



International 2 Managing International Employee Benefits

Mock Examination Notes

Recommended Time: 3 hours

- 1. You are employed by a large multinational company, which operates across the world in a highly competitive sector. Explain the factors that should be considered in developing an international employee benefits policy for the company.**

20 marks

A full answer would include a brief explanation of an international benefits policy.

The factors include:

- Strategic considerations
- Corporate and employer objectives
- The labour market
- Market positioning
- Cross border consistency
- Other factors may be relevant, and these could be explained in a full answer

As this question is asking for an explanation and carries 20 marks it is seeking a reasonable level of detail for each of the factors. An example would also be helpful.

- 2. As an international benefit consultant prepare a summary report for a client that is considering expanding its business into Russia, that covers:**

- **An overview of the broad economic and employment climate;**
- **Typical pension and risk benefit provision.**

20 marks

As this question asks for a report a small number of marks (2 or 3) are available for producing an answer in a report format. This is covered in the PMI Communication Manual.

The political environment, tensions, and changes in the price of oil, mean that Russia's financial situation is volatile. The main challenges for the country are to invest in innovation and diversify the economy as well as dealing with a declining population. After several financial crises (in 1998, 2008 and the ongoing 2020 turbulence) various business sectors in Moscow have shown exponential rates of growth till late 2014 when the situation around Ukraine influenced negatively the whole Russian market. The Ukraine crisis ultimately had a mixed impact on the Russian economy. On the one hand it strained relationships with many countries leading to sanctions and limitations on business activity. On the other hand, sanctions led to rapid growth in domestic manufacturing to substitute for sanctioned goods.



On the labour market, we can witness the following trends: growth of number of vacancies has slowed down, competition among job seekers has increased, and the growth in average salaries has slowed down. Despite these facts, unemployment in big cities is still under control and the number of vacancies is still growing in Moscow and St. Petersburg. Russian unemployment is approximately 5.7% of the total labour force of about 75 million in 2020. Moscow has the lowest unemployment rate in Russia. There is a highly flexible labour market with significant staff turnover. Contracts of employment are governed by legal provisions and to a lesser extent by collective agreements and individual negotiation. Contracts can be permanent or fixed-term, although the use of a fixed-term contract must be justified. Employers are still in strong competition for qualified staff: all major international groups have already set up companies in the local market and many of them have vast production facilities all over Russia. Together with major Russian enterprises these companies are in search of professionals both in production and management, while local graduates do not always meet the high HR standards for such companies (fluent foreign language, enough working experience, international environment practices etc.). Qualified job seekers are very selective in choosing a better employer with secure and well-compensated jobs, with more focus on immediate compensation. Russian employees like in many other CEE countries, favour immediate cash reward over deferred pay arrangements, such as pensions. In terms of attraction and retention, pensions in Russia are not yet seen as being as important as improvements to pay, medical, offering company cars or certain other benefits within rewards packages.

From 2015, a new earnings-related pension has been introduced that will eventually replace the FBA and PFR. Individuals entering the workforce beginning in 2015 have been automatically covered by the new system. Workers already in the system were transferred automatically into the new system for future service. Transitional rules apply for past coverage under the old system.

According to OECD projections, net retirement income from the state system (1st and 2nd pillars) is estimated to replace 57% of pre-retirement net earnings, for a new male entrant to the workforce whose earnings match the national average; 52% for a woman. However, this is based on an average employee profile across the country. Replacement ratios in large cities such as Moscow and St Petersburg for workers with higher salaries will be much lower, 25% and under.



- 3. You are the benefits manager for 123 Company that has just acquired a business with a DB plan. Draft a briefing note for the Finance Manager of 123 Company that outlines some of the recent developments that may help to manage and reduce the associated risks.**

20 marks

As this question asks for a briefing note a small number of marks (2 or 3) are available for producing an answer in that format. This is covered in the PMI Communication Manual.

Risk management of pension plans typically includes the following steps:

- Plan design considering long term funding risks and sponsor appetite for risk.
- Staff training.
- Maintaining registers of risk.
- Cashflow controls.
- Plan policies covering, for example, investment strategy, exercise of discretionary powers, funding policy and member disclosures.
- Use of professional advisers, and details of the regular review of these advisers.
- Managing conflicts of interest.
- Sponsor covenant assessment.
- Clear and documented audit trail of key decisions, e.g., written advice from advisors, meeting minutes of the plan's governing body.
- Service level agreements with key suppliers.
- Independent audits

Actuarial valuations can also be used to aid understanding of the risks faced by an organisation in respect of any pension plan of which it is the sponsoring employer. Methods such as sensitivity analysis (assessing how expenses and liabilities change with changes in assumptions) or scenario testing can illustrate the uncertainty in the results of the valuation. They can also identify and highlight the importance of the different underlying sources of risks. The results of the valuation and sensitivity tests can be used to provide measures of risk that are useful in supporting decisions made by interested parties with a variety of different risk appetites, including the organisation's risk committee. Valuations and funding updates are the most common way of monitoring risk in pension plans, but the underlying risks can also be monitored, e.g., through regular fund monitoring or investment managers performance reports.



