



Harmonizing North American and Global Leaves: A Path to Success

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Agenda

- Challenges facing Multinationals in the Health and Productivity space
- Comparison at a Glance
 - The US and Canada (95% of North American GDP)
- Johnson & Johnson
 - Absence & Disability Management Program
 - Strategy
 - Overview
 - Outcomes
 - Global Strategy

About Morneau Shepell (MSI)



KEY HIGHLIGHTS

Who we are

- 50+ years of experience
- Publicly traded on the Toronto Stock Exchange
- \$1.02B Market Cap
- 4,000+ employees
- 20,000+ clients

20M+

Lives touched through Employee Support Solutions (e.g. EFAP)

2M+

Lives touched through Absence Management Solutions

6M+

Lives touched through Administrative Solutions (e.g. pensions)

170+

Countries where Morneau Shepell services are offered

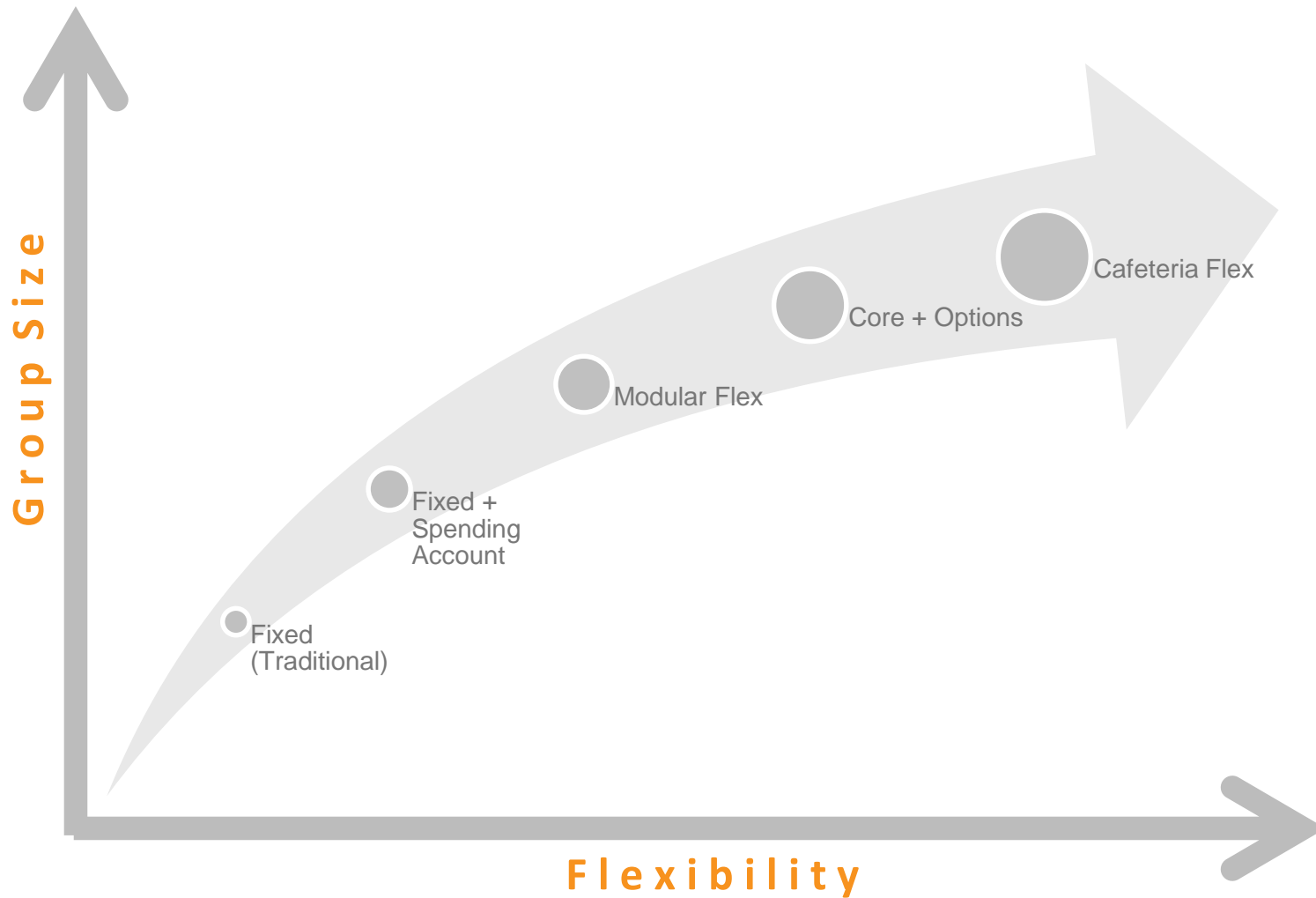
Strengths to build upon

- 20+ years average client tenure
- Largest Employee & Family Assistance Program (EFAP) provider in the world
- Largest administrator of pensions & benefits plans & absence management solutions in Canada
- Growing rapidly in the United States

