 in year four, with the employee meeting the balance of the cost.

The company is free to choose its contribution level and the employee enjoys discounted rates. Alternatively, the company could meet the cost of basic cover, allowing employees to upgrade and include family members.

For more information contact Simon Curtis on 01344 464 406 or ST_Curtis@jltgroup.com

Clients and consultants visit JLT India

A recent trip to JLT's new offices in Mumbai, India, left visitors highly impressed. The visit by procurement consultants and clients was hosted by JLT Benefit Solutions' Commercial Director Malcolm Reynolds and Client Development Director Phil Neat.

Paul Mead of Watson Wyatt, Sean Hansbury of GO Pensions and Andrew Cox of Lane Clark Peacock, as well as two of JLT Administration's major clients, Lucinda Ralph of Friends Provident and David Birtwistle of GKN, visited the site to learn more about JLT India (JLTI), how it integrates



with the firm's UK operations and to meet the people based in Mumbai.

The consultants said that they found the trip really useful, particularly meeting the people. The clients were impressed with the team and the operation in India.

The offices were opened at the end of March this year and already JLTI has successfully completed the ISO 27001 audit by British Standards Institution. The two-day audit covered all departments in the Mumbai office and complimented the company on a 'clean implementation'.

For more information contact Malcolm Reynolds on 020 7895 7712 or Malcolm_Reynolds@jltgroup.com

PPS acquires Arbuthnot's SSAS and SIPP business

Premier Pension Services, a division of JLT Benefit Solutions, has purchased the pension administration business of leading private bank Arbuthnot Latham. The portfolio consists of the Arbuthnot SIPP and SSAS clients, and sees Premier Pension Services continue to expand in this market. The agreement includes the transfer of responsibility for the advisory business for a number of scheme clients.

JLT is committed to maintaining the highest levels of service that the Arbuthnot clients and their advisers have been used to. Administration of the portfolio will move to the

Premier Pension Services' centre of excellence for SSAS and SIPP administration in Cardiff. While it will be business as usual for clients and advisers, over time the company plans to introduce new features, benefits and services.

As part of the deal, JLT Private Clients will acquire approximately 140 private clients from Arbuthnot Latham, providing ongoing advice after the transfer. Most of these will be based in the South-East and will be supported by two new London-based consultants.

For more information contact Nigel Manley on 029 2055 7050 or Nigel_Manley@jltgroup.com

JLT gears up for retirement boom

From 1 September 2008 JLT will expand its annuity service to cover the whole market. It will offer standard, enhanced and impaired annuities alongside a full advice service and an assisted purchase service for people with smaller funds.

Recent research from Watson Wyatt reveals that the launch has been well timed. The research suggests that the retirement market will more than double, from £13.6 billion in 2007 to £31.9 billion in 2012, when the government plans to introduce its personal accounts pension scheme. It also indicates that currently some 60% of retirees are not using the open market option (OMO) – the right to shop around for the most suitable annuity for their needs. The government has recently announced steps to make it easier for those at retirement to exercise the OMO.

In addition, under its 'treating customers fairly' initiatives, the FSA also aims to protect consumers with small pensions transfer values, who are seen as less attractive customers. JLT's extended new services have been designed to meet annuity needs across the board, offering expertise, choice and excellent customer service to improve clients' income in retirement, whatever the size of their pension fund. **Offering a helping hand, page 14.**

For more information contact Eddie McGuire on 0141 240 2911 or Eddie_McGuire@jltgroup.com



IT'S SHOWTIME

Profund, the pensions administration software provider, will be a high-profile attendee at the Professional Pensions Show to be held in London this autumn. The firm, part of the JLT Group, will be demonstrating its new web functionality software, Clarity, which brings a whole new level of flexibility to online scheme member communications.

It will also offer training, including a course of pensions basics for those new to pensions and administration consulting, which includes data validation, mortality checks and tracing services. In addition, its workflow and electronic document management software will also be on show along with its Aviary accounting system.

Attended by consultants, pension scheme managers, trustees and finance directors, the show will be held at ExCel in London's docklands on 19 and 20 November 2008. *For more information visit www.thepensionshow.co.uk/2008*

Profund has over 20 years' experience in the development and implementation of pensions software as well as providing administration consulting, training and a host of complementary software. *For more information contact Steve Bird on 0117 927 8410 or Steve.Bird@profund.com*

Creating the wow factor



Online benefits systems have proved rather disappointing so far, but that is about to change as web-based services offering a one-stop shop are on the rise. By **Duncan Howorth**

THESE DAYS, MOST IMPORTANT FINANCIAL SERVICES transactions are conducted online. Insurance is bought online and most people have an online banking account in one form or another. In a relatively short space of time, it has become the principal form of financial transaction.

