NAVIGATING TURBULENT TIMES

Group Benefits for Globally Mobile Employees in Oil and Gas

Introduction

“We’ve laid off 50% of our total population.”

“Our group size has gone down on the international side from 200 to 70.”

“It needs to pick up and we have every indication that it will.”

“I think that things are starting to turn around a little bit right now.”

The energy industry, in particular oil and gas, is in its deepest downturn in decades. Against that backdrop, we launched a survey[1] of employee benefits professionals. Our goal? To understand how oil and gas companies are coping with the challenges of offering group benefits to expatriates, rotators, third country nationals, inpatriates to the US, locally hired foreigners and the like.

Global mobility programs are changing shape, both in structure and in the makeup of their participants. These changes are flowing through to benefits, although the effects often look different for and within the global mobility group, where talent is particularly critical and turnover costly. Given the unique requirements of conducting business internationally, firms are looking for innovative ways to balance cost with competitiveness. Because when the market turns around again – and it will, most respondents say – employee benefits will become more critical than ever in sustaining an effective presence on the world stage.

Many thanks to the 25 benefits professionals who participated in our survey. They are the voice of experience, and this report represents their collective knowledge and insight.

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[1] Surveys conducted in June-August 2016 by The Marketing Audit with a representative group of Cigna Global Health Benefits® oil and gas/energy clients based in North America. The Marketing Audit is an independent firm that provides global qualitative and quantitative business-to-business and consumer marketing research services. Cigna Global Health Benefits is an insurance carrier that provides health services to over 138,000 customers of the oil and gas industry in 136 countries for more than 140 clients.

Global Mobility Programs

Reduced revenues have led to cost pressures throughout the oil and gas industry. And it isn't just that companies are retrenching. One respondent's company is filing for bankruptcy. Several others declined to participate in our study because their companies were in bankruptcy as well.

Consolidation is ongoing. "We just went through two major acquisitions within a nine-month period," notes one respondent. Another says her company is being acquired. And then there are divestitures. "We sold some international locations as part of our portfolio change to be more North American-focused."

Capital budgets are being slashed. Firms continue to measure and monitor costs, looking for any opportunity for cost savings.

The oil and gas industry is restructuring.

International programs haven't been immune to broader downsizing. Many of our survey respondents say their companies have reduced staff in those areas. They've also repatriated individuals. One integrated energy company says it has downsized its globally mobile workforce from 800 to under 300, and is considering further reductions still. Another is looking for 30% to 40% fewer long-term assignees.

"The globally mobile population is shrinking," a team leader in Houston tells us. "People are being called back to their country because expats are infinitely more expensive than domestic employees, with all the allowance they get." He adds that "if you consider the salary and benefits of someone whose total package is US$210,000, for an expat that is going to be US$350,000."

But others say any downsizing in international programs has more to do with staffing cuts across the entire workforce. "We have not targeted the international population to a higher degree than we have the overall population," observes a manager with an oil

Survey At a Glance

This report is based on in-depth telephone interviews with benefits professionals at 25 oil and gas companies. Here's how the survey group breaks down:

Sectors
Pipeline: 1
Drilling: 5
Exploration: 5
Integrated energy: 6
Oil field services: 8

Countries
Canada: 4
US: 21

Revenue (combined, 2015)
US$800 billion

Employees (combined, 2015)
510,000

Globally mobile employees covered by a Cigna Global Health Benefits plan (2016)
10,000

Globally mobile employees and their families covered by a Cigna Global Health Benefits plan (2016)
28,000

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field services company. In general, respondents say the extent to which they might cut globally mobile staff is related to projects, local conditions or corporate restructuring more than to the overall cost of the initiative. The trick, they say, is to do all this without losing the talent they need today or harming their ability to attract talent once the market turns around.

Most respondents say they offer similar benefits and healthcare provider networks across assignment types.

Consistency and ease of administration are two reasons. Fairness is another: "Employees out on the rigs tend to talk to one another."

Turnover Trouble

Talent retention is a prominent worry among respondents.