Challenges for Multinationals

- Absence, Leave and Disability
 - Planned: PTO, Vacation, Leaves (e.g. FMLA) etc.
 - Unplanned: Absences, Leaves, Workers' Compensation, STD, LTD
- Compliance within Regulatory Jurisdictions –
 - US Federal, State, Local & Company specific - **Evolving**
 - CA Federal, Provincial & Company specific
 - Globally?
- Best-Practice Options for Managing
 - In house
 - Co-sourcing
 - Out-sourcing

Spectrum of plan designs



Spectrum of plan designs

Traditional (fixed) plan

Life Insurance	Accident Insurance	Critical Illness	LTD	Health	Dental	Other Benefits
Basic	Basic	Basic	Basic	Basic	Basic	STD
						EFAP
						Best Doctors

Comments:

- Employer chooses best plan design for its employees
- Level of coverage depends on the following:
 - Competitiveness
 - Sustainability
(if costs rise to much, design must be reduced)

Spectrum of plan designs

Full flexibility (FBS)

Life Insurance	Accident Insurance	Critical Illness	LTD	Health			Dental	Accounts	Other Benefits
				Drugs	Vision	Para/Other			
Basic	Basic	Basic	Basic	Opt-out			Opt-out	HCSA	STD
Employee	Employee	Employee	Level 1	Level 1	Level 1	Level 1	Level 1	Fitness	EFAP
Spouse	Spouse	Spouse	Level 2	Level 2	Level 2	Level 2	Level 2	Savings/ Cash	Best Doctors
Child	Child	Child	Level 3	Level 3	Level 3	Level 3	Level 3		

Comments:

- Provide separate health decisions for drugs, vision, and paramedicals/other medical
- Consider expanding choice to other benefits and creative accounts

US versus Canada on Health and Productivity

- Work Related:
 - Workers' Compensation – Choice (in some jurisdictions)
 - Work Relevant:
 - Absence/Leave/Disability
 - FMLA
 - State Leaves
 - ADA/ADAAA
 - Other Job Protected Leaves
 - Paid Family Leave
 - “Sick & Safe”
 - Company Specific
- Work Related:
 - Workers' Compensation No choice
 - Work Relevant:
 - Absence/Leave/Disability
 - Human Rights Act
 - Employment Standards
 - Parental/Maternal Leaves
 - Company Specific

Johnson & Johnson

Who We Are

Johnson & Johnson Across the Globe

2016 sales:

\$71.9B

US Dollars

3 business segments



Pharmaceuticals



Consumer



Medical Devices

~127,000

employees worldwide



1B

Reach more than 1 billion people every day

\$11B



invested in science and technology innovation in 2015

\$340B

market capitalization

US Dollars (as of 8/9/16)

