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Central & Eastern Europe: A New Era of Employer Sponsored Retirement Provision

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Agenda of Today's Seminar

- **9.00 – 9.30** – participants registration
- **9.30 – 10.45** – Part 1 - **Pension systems in EE**
 - **Retirement programs as Employee Benefit in EE**
- **10.45 – 11.00** – coffee break
- **11.30 – 12.30** – Part 2 - **New Pension Legislation in Romania**
 - **Consequences and Opportunities for employers in Romania**
- **12.45** – Lunch at Cafe Teatro Restaurant, inside Hotel Novotel

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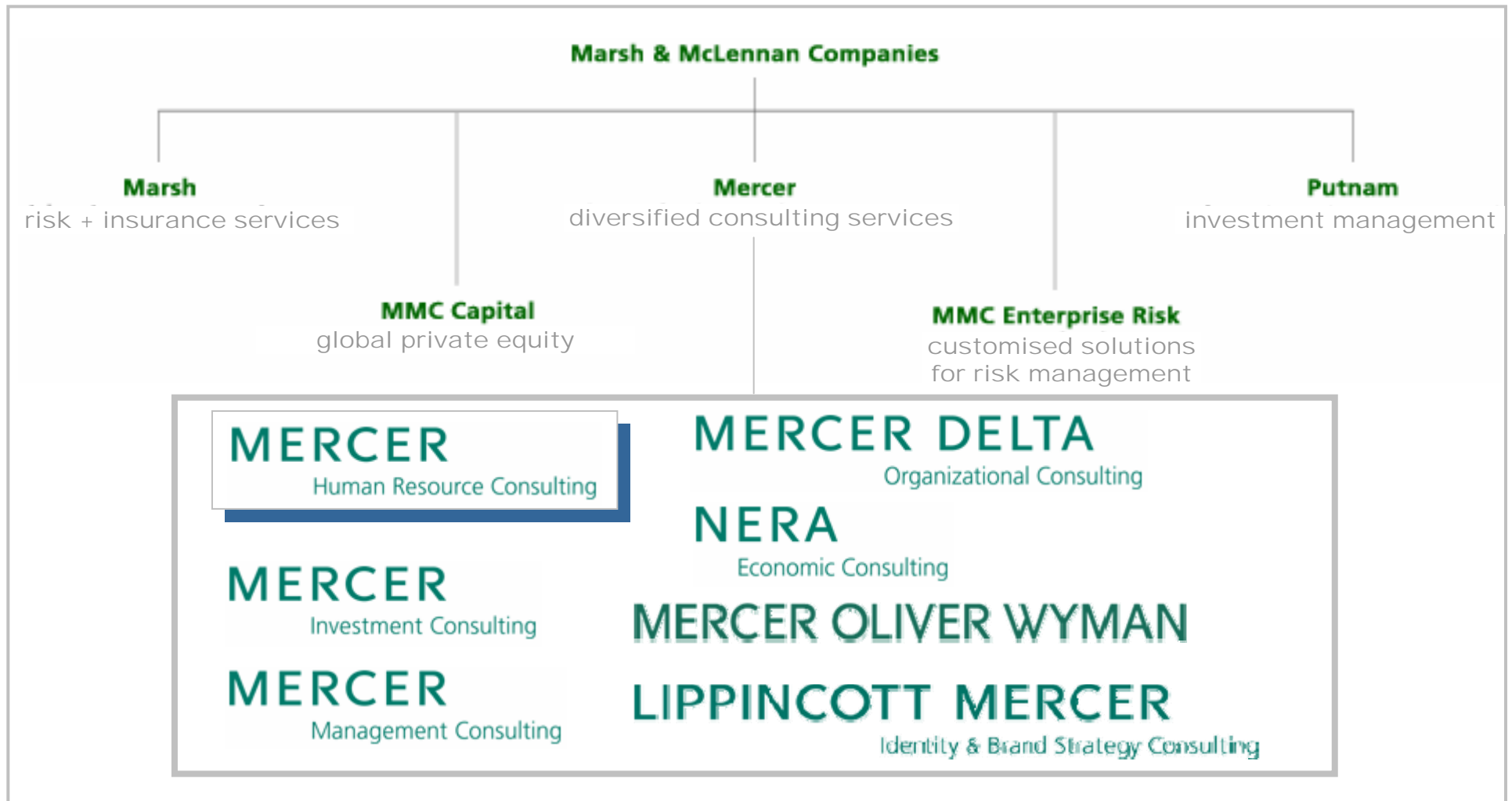
Marsh & Mercer Who we are



