

THE PENSIONS MANAGEMENT INSTITUTE

April 2018

International 2: Managing International Employee Benefits

Examiners Report

Despite the examiners being disappointed by a low number of candidates taking this paper, those that took this paper generally performed well, and this was reflected in a high pass rate.

Questions 1-5 were shorter-answer questions, and were largely testing knowledge of candidates. Candidates who passed the paper generally obtained at least two-thirds of the marks available on these questions.

Questions 6-8 were long-answer questions, and the examiners used these to test the application of candidates' knowledge and depth of understanding. It was harder for candidates to score full marks on these questions, but candidates who passed the paper generally obtained over half the marks on these questions. Candidates were expected to provide descriptions and provide explanatory comments to points on these questions (rather than simply list points)

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| Question 1 | |
| Within the Middle East levels of benefits provision vary extensively. Describe benefits in the region. (5 marks?) | |
| Examiners Comments: | |
| <i>This question was answered well by most candidates. For full marks, candidates should have provided comments on state and typical company benefits for both Turkey and the Gulf region, covering most (but not necessarily all of the) of the points below</i> | |
| <ul style="list-style-type: none">- Turkey: Western level of state benefits; pensions auto-enrolment being introduced- Gulf countries (UAE, Saudi Arabia etc): High state benefits for nationals; termination indemnities / end of service lump sums (generally unfunded); medical benefits for expats; life insurance can be problematic for religious regions | |
| Syllabus Section | Part 5, Section 5 – Regional Round Up |
| Manual Section | Middle East and Africa, Chapter 5.3 |

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| Question 2 | |
| a) State the barriers that a multinational may face when establishing regional or global insurance policies (4 marks) | |
| b) What is the European Union (EU) 'Freedom of Services' principle in relation to life insurance (1 mark) | |
| Examiners Comments: | |
| <i>This question was poorly answered by many.</i> | |
| <i>For part (a), examiners wanted candidates to discuss the ability to purchase insurance from global or regional providers based in other countries. Barriers include (i) some countries requiring insurance to be placed with locally established insurers; (ii) local regulations prohibiting purchase of insurance from non-admitted insurers, (iii) tax penalties on non-admitted insurance policies; (iv) difficulties in administering policies for multiple countries. Many candidates focused on administration aspects only, and made comments on barriers for multinational pooling (which did not receive marks).</i> | |
| <i>In contrast part (b) was well answered by most, as the answer related to the ability for insurers in one EEA member states to be able to write business, on an equivalent basis, in another state. However</i> | |

several candidates who answered part (b) well did not realise that part (a) was also asking about the same topic (ie the ability for obtain insurance policies covering multiple countries)

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| Syllabus Section | Part 4 – Management & Provision of Risk Benefits |
| Manual Section | Chapter 1.1 – Risk Benefit Financing, |

Question 3

Your company is considering acquiring a business whose core operations are split between Germany and USA.

- a) Outline the key benefits points that should be defined in the sale agreement? (8 marks)
- b) List possible benefits challenges when acquiring a company with operations in Germany and the USA.
(2 marks)

Examiners Comments:

This question was answered reasonably well, with a significant number achieving 7+ marks.

Part (a) required candidates to discuss the impact on benefit plans – marks could be obtained by mentioning the following points: which plans will transfer (including associated assets and liabilities); whether any changes will be required including any immediate vesting; restrictions on benefit changes prior to closing; level of benefits to be provided to transferring employees; method of calculation of any purchase price adjustment; transitional service agreements for running of plans; responsibility for continuing risk benefits provision; communication to employees.

Most candidates scored 1 or 2 marks for part (b). Candidates could also have obtained marks by listing items such as the involvement of works councils in Germany; and legal requirements to fund tax-qualified retirement plans in USA.

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| Syllabus Section | 305 Section 7, Chapter 1 + International 1 Part 4, Chapter 4 & 5 |
| Manual Section | 305 1.3 + International 1 Part 4, Chapter 4 & 5 |

Question 4

You are benefits adviser to an international company. The company's Reward Manager has asked you for guidance on alternative forms of retirement provision for expatriate who cannot join or remain in local retirement plans. Prepare a short briefing paper; summarising three alternative options. (10 marks)

Examiners Comments:

This question was answered well by many candidates.

The three options expected by the examiners were (i) cash or retirement allowances; (ii) direct unfunded pension promises and (iii) international pension plans. Examiners generally gave 3 marks for stating and providing comments on each example. Some candidates wrote lots of information on host vs home country approaches for international pension plans (and when a home or host country plan may be most appropriate); but this was not required by the question (as the question stated that the paper should cover options for members that cannot join or remain in a local retirement plan, ie host or home country plans were not options to be considered)

The question required candidates to write an answer in the form of a briefing paper. A formatting mark was available for candidates that provided the answer in this format, with the 3 options clearly presented.

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| Syllabus Section | Part 6 |
| Manual Section | 1.6.3, 1.7 |

Question 5

You are the International Employee Benefits Manager for an energy company. They have recently hired a new CFO, who has asked you to provide an overview on multinational pooling. Draft a short paper for her describing:

- what a multinational pool is;
- what a multinational account includes;
- and the circumstances in which a dividend would be paid. (10 marks)

Examiners Comments:

This question was answered reasonably well by most candidates.

