Latin America – Trends in benefits for a new labor market paradigm

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The changing Latin American labor market

<table>
<thead>
<tr>
<th>Traditional Latin American labor market</th>
<th>“New” Latin American labor market</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Rigidity (legal and regulatory)</td>
<td>• Less relative rigidity (legal and regulatory)</td>
</tr>
<tr>
<td>• Unionization</td>
<td>• Diminished unionization</td>
</tr>
<tr>
<td>• Prevalence of “informal” employment</td>
<td>• Decreased “informal” employment</td>
</tr>
<tr>
<td>• Mostly balanced talent needs and availability</td>
<td>• Increased multinational presence</td>
</tr>
<tr>
<td>• Some multinational presence</td>
<td>• Talent shortage</td>
</tr>
<tr>
<td>• Low total rewards “pressure”</td>
<td>• Moderate to high total rewards “pressure”</td>
</tr>
</tbody>
</table>
The changing Latin American labor market (cont’d)

- Labor market efficiency ratings (out of 148 countries):^{(1)}

<table>
<thead>
<tr>
<th>Country</th>
<th>Rating</th>
<th>Country</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>144</td>
<td>Guatemala</td>
<td>90</td>
</tr>
<tr>
<td>Bolivia</td>
<td>131</td>
<td>Honduras</td>
<td>142</td>
</tr>
<tr>
<td>Brazil</td>
<td>92</td>
<td>Mexico</td>
<td>113</td>
</tr>
<tr>
<td>Chile</td>
<td>45</td>
<td>Nicaragua</td>
<td>107</td>
</tr>
<tr>
<td>Colombia</td>
<td>87</td>
<td>Paraguay</td>
<td>117</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>53</td>
<td>Peru</td>
<td>48</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>118</td>
<td>Uruguay</td>
<td>139</td>
</tr>
<tr>
<td>Ecuador</td>
<td>111</td>
<td>Venezuela</td>
<td>148</td>
</tr>
<tr>
<td>El Salvador</td>
<td>121</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

^{(1)} Source: The Global Competitiveness Report 2013-2014 (World Economic Forum)
Countries where employers have the most difficulty finding employees with the right combination of skills, knowledge, and abilities (SKAs)\(^{(1)}\)

- Brazil
- Argentina
- Costa Rica
- Mexico
- Panama

Countries where employers have the least difficulty finding employees with the right combination of skills, knowledge, and abilities (SKAs)\(^{(1)}\)

- Peru
- Colombia
- Guatemala

\(^{(1)}\) Sources: Manpower 2013 Talent Shortage Survey (Manpower Group\(^{TM}\)) / The Hays Global Skills Index 2012 (The Hays Group/Hays plc)
The changing Latin American labor market (cont’d)

Positions most difficult to fill regionally

- Technicians
- Engineers
- Accountants and other financial services staff
- Sales representatives
- Administrative support services staff
- Management staff
- Production operators
- Skilled tradespeople

(1) Sources: Manpower 2013 Talent Shortage Survey (Manpower Group™)
The changing Latin American labor market (cont’d)

Increased pressure for competitive total rewards strategies

- Pace of economic growth and increased M&As by foreign companies
- Marked disproportion between skills needed and skills available in the local labor market
- Slow adaptability of local education systems
- Restrictions of labor legal and regulatory environment (incl. immigration & national quotas)
Focus on supplemental employee benefits

- The shift from novelty to condition *sine qua non*
  - State no longer “the Provider”
  - Multinationals and globalization
  - Competition for talent
Focus on supplemental employee benefits (cont’d)

<table>
<thead>
<tr>
<th>Supplemental benefit</th>
<th>Regional prevalence at multinational company level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement</td>
<td>Majority of industrialized LATAM</td>
</tr>
<tr>
<td>Life</td>
<td>Majority of industrialized LATAM</td>
</tr>
<tr>
<td>Long-term disability (including AD&amp;D)</td>
<td>Majority of industrialized LATAM</td>
</tr>
<tr>
<td>Short-term disability</td>
<td>Majority of industrialized LATAM</td>
</tr>
<tr>
<td>Medical</td>
<td>Majority of industrialized LATAM</td>
</tr>
<tr>
<td>Meals, transportation, and company cars</td>
<td>Typical</td>
</tr>
<tr>
<td>ESOP and profit-sharing</td>
<td>Not widely offered -- more common in industrialized LATAM</td>
</tr>
</tbody>
</table>
Focus on supplemental employee benefits (cont’d)

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<thead>
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<th>Supplemental benefit</th>
<th>Regional prevalence at multinational company level</th>
</tr>
</thead>
<tbody>
<tr>
<td>EAP and Wellness Programs</td>
<td>Not widely offered -- more common in industrialized LATAM (increased trend)</td>
</tr>
<tr>
<td>Annual bonuses</td>
<td>Not widely offered beyond statutory thirteenth-month salary or Christmas bonus (typical where not statutory; in some countries, employers do supplement statutory)</td>
</tr>
<tr>
<td>Flexible work arrangements</td>
<td>Not widely offered</td>
</tr>
<tr>
<td>Additional annual leave and vacation premium</td>
<td>Not typical</td>
</tr>
</tbody>
</table>
Employee benefits in Latin America: the road ahead

• The good news
  • Move from highly-regulated to market-based labor environment
  • Diversification of insured benefit products
  • Flexibilization of benefits to accommodate employee needs best
  • Continued – in some cases improved – tax advantages

• Barriers still to overcome
  • Rigidity of labor and insured benefits laws and regulations
  • Informality and lack of guidance
  • Employee group size restrictions
Case in Point: Brazil
Insured Benefits Trends in Brazil

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Country Details: Brazil

- Third largest country in the Americas; fifth largest in the world.

