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Global Pension Solutions for Globetrotters

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Introduction

- Background on international pensions
- Design considerations for International Pension or Savings Plans (IPPs) for employers
- Recent trends in IPPs
- Case studies
- Practical issues for IPPs



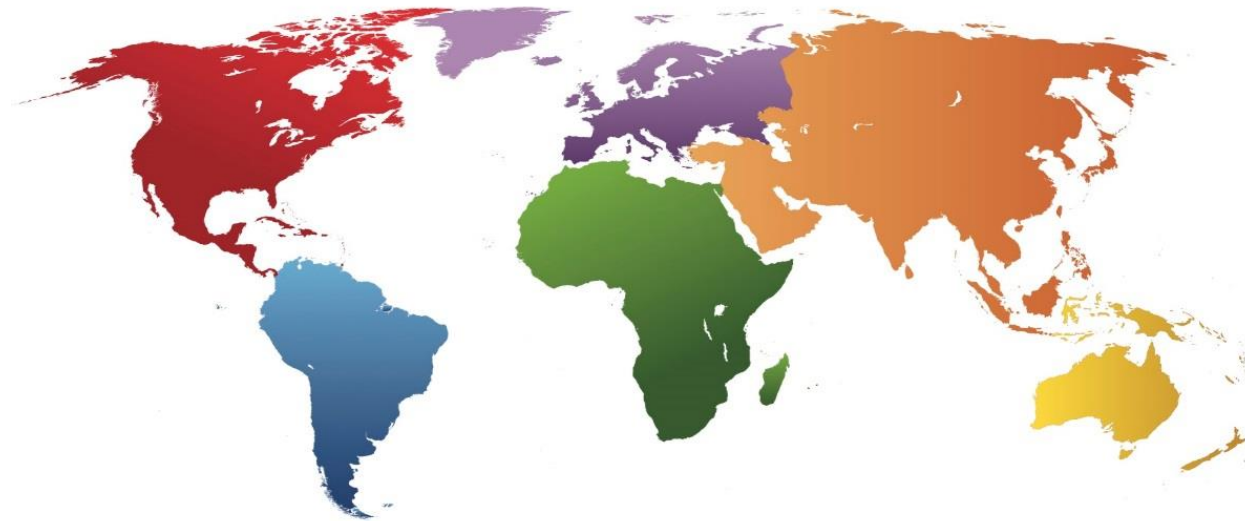
Alternative Approaches to International Pensions

- **Large number of possible approaches**
 - Depends on corporate/individual aims
 - Individual's anticipated long term retirement plans
- **Options include:**
 - Home country provision
 - Host Country provision
 - “No” provision / unfunded promise
 - International Pension or Savings Plan provision



International Pension or Savings Plans

A plan established outside the home country of the employer and of the employees to provide benefits for the international staff of a multinational group



Pan European Plans

- Intended to cover European employees across borders
- More cost effective for larger employers
- Solvency requirements limit funding flexibility
- Very limited appeal so far
- IPP complements Pan European Plan



IPP Design Considerations (1)

- **Members typically include**
 - Expatriates
 - Third Country Nationals (TCNs)
 - Local staff where no convenient local option exists
- **DB, DC, or hybrid**
- **Typical benefit structures**
 - Could be uniform across countries or
 - Could “mirror” local benefits
 - Benefits in a “base” country of employee



IPP Design Considerations (2)

- **Rules typically allow for funding flexibility**
- **Currency issues**
 - Contributions
 - Account balances
 - Benefit payments
- **Investment options and default if DC plan**
- **Benefit typically paid as lump sum**



International Savings Plans

- Allow more flexibility on withdrawing funds before retirement age
- Aimed at employees working in countries with mandatory end-of-service payments
- Plan can be used to prefund (or top up) employer obligation
- Jersey and Guernsey recently introduced formal recognition regime for International Savings Plans



IPP Flexibility

- IPP can be set up under trust or contract
- Assets of multiple plans may be pooled in master trust arrangement
- Possible to have multiple benefit structures in one plan
- IPP provides a central holding pot in a stable currency regardless of where an employee is living and working



Trust or Contract Based?