Yet, employee benefits seem to have lagged behind the trend, but exactly why this is occurring is unclear. Perhaps they are seen as too complex to present online, or maybe there is simply a lack of viable offerings in the marketplace.

Web-based services in this area are now definitely on the rise, but the consensus is that as yet they don't achieve the real objectives of this kind of product: to create a 'wow' factor that will really motivate employees to engage with their benefits in the way that they do with other aspects of their financial life – after all it is about the employee and his or her money. They should enhance the employer's brand, simplifying and reducing administration for the company and the scheme's administrator.

One-stop shop

To provide that wow factor, any credible online benefits system must provide a one-stop shop to cover all the key elements of a modern benefits package. Once upon a time, pensions, often long-established before more exotic flexible benefits such as holiday trading and cycle to work, were usually managed and administered separately.

Today, it is about getting employees engaged with their benefits as well as enhancing the employer's brand, so both sides get 'bang for buck' from the investment. It's the employee's money after all, but it is the employer who makes it easier for employees to see it. For the employee, in particular, it is about accessing pension details and investment options and selecting other benefit options all from a single, easy-to-use intranet or portal.

Many online systems incorporate different tools, aids and financial modellers to help employees make their choices. It should be easy to see what benefits they already have

and what options remain open to them. Pension modelling software, for example, provides an indication of what level of pension benefit they might receive when they retire, based on the contributions they currently pay. It also allows them to see the effect of increasing or decreasing contributions.

The ability to visualise the potential pension benefits – or lack of them – in the future must surely provide a strong impetus for increasing contributions, or at the very least maintaining them.

Benefits for the employer

Employers want an online benefits system to help simplify and reduce the administration burden. One of the main complaints about many of the current online systems available is that the technology has failed to live up to its promise, making administration difficult and complex.

A system that staff can access freely and easily to book holidays, report sickness absence, change and update personal details and so on, is highly desirable. It saves on form-filling, removes the need for any rekeying and reduces the capacity for error since the employee often has only to complete his or her own details once.

The ability to carry out different kinds of HR and payroll tasks can effectively provide hassle-free administration that saves the employer both time and money. It should provide

a centralised reporting capability with immediate access to accurate data and enable tighter control over costs. It should also contribute to improved productivity through automated and streamlined processes.

Ease of access to the system is another feature sought after by both employer and employee. New systems coming on stream are beginning to offer remote access via internet-enabled mobile phones, for example. So an employee or HR professional, whether working from home or from anywhere else in the world, can access the system remotely.

Data security is also a requirement for the company. Since the system is likely to hold the personal details of thousands of employees, only those with the correct authorisation should be able to access certain levels of the system.

These are just some of the features that companies say they would like to see incorporated into their online benefits systems. Taken together and appearing in a single package, they seem to set a dauntingly high challenge. But the next generation of systems promises to be able to do all this and more. **EB**



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What JLT is doing

Using in-house technology resources, JLT has begun to extend its existing platform to cover the full range of employee benefits. It has also recruited a team with significant online experience to spearhead its proposition, service and solutions to clients. The result is the formation of JLT Online Benefits, which aims to be the leading online platform for employee benefits administration.

The new system is designed to give employees secure 24/7 access to benefits via not only PC and laptop, but also via devices like the iPhone and Blackberry, for a truly mobile solution.

The benefits covered include trust-based defined contribution and contract pension plans. Defined benefit schemes can be included via a link with the platform produced by Profund, part of the JLT group. Other benefits include group risk and healthcare plans, flexible benefits, reward statements and voluntary benefits.

All of these can be presented in the brand and livery of the employer and there is an international capability that enables multinational organisations to manage benefits across a range of countries on a single platform and utilise JLT's global coverage.

Employees will be able to enrol online and access key tools designed to help them. A pension calculator will give them a better understanding of how much to contribute to their pension and what their money actually buys in a money purchase scheme. They will automatically be sent reminders encouraging them to interact with the platform, perhaps keeping up to date with the value of their funds or making informed investment decisions online.

