Pensions Management Institute
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Core Unit 1B – Foundation in International Employee Benefits

Assignment 3 Notes

(Part 4 Country and Regional Profiles)

Recommended Time: 1 Hour

1. As an employee of a UK based multinational, expanding into France, describe the typical pension benefits that are provided in France to the newly appointed British Finance Director.

10 marks

Answer should cover:

A multinational company would typically supplement the State social security and compulsory systems of AGIRC and ARRCO with a defined contribution supplementary scheme that is insured with a local provider.

As this question requires an explanation and the marks are broadly equally split it is expected that a full answer would include coverage of the above points and carry half the marks available for the question overall.

(Relevant section of the manual is Part 4, Chapter 2.2)

2. Outline how the private health care system in the UK differs from that provided in France.

10 marks

Answer should cover:

The National Health Service in the UK provides comprehensive healthcare coverage which is supplemented by some employers with private insurance. This private cover will generally provide quicker access to services at a date and time convenient to the employee. The national health system in France does not meet all costs and therefore ordinarily the employee would have to pay certain amounts. The private system in France, called prévoyance, pays for the elements of cover not provided through the national health system.

(Relevant sections of the manual are Part 4, Chapters 2.3 and 3.3)

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3. **Explain the difference between the main financing approach in Germany with that found in the UK and include an outline of the accounting implications of these approaches.**

10 marks

Answer should cover:

The main financing approach in Germany is book reserve.

A book reserve systems is one whereby the company makes a "direct promise" to the employee and therefore there is a formal obligation on the company to provide these benefits. There are not necessarily separate funds held by the German company, but instead a provision for this obligation is established on the company's balance sheet.

In the UK, pensions are provided either through a trust-based scheme or via a third party. In either case, the contract is established between the employee and the Trust or third-party provider. In the UK, it is common to fund the pension benefits in advance and therefore contributions are paid to finance the pension promise whilst the employee is working.

(Relevant sections of the manual are Part 4, Chapters 3.2 and 4.2)

4. **Describe the social security pension benefits that are provided in the USA.**

10 marks

Answer should cover:

Social security is provided on a 'pay-as-you-go' basis. The full retirement age for both men and women in the year 2015 is 66 years. This will gradually increase until it ultimately reaches age 67 in 2027.

The benefit entitlement is based on earning credits, with up to four credits earned each year. In 2015, one credit will be earned for USD 1,220 in covered wages. Forty credits are required for retirement benefits. Benefit amounts are related to career average-indexed monthly earnings. The benefits formula is weighted in favour of career low-level earners. A typical pay-out for someone who has had an average earnings history is approximately USD 15,900 per annum. This might rise to USD 32,000 per annum for those more highly paid.

Retirement benefits may be increased annually on 1 January to account for increases in the cost of living. When official cost-of-living data does not indicate that living costs have increased, no increase is granted.

(Relevant section of the manual is Part 4, Chapters 5.2)

5. **Explain the different forms of defined benefit pension provision found in Japan.**

10 marks

Answer should cover:

Defined Benefit (DB) plans can take different forms including:

- Retirement allowance plan, or RAP (unfunded DB)
- New DB plan (funded under new DB law)
- Employee pension plan (EPF) – Funded DB plan (usually a multi-employer arrangement) that provides a portion of the government pension benefits ("substitutional part") contracted-out from the Employees' Pension Insurance (EPI) programme (social security). Legislation which promotes dissolution of EPFs has been in effect from April 1 2014. No new EPFs are allowed to be established.

(Relevant section of the manual is Part 4, Chapters 8.2**)**