250

operating companies located in

60 countries



~50%

of sales from outside of the US

A Strong, Consistent, Sustainable Business

32 

Consecutive years of adjusted operational earnings growth¹

54 

Consecutive years of dividend increases²

AAA  RATED
Balance Sheet
Operational & investment flexibility

~70%

of sales from
#1 or #2 global market
share position



 ~70%

of 10-year free cash flow
returned to shareholders³



24 Brands/Platforms
with \geq \$1B in sales



~25%

of sales from products
launched in past 5 years

1. Non-GAAP measure; excludes intangible amortization expense, special items and the impact of translational currency

2. Inclusive of the April 2016 dividend declaration

3. Non-GAAP measure; defined as operating cash flow less capital spending

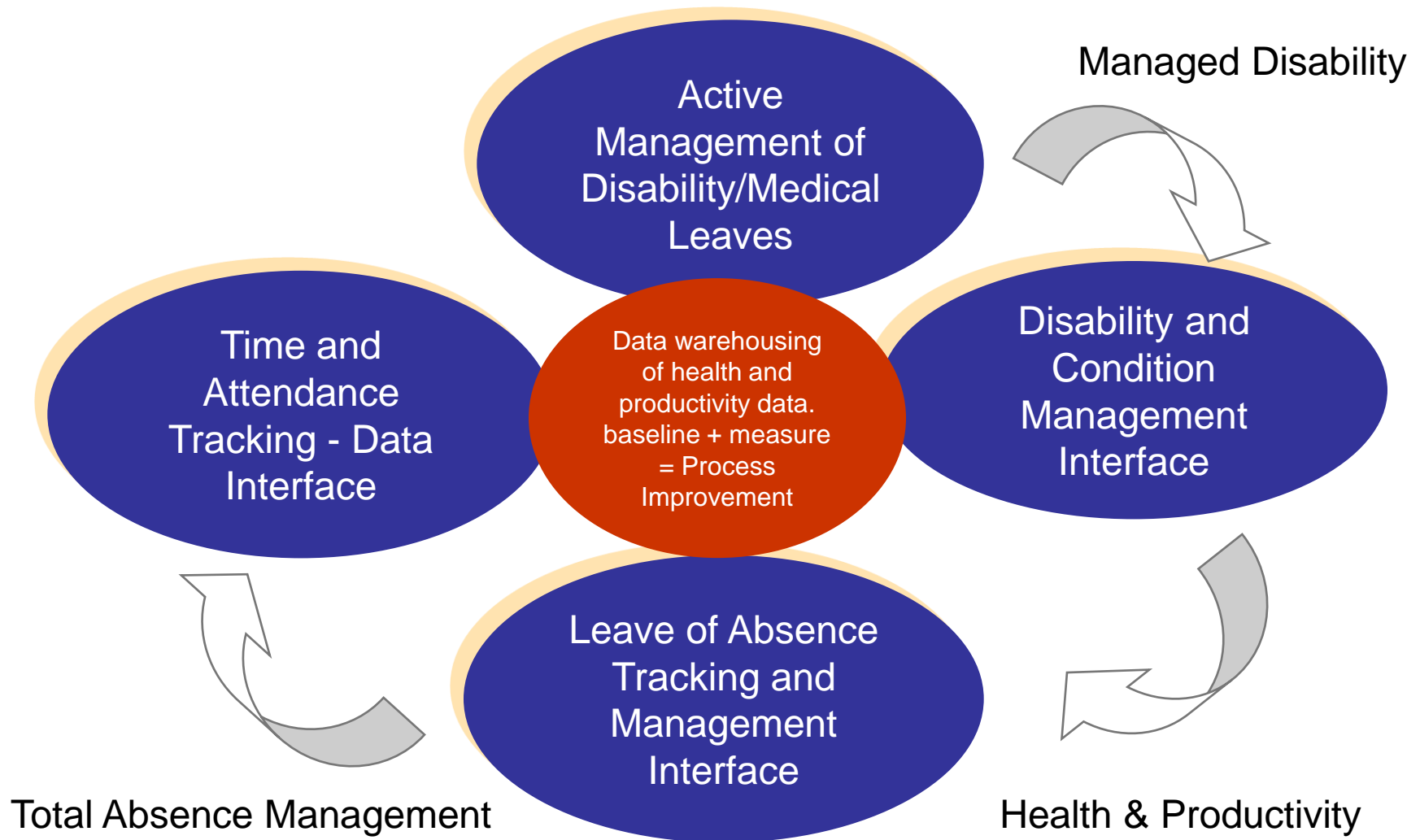
Absence & Disability Management: Mission

Mission

Provide absence & disability management leadership, as well as, innovative products and services that allows for the effective management of absences, productivity loss and associated liabilities across the Enterprise

Absence & Disability Management: Strategy

Foster Innovation and Continuous Productivity Improvement



Absence & Disability Management: Services

Services Overview

Globally

Responsible for global absence & disability management framework, as well as, for consulting support in the area of absence and disability management. Including, but not limited to:

- Create visibility at the Operating Companies and within Senior Management relative to absence & disability management, as well as, its impact on the health and productivity of our employees
- Provide technical expertise and best practice guidance in the area of absence & disability management across the Enterprise
- Develop systems and processes to standardize, collect, verify and report key performance metrics across the Enterprise
- Governance responsibility for absence & disability management policies and program approval through the Pension Committee

Absence & Disability Management: Services

Services Overview

Globally

Recently developed Global Absence & Disability Leave Model developed with implementation initiated in EMEA with additional implementations in LATAM & Asia Pacific:

- Centralized intake
- Document collection and validation
- Letter/communication generation
- Return to Work processing

Partnering with Global Health Services (GHS) team to review medical leaves initially at thirty-days (30) to drive appropriate clinical management

- Building out capability and process to engage local and/or regional GHS resources to review medical leaves and provide case management oversight and feedback as needed to vendors, and Global Benefits