Employees enjoy greater freedom and control than other systems, including: access via personal mobile devices; coverage of all company-sponsored benefits; intuitive interface with

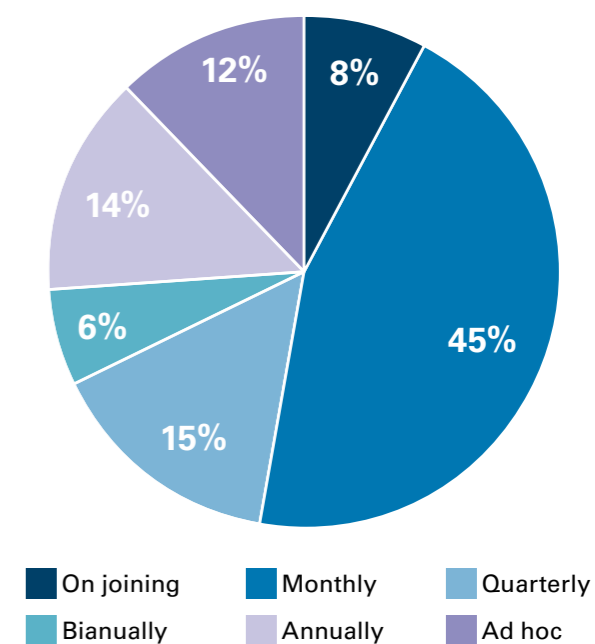
personalised tools to enhance understanding and promote system usage; and full capability to select benefit levels and most suitable investment choices.

The new functionality for employees demystifies benefits and enhances the online experience by offering: the ability to tailor the homepage to suit personal financial priorities; personalised data distilled to key messages to aid understanding; online messaging for the virtual adviser; and self-policing of transactions for more tangible benefits.

To simplify and reduce the scheme's administration, there is also an employer zone which provides a centralised reporting and modelling capability with immediate access to accurate data and tighter cost control. There is also scope for fewer errors and improved productivity, since a single data entry for HR and finance teams allows for more automated and streamlined processes.



How often do you communicate benefits to your employees?



Where next for employee benefits?

How do your firm's benefits policies compare with those of other organisations? JLT's latest research findings provide a snapshot of where the market is going.

By **Jon Bryant**

WHAT BENEFITS ARE UK FIRMS OFFERING THEIR employees? Which are the most popular and which ones offer the best value for money? These are just some of the questions answered in a report published by JLT Benefit Solutions. The report, *Current & Future Trends – UK Employee Benefits Market Survey Report*, surveyed 750 HR and benefits professionals during two major industry events held in Harrogate and London in 2007. Participating organisations comprised between 5 and 150,000 employees.

The research has been carried out for two main reasons. Obviously, it's important for JLT to know what is happening in the marketplace and to use real data to anticipate future needs so that it can adapt its offering and services appropriately. Just as important is its ability to offer HR and benefits professionals a benchmark for their activities and information that can help them to plan ahead. This, in turn, means they can offer their employees the best benefit options to support the success of their organisations.

Research findings

Overall, the report reveals that there are two key issues facing employers: first, the need for better administration – a massive 76% of respondents said their benefits administration could be improved; second, the importance of return on investment (ROI) for employee benefits.

Better administration is desirable not just because the organisations surveyed want an efficient benefit system but also because they want to provide an improved service and have access to better benefits data. One solution is to move benefits onto a single online system, even if they come through different providers. Consequently, the market is likely to see huge growth in this area in the next 12 to 18 months. Improved benefits administration can result in cost reduction, something that will please any management team.

The second issue, ROI, is likely to top many businesses' agendas in the current climate. The media and the 2008

Budget have highlighted a general economic slowdown in the UK. In this environment, it is often the benefits professionals that feel the pinch if there is a push to cut costs. Measuring success provides internal stakeholders with the evidence to support the decisions made about employee benefits. But without the right information it can be hard to counteract a cost-cutting mentality and a wider attitude in the organisation that benefits do not offer as much value as previously thought.

If cost-control for both benefits and administration is a focus for organisations, offering the benefits package online can often help to reduce costs, resulting in a win-win for both employer and employees. There are many options available to employers, many of which are low cost or even cost-neutral: these include salary exchange benefits, retail vouchers and voluntary benefits. Spending additional time considering what employees want and communicating that effectively can increase both perceived and actual value. ▶

« There is a growing recognition among organisations of the need to keep employees aware of the quality and value of the benefits on offer. »

What employees want

One conclusion that the report draws from its findings is that in 2008 employers should focus on the needs of the different groups in their organisations. This means they should offer a variety of relevant benefits, developing a system that allows them to track their success on an ongoing basis. Moreover, employers can use tools such as online benefit selection or online total reward statements to personalise communication to different groups. Employee benefits, and especially flexible benefits, can build a stronger focus on discovering what employees want. This can be achieved through asking their opinions and analysing data to maximise and target current spend. This isn't rocket science; employers need only talk to their employees, ask them what they want, put benefits in place and keep talking to them – two-way communication that is listened to and acted upon is key.