4. Write notes on the impact of multinational business on International benefits.

10 marks

Within the area of international benefits, the company directors will ultimately be responsible for ensuring that local benefit programmes meet local legislative and reporting requirements and will need to ensure that they are being managed appropriately. Good corporate governance can be achieved by establishing broad benefit policies which may take the form of principles or philosophies about the provision of benefits, their type and the way they are financed and controlled. This set of broad policies essentially provides a framework upon which specific benefits in any local jurisdiction are based. The policies are likely to set out who is responsible for making decisions. For example:

- The board of directors would normally sign off any decisions where there would be a very material impact on the company's financial statements (for example, closure or termination of a major plan, significant changes to benefits, major changes to investment strategy, treatment of pensions in mergers and acquisitions etc.)
- Less material decisions (e.g., closures of smaller plans, minor plan changes) may be delegated to Executive Management, particular individuals (such as the CEO, CFO or HR Director), or a Global Benefits Committee. These groups/individuals would also be responsible for making recommendations to the board of directors
- Day-to-day decisions may be delegated down to individuals depending on the nature of each decision and the structure of the company. It will also cover which decisions should be made centrally (e.g., by a Compensation & Benefits Director or Group Pensions Director) and which can be made at a local level.
- Even where decisions can be made locally, some companies will require local entities to consult headquarters before making changes to their benefit plans. This allows central oversight of all benefit changes and helps ensure a consistent approach in different countries. There may be a materiality limit set to ensure that minor changes with little financial impact do not need to be approved centrally.

5. Write notes on the management of employee benefits via a global benefits committee.

10 marks

As this question asks for notes and carries only 10 marks, choose some of the examples from the following (you would not be expected to reproduce the whole thing):

Historically, companies have dealt with pension schemes at an individual country level with limited global oversight. However, in the last couple of decades many multinational companies have set up Global Pension Committees and/or Global Benefits Committees to manage their worldwide benefit arrangements.



Reasons for setting up a Global Pension/Benefits Committee include:

- Pension and employee benefit risks are substantial business risks and need to be managed in the same way as other business risks
- Multinationals have expanded, e.g., by buying other businesses, and now have significant legacy pension arrangements across a range of businesses
- Companies have increased focus on corporate governance
- Changes to accounting standards have meant that there is greater visibility of pension costs and liabilities
- Companies are becoming more centralised with more decision-making and policies being made at head office level rather than at local level.

Committee members often comprise directors from various parts of the company including human resources, finance, treasury, and tax. Some committee members may also be on the company board, e.g., the CFO, especially where there are significant pension financing risks relative to the business. The Global Pension/Benefits Committee is likely to have several responsibilities, often set out in a Terms of Reference document. These could include:

- Providing recommendations to the Company Board on significant pension changes, e.g., plan changes, mergers of plans, major changes to investment strategy, approving new plans
- Making decisions in relation to benefit plans where it has been given authority to do so by the Board, e.g. less significant changes to benefit plans
- Implementing decisions made by the Board
- Developing global benefit guidelines for the management of benefit plans around the world. These guidelines could include funding, accounting, investment strategy and benefit design.
- Developing a risk management framework to identify, monitor and manage key pensions risks
- Keeping an up-to-date register of benefit plans around the world
- Working with local management to ensure that local plans have effective governance structures and comply with applicable laws and local regulations
- Reviewing the affordability and competitiveness of benefit plans around the world
- Selecting and reviewing the performance of multinational pooling providers

6. Write notes on the provision of medical benefits in China.

10 marks

With the privatization of the health care system, employees increasingly have been looking to employers to provide. With the privatization of the health care system, employees increasingly have been looking to employers to provide comprehensive health care coverage. To distinguish themselves as “employers of choice” and help employees avoid high health care costs, employers have begun to develop their own health care benefit strategy in China. A large proportion of multinational companies in China provide supplemental health care benefit to employees. Almost all plans are paid completely by the employer; the employee makes no direct contribution. The typical plan covers 90% of outpatient and 100% of inpatient costs with a combined maximum annual benefit of CNY20,000 to CNY30,000. Dependent coverages, for children and unemployed spouses, are also seen.



7. Write notes on the impact of a sale or merger transaction on employee benefits.

10 marks

As this question asks for notes and carries only 10 marks, the following should be covered:

- Transaction may impact employee benefit plans directly, and their insurance or other financing vehicles
- Insurance policies may have been issued on a Group-wide basis, or be subject to specially agreed terms
- Is it possible to maintain membership of multi-employer benefit plans (carve-outs, transfers, cross- subsidies, lack of control)?
- Increases or reductions in benefits
- Restructuring