Absence & Disability Management: Services

Services Overview

Services provided for North America

Johnson & Johnson began actively managing its long term and short term disability programs in 2004. With the overriding objective of delivering optimal benefits at the lowest cost, the active case management initiative focused on the following key areas:

- Vendor Performance
- Plan Design
- Claim Processes

Implemented same/similar outsourced model in the US, Puerto Rico and Canada as well as same active approach to managing medical claims

North America

In addition to the global services previously outlined, North America responsibilities include the development, management, administration and overall legal compliance (Federal, Provincial, State and Local) absence & disability policies, procedures, employee communications, as well as, vendor management (e.g., Reed Group, Morneau Shepell, Sun Life, Prudential and IDS) responsibilities

North America Absence & Disability Management Program Overview

Absence & Disability Management: Program Overview

The Company's Absence & Disability Management Program provides tracking and/or adjudication of all Federal, State and Company specific leave and absence programs.

The Program ensures compliance with all Federal and State requirements, regulations and laws.

The Program ensures that all leaves are administered consistent with Company policies.

The Program also executes the transactions and calculations to offset amounts paid to employees for State Disability, Military Pay and Workers Compensation.

Absence & Disability Management: Program Overview

Federal & State Leave Management

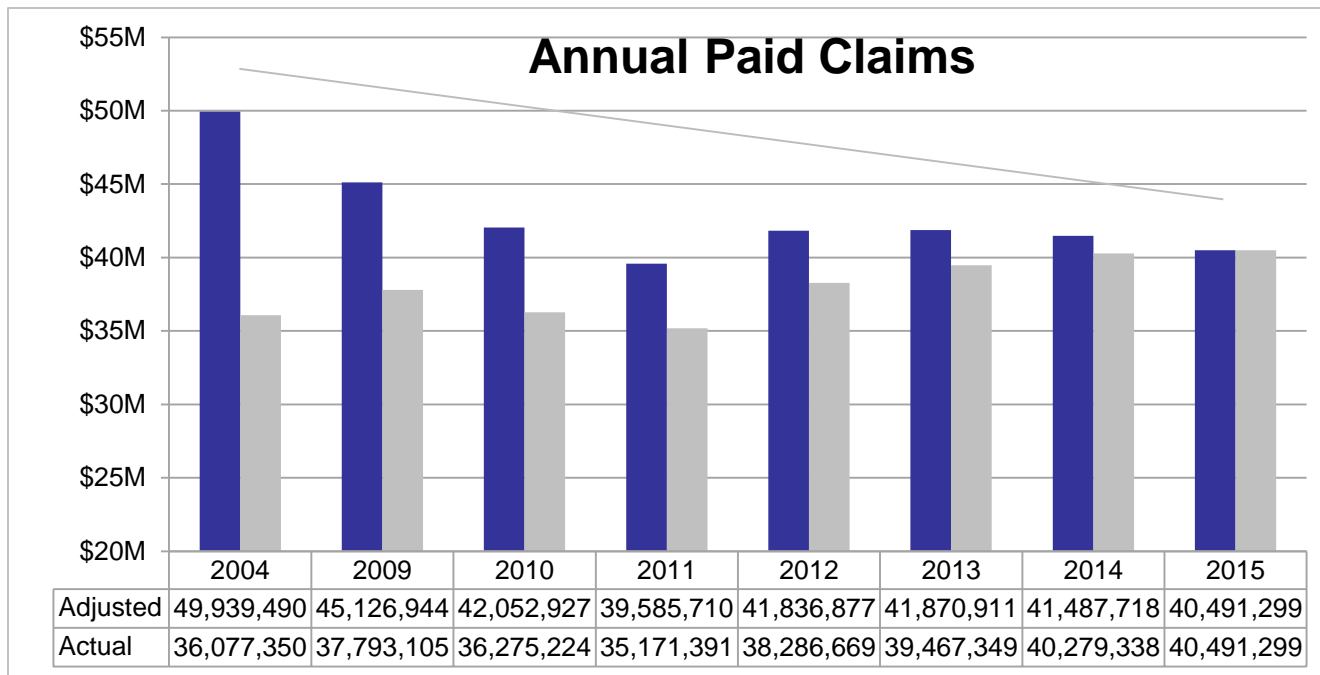
- Family Medical Leave Act
- State Medical Leave Acts
- State & Federal Military & Military Family
- State Leaves
 - Domestic Violence & Crime Victim
 - School Activities
 - Blood/Bone Marrow Donation
 - Election and Voting