There appears to be a growing recognition among organisations of the need to keep employees aware of the quality and value of the benefits on offer. The data revealed that 60% of organisations communicate benefits to employees on a monthly or quarterly basis, while two-thirds of respondents said that they were looking at ways to improve how they communicate benefits to their employees. This reflects the fact that no matter how high the quality of the benefits on offer, they will not be appreciated or taken up if staff are not made aware of them.

For example, communication via payslips is a very effective, but often forgotten medium. Regular and frequent communications help maintain interest and awareness of what the organisation offers and can therefore positively affect participation rates. Also, as employees' needs change over time, keeping them up to date with benefits available ensures they can make the most of them.

Among the data were some unexpected results. For

example, one of the most surprising findings was the small number of organisations in the survey that offer benefits through a flexible benefits scheme (24%). As costs have decreased in this area and the administration burden has considerably lightened over the last two years, a higher level of take-up might have been anticipated.

Popular benefits

Salary exchange proved a popular method of implementing benefits with 75% of organisations surveyed making use of it. No doubt, the use of salary exchange schemes will continue to rise as employers become more aware of the potential savings available, combined with demand from employees. With the changes to income tax in the 2008 Budget likely to decrease net contributions into pension schemes and the significant rise in the upper earnings limit increasing the national insurance contributions burden on employees, the advantages of salary exchange have increased.

Of all the healthcare benefits on offer, by far the most widely offered is private medical insurance (PMI), with 71% of the organisations surveyed providing it. Although regarded as valuable by employees, employers should not forget its ultimate purpose, which is to minimise absence from work and form part of an overall health, wellness and support-in-the-workplace programme. It appears that most employers do not trust their employees to make the right choices and offer PMI as a core benefit only. Optical and dental insurance tend to make up enhanced healthcare options and often form part of a flexible benefits programme with dental plans, the most popular, being offered by 70% of respondents. **EB**



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Say it loud and clear

Motivating employees to pay more attention to their pension schemes can be a challenge. So how can employers looking to communicate their benefits more effectively get their message across? By **Leanne Hadfield**

FEAR, LOATHING AND INDIFFERENCE TYPICALLY characterise employees' responses to the subject of pensions. But with companies rapidly retreating from final salary schemes (where pension benefits were guaranteed) to defined contribution (DC) schemes (where the outcomes are less certain) they need to be much better informed. The challenge for employers is to ensure that employees can make the right decisions for themselves.

Increasingly, members who have been sitting comfortably for years in their final salary schemes may find themselves being woken up to face a new reality as firms look to offload the risk of future liabilities by closing down these schemes. New employees may find that they are provided with a less generous pension offering in the form of a DC scheme.

The reality is that members of DC schemes need to understand fully the options on offer and should be actively involved in the decisions that could ultimately determine

their standard of living after they have finished their working lives.

Raising awareness of these issues among scheme members to ensure they understand their responsibilities can only be achieved through effective, and targeted, communication. It is not enough simply to present the basic facts when they join the DC scheme, no matter how technically correct.

If an employer has taken the time and trouble to offer a pension scheme to employees, then effective scheme communication can ensure that employees are fully aware of their options and take responsibility for securing their retirement benefits in the future. Ultimately, however, it will ensure that the employer gets the best value for money out of the scheme by enhancing workers' understanding and appreciation of it.

What employers need to know

To deliver effective DC communications, employers first need to understand who they are trying to communicate with, the experience and level of understanding of their audience, and the key messages and objectives they are trying to get across.

Different types of workers will have different levels of understanding of the issues. For example, a group of shop workers is likely to have a less sophisticated understanding of the investment risks than a group of banking executives. Even within the same company there will be different audiences: older, long-standing members of final salary schemes will have a different perspective from that of younger, DC scheme members. They are at different places in life and their needs will be different.

It is important that employers take time to identify their objectives and create a long-term communications strategy instead of viewing it as a one-off, never to be repeated exercise.

«Members will not value benefits they do not understand and, at worst, will blame the company for bad decisions.»



What are the most effective methods?

A one-size-fits-all approach to communication is becoming less acceptable as members now expect to be provided with information that suits their individual needs. There are many different ways to communicate with DC members, ranging from seminars, work presentations and fully interactive websites providing members with access to their individual data to generic paper-based booklets, newsletters and brochures.

One simple way to make communication more effective is to make it of personal relevance to the recipient. Modern personalisation technologies are cheap, effective and have a greater impact on delivery to the member. A document or email that says 'Dear John' or 'Dear Jane' is more likely to be read than one that starts 'Dear Member'.

