Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

PMI
Floor 20, Tower 42
25 Old Broad Street
London EC2N 1HQ
T: 020 7247 1452
F: 020 7375 0603
W: www.pensions-pmi.org.uk

International 2:
Managing International Employee Benefits

Assignment 3 Notes

(Part 5 –Country and Regional profiles
Part 6 – Internationally mobile employees)
Recommended Time: 3 hours

1. In relation to Brazil; outline the different components of retirement provision, the basic features of the social security system and the benefits offered to general private sector workers.

10 marks

Retirement provision in Brazil consists of three elements:

- Social security for private sector workers and some public sector workers
- Special regimes for public sector workers
- Complementary system available for all workers.

The social security system is a “pay as you go” arrangement with the benefit calculated as 70% of average earnings plus 1% for each year of service up to a maximum benefit of 100% of average earnings. Higher rates of benefit apply for those affiliated to the program earlier than 1999. The benefit is financed by employer (20%) and employee (8%-11%) contributions calculated on different elements of pay. Contributions are tax deductible for both the employer and employee

(The relevant sections of the Study Manual are Part 5 Chapter 1.2 & 1.2.1)

2. Describe some of the main features of the complementary benefits environment found in Brazil.

5 marks

There are two types of complementary arrangements– closed and open funds. Closed funds are typically offered by single employers (though are also used for multi-employer arrangements). Open funds are typically offered by banks and insurance companies. There are certain governance requirements for closed funds, comprising of a governing board, supervisory board and an executive directorate.

Open and closed plans can be either defined benefit or defined contribution in nature. DB plans typically target an accrual of 1.5% to 2.0% per annum including social security benefits. DC plans usually target a final benefit of between 50% to 60% of final earnings.

Currently only about 10% of the working population participate in a complementary pension arrangement.

(The relevant section of the Study Manual is Part 5 Chapter 1.2.2)

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

PMI
Floor 20, Tower 42
25 Old Broad Street
London EC2N 1HQ
T: 020 7247 1452
F: 020 7375 0603
W: www.pensions-pmi.org.uk

3. Give examples of the differences and commonality between benefits offered in Russia and India.

10 marks

Answer should include:

<u>Differences</u>
India provides for a defined benefit, gratuity benefit that is not provided in Russia
Russia provides a universal medical system, whereas India does not

<u>Commonality</u>

1. Both countries provide a basic defined benefit for all workers (EPS for India and social security for Russia)
2. Both countries operate a compulsory defined contribution (EPF for India and Accumulative component for Russia)
3. There are the possibilities to opt out of the respective mandatory programs (to an equivalent scheme in the case of India and a non-State Pension funds in the case of Russia)

(The relevant sections of the Study Manual are Part 5 Chapter 2.2 and Chapter 3.2

4. In the Chinese context, explain what an Enterprise Annuity is and how it is regulated.

15 marks

Answer should include:

The Enterprise Annuity (EA) is a government advocated and authorized supplemental pension plan. EA plans can operate only as a trust, and they must be managed by qualified service providers. Investment management and custodian are separated, and as a result, EA funds are secure.

In order to offer an EA plan, employers are required to participate in the mandatory basic pension and be up-to-date with their contribution responsibilities; they must be able to make the additional contributions; and they need to have a collective negotiation process in place.
The plan provisions must be put in writing in a formal plan document. The document must address eligibility, funding, administration, fund management, accounting, benefit payment options, plan management and supervisory process, and any circumstances under which contributions may be suspended.

The EA is a fully funded defined contribution plan with individual accounts. Both employers and employees are required to contribute. The maximum annual employer contribution is limited to one month's average pay from the previous year. The maximum total contribution (employer and employee) must not exceed the total of two months' average pay from the previous year.

Employee contributions are fully vested immediately. Currently, EA guidelines do not regulate the maximum years for the vesting of employer contributions; usually the vesting schedule is specified by the employer in the plan document.

The account balance is payable at the statutory retirement age (currently, age 60 for males and age 55 for female non-manual workers and age 50 for female manual workers), on death, or on establishing permanent residence outside of China. On retirement, the account balance is payable as a lump sum or instalments. On death and permanent emigration, the account balance is payable as a lump sum.