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Mercer's consulting team Part of a \$10 billion enterprise





Mercer Health and Benefits

- Mercer H&B consultants advise on all group benefits and other investments in workforce health and welfare – including medical, dental, prescription drug, life, accident, disability, flexible benefits, e-benefits, work/life programs and employee availability, productivity, and security programs – helping clients achieve the best service delivery at an appropriate cost.
- Broad and strong vendor relationships, proprietary analytic tools, and a full array of products and services equip Mercer H&B to help organizations of all sizes and industries.
- Mercer’s retirement consultants advise on the design, financial management, administration, and communication of all types of retirement plans. We provide global expertise related to defined benefit plans, defined contribution plans, hybrid plans, executive retirement programs, and retiree medical plans to help organizations deliver retirement plans that meet the organization’s business goals, suit the targeted workforce, meet the employer’s business goals and provide the best value.



Mercer Health and Benefits

What We Do

- Program and plan design and implementation that meet cost objectives
- Innovative solutions to reduce cost and enhance productivity when employees are absent from work
- Actuarial and financial analysis of employee benefits
- Employee education, communication and self-service transactions
- Third-party vendor (insurer) evaluation and selection, bidding, evaluation and negotiation
- Benchmarking and data analysis (cost, expense factors, legal and taxation issues, as well as plan designs/features)

Our Clients Need Our Help When They Want To:

- Understand and manage H&B program costs
- Implement new programs including vendor changes and changes driven by M&A or reorganization
- Respond to changes in legislation and accounting rules
- Understand and manage value delivered to employees through integrated H&B programs



World's Largest Employee Benefit Consultants



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Employee Benefits in Eastern Europe



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Central and Eastern Europe

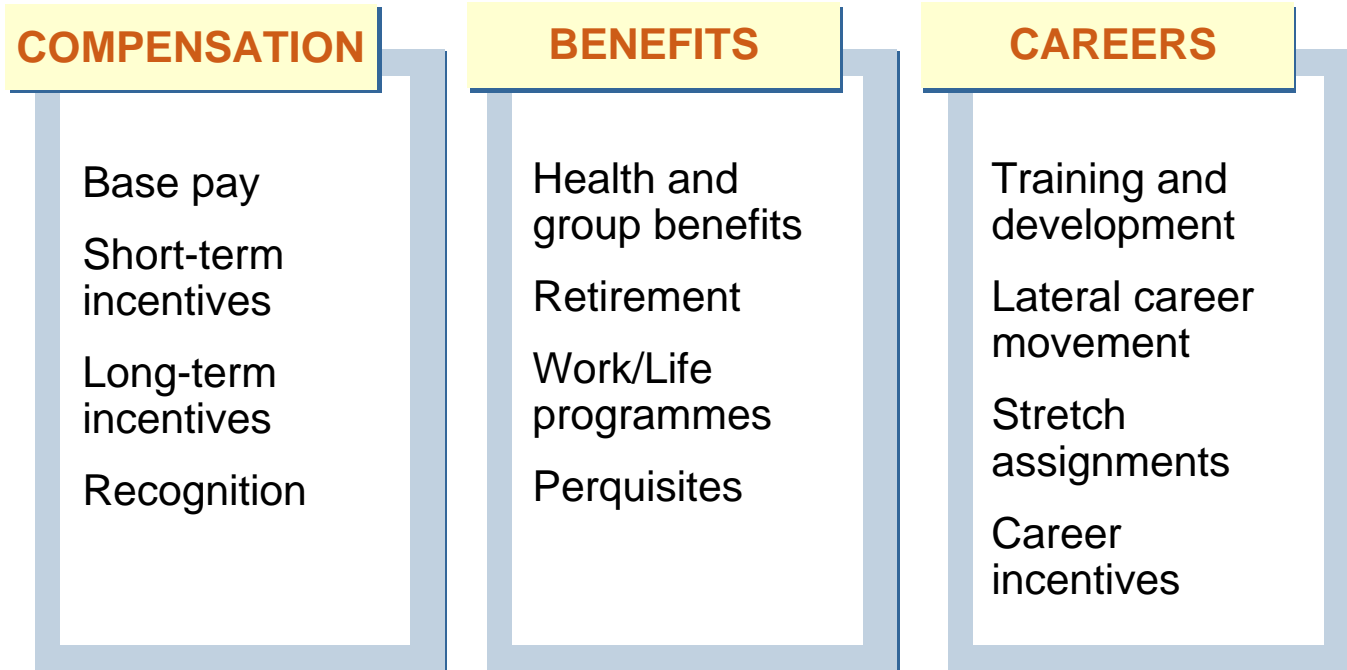
- Different definitions of what it is !
- Population of over 300 million
- Wide variety of economies, cultures, political systems and labour markets
- From Estonians to Turks; Ukrainians to Bosnians
- Region characterised by:
 - Innovative approaches (eg flat tax);
 - Large inward investment (eg Slovakia's car industry)
 - Qualified & mobile workforce
 - Fast growing economies