All messages should be kept simple, avoiding the use of jargon. Although the legal wording and disclaimers are important, they should not distract from the main issues and the communications should be structured to ensure that key messages are repeated and any necessary actions are clear.

The design and presentation of the communication materials is of as much importance to the intended recipient as the actual words and messages. Members need to be able to recognise easily and associate any communications with their personal circumstances and pension provision so as to give the attention required.

How can success be measured?

Setting clear, measurable and effective objectives at the outset of the process makes measurement of success easy. How many hits on the pensions website constitute a desirable result? Have members raised the level of contributions? Are there more calls to the helpline? These methods of measurement should be defined at the start, not the end.

Frequently, the best measurement is to obtain feedback from the members, perhaps in the form of a survey or questionnaire, which should then be used to shape the next exercise. By doing this, an employer's DC communications will be continually improved and the effectiveness will be increased.

Good skilful communication on the part of the employer is vital. Members will not value benefits they do not understand and, at worst, will hold the company and trustees responsible for decisions they make when they have not understood their impact. **EB**



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Offering a helping hand

Future retirees will have more choice in deciding which annuity is right for them and employers will have a role in helping them make the right selection. By **Eddie McGuire**

FOR TOO LONG THE ANNUITY MARKET HAS BEEN BELOW the radar, lacking in innovation and, some would argue, offering retirees little value for money. But now a number of factors have begun to converge that offer the opportunity to give future retirees more choice and, potentially, more value.

More choice

The government and the Financial Services Authority (FSA) are focused on creating a greater understanding of, and access to, competitive products for the retiring worker in promoting the open market option (OMO) – the right to shop around for the most suitable and best priced annuity.

The market is more active now than at any time in the recent past with the development of new products; whether

this is in the form of enhanced annuities – through more detailed analysis of life expectancy on an individual basis – or with the momentum behind the creation of variable/flexible annuities, it offers real choice for the first time from the traditional choice of annuity or full drawdown.

And in case the market needed a reminder of the size and scope of this opportunity, a recent survey by Watson Wyatt* underpinned the financial attractions for the industry with projections of a four-fold increase in market size over the next five years. So how are the products available to those retiring over the next few years likely to shape up?

First, you could say that there are two very different sides to the market. On the one hand there are providers seeking to retain maturing funds and continuing to take value from the policyholder after retirement and have little interest in promoting their own or competing products. On the other hand there are providers that seek to build shareholder value through active promotion of products to the retiree population.

Second, the market is tough, particularly for those looking to grow through offering (more) competitive products. The number of intermediaries active in the market is small and reaching consumers directly is difficult and expensive.

Third, a balance has to be struck between consumer value and provider profit in the emerging product arena and consumer knowledge of product choice. Employees, especially those about to retire, need to be made more aware of the benefits of exercising the OMO, which currently has a very low profile.

What does the future hold?

So can these potentially competing issues be overcome or will they result in inertia? As employers close their final

* Watson Wyatt: In-retirement study, March 2008



STOP PRESS: On 1 September 2008, JLT Benefit Solutions will launch Premier Retirement Services, to offer standard, enhanced and impaired annuities alongside a full advice service and an assisted purchase service for people with smaller funds.

salary schemes, it is clear that the future lies in defined contribution (DC). Consequently, annuity market growth will be exponential as fewer occupational schemes pay pensions from income. It is likely that saving through this form of provision will multiply and future maturing values will be greater. Employees' confidence to save in DC schemes will be higher if the annuity products are strong.

The bad reputation the pensions industry has for providing poor value annuities is something that it still needs to tackle, so innovation in this area will lead to employee confidence in saving for retirement, which will benefit everyone.

More innovation and new developments in the retirement market can be expected over the next few years. So what should employers be doing in the midst of all this market activity? They need to help keep their employees informed and provide them with education that will enable them to make the right choices for themselves. **EB**

What needs to happen?

- 1** Product providers need to learn from the past and resist the urge to over-complicate (and over-price) new products. There are lessons to be learned from other industries in how to create products and provide simplicity and transparency in the way they are priced and marketed.
- 2** Pension scheme members need more information and advice – and there is a potential role for employers here. The annuity market is not teaming with active advisers, perhaps because it is difficult to demonstrate value or earn profits from relatively low-value pension funds. But advisers should also see the size of the future opportunity that is starting to emerge.
- 3** The current initiatives by the government and the FSA are to be welcomed and should continue to underpin the need to offer and promote the choice that exists at retirement and enforce changes in attitude and behaviour if necessary.



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«Employees need to be made more aware of the benefits of exercising the open market option, which currently has a very low profile.»