"People are worried, and they're looking elsewhere for employment."

"Some of them are taking a big hit and some of them are jumping ship."

"Retention is always an issue."

"Turnover is one of our biggest problems."

"We realize there is a loss there."

"If benefits are not our differentiator, then what is? We're not offering bonuses or additional time off."

US or Canadian employees who rotate between the two countries generally stay on their home plan. But an employee who leaves North America for an assignment abroad typically joins an international plan that covers all expats, whatever their home country and wherever they may travel. The international plan's benefits might mirror those the employee would receive if they stayed home. That is, the Canadian employee's plan would be similar to the Canadian domestic healthcare program. The US employee might have a PPO plan with deductibles and premium contributions, just like colleagues who work in US offices.

However, some companies offer richer benefits to one group or another.

A few respondents say that compared with long-term assignees, rotators receive more robust benefits. A manager at an upstream oil and gas company says that their rotators, while abroad, share the same global plan as the expats. "But the rotators do not have any deductibles. The reason for this difference is that the rotators are just so much more mobile and they'd have to file for reimbursement while in and out of their country, so it's a little more complicated situation for them."

At other companies, it's the other way around – long-term assignees have the richest plans. They "get a whole bevy of benefits and programs, including a medical plan that's very different," explains a director at an integrated energy company. "They get a relocation package and income adjustment. Housing allowances…[and] company-provided healthcare coverage for the employee and the family. There's no cost from an individual standpoint from premiums, copays or deductibles."

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Respondents offer a few reasons for providing expats with more robust coverage. One is that they're more highly skilled employees. Another is that the roles are tough to fill: "It's hard to get people to go on assignment, and hard to bring people from one country to another and train them," says a respondent from an oil field services firm. Yet another reason is that the cost of care outside the US is significantly less.

In this kind of scenario, rotators can be excluded from benefits altogether. A Houston-based respondent says that for financial reasons, his company doesn't offer coverage for employees who rotate out of their home countries. He wishes it were otherwise, though, noting that "high quality…innovative solutions" exist for this population that he's "dying to use."

Some companies are de-emphasizing rotator/commuter positions.

Rotators are generally defined as employees, such as oil rig personnel, who leave the country for 30 days at a time. US-based rotators can be the "most expensive group by far," explains a drilling company manager, "because their families are in the States receiving medical care, and most of them receive medical care in the States too." The cost of travel is a big concern with this group as well.

As a result, to the extent employees must be globally mobile, some companies prefer to put them on long-term assignment rather than in rotator positions.

The proportion of globally mobile employees who are on long-term assignment (including assignments in the US by inpatriates) varies significantly from company to company. Survey participants offer estimates ranging from 5% to 90%, with 60% most common. That said, companies characterize length of assignment differently. "We consider all globally mobile employees to be long-term," says one respondent of her company, a drilling contractor with 70 percent offshore rotators.

Localization of benefits packages for long-term assignees is attracting interest but little action.

One way companies might save benefits costs is to localize the long-term assignee. This is a time-tested strategy that firms traditionally consider

Commuter Complexity

Coverage Options

Consider an employee who rotates between Canada and the US. A typical set of scenarios might look like this:

US company, Canadian employee: The employee is placed on US benefits.

US company, US employee: The employee stays on US benefits, which are part of a plan offered to all US employees. This may or may not include those who are globally mobile.

Canadian company, Canadian employee: The employee stays on Canadian benefits.

Canadian company, US employee: The employee is placed on international benefits, which mirror the domestic Canadian program.

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for employees who have been abroad for many years with no position at home to come back to. "Some of these people have a payroll transfer to become a local national at that place and they try to stay there, while others have come back and have either become redeployed or are retired or are laid off."

In that case, the company might make them a permanent payroll employee of the country they live in, so that they get the benefits of the host country. This can leave the employee with a reduced contribution given the cost differential in US health care. "Most of the US folks," explains a manager with an offshore driller, "will come back to the US for medical care. And medical costs in the US, of course, are [typically] high compared to a lot of countries."