Total Rewards

Major component of the employment “deal”



and Work Environment?





Building the Total Rewards Framework

A successful Total Rewards Framework balances three interrelated perspectives





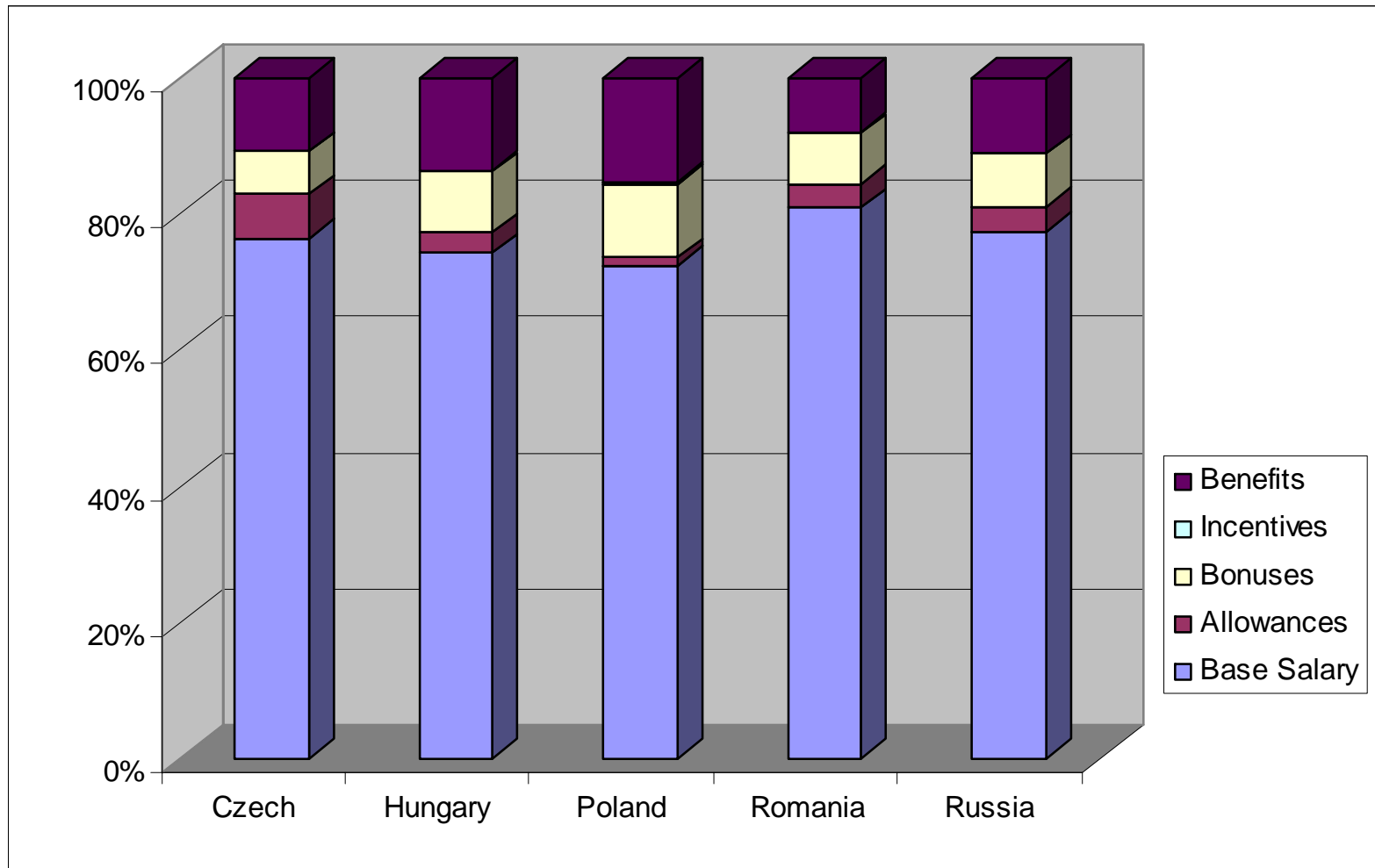
Why benefits on top of cash compensation?