Back to the future?

Constant innovation has been at the heart of the transformation of the private healthcare market. By **Simon Curtis**

IN THE LATE NINETEENTH AND THE FIRST HALF OF the twentieth centuries healthcare funding in the UK was provided by regional not-for-profit societies and guarantee companies that helped with hospital bills in return for small weekly contributions. Since payments were made each Saturday (pay day at that time) they were commonly referred to as Hospital Saturday Funds.

These funds stretched the length and breath of the country, offering a lifeline for people who would otherwise be unable to afford medical treatment. Then, with the founding of the NHS in 1948, such funds should have become obsolete overnight.

Yet the market for health insurances evolved, with some funds moving up-market offering private medical insurance (PMI) and growing into the national medical insurance companies we know today. As a result, in the second half of the twentieth century PMI providers dominated the private health sector in both innovation and coverage terms.

During this time many regional funds stayed true to their original roots by continuing to offer small nightly hospital payments and gradually added new benefits to

increase their appeal to an audience that now had access to free NHS treatment. They continued to develop on this basis with most policies written direct for individuals or through voluntary payroll deduction groups.

The sleepy sector

These cash plan companies, as they have become known, represented the sleepy sector of the healthcare market. They were non-commercial and often looked down on by their larger PMI counterparts.

However, since the beginning of the twenty-first century, things have changed dramatically with mergers, takeovers and innovation dominating the sector. Regional players have become national companies offering a range of new health plans specifically targeted at the company-paid market in areas left wide open by the established PMI insurers.

So far there have been three major product innovations. First, a policy was introduced with premiums starting at £1 per person per week. It specifically targeted the health issues most likely to benefit employers as well as appealing to employees (an idea that has been widely copied elsewhere).

Subsequently, another provider launched a low-cost

policy, this time aimed at prevention through early diagnosis with health screening, consultations and scans included. Latterly, well-received simply-styled dental plans for both the individual and group markets have been introduced by several cash plan companies.

While almost all of the better-known PMI providers have their own version of a cash plan policy, none has made a significant impact in this sector in either market share or product innovation despite the resources available to them.

Then in 2005 – as if to add insult to injury – HSA, the largest not-for-profit cash plan company, through its parent SimplyHealth, took over Bristol Contributory Welfare Association, the third-largest mutual PMI company (which had itself started life as a hospital contributory fund in 1935).

With more low-cost products being tailored to benefit the company as well its employees in the offing, it's the cash planners that are now making the running in the private healthcare market. Unlike the PMI insurers, their products reach out across the whole population rather than to just a privileged few.

Back to the future? It would certainly appear so. **EB**



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« While PMI providers offer their own versions of a cash plan policy, none has made a significant impact in either market share or product innovation. »



Working towards your endgame

There are a few simple steps organisations can take to protect themselves against, as well as reduce, the potentially incalculable risk posed by pension liabilities in DB schemes. By **Rob Dales**

RISK IS AN INEVITABLE PART OF BUSINESS LIFE AND companies exercise some level of control over factors that impact their business so that the risks taken are carefully calculated. One big exception, however, is pension liabilities for defined benefit (DB) schemes – the amount that schemes need to pay out in pension benefits in the future.

Pensions have always played an important role in recruitment and retention so that most firms have at some time offered membership of a DB scheme to their employees. However, by law, pension schemes must be valued every three years and this causes two major problems for companies: first, trustees sworn to uphold the members' interests ask for significant increases in contributions to the scheme; and second, the volatility of the financial markets leads to uncontrollable changes in accounting deficits. As a result, for many businesses, pension liabilities remain an incalculable

risk that fluctuates with the movement of the markets.

Companies need a strategy to deal with these liabilities, an endgame strategy, which looks at where a company wants to get to and how it means to get there. Today, there are different strategies that companies can use to minimise the cost of the scheme and the balance sheet deficit, reduce risk and exposure and remove liabilities from the scheme.

Ensure records are correct

Incredible as it may seem, no scheme has full accurate electronic records of members' entitlements. When a member's benefits come to payment, teams of actuaries trawl through historic files to determine the correct benefits. In most cases, of course, the member gets the correct benefits (after much inefficient and costly effort), but a surprisingly high number of schemes are holding liabilities for members who have died.

And that may not be the only impact: inaccurate records mean that the scheme's deficit could be overstated, which could lead to higher company contribution requirements and a higher balance sheet debt. Another consequence is that the company's Pension Protection Fund (PPF) levy could be higher than it needs to be as it is based on overstated liabilities, inevitably inflating the levy paid.