Company Specific Leave Management

- Short Term Disability (STD)
- Long Term Disability (LTD)
- Family Leave
- Personal Leave
- New Additions Leave for Bonding
- Condolence
- Jury Duty/Witness Duty
- Work, Personal & Family
- Vacation
- Holidays
- Sick Time
- Volunteer Leave
- Extended Volunteer Leave

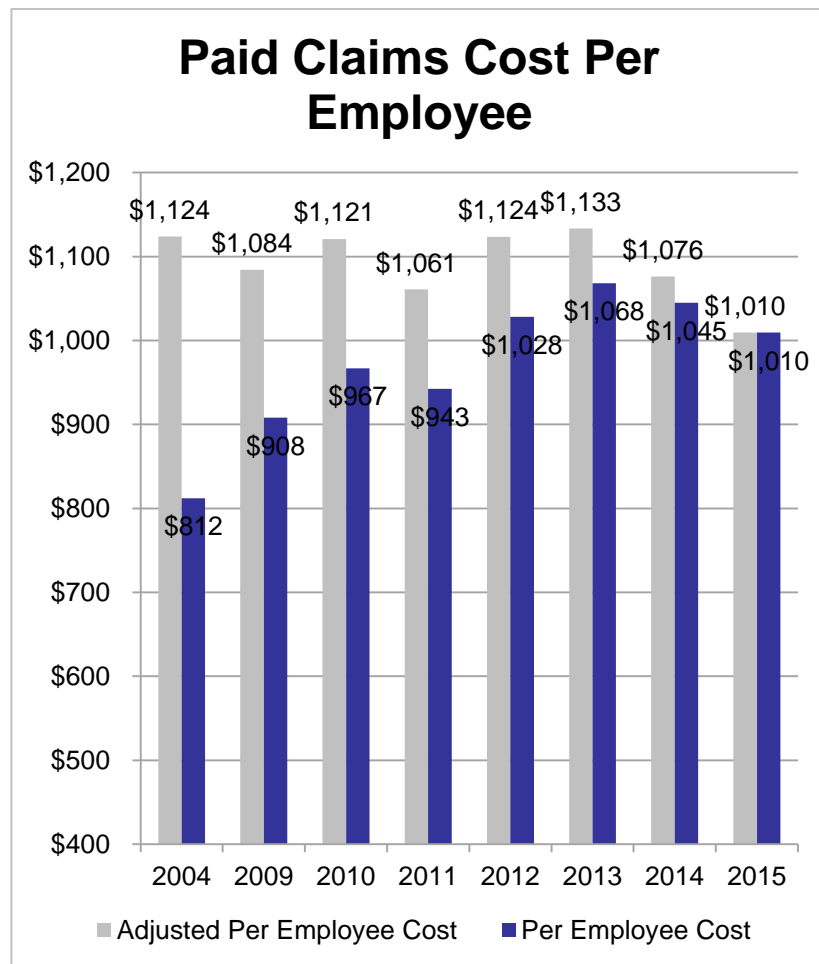
Program Outcomes

US - Short Term Disability



- Total annual claim costs reflect claims paid for the period
- Adjusted claims reflect a 3% year over year salary inflation adjustment
- Paid claims for each plan year are lower than the adjusted baseline of \$49.9 Million
- 2015 paid claims were \$9.45 Million below the 2004 adjusted baseline