- The country is divided in 26 States and 1 Federal District

- Government Head: Dilma Rousseff

- Brazil’s Capital: Brasilia

- Language: Portuguese

- Monetary Unit - Real (BR$) – Exchange rate as of August, 2013:
  
  - USD 1.00 = BR$ 2.30

- Total Population 198,000,000
Brazil is the leading economic power in South America, and its presence in world markets continues to grow.

Key sectors include agriculture, manufacturing, mining and services.

In April 2008, Standard & Poor’s raised Brazil’s long-term foreign currency debt rating from BB+ to BBB- (Investment Grade) due to its strong economic growth and the sound fiscal policies.

Brazil is one of the BRIC countries – developing nations with strong growth potential.

Average Inflation in the Country is 6.5% (IGPM). Medical inflation (experienced on health/dental insurance) may vary from 9% to 12%.
Window of opportunity in the next 20 years!

1) Demographics: increasing economic active population. More consumers, more demand!

2) Oil and Gas: recent finding in the Brazilian Coast will make Brazil one of the major players in the World.

3) World Cup 2014 and Olympic Games 2016: investment in infrastructure.

4) Stable economy and increasing GDP

*Source: World Bank.*
Most Commonly Offered Insured Benefits

Complementary Benefits:

- Life Insurance
- Health and Dental Plan
- Retirement / Pension Plans
Most Commonly Offered Insured Benefits

Health and Dental Plan
Private health insurance
A growing market!

• From the 198.000.00 total Brazilian population, only 43.000.000 are currently covered by a private health plan.

• From the 43.000.000 that have private health insurance, 32.000.000 are coverage by Corporate plans and 11.000.000 are covered by Individual plans.

• Number of insured lives has increased 6% a year in the past 5 years!
• Health insurance in Brazil is regulated by a government body called Agencia Nacional de Saude (ANS).

• The ANS determines the standard coverage that applies to every health insurance carrier in Brazil - Law No. 9656/98

• As a result, coverage provided by every carrier is very similar (almost equal).

• What differentiates one carrier to another is the network of hospitals/clinics/doctors provided and the value of refunds for procedures done outside the referenced network. Most carriers will offer an accredited network in the Southeast of the Country only. There are very few carriers that offer a true national network.
Hospital day rate without time limits;

Complementary exams for diagnosis or control of the treatment;

Medical assistance /doctor’s appointments;

Surgery room rates;

Intensive care or isolation unit when determined by the physician;

Ambulance removal between hospitals;

Coverage for urgent and emergency care, from admission into the hospital until discharge, or what is necessary to the preservation of life, organs and functions.

Health insurance Coverage as regulated by the ANS
• Experimental treatments and surgeries;

• Care in public disasters, social conflicts, wars and revolutions, as well as caused by nuclear or ionizing radiation;

• Plastic surgeries, except for restoration arising from accidents;

• Orthopedic apparatus, supply of prosthesis not connected to surgical procedures.
Health insurance
Points to consider when operating in Brazil

• National vs. Regional network of hospitals and clinics;

• Option of reimbursement/refund for procedures done outside the network (not all the plans offer it);

• Contribution by employees on premium payment should not be considered. According to the law 9656/98 it can have future legal implications. If the employee contributes towards premium payment and is terminated, they can stay on the plan for 1/3 of the period they contributed, with a minimum of 6 months and a maximum of 2 years. Retirees can stay for the plan indefinitely if they contributed for more than 10 years.

• Private vs. Collective Room accommodation;

• Different levels of plans to Managers and Directors;

• Co-payment for procedures (ex: doctors appointments).
For groups smaller than 30 lives (including employee+dependents) grace periods will apply as below:

• Urgency and emergency - 24 hrs.
• Doctor’s appointments and exams – 30 days
• High cost exams – 90 days
• Surgeries (not considered urgency/emergency) -180 days
• Term delivery (Birth procedures) – 300 days
• Pre-existing conditions – up to 720 days
• Given health insurance is regulated by the Government the coverage is very comprehensive. As a result medical coverage in Brazil is expensive.