Many companies feel that the levy is an additional tax on those who manage to maintain their business and their pension scheme. However, few take active steps to reduce it, even when the board of the PPF is constantly reviewing its approach to calculating the levy. This ongoing reappraisal can provide companies with an opportunity to ensure their

levy is calculated accurately and is as low as possible. A firm's levy is based on the PPF's interpretation of its scheme return, plus its D&B rating, both of which can be incorrect and should be challenged.

Change the strategy

Historically, pension schemes have been invested with a view to maximising returns and beating their peer group. But this has changed in recent years. Now greater consideration is placed on scheme-specific investment strategy, which is designed to match the scheme liabilities. This means understanding what risks are being taken in the scheme's investment approach, understanding where there are risks but no potential rewards, hedging unrewarded risk and diversifying the risks taken.

The objective is to maintain or even improve the expected return from the portfolio – but with lower risk. For some schemes, where employer commitment is strong, the risks may be increased with a resultant expectation of increased return, but both the employer and trustees need to understand the magnitude of the risks being taken. The employer needs to consider what the deficit would increase to if the equity market fell 20%. Could the employer fund this and could the balance sheet survive it?

Understanding the risks of the current investment strategy and determining an alternative strategy should be handled sensitively so that it is acceptable to the scheme trustees. The introduction of the new scheme funding regime in 2006 and the approach taken by the Pensions Regulator have had the effect of driving up the contributions that employers are required to pay into their pension schemes.

While the cost of providing pensions has increased, it has not risen as much as contributions have. The key is to avoid ending up in surplus, which cannot be recognised in the company's accounts. Consequently, businesses need to plan their strategy for negotiating with the trustees. An unplanned strategy can lead to confrontation. In these situations there can only be one winner – and it won't be the company.

When in doubt, transfer out

One of the most popular solutions for reducing liabilities is to encourage members to transfer their benefits out to another pension arrangement, usually a personal pension plan. This is effectively a transfer of risk from the company to the member, although the member will only accept this if the price is right.

What constitutes the right price will vary from one member to another. But one thing is clear, the current transfer values offered by the trustees are not sufficient to compensate most members for taking on more of the risks. Any enhancement by the company to the value offered by the trustees can be paid direct to the member (after tax and national insurance deductions). This usually makes transfer a more attractive option.

« The ideal strategy will maintain or even improve the expected return from the portfolio – but with lower risk. »

The key factor in any transfer value is the critical yield, which is the investment return the member will need to earn on investing the transfer value to generate the same pension provided by the scheme. Once a basis for enhancement has been agreed, the next stage is to implement a communication process with members. JLT offers a tried and tested process, which maximises the take-up rates while remaining within the regulatory requirements of the Financial Services Authority and the Pensions Regulator.

When all else fails, buy out

Winding-up the pension scheme is the ultimate goal for many companies but this may not always be realistic. Moving a scheme straight in to wind-up is generally not the best advice as it triggers a significant debt on the company.

The next best option may be to buy out the scheme. It used to be necessary to wind the scheme up to secure the benefits with an insurer, but buying out is no longer the last part of the winding-up process. Instead it now forms an asset class in a scheme's investment strategy and provides opportunities for all schemes, whether big or small, to consider removing some or all of their risks.

The buyout market has changed significantly in recent years and the number of insurers in the market has increased from 2 to over 15. The increased competition means that the cost of buying out has been reduced to a potentially acceptable level.

Clearly, a few simple steps can help lessen the risks posed by pension liabilities and help businesses protect themselves from some of the worst possible outcomes in the future. **EB**



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Show the evidence

One of the most common reasons companies do not recover what they are entitled to from their insurers is because they underestimate what is required when substantiating a claim. So, how should claimants respond? By **Lynda Hardy Maskell**

WHEN IT COMES TO DISASTER RECOVERY, MANY businesses in the UK are well prepared and have good plans in place. However, the sheer number of potential risks – from bad weather to man-made disasters such as terrorism – can result in potentially huge insurance claims, particularly business interruption (BI). Lack of preparedness rather than the scale of loss can put companies at risk.

It would be easy to rationalise that business recovery after a major loss is simply a matter of good risk management and an effective business continuity plan that swings into action, allowing a business to continue trading with minimal impact on the customer. Yet many insureds do not recover what they are entitled to from their insurance claims and one common reason is that they underestimate what is required of them when it comes to substantiating their loss. So, how do claimant companies respond to the insurers' drive for greater detail? Put simply: "Forewarned is forearmed," says Candy Holland, Managing Director of Echelon Claims Consultants, which specialises in managing large, complex or problematical claims.

