Core Unit 1B – Foundation in International Employee Benefits

Assignment 4 Notes

(Manual 2, Part 2 The European Union)

*Recommended Time: 1 Hour*

# Identify and briefly describe the functions of the principal bodies of the European Union (EU).

**10 marks**

Answer should cover:

Five principal bodies include:

* + European Commission-the Civil Service of the EU. It has exclusive power to initiate EU legislation and is responsible for the day-to -day running of the EU. The governments of the Member States appoint the Commissioners.
  + European Council of Ministers- the body that must approve and adopt the Directives and Regulations for them to come into force. It consists of appropriate Ministers from the Government of each Member-State.
  + European Parliament-has powers to review and recommend amendments to proposed EU legislation as well as on the implementation of Treaties between the EU and other countries.
  + Directorate General- the equivalent of government departments or ministries and are responsible for specific areas of policy within the Commission
  + The Court of Justice of the European Union – decides matters that depend on an interpretation of European Community law.

This question requires a brief description of the bodies that have been identified and the marks are broadly equally split between all of them.

(Relevant is Manual 2, Part 2, Chapter 1.2)

# Explain how the EU has impacted pensions legislation in member states.

**10 marks**

Answer should cover:

Examples are:

* Court rulings, for example rulings on the Barber and Test Achats cases
  + Direct legislation, for example through the Pensions Directive, protecting workers rights, enable funds to take advantage of the Single Market and the Euro to improve their investment strategies, guarantees a level playing field between all providers of occupational pension services and allows for the mutual recognition of prudential regimes between Member States and paves the way toward forms of cross-border pension provision
* Indirect activities: for example, through the introduction of Single European Currency. The reduction in interest rates and inflation in the EU leading to a real cost increase for DB plans accelerating the trend to DC schemes. The fact that there is now no currency risk for Eurozone plans to invest in other Eurozone countries has significantly reduced (but by no means eliminated) the domestic bias in Eurozone plans i.e., the tendency for pension plans to invest a disproportionate amount of their assets in the home market.

This question requires a full explanation of the relevant material.

(Relevant sections are Manual 2, Part 2, Chapters 1.3 and 1.5.**)**

# What are the specific objectives of the IORP Directive?

**5 marks**

Answer should cover:

* + Remove remaining barriers for cross-border IORPs
  + Ensure good governance and risk management
  + Provide clear and relevant information to members and beneficiaries
  + Ensure that supervisors/ regulatory bodies have the necessary tools to effectively supervise IORPs

(Relevant section is Manual 2, Part 2, Chapter 1.5)

# The Pensions Directive applies to all “Institutions for Occupational Retirement Provision” (IORPs). List the

**exceptions.**

Answer should cover:

* + Pension plans with less than 100 members, if the given Member-State so decides
  + Social Security Systems
  + Life insurance companies, with certain exceptions
  + Unfunded pension arrangements
  + In Germany, “Unterstutzungskassen” (support funds)

(Relevant section is Manual 2, Part 2, Chapter 1.5.)

# Outline the social security rights of internationally mobile employees in the EU.

**5 marks**

Answer should cover:

The impact of Regulation 1408/71 and its successors. Old rules dating back to 1972…Employees being transferred temporarily by their Home country employers to work in another Member-State for a period no expected to exceed 12 months, may be retained in the Home country Social Security system. Bur the requirements that the individual not be replacing another employee on temporary transfer. For employees who unexpectedly overrun their assignment, an extension for up to a further 12 moths may be obtained. The new rule that came into force in 2010 is that the same principles apply, the new time limit not expected to exceed is 24 months with

no provision for renewal. This now includes workers recruited with a view to working in the other Member State provided that, immediately before transfer, these individuals were already subject to contribution in the Member State where the Employer is established.

Fundamental principles:

* Each country provides for eligibility for benefits to be determined by the total service credited in each of the countries
* Benefits to be determined using that total service credited and then pro-rated in proportion.
* Ensuring that benefits accrued in respect of partial career are protected.
* Avoiding the potential for double contributions (in Home and Host countries simultaneously)

(Relevant section is Manual 2, Part 2, Chapter 1.6)

# Outline the impact of Economic and Monetary Union on pension plans in the EU.

**10 marks**

**10 marks**

As this question requires only an outline and carries 10 marks a succinct summary of the following is all that is required:

* Direct and immediate factors- conversion of all currency amount to Euros, with associated communication requirements and costs; some aspects of benefit design (e.g., increases in line with a consumer price or earnings index) had to be reviewed.
* Indirect and long-term factors-included the reduction in interest rates and inflation in the EU leading to a real cost increase for defined benefit plans, accelerating the trend to defined contribution designs. Also continued compliance with the EMU criteria has increased pressure on Social Security systems. Leading to greater encouragement of voluntary provision by employers and individuals.
* Absence of currency risk- the fact that there is now no currency risk for a Eurozone plan to invest in other Eurozone countries had significantly reduced (but by no means eliminated) the ‘domestic bias in Eurozone plans i.e.; the tendency for pension plans it invest disproportionate amounts of their assets in the home market.

(Relevant section is Manual 2, Part 2, Chapter 1.3.)