To score full marks, candidates were expected to

- *Provide a definition of a multinational pool in line with the manual; and provide a comment*
- *State seven items that appear in a multinational account*
- *Explain that the balance of the multinational account (after deduction of admin expenses and insurers profit element) is available as a dividend*
- *Comment that no dividend would be paid if there was a negative balance*
- *Comment that various risk charge mechanisms can be used to protect against losses*
- *Provide the response in the format of a paper*

50% of the marks were available for stating the items in a multinational account. However not all candidates picked up on all the other points that were needed in order to achieve full marks.

Syllabus Section

Part 4

Manual Section

1.1, 1.1.1

Question 6

You work in the HR department of a global technology company. The HR Director has asked you to prepare a paper outlining the current global benefit trends facing benefit managers, and how should take into account these trends in its benefit strategy development. (16 marks)

He has also specifically asked you include some current benefit trends in China and India where your company has large operations. (4 marks)

Prepare a paper to send to the HR Director.

Examiners Comments:

20 marks were available for this question. Most candidates that passed the papers scored at least 10 marks on this question.

The first part of the paper required candidates to write a paper covering key current topics. In line with the manual, these could have included: people living longer; changing state provision; increased mobility; changes to market conditions; changes to legislation etc. However the examiners also awarded marks to candidates that commented on future long- trends including: health and wellbeing; medical inflation costs; flexibility in the workplace. The examiners gave up to 16 marks for this first part – full marks could have been obtained by writing notes, in a paper format, on 6 of these topics, and, as required by the question, providing relevant comments on how these trends impact benefit strategy development (for example company policies, approach to risk management). Of the 16 marks, one mark was available for writing the response in a paper format.

The second part of the question was book-work in nature – however some candidates only commented on trends in pension plans and health insurance in each country and did not comment on risk benefits (eg the increased prevalence of group life insurance in China).

Syllabus Section

Section 8, Chapter 1

Manual Section

1.1 – 1.4

Question 7

You are the Pensions Manager of a multinational IT company which is looking to expand to Brazil and the Russian Federation. To support business success, it is key for your company to be attractive to well-qualified local IT engineers.

Draft a report to your Global Head of HR that:

- a) Compares the complementary pension regime of Brazil with Russia's Pillar Two pensions system; (14 marks)
- b) Outlines options for your company to enhance the attractiveness of the benefits package in the field of occupational benefits, medical and other benefits in both countries. (6 marks)

Examiners Comments:

Part (a) was answered reasonably well by many. Up to 2 formatting marks were available.

Most candidates gained marks with comments on the closed/open system in Brazil; typical replacement ratios; and typical contribution levels. The examiners expected candidates to provide comments on the typical investment strategy, governance of pension fund, and pension taxation in Brazil.

In relation to Russia, most candidates gained marks with comments on the insurance/accumulation parts of Pillar 2, with brief details on how pensions are calculated. Examiners also expected candidates to provide comments on administration aspects, the possibility to opt-out

Part (b) was not answered so well. Options for Brazil that could have been mentioned included: increasing number of DC investment options; providing additional life & disability benefits; providing supplementary health care plans. Options for Russia included: offering supplementary pension provision; offering VMI medical insurance including taking over premium surcharges for children over age 18.

Syllabus Section

Section 5 – Country and regional profiles

Manual Section

Part 5
Brazil: Chapters 1.2.2 and 1.3
Russia: Chapters 2.2.2., 2.2.3 and 2.3

Page numbers

Brazil: Pages 50-54
Russia: Pages 57-60

Question 8

You are working for a multinational that is based in Brazil, China, India, Hong Kong, Malaysia, Russia, Singapore, Switzerland and United Arab Emirates (UAE). The multinational is establishing a Global Benefits Committee.

Draft a report setting out:

- (a) A recommendation for activities for the Committee to carry out on a regular basis in order to oversee and manage its defined contribution plans around the world
- (b) A table summarising the key features for employer-sponsored defined contribution plan provision in each location (the table should have no more than two lines per country)

(20 marks)

Examiners Comments:

The first part of the question could have been answered better by most candidates. The examiners gave up to 10 marks for this part.

The question was focusing on defined contribution plans. The study manual (across various sections) provides information on how companies can manage retirement plans around the world; but the

examiners were expecting candidates to apply this to defined contribution plans.

The question wanted candidates to provide recommendations on actions that the Committee could carry out. The examiners were expecting candidates to provide background information on the need for central oversight (eg more employees in DC plans; increase contributions and assets in employer-sponsored DC plans; developments in DC legislation; importance of managing DC plans well to improve member outcomes); and then state actions (with reasoning). Actions that candidates could have covered include:

- Keeping an up-to-date register of DB plans around the world*
- Developing a risk management framework*
- Approving changes to DC plans*
- Benchmarking plan designs against market practice*
- Approving default investment options*
- Monitoring performance of DC funds offered to employees*
- Monitoring investment decisions of plan members to ensure they are broadly appropriate taking account age and risk profiles*
- Carrying out compliance audits of DC funds*
- Selecting DC providers (eg global DC asset managers)*
- Working with local management to ensure local DC plans have effective governance structures*
- Maintaining regular and informative communications*

The second part of the question was answered well by most candidates; with many candidates scoring 7+ marks. This question was designed to see if candidates could write key points for each country in a concise format. 2 marks were available for formatting; but to achieve these candidates were required to provide answers in table format with no more than 2 lines per country. Some candidates did not follow this instruction, and provided a list of key features and/or provided several lines of text per country.