Among respondents, the proportion of expats who are localized remains small, though. Only one – an oil field services company representative – pegs the proportion of expats who are localized at more than 10%.

The Globally Mobile Employee

The oil and gas worker is getting older. Respondents working for drilling contractors report (perhaps unsurprisingly) that half or more of their globally mobile employees are between 25 and 44 years old. But at other companies in the upstream sector, such as exploration companies, the globally mobiles skew older, with the majority of employees between 45 and 54 years old. The age range is broader at oil field services, with most globally mobile employees between 35 and 54 years old. And respondents at integrated energy companies say that the vast majority of their globally mobile employees are between 35 and 54 years old, with more in the 45 to 54 age range.

Part of this bias toward older workers has to do with the job. Expat assignments in particular typically require highly experienced people. One respondent notes that repeated reductions in force have had a bigger effect on younger, less experienced people.

At the same time, fewer companies are investing in developmental opportunities – "because of the cost environment," explains a manager at an integrated energy company. But one respondent says her company, a Canadian firm, has taken the opposite tack as part of a key cultural initiative. "Developmental by far is the biggest assignment type," she tells us.

Millennial expectations are different.

Whatever the opportunities, expat life might not hold the same appeal for young adults anymore. "Most of our short-term and even half of our long-term expats do not take their families with them," notes a manager at a US oil and gas services company. Work that separates them from family may be out of synch with millennial expectations. The troubled state of many parts of the world also could be affecting the willingness of younger adults to go abroad for work.

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A manager at an exploration firm tells us, "I've noticed a change in the willingness of younger people to take these assignments. Our globally mobile staff have taken numerous jobs and that's what their career has been. But younger staff have been very hesitant to do so, and have many more demands about moving their family overseas. The staff that we have has spent most of their careers working overseas. But the millennials are different."

Even so, a handful of respondents report early indications of change. One reason may simply be that the existing globally mobile workforce is starting to feel the burden of travel and being away from home. Put simply, they're aging out – forcing companies to step up their efforts in recruiting a younger population.

Communication is key to engaging that population. But communication is a challenge for all companies that offer benefits to globally mobile talent, not just those in oil and gas. A 2015 survey of 2,704 expats[2] found that:

- Most pre-assignment communication emphasize compliance and logistics over information related to local culture, lifestyle and emergencies.
- During an assignment, most communications about global mobility program benefits are standardized rather than personalized.
- Between 2013 and 2015, the use of mobile phones to access online information nearly doubled.

To attract and retain millennials, oil and gas companies might consider stepping up communications in the style that generation prefers: authentic, personally relevant, mobile and self-serve.

More companies are considering local talent over expats.

Whether for reasons of cost, availability or diversity, some respondents note a greater emphasis on filling jobs with local nationals rather than expats. Some are recalling expats and replacing them with locals; others are doing more local recruiting to begin with. "There's a lot of talent in these countries we're operating in, and we have to be recruiting more local talent rather than just sending talent," says a supervisor at an exploration firm.

Some respondents note using this tactic already in the US, Canada and Australia. But today, respondents say, they're also looking for talent in Mexico, Guatemala, Russia, Kazakhstan, Equatorial Guinea, Indonesia and Malaysia. "We use local talent to stick to the philosophy that expat assignments should only be about three years and [should be in support of] the development opportunity to train a local person for cost savings," says one respondent.

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[2] Cigna Global Health Benefits and the National Foreign Trade Council, "Expatriate Trends Study 2015: Employee Expectations Re-Examined," 2015. See: http://www.cignaglobalhealth.com/resources/we-know-expats.html

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Local recruiting is not always voluntary. Many countries require the employment of local nationals as a condition of doing business there. Examples include Egypt, Saudi Arabia, Nigeria and Kurdistan, say respondents. And in some places, the talent pool is thin. "Given the choice, we would rather keep our country employees out there," says a respondent at an exploration company.

Global Employee Benefits

Most respondents say that despite the challenges their companies are facing, they're holding firm on benefit plans. Even companies that have slashed headcount, allowances and location-based premiums hesitate when it comes to benefits. "Every year, we'll look at [the] design of our medical plans, but we have not considered any drastic changes," one respondent says. "This is just not our philosophy to do that."