«Never underestimate how much time it takes to gather the information. You have to think about how you will capture the data before the loss.»

"You have to understand how the claims process works and prepare for it," insists Holland. "In a major claims situation, insureds must maintain credibility with the insurance market. They have a contractual obligation to provide information as a condition of the policy. They need to be ready with the right processes in place immediately after a loss."

Forensic detail

Unsurprisingly, given the scale of the industry's losses following a catalogue of natural and man-made disasters over the course of the last decade, when it comes to large claims, insurers and their loss adjusters are now paying far greater forensic attention to the loss evaluation process than ever before. Neither do they hesitate to bring on the heavy guns – in addition to loss adjusters, they routinely appoint expert forensic accountants and lawyers from the outset.

According to the terms of most insurance policies, the onus is on the policyholders to substantiate their claims, typically providing "such books of account and other business books, vouchers, invoices, balance sheets and other documents, proofs, information, explanations and other evidence that the insurer may reasonably require for the purpose of investigating or verifying the claim, together with, if required, a statutory declaration of the truth of the claim and any matters connected with it."

In short, that means insurers will want to substantiate every element of the claim, drilling down into the detailed documentary evidence of timesheets, day-rates and purchase orders. Given the difficulty in locating the relevant department, let alone the people who hold this information in a large company, the scale of the problem becomes clear. But insureds unable to provide this level of detail could find the omission a costly one.

AIRMIC (the Association of Insurance and Risk Managers) believes that a claims performance index would help restore the industry's reputation for handling claims fairly, but presented with insufficient documentary evidence on a large case, most insurers will apply a heavy discount.

Lynda Hardy Maskell is a freelance writer.

Tensions rise

According to Leo Dixon, a consultant at Echelon, making a large claim is a time when there can be tensions between two important priorities for a company as it struggles to recover: "Collating and preparing information for the insurance market after a major loss can consume a significant amount of time and resources," he says. "That's when risk managers and business units need the support of the board, because if they are going to optimise recovery of their losses, they have to produce as much evidence as possible. It's a different perspective to the business operations manager, whose sole purpose is to get the business up and running again. Insurance is not usually on their radar."

Equally important is the need for someone to review each piece of information, making sure any commercial, claim-sensitive or unnecessary information is not passed to the loss adjusters. Wise claimants will question whether what they are being asked for is part of a reasonable 'shopping list' of documents required to prove the loss, or something altogether less pertinent to the claim.

But, while many insureds are ill-prepared for the onerous process of pursuing a BI claim, beacon companies such as BT have seized the initiative. The telecoms giant has developed a ground-breaking protocol that defines the information that will be supplied for each area of its business in advance of a claim – streamlining the whole process of claims handling.



Be prepared

For a business of BT's size, working with a large number of insurers on claims could have made the claims process a cumbersome one. Instead, the company called upon the resources of its broker JLT and Echelon Claims Consultants to devise a loss management protocol that would minimise the complexities and length of the claim process.

One loss adjuster and one external forensic accountant were appointed to represent all the insurers and they worked with BT to agree the methodology and data to be used for each element of the business should a claim arise. It is the methodology that is agreed, not the value, and insurers have given assent for this to be agreed on behalf of the whole market. Called the claims quantification methodology (CQM), BT intends to apply the methodology to every revenue stream in the business.

For Chris Maurice, BT's Risk Finance Manager, the rationale for developing this protocol was a simple one: "It's about good corporate governance. We need to protect our balance sheet on behalf of our shareholders. That means having a robust process around a claim which may not be catastrophic for our business because of its size, but is a large claim for the insurance industry. It's important to be able to demonstrate that we have a reasonable expectation of recovering those funds."

It is hard to understand the pressure this process puts upon a company until you've experienced it for yourself. "The single most important part of the policy," Maurice says, "is the claims preparation clause. Never underestimate how much time it takes to gather the information. You have to think about how you will capture the data before the loss. Few companies have a physical paper trail now, and if you don't code information to allow you to extract it from the system and present it to the loss adjuster, you're toast."

"Big organisations can be fragmented, so don't be afraid to buy in external resources," Maurice advises. "Do it early, agree a rate in advance, and get the loss adjuster's agreement for them to assist. It makes the loss adjuster's role easier if they are dealing with professionals."

Presentation is key

How data is presented to insurers and their advisers is key to optimising the recovery of insured losses. Claims consultants, such as Echelon, combine specialist insurance claims, industry and accountancy expertise. They can provide companies with a useful resource to prepare and settle large losses as well as smooth the claims process.

Ultimately, if you want to pursue a successful claim, the onus will be on you. Be prepared. **EB**



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