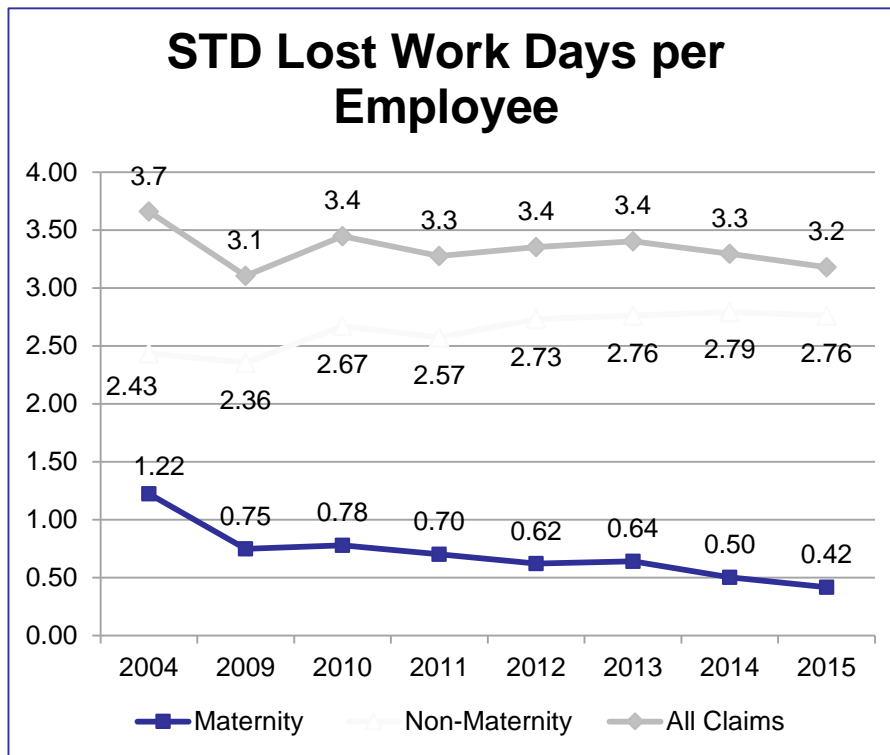
US - Short Term Disability



- Total and adjusted paid claims were divided by the number of covered employees
- Adjusted per employee costs reflect 3% year over year change in earnings
- 2015 costs were 6.1% below 2014 and 10.1% below the 2004 adjusted baseline
- Average costs reflect a continuing decrease in maternity related costs offset by an increase in costs related to non-maternity claims

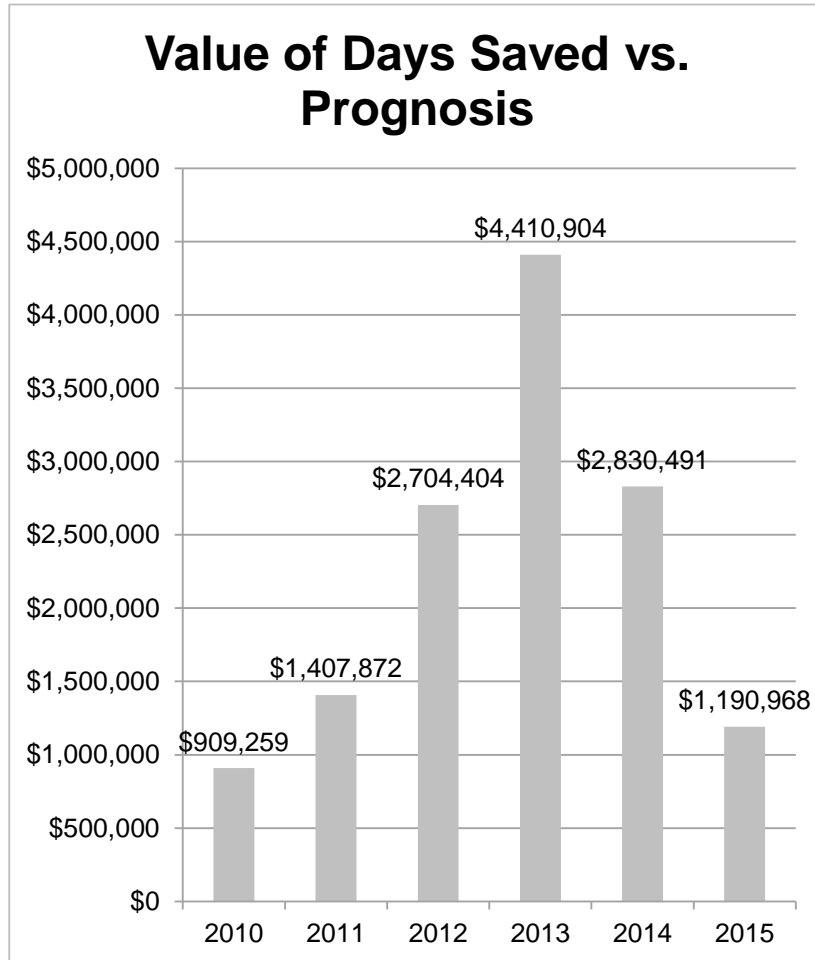
US - Short Term Disability

STD Lost Work Days per Employee



- Lost work days per employee have consistently been below the 2004 baseline of 3.7 days per employee
- Lost work days reflects the combined effect of the claim incidence rate and average claim duration
- 2015 lost work days totaled 127,529 vs. 162,547 in 2004
- 2015 lost work days based on the 2004 baseline (3.7) would have been 147,455; a savings of 19,926 work days
- Value of 19,926 work days is \$8.2 Million