- Benefits provided by the state are low
 - => many employers provide additional employee benefits to their employees – companies becoming more “socially responsible” for their staff
- Demand for skilled employees is significant
 - => employee benefits provide a crucial element of a total remuneration package for many, particularly multinational companies – sophisticated instrument to attract and retain
- Majority of employers in Russia provide life insurance and medical insurance, there is still a minority providing pension coverage. However, there are an increasing number of employers who are now either setting up such plans or studying the possibility.
 - ⇒ this is mainly due to the improved fiscal and legislative framework and due to increased social responsibility of employers



Total Remuneration Structure

% of remuneration components on the total remuneration



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Pension Systems in Eastern Europe



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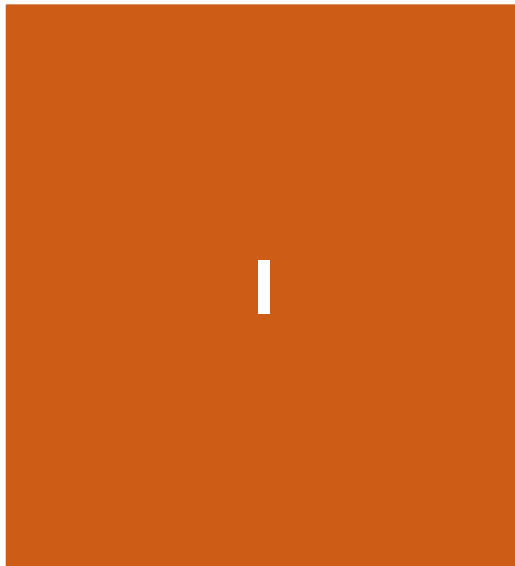
Overview of Pension Provision in the Region

- Similarities:
 - Move to a Three Pillar system in most countries
 - Tax incentives introduced for companies and individuals
 - State expected to play an ever decreasing direct role in provision
- Differences
 - Retirement ages, tax rules, pension fund vehicles, employer roles etc
 - Employee and employer culture