	Trust	Contract
Initial Costs	May have costs for implementing trust	Product already established
Flexibility	Flexible benefit and payment structures, currency	Must fit within provider constraints. May have geographical limitations.
Investment Choices	Flexible investment choices	May be limited to provider fund range
Cost Transparency	Fully transparent costs	Full costs not always clear
Insolvency Risk	Assets in trust, separate from employer and provider	Risk to benefits on insolvency of employer or provider



Location Options

- **Head Office of Parent Company**
 - Often not sufficiently flexible or tax effective
- **Other Onshore locations**
 - Ireland, Belgium, Luxembourg
- **International Finance Centres**
 - Guernsey, Jersey, Isle of Man
 - Malta, Gibraltar
 - Bermuda, Cayman, BVI
- **UK Section 615 schemes curtailed from April 2017**



Location Requirements

- **Taxation**
 - No local taxation of investment income or capital gains
 - No local taxation on benefit payment
 - Tax on benefits depends on local rules in country of residence
- **Political and economic stability – on OECD “white list”**
- **Helpful tax officers and regulators**
- **Minimal benefit restrictions and ability to take benefits in lump sum form**
- **Trust law**
- **Good support services**
- **Same language/time zone as sponsor**
- **Reliable communications and IT infrastructure**



Tax Issues

- Tax issues will vary by location of plan and employer and tax residence(s) of members
- Employer contributions may be tax deductible as an employment expense
- Member contributions typically not tax deductible (but possible to make tax effective?)
- Advantages to employer and members even if not tax efficient



Recent Trends in IPPs

- Multi-nationals with no formal programme for internationally mobile employees
- Old final salary or insured plan, but moving to flexible defined contribution plan
- Funding for termination indemnities or end-of-service gratuities
- Local staff where no convenient local option exists
- Local staff in “crisis” countries
- Newer multi-nationals



Case Study #1 – Benefits for Expatriates

- Multinational investment fund provider
- Required retirement plan for mobile employees
- Initially covering expatriates in the United Arab Emirates with scope to add further locations
- Recognising local gratuity requirements
- Employer matching contribution mirroring DC plan in the UK



Benefits for Expatriates – Solution

- Separate plan within an existing master trust
- Employer's own fund ranges included
- Corporate branding used
- Tailored preferential fund charges arranged for members



Case Study #2 – No Local Options

- **Large multinational energy company**
- **Wanted to provide retirement benefits for**
 - Local staff where no viable local options exist
 - Expatriates
 - Mobile employees
- **5,000+ members**
- **Benefit structures to suit location**
- **Some coordination with local benefits**



No Local Options – Solutions

- Separate employer trust
- Corporate branding
- Contributions and benefits allowed in a variety of currencies
- Communications in multiple languages



Case Study #3 – Expanding Multinational

- **Multinational electronics manufacturer**
- **Wanted retirement benefits for expatriate workers**
 - initially in newly established Dubai operation
- **Must be easy to add staff in other jurisdictions**
- **Simplified plan to reflect small number of members**
- **Contributions in dirhams, converted to US dollars**



Expanding Multinational – Solution

- **Off the shelf standard product**
- **Low cost**
- **Easy to implement**
- **Easy to add members in other territories**
- **Flexible**
 - Employer selected vesting period
 - Allowed retroactive contributions



Practical Investment Issues – DC Plans

- **Range of funds – similar to US or UK practice**
- **Possible range of Currencies (\$, €, £)**
- **Asset classes and funds depend upon type of workforce**
- **Choice of active and passive funds**
- **Default option**
 - Lifestyle option
 - Funding for cash lump sum/annuity purchase



Practical Communications Issues

- 24/7 member website
- Secure site where members have their own logins and passwords
- Multiple languages
- Dedicated mailbox for sending messages to the administrator
- On-line switching
- On-line benefit statements



Practical Administration Issues

- Normally done in offshore location
- May be part of bundled package from a pensions provider (contract based or trust based)
- May be provided by offshore trustee or other third party provider
- Some member administration may be sub contracted back to sponsoring employer



Summary

- More (and smaller) companies operating internationally
- Often no apparent pension solutions for mobile and some local workers
- IPPs offer flexibility on coverage, plan design, and funding to fill pension gaps
- IPPs are important tool to meet retirement needs of global workforce



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