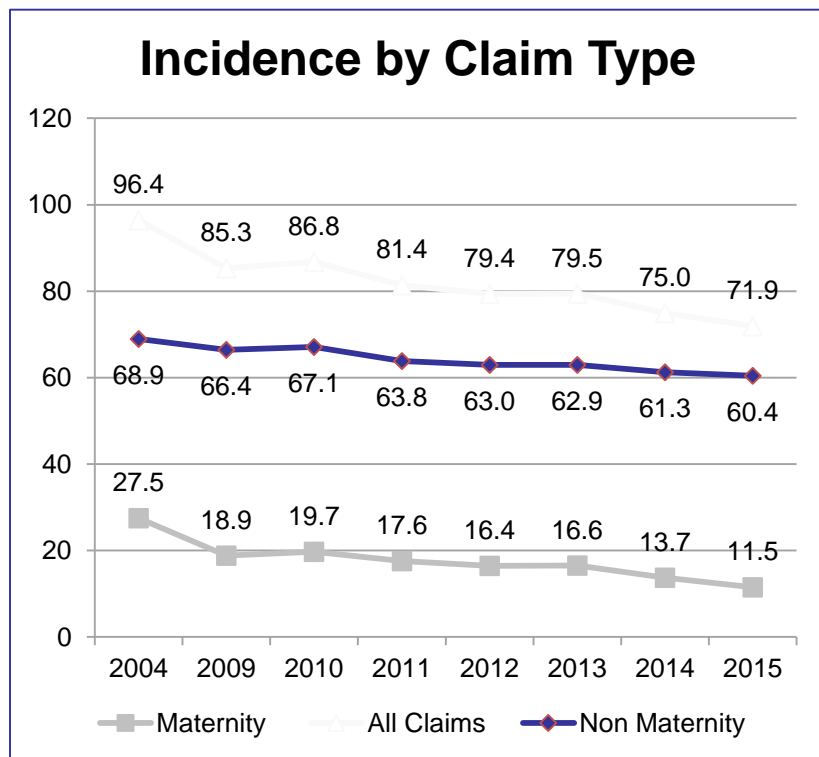
US - Short Term Disability



- Value of days saved is based on claimant earnings and reflect the difference between the value of days saved less the value of days lost
- Average days saved for claims that closed early are shown below:
 - 2010 – 14.7 days
 - 2011 – 17.5 days
 - 2012 – 13.9 days
 - 2013 – 12 days
 - 2014 – 10.5 days
 - 2015 – 12 days

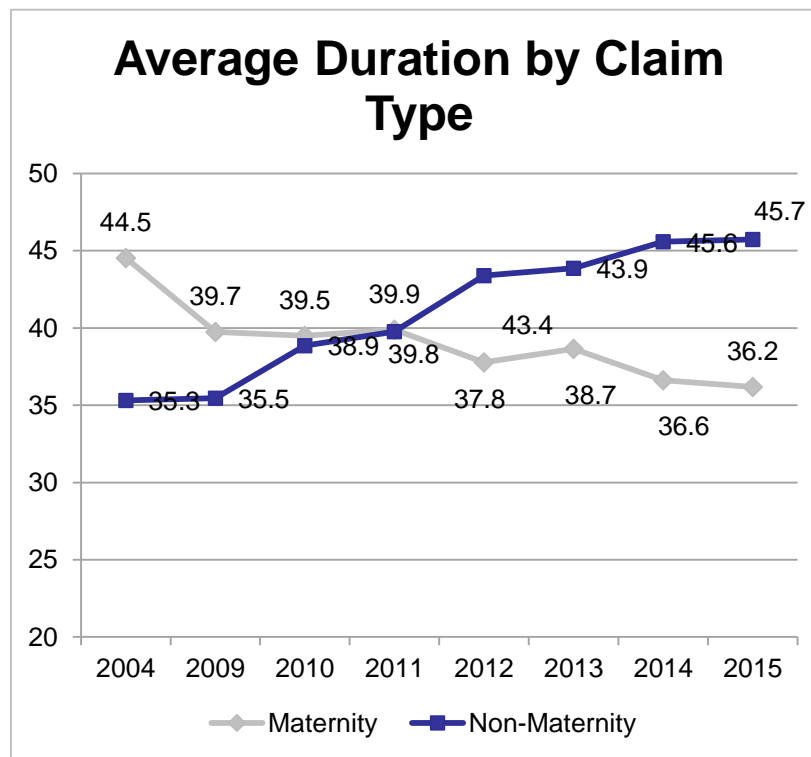
US - Short Term Disability

STD Incidence per 1,000 employees



Overall STD claim incidence in 2015 is 25.4% below 2004 baseline – decrease in both maternity and non-maternity claims