That's not to say cost-sharing is off the table, particularly for the richest plans. "It's beginning to pressure the employers," says a drilling contractor benefits manager, "because right now we handle 100% of the medical costs, dental, life and long-term disability. And we also pay half of the dependent cost on our medical insurance."

But cost-sharing can add complexity, which has its own costs. One respondent makes this point about his company's international benefits program. "What I value most," he says, "is that it's a simple plan and it hasn't been difficult to administer. And the employees seem to appreciate it and they really enjoy the network benefits outside of the US. It's paid at 100% and they don't have to worry about anything there. The help team and the people in the claims department are easy to work with and my concerns are addressed very quickly."

And so far, many companies aren't looking to benefit programs for cost savings. Instead, they're reducing the number of globally mobile employees. "We have not had to make changes in their provisions or anything, because the people reduction seems to be flowing through the cost as needed," says a manager with an oil field services company. But even with downsizing, there's spend: The benefits administrator of another drilling company says they've just added a three-month extension of benefits to severance for onshore expats.

The globally mobile group has a different profile within oil and gas companies.

Despite the cost per employee, respondents say global mobility programs attract less fiscal scrutiny because its aggregate cost is much smaller than domestic employees. As a cost-reduction target, the globally mobile population is simply not low-hanging fruit. "We have two or three thousand expats and inpats," says one respondent, "while we have twenty-six thousand employees on the domestic plan." A respondent from a Canadian oil and gas company concurs: "We're not making any changes at all because it's such a small group."

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Often, the quality of hire becomes much more important in smaller groups. This in turn makes benefit cutbacks even trickier, especially in globally mobile groups where failure risk is amplified given the costs of getting the employee to a new location.

In addition, respondents say that despite recent hiring pullbacks, the globally mobile marketplace remains competitive. "It's hard to recruit internationals," notes a benefits manager. Another adds that benefit plans with 100% coverage are "expected to some degree" on the international side. Says a third: "We think that what we're providing is in line with the general expatriate market, and there's no interest in changing those benefits right now."

Companies recognize that international employees have unique benefit needs.

Working abroad is challenging enough without having to deal with the distractions of navigating foreign medical systems. Respondents indicate a general unwillingness to put up any barriers to care for people on assignment. Says a drilling company director: "If I'm going to send you to Russia, I'm going to give you medical insurance and I am not going to change that in any way, shape or form."

There's also company risk to consider, especially in a cost-conscious environment where the consequences of expense reduction can be an afterthought. "Some of those cuts will negatively impact employees but also put the company in a bad place if an extraordinary event occurs," an oil field services director points out. Respondents mention a number of regions where employee support is particularly difficult; these are shown in the table below.

Region	Challenge
Africa (e.g. Algeria, Angola, Nigeria, Chad)	Security, medical care, exposure to rare diseases
Middle East (e.g. Iraq, Abu Dhabi, Qatar, Yemen)	Security, medical care
Latin America (esp. Brazil), Middle East (e.g. Saudi Arabia)	Legal and regulatory compliance
Malaysia, Equatorial New Guinea	Climate, culture
Kazakhstan, Sakhalin Island (Russia)	Schools, housing, medical care
Australia, Brazil, China, Kazakhstan, Russia	Immigration and visa issues
United States, Mexico	Medical system

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Benefits help companies manage the risk of keeping employees in a remote or unstable area. Health, wellness and safety programs help to keep the injury count low in an environment where medical care may be scarce or substandard. A Canadian respondent tells us, "On the health side, we have a global medical response system managed by in-house occupational health physicians who manage cases and evacuate as required."

Many firms look for strong networks in the regions where they do business, such as the Middle East. One of the integrated energy companies represented in our survey actually operates its own primary care clinics in remote substandard locations that lack acceptable private healthcare facilities. At this company, hundreds of healthcare professionals – doctors, nurses and paraprofessionals – are on the payroll as resources for the globally mobile employees who are in those locations.