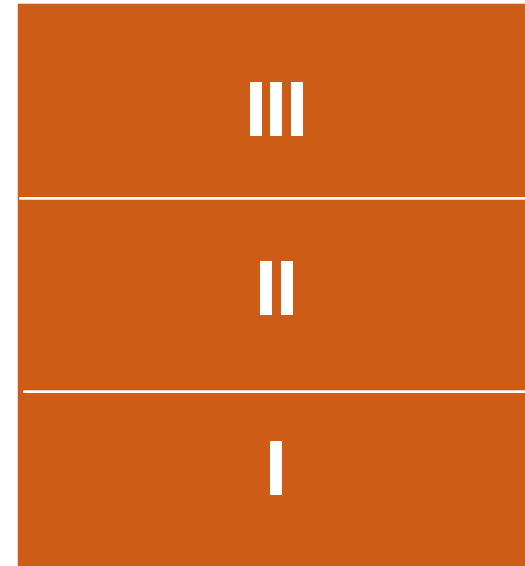
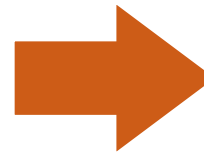
Three Pillar System - Structure

Past



I – Statutory Benefits

Now and Future



I – Statutory Benefits
II – Mandatory Plans
III – Supplementary Benefits typically favoured by tax incentives (Corporate and / or Employee focused)



Statutory Benefits and Income Replacement

■ Pillar I - Statutory Benefits

- Substance level only
- Benefit / salary limits
- Employee and company contributions

■ Pillar II- Income Replacement

- Mandatory pension funds
- Externally funded
- Defined contribution
- Earnings limits

■ Pillar III- Income Replacement

- Voluntary
- Defined contribution
- Externally funded
- Individual and / or group
- Fiscal incentives



Recent Situation and Observed Trends in EE

- Core reform legislation in place (some exceptions e.g. Czech Republic)
- New positioning of corporate pension plans within the remuneration and benefits package due to:
 - *Increasingly seen as market practice – critical mass now reached*
 - *Tax incentives*
 - *Pressure from employees / need to top up state provision*
 - *Pressure of the providers' sales channels*
- Legislation changes in the future should further strengthen the role of company pensions in overall retirement provision
- Stable and reliable providers market – open pension funds - led by multinational insurers and banks
- Although some new investment opportunities for asset managers exist for EU member countries, the investment returns observed so far are typically only a few points above inflation (due to conservative investment strategy dictated by investment rules). This reflects the need to consider risk when the private sector is in effect taking over some of the state's role