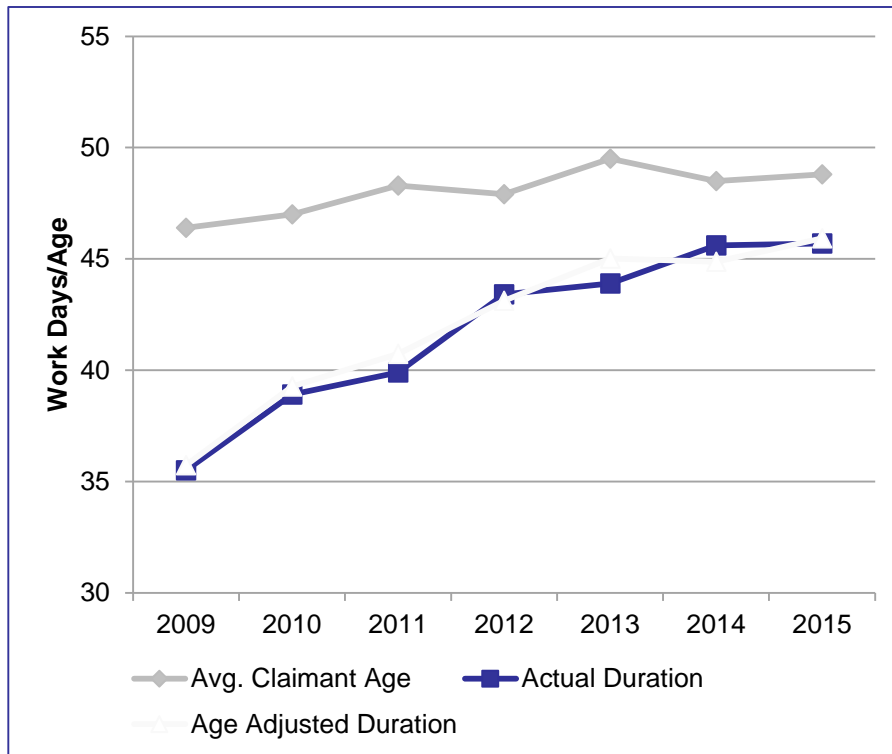
Average STD claim duration in Work Days



STD claim durations have steadily increased for non-maternity claims since 2009

US - Short Term Disability

Age Adjusted vs. Actual claim durations in Work Days for non-maternity claims



- Actual duration and claimant age for non-maternity claims by year
- Age adjusted duration reflects expected duration based on average claimant age
- Claim durations expected to increase by 1.6% for every 1 year increase in claimant age
- Actual durations consistently track with age adjusted expected durations
- 2009 baseline claimant age was 46.4 – average claim duration was 35.5 work days
- 2015 average claimant age was 48.8 – average claim duration was 45.7 work days

Absence & Disability Management: Program Outcomes

We are committed to providing employees with a high quality experience. Any disability/absence from the workplace can be a very stressful time for an employee. We strive to reduce the stress on the employee. According to the users of our services, we are succeeding

2015 Average Employee Satisfaction

92%

Employees are surveyed as their leave is closed via an on-line survey tool

Results Summary

Short Term Disability - Financial

- 2015 paid claims were \$9.4 Million below the 2004 baseline
- Reduction in average lost work days related to lower claim incidence which helped offset the increase in durations for non-maternity claims
- On a cost per employee basis, 2015 costs are lower than the previous three years on both an actual and adjusted basis
- Maternity costs on a per employee basis were the lowest of all prior periods reported

Long Term Disability*

- 2010 Employee contributions reduced by more than 37.7% or \$265 per year vs. 2004
- \$11.2 Million in total savings to the plan through reduction in incurred claims from 2006 through 2009
- Adjusting paid to 2004 dollars reveals \$10.25 Million in cost avoidance from 2005 through 2009
- Reduction in number of uninsured as the result of the open enrollment and automatic enrollment process – percent of enrolled increased from 55% in 2004 to 90% in 2016

*Transitioned from self-insured LTD to Fully-Insured LTD in 2009

Executive Summary

North America

- Ability to deliver a consistent absence and disability management model across North America
- Actuarial data supports the relationship between an aging population and increased short term disability claim durations
 - When adjusted for the expected impact of aging, we found that actual claim durations tracked consistently with age adjusted expected durations

Globally

- New models evolving outside North America to assist in managing absences, including medical leaves
- Within Johnson & Johnson there is a strong desire by the Business to implement a process to better manage absences, including medical leaves, from intake through return to work

Johnson & Johnson



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