• The average cost per life per month is USD 200 for a good level plan (R$ 360.00 per life per month)

• Premium readjustments happens annually and are based on claims ratio + medical inflation as determined by the carrier

• Claims ratio (total usage costs vs. paid premium) cannot exceed 70%
Already in Brazil?
That is what you should be doing

- Lectures and presentations to employees on how to properly use the health plan.
- Wellness Campaigns, including different topics as high blood pressure, prostate cancer, breast cancer and etc.
- Chronic cases: identifying it and properly treating the pathologies.
- Preventive care.
- Constant analysis of claims ratio experience (getting everyone involved: client, carrier, consultant, employees)
A recent study from the local Ministry of Health, provided the following information:

- 44% of the population drink soft drinks every day
- 1/3 of the women over 50 years old never had a breast cancer exam
- 9.9% of the population never visited a dentist
- 16% of the population smokes regularly
- 44% of the population watch at least two hours of TV every day
A recent survey found that 31.3% of the Brazilian population present at least one chronic health problem, being:

- 14% presented high blood pressure;
- 13.5% presented spine/back related pathologies;
- 5.5% presented arthritis;
- 5% presented asthma;
- 4.1% presented depression;
- 4% presented heart related pathologies;
- 3.6% presented diabetes
Most Commonly Offered Insured Benefits

Private Pension Plans
Defined Contribution Plan

Reasons for Implementing a Private Pension Plan

• Maintain Competitiveness;
• Supplement the benefit of granted by the INSS;
• Align the HR strategy with the company’s business strategy

Suggested Plan Structure

• Type of Plan: Defined contribution

• Plan Objective: To accumulate resources based on the contributions done by the company, the employees and the asset’s return.

• Plan Benefit: Retirement by age (60 years with a minimum of 5 years of contribution)
Plan Structure – Employee Contributions

Participants Contribution:

Basic Contributions – BC

• Monthly Contributions
• 1 to 5% of Salary
• Minimum contribution amount of R$50.00
• 12 contributions per year

Voluntary Contribution – VC

• The participant can define the amount of contribution and the time to do it
• No company matching
• Minimum contribution amount of R$ 50.00
Plan Structure – **Company Contributions**

Company Contribution

**Basic Contributions – BC**

- Monthly Contributions
- 100% of participant basic contribution considering a 5% maximum
- Minimum contribution amount of R$50.00
- 12 contributions per year

**Occasional Contribution – OC**

- The company can define the amount to contribute and the time to do it.
## Private Pension Plan

### Vesting Schedule

<table>
<thead>
<tr>
<th>Time of Service (in complete years)</th>
<th>% of the contributions done by the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 years</td>
<td>0%</td>
</tr>
<tr>
<td>From 3 year to 3 years an 11 months</td>
<td>20%</td>
</tr>
<tr>
<td>From 4 year to 4 years an 11 months</td>
<td>40%</td>
</tr>
<tr>
<td>From 5 year to 5 years an 11 months</td>
<td>60%</td>
</tr>
<tr>
<td>From 6 year to 6 years an 11 months</td>
<td>80%</td>
</tr>
<tr>
<td>More than 7 years</td>
<td>100%</td>
</tr>
</tbody>
</table>
Most Commonly Offered Insured Benefits

Life Insurance
Life Insurance
Common Practice

- Insured Limit: 24 x Monthly Salary

Coverage:

- Term life insurance for death from any cause;
- Accidental death insurance;
- Permanent Total or Partial Disablement caused by Accident;
- Permanent and Total Functional Disablement caused by Disease;
- Funeral Assistance.

Market Standards
- Coverage is provided usually only to the employee (no coverage for dependents).
- No contribution on premium payment from the employees (given future liability).
Case in Point: Mexico

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Case in Point: Mexico  
Some basic differences compared to the US

<table>
<thead>
<tr>
<th>Supplemental benefit</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement</td>
<td>Almost always linked to statutory termination indemnity payments</td>
</tr>
<tr>
<td>Long-term disability (including AD&amp;D)</td>
<td>Rider to basic life and paid as a lump sum</td>
</tr>
<tr>
<td>Medical</td>
<td>• Traditional focus on major medical indemnity plans (now adding doctor’s visits, annual check-ups, dental)</td>
</tr>
<tr>
<td></td>
<td>• Most payments via reimbursement because of limited networks</td>
</tr>
<tr>
<td></td>
<td>• Benefits and deductibles set as multiples of minimum monthly wage</td>
</tr>
<tr>
<td></td>
<td>• Caesarean benefits higher than natural</td>
</tr>
<tr>
<td></td>
<td>• Pre-existing conditions and continued treatment major issues for small groups</td>
</tr>
<tr>
<td>Autos</td>
<td>Common for professional employees</td>
</tr>
</tbody>
</table>
Case in Point: Mexico
Latest trends and hot topics

• Medical inflation more than twice regular inflation

• Increased use of multinational pools for life insurance (local dividends only for groups larger than 1,000 insureds)

• Growing interest in wellness and flexible benefits

• Political and economic volatility have created a resilience and flexibility to adapt for adversity and change (all of Latin America)

• Economic growth slowing and security issues continue

• More flexible rules for part-time employees and probationary period

• Significant new government proposals (energy privatization, fiscal reform, public school teachers)
Questions and contact information

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