(The relevant section of the Study Manual is Part 5 Chapter 4.2.2)

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE
PMI
Floor 20, Tower 42
25 Old Broad Street
London EC2N 1HQ
T: 020 7247 1452
F: 020 7375 0603
W: www.pensions-pmi.org.uk

5. List the allowances often provided as part of an expatriate's package

10 marks

Typical allowances are:

- Foreign Service Premium (FSP)
- Hardship Allowance/Danger Pay
- Location Allowance
- Housing
- Cost of Living Allowance
- Educational Provision
- Assistance for Spouses
- Tax Equalisation/Tax Protection

(The relevant section of the Study Manual is Part 6 Chapter 1.2)

6. Identify the different pension provision solutions that can be offered to Internationally mobile employees and explain in what circumstances each might be provided

20 marks

Answer should cover the different pension solutions and their reasons for being used:

Home-country retention
- If the employee is likely to return home, this is the simplest and most straightforward approach
- Consistent with social security for those who are retained on home-country social security program (typically for shorter-term assignments)
- Where there is a tax treaty in place, allowing continued participation on a tax favourable basis

Host-country adoption
- This approach aligns the assignee with his/her work colleagues
- Most appropriate when the employee is likely to remain in the host country and where ties with the home country have been lost

International Pension Plan
- To provide pension benefits to IMEs where the employee might be working for limited periods in a number of different countries
- To provide pension benefits to IMEs where the local host country arrangement may be deemed unsuitable (due to difficulties, such as unable to pay the benefit, currency risk when paying the benefit, local compliance issues etc.)
- Unusual specific individual circumstances

Cash or Retirement Allowance
- Offered in situations where it can be difficult to arrange an appropriate benefit provision

Direct unfunded pension promise
- Used in cases where it is necessary to plug a gap in benefit provision
- Used when the employee can accept the lack of security of pension promise from the employer
- Used in circumstances where a funded pension promise may be tax detrimental

(The relevant section of the Study Manual is Part 6 Chapter 1.6)

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

PMI
Floor 20, Tower 42
25 Old Broad Street
London EC2N 1HQ
T: 020 7247 1452
F: 020 7375 0603
W: www.pensions-pmi.org.uk

7. Identify the three types of internationally mobile employees

5 marks

The three international mobile employee categories are:

- Secondments
- Permanent transfers
- Globalist, career expatriates or global nomads

(The relevant section of the Study Manual is Part 6 Chapter 1.1)

8. Explain the main design considerations for international pension plans (IPPs).

10 marks

Answer should cover plan design considerations for an International Pension Plan including:

- Duration, nature and location of assignments of the potential members
- Benefit expectations in relation to corporate benefits philosophy
- Taxation issues—while the IPP is seldom tax-favoured in itself, careful plan design can be used to enhance the tax-effectiveness in relation to certain countries, for example by avoiding vesting of benefit which may trigger a tax liability
- Flexibility—establishing a plan where there are minimal rules applicable may give the opportunity to design the plan to fit the requirements of the employees in question without the constraint of legislation driven by tax requirements, for example, nature and timing of benefit distributions
- Whether there should be any integration with Social Security, mandatory plans, or other company provision to which the member may be entitled.

The design of benefits in international benefit plans vary substantially, but can broadly be divided into the following two groups:

- Top-up plan to provide additional benefits to that which the members may be accruing in the countries in which they work ("umbrella plans" which top up all accrued local benefits to a defined formula)
- Replacement plans for local participation, using similar benefit formulae, on the basis either that the members will not join those plans; that the benefits from them would be small or unable to be received, or because of the short period of service the member's entitlement will never vest.

(The relevant section of the Study Manual is Part 6 Chapter 1.7.5)

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

PMI
Floor 20, Tower 42
25 Old Broad Street
London EC2N 1HQ
T: 020 7247 1452
F: 020 7375 0603
W: www.pensions-pmi.org.uk

9. Consider the scenarios that an expatriate has been sent to work in each of the following three countries. Describe the minimum requirements that apply by each of these host countries in terms of what must happen:

- **Australia**
- **Switzerland**
- **USA**

15 marks

Answer should cover:

Australia

- Employer must pay the Superannuation Guarantee Levy, except in certain circumstances (generally dependent on the visa and position held)
- Contributions made to home country plans will be ineligible for employer tax deductions and will be subject to Fringe Benefit tax (unless the person is deemed as temporary resident)

Switzerland

- Generally transferring employees must participate in the local Swiss plan (at least to meet the BVG requirements)
- The only exception would be when the transferring employee is exempt from Swiss social security because of the social security agreement and in these cases, it may be possible to argue that home country arrangements are sufficient to avoid participation in the BVG

USA

- Employee must be allowed to participate in qualified programs when the individual meets the eligibility criteria
- Employer contributions to home country programs are deductible to the employer, but create a benefit in kind for the employee's tax computations (unless there is a substantial risk of forfeiture)

(The relevant sections of the Study Manual are Part 6 Chapter 1.8.2, 1.8.8 & 1.8.10)