Other companies look to partners for help. "We've seen more innovation and creativity coming from" his firm's health services provider, says one respondent. "They're coming up with some regional strategies in certain areas of the world, such as the southern part of Africa and the Middle East which tends to be a real challenge for us." Another respondent says that his company's provider "could partner with any of the local insurance companies in the region, and that's what makes them one of the best players in the market."

Even if they wanted it, reduced coverage may not be an option for oil and gas companies who operate in certain areas. That's because many countries require proof of coverage in order to get a work visa. This is commonly the case in Middle East, for example. These requirements can be so rigid that compliance itself becomes a business risk, particularly for firms with many international job sites.

Benefit Costs

Although firms in general are reluctant to change benefit levels, some see no alternative but to rethink employee participation, according to respondents. This includes measures that have become common among domestic populations and across other industries, such as reducing the employer subsidy for

Cost Conundrum

Nine respondents – representing well over a third of participating companies – cite medical cost escalation as a top risk to their companies. Although it's a particular concern for self-insured companies, respondents identify varying risk drivers. Among them: catastrophic events, such as the one that cost a respondent company 40% of its plan.

There are more mundane factors as well. Employee populations are getting older, which also affects the claims experience. And downsizing has reduced the pool of people participating in the plan. These are reflections of broader industry trends. Ultimately, says one, "it's not something that we have control over."

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employees and eliminating it altogether for dependents. Increases to deductibles and out-of-pocket maximums are also in play. "2016 is the first time where we've had mobile employees have some skin in the game," says a manager at an upstream oil and gas company.

A half-dozen respondents note that the corporate philosophy is not to use benefits as a differentiator. As a result, they benchmark benefits to the industry average, even for globally mobile employees. Plans are periodically reevaluated to determine how they might be adjusted and still remain competitive.

Some tactics are specific to global mobility programs.

Global mobility programs offer pockets of opportunity to manage costs, some respondents say. For example, several companies step down coverage for US expats during return visits to the US. Generally this involves mirroring the domestic plan. "We did this for simplicity in terms of benefit administration, and to be fair," says an oil and gas services manager. A specialist at a drilling contractor added, "We only increased the deductible to anybody who touches the US because the healthcare costs in the US are more expensive."

Mirroring US domestic coverage for US expats also might help to avoid a potentially expensive compliance issue. This would be the so-called "Cadillac tax" which, beginning in 2020, will impose a 40% excise tax on high-cost employer-sponsored health plans. But there still could be exposure in the form of inpats – those working in the US who are on a non-US payroll. Inpats often have rich plans in line with norms in their home countries.

The obvious approach is to change inpat coverage so that they too have deductibles, co-pays and co-insurance. But coordinating deductions across many different payrolls around the globe will prove a significant administrative challenge. For this reason, one respondent says his integrated energy company is planning its strategy already. "I would suspect that we would be looking at it next year for our 2017 implementation, and no later than 2018," he says.

Other changes to globally mobile benefits are the result of harmonization across the board.

Some oil and gas companies aim to harmonize global benefits with those offered to domestic employees. This can involve consolidation across assignment types or geographies. Several respondents say their companies do this today.

In the US, "we're offering two types of plans: a consumer-driven plan and a PPO plan," notes a manager for an oil and gas services company. "And just by default, we always like to mirror the expats who are global the same as the PPO design that's offered to the US domestic employee." A respondent from an oil and gas equipment provider echoes this view. "You should not get better benefits as an expat," she says. So the

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company’s goal is to keep “the benefits package as similar as we can, but where it is not being affected by any regulations in the countries.”

Of course, harmonization has a lot to do with administration. Nearly every company represented in the survey manages global mobility benefits from the corporate head office. Reasons include the following:

- Efficiency
- Global consistency
- Governance and cost control
- Economies of scale
- Co-location with expatriate program management
- Co-location with total rewards management
- Co-location with other decision makers

Some respondents note that regional offices do have input into benefits decisions. Some decisions may be pushed to the local level. Exceptions take place for anything “major that’s changing true benefit design and is going to cost in claims experience – and cost the company anything more than a cap of a half million dollars,” says a manager for an oil and gas services company.