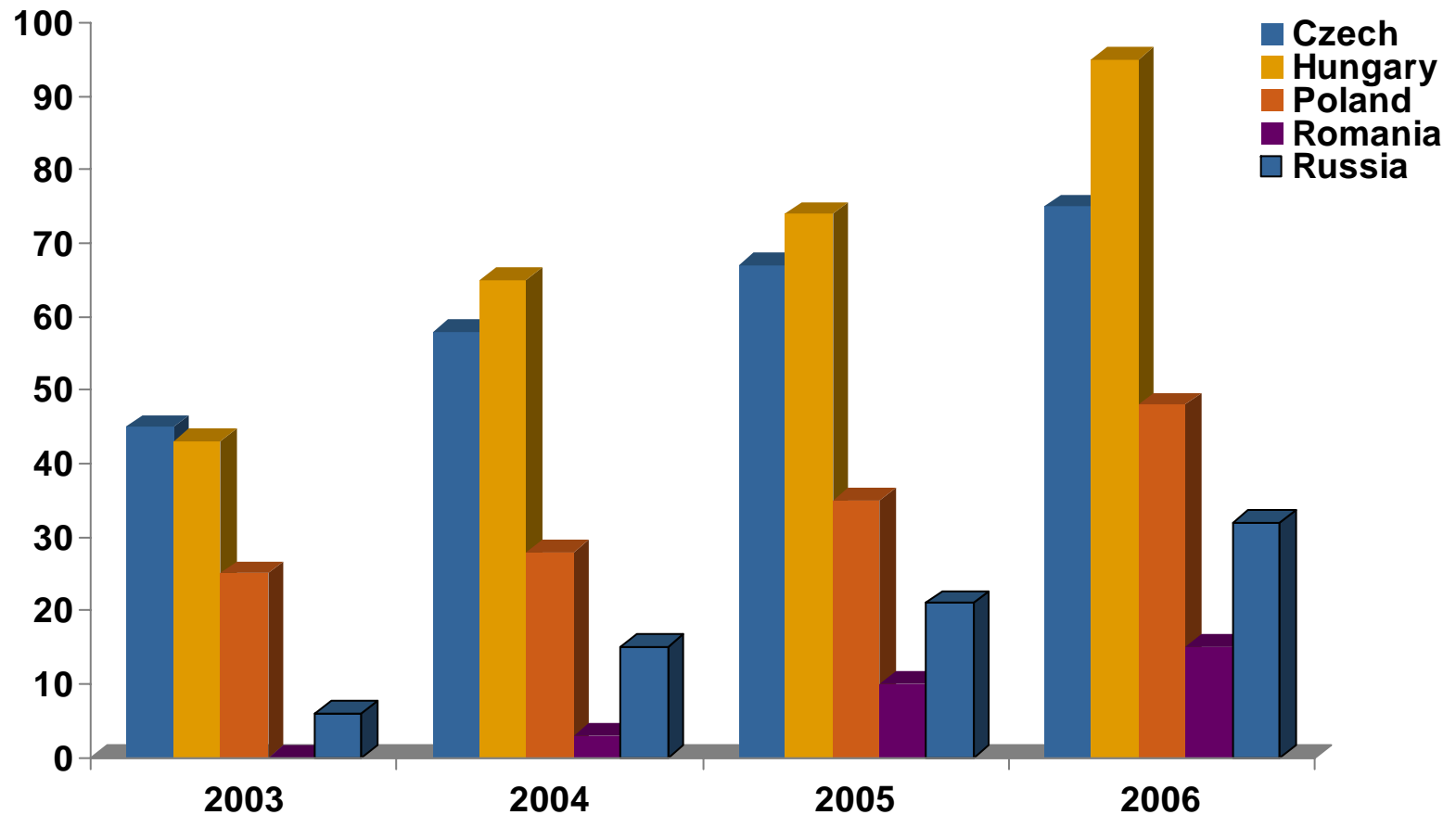
Timing of reform steps: Voluntary retirement provisions and occupational schemes

	Date(s) of reform(s)
Early adopters	
Slovenia	1992, 1999
Czech Republic	1994
Hungary	1994, 1998, 2006
Bulgaria	1994, 1999
Russia	1994, 2004
Slovakia	1995, 2005
Latvia	1997
Estonia	1998
Recent reforms	
Lithuania	2004
Ukraine	2004, 2009
Romania	2007, 2008

- Main features:
 - Introducing 3rd pillars (voluntary) first, occupational or mandatory funded 2nd pillars later
 - Defined contribution schemes in voluntary provisions
 - Strong influence of the World Bank on reforms in Hungary, Poland and the Baltics
 - Tax advantages introduced later to support participation
 - Newly developing provider market



Retirement Program % of companies with company sponsored retirement plan



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Private Pension System in Romania



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What should you do once decide to set up a pension plan?



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How you can make a difference in approaching company pension plan?

- Remember the three perspectives
 - Approach rewards based on today's **affordability** and tomorrow's ability to **sustain** the cost strategy
 - Reward employees based on **employer needs and business results**
 - Leverage your **value proposition to employees**
- The messages from all sources are broadly the same
 - Focus on what improves financial performance of organisation
 - Do not blindly follow survey benchmark data
 - Go beyond what others are doing – **best fit vs. best practice**





Best fit versus best practice





Mercer value proposition

- Design & implementation:
 - Analysis of current situation regarding insured benefits and preparing general recommendations (if changes are necessary)
 - Employees' expectations analysis (employees' satisfaction analysis)
 - Insurance program design (market practice vs clients' expectations vs market offer)
 - RFP & tender's conduct (RFPs, offers' collection, analysis, negotiations with insurers, report with recommendations)
 - Insurance contract (preparation all documents, i.e. review of policies, insurance agreements, appendixes and other insurance documents)
- Communication:
 - Information materials for employees
 - Meetings with employees