Core Unit 1B – Foundation in International Employee Benefits

Assignment 1 Notes

(Part 1 Overview of International Employee Benefits and Part 4 Overview of the Key Employee Benefits)

*Recommended Time: 1 Hour*

# Explain why employee benefits are provided by companies.

**10 marks**

Answer should cover:

Employee benefits help support

-recruitment-Employee benefits help attract key employees,

- retention- Benefits can be an effective retention tool (e.g., defined benefit pension plans,

- release/redundancy of employees- benefits can facilitate manpower planning e.g., through early retirement or redundancy.

- reward employees for their contribution to the business e.g., for long service.

Other indirect reasons might be:

* + It is a legal requirement to offer benefits
  + There are tax breaks available
  + It supports the paternalistic nature of the business
  + Competitors do
  + To preserve the company’s reputation, it is important to offer benefits.

(Relevant section is Part 1, Chapter 1.2.)

# Outline an example of a DB pension plan that integrates with the State social security system.

**10 marks**

An example could be where a company wishes to provide a target benefit of 60% of final salary after 40 years’ service, including retirement benefits payable from Social Security. An employee earns £50,000 pa and has worked for 40 years. The social security benefits amount to £10,000pa. The company adjusts its benefit formula to ([1.5% x salary x service] – benefits payable from Social Security).It pays £20,000 in pension which together with the £10,000 per from social security make up the target benefit of 60% of salary.

Pensionable salary is reduced from actual salary to take into account the part of income that will be covered by Social Security. An approximate reduction in benefit amount payable is made to implicitly take into account benefits from Social Security (e.g., reduction in accrual rate.)

(Relevant section is Part 4, Chapter 1.2.2.)

# Outline the advantages and disadvantages for two approaches to financing risk benefits.

**10 marks**

Risk benefits can either be – self-insured, fully insured or partially insured.

Answer should cover the advantages and disadvantages of any two of the approaches:

|  |  |  |
| --- | --- | --- |
| **Approach** | **Advantages** | **Disadvantages** |
| Self-insurance | Reduced cost (since employer cuts out  insurance company margins/profit) | Employer takes greater risk |
| More tax efficient |  |
| Cash-flow advantages |  |
| Fully insured | Reduced risk for the employer | More expensive |
| Direct access to insurer expertise | Employer pays company margin/profit |
| Services and administration provided by  insurer |  |
| Partial insurance | Sharing of risk means better rates for the  employer | Some exposure to risk |
| Incentive to reduce risk which leads to  better workplace practices | Potentially more complex to  administer |

(Relevant section is Part 4, Chapter 2.4.)

# Outline an example of a jubilee award and explain how these are typically funded.

**10 marks**

Answer should cover

Jubilee awards provide an amount of benefit after certain service milestones. An example might be lump sum payments of a multiple of monthly salary after achieving service milestones of say:

10 years – 25% monthly pay 20 years – 75% monthly pay 30 years – 75%monthly pay 40 years – 100% monthly pay

Typically, these benefits are unfunded and therefore the company meets the cost of these benefits out of cash reserves at the time they fall due. They are quite common in a number of different countries such as Germany and France. Sometimes the benefits are provided because of national or locally collectively bargained agreements or simply, voluntarily offered by the company.

(Relevant section is Part 4, Chapter 4.2.)

# Describe “post-retirement medical benefits” and outline how these benefits are delivered; and generally financed and funded.

**10 marks**

Answer should cover

“Post-retirement medical benefits” are medical benefits provided by the employer after the employee has retired, either because the State does not provide medical benefits, or to supplement or to substitute for the medical benefits provided by the State.

Benefits are generally delivered in the same way as “in-service” medical benefits, either:

* + through a medical insurer: the employer pays an insurance premium to an external medical insurance company, which then provides and administers the benefit.
  + through a Third-Party Administrator: the employer directly pays the cost of medical treatment through a Third Part Administrator (TPA), which is often an insurer that is providing Administrative Services Only (ASO).

One growing approach in the United States has been to transition from a traditional employer-sponsored plan to a private ‘exchange’ (market for individual medical plans) approach, allowing retirees choice, concierge -style decision support, and potentially equal or better benefits for equal or less money. Individual retirees can use an exchange to apply the same funding to choose the benefit model that best suits their individual requirements.

Benefits are generally financed and funded in the same way as "in-service" medical benefits, either:

* + Insured: the employer pays an insurance premium to an external medical insurance company, which then provides and administers the benefit.
  + Unfunded: the employer directly pays the cost of medical treatment. (Relevant section is Part 4, Chapter 3.)