Benefits Going Forward

Despite the broader downsizing taking place, employee attraction and retention remain a critical success factor in global mobility programs. Respondents say they still need top talent to execute the business strategy at the country level. More than any other issue, the benefits professionals we interviewed consider turnover a top risk to their companies.

An experienced workforce is important from a succession and knowledge transfer standpoint. It’s also key to maintaining health and safety at the worksite. A few respondents express concern that losing more people could affect operational integrity. “Everyone is saying,” says an oil field services manager, “that we’ve just about bled ourselves to the point where we cannot lose any more people or we would not be able to operate.”

Whatever effects are being seen among globally mobile employees today are likely to increase when the market picks up again. And make no mistake, respondents say: An upswing is inevitable. The industry veterans among our respondents note that the current downturn is normal for commodities. They point out that oil and gas is a cyclical business. Eventually, supply pressure will drive prices up again the way it always has before. The majority of respondents agree with this view. Says one:

“It’ll go back to US$100 a barrel someday, and oil companies are going to get fat and happy and forget this ever happened. And then oil prices will crash again. And we’ll start laying off people again. That’s just the nature of things. And it’s true for a lot of industries, but it’s really true for the oil and gas industry. Houston is the oil capital of

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the world, and I've lived in Houston for all of my [life]. And we've gone through this kind of cycle at least four times since I've been alive."

But a rebound might not happen soon. A number of respondents venture that prices will likely take a few years – maybe as long as five – to recover. But some of them add their management's opinion that oil prices will stabilize or begin to rise by the end of 2016. "Our business is expecting to see an increase to a point where we can contract our rigs again," says one manager, "which would be US$60 or US$70 a barrel."

And the next upturn may not reach the heights it did before. After all, notes a team lead in Canada, oil didn't stay at US$100 a barrel for very long. According to respondents, that might not be such a bad thing. "I think that companies have realized how bad their cost structures have gotten," says one. "You just have to become more efficient in managing your business cycles," another observed, "without impacting employees every time you go through those cycles."

This brand of conservative management also helps firms remain competitive. One of the risks of wild market swings is that the retrenchment that takes place during a downturn can be hard to climb out of later. Asked about perceived risks to their company, one-third of respondents specifically mention the ability to recruit talent when the market turns around. By then, they worry, people who are committed to the oil and gas industry by virtue of their skills may be reluctant to return to a company where they had endured a layoff.

At the same time, people whose competencies are less specific to the industry (such as finance or HR) may have left the oil and gas business altogether. "There's a risk of having a vacuum of talent for years," says an integrated energy director. In this view, firms are in a better position to pivot to hiring when the benefits package has remained competitive.

Some respondents believe the oil and gas business is undergoing transformation. They predict slower and flatter economic cycles going forward. Consolidation is ongoing, and the mix of companies operating in the industry will change. The effects of change will inevitably flow through to talent and rewards. One respondent foresees a stronger emphasis on rotational engagements and contract-based assignments. Another believes companies will be more cautious about staffing levels.

An oil field services benefits director sums it up: "I think things will return to normal – with normal in quotation marks."

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Navigating Turbulent Times is a qualitative research report sponsored by Cigna Global Health Benefits.

Please contact us if you'd like more information about this survey or more resources on managing benefits for globally mobile employee programs. We look forward to hearing from you.

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Cigna Global Health Benefits is dedicated to helping people improve their health, well-being and sense of security. We continue to innovate and expand globally. Locally licensed in over 30 countries and jurisdictions, we provide compliant solutions in an increasingly complex global market. Our unparalleled global network enables us to provide regionally focused expertise and world-class service to more than a million customers in 205 countries and jurisdictions.

Every day, our global team is dedicated to making experiences easy and reliable – in ways that our customers find proactive, personal and empathetic. We continue to transform health ownership to improve outcomes, satisfaction and value.

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