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Core Unit 1B – Foundation in International Employee Benefits

Mock Examination Notes

*Recommended Time: 1 Hour*

# Briefly explain the concept of integration of pension plan benefits with State provision.

**5 marks**

Answer should cover:

To ensure employer is not “over-providing” in relation to a lifestyle protection target when Social Security

benefits are taken into account. Various methods of integration include:

* + A target total benefit promise at retirement inclusive of assumed Social security benefits in such plans, therefore , are typically reduced if Social Security benefits in that country are generous to insure that the employer is not ‘overproviding’ in relation to that lifestyle protection target.
  + 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 benefits amount payable to implicitly take into account benefits from Social Security

A simple example could help to illustrate this concept. (Relevant section is Part 4, Chapter 1.2.2)

# Outline the main types of financing policy for defined benefit pension plans. 5 marks

Answer should include mention of funded and unfunded approaches.

Unfunded included Pay-as-you-go and Book Reserves.

Funded advantages are tax relief, stability and cash flow, assets in a separate fund and Accounting Practice.

(Relevant section is Part 4, Chapter 1.4)

# Write brief notes describing the main types of risk benefits.

**5 marks**

* Death benefits – a lump sum or continuing income paid to specified dependents of the deceased.
* Disability Benefits - a benefit payable on partial or total inability to continue working on the part of the employee
* Medical Benefits – a benefit enabling provision of medical services to an employee (including possible extension to dependents)
* . (Relevant section is Part 4, Chapter 2.2)

# Write brief notes Identifying and commenting on the use of post-retirement medical benefits.

**5 marks**

Given the prevalence of these benefits in the USA an answer is likely to include comment on the use of these in the USA.

Some employers also offer, or have in the post offered medical benefits to their retirees, ie to people who retired from employment from that employer. These are referred to as ‘post-retirement medical benefits.

Although this post-retirement medical benefit may appear similar to ‘in service’ medical benefits, they, as a long-term liability are usually considered separately. While in-service benefits are usually financed on a “risk benefit” or annual premium basis, an employee who has just retired with an entitlement to post-retirement medical benefit will look forward to a future stream of benefits, typically, for the remainder of life. This commitment needs to be valued (for accounting purposes) and recognised in a broadly analogous way to a retirement benefit.

Most post-retirement medical benefit plans are in the United States. Direct provision of State medical benefits generally is only provided to over-65s (Medicare) or people on very low incomes (Medicaid). Accordingly, employer-provided medical care is generally regarded as the most important employee benefit, and often represents a higher cost to the employer than retirement benefits themselves. This focus on the high value of employer-provided medical care in-service has led employers to consider that continuation of provision in retirement would be similarly valued. In any country, the form of the post-retirement benefit is influenced by the benefit already provided by the State. So, in the case of the United States, a typical post-retirement medical plan benefit will be split into two parts:

• For those aged under 65, where Medicare is not yet available: a continuation of the “in-service” benefits provided to the employee before they retired.

• For those aged over 65: a lower level of benefit, to supplement the benefits provided by the State Medicare scheme (which does not for example reimburse the full cost of prescription medicines)

(Relevant sections are Part 4, Chapters 3.1 and 3.2)

# Write brief notes outlining the main types of share plans.

**5 marks**

The main types are

Share Awards-shares are given to an employee at no cost.

Share Purchase Plans-an employee has a right to purchase shares either at a discount to the market price or on a tax-favoured basis.

Share Options-a right to purchase shares at a defined price over a defined time period.

A full answer would include mention of the variations and country examples.

(Relevant section is Part 4, Chapter 6.2)

# Outline the key objectives of a local pension plan actuary.

**5 marks**

Answer should cover:

* Ensuring financial sustainability of the pension (or benefit) plan in the long term
* Meeting local regulatory requirements
* Providing other advice and analysis to the employer or the Plan Trustee in respect of the pension and other benefit plans, including local custom and practice.

(Relevant section is Part 7, Chapter 9.2)

# List the different types of medical benefits in the USA. 10 marks

Answer should cover:

Social Security medical benefits

* Medicare for those aged 65 and over
* Medicaid for the poor

Majority of the population reliant on private healthcare provision covering

* Outpatient services
* Hospitalisation
* Dental
* Vision
* Laboratory fees and X-rays
* Prescription drugs
* Preventative and acute care services
* Mental health and substance use disorders (behavioral health benefits)

(Relevant material is country profile for the USA)

# For medical benefits in the USA outline the financing issues associated with them.

**10 marks**

Answer should cover the various methods of financing the benefits. The relevant issues would include cost and cost control.

* + Flexible benefit or cafeteria programs which includes medical/dental and vision care options.
  + Shared Costs- typically employees contribute as a percentage of premiums, range from 20% to 24% for individual coverage and 28% to 32% for family coverage.
  + Contributions for dependent coverage vary by employer, with most employers requiring employees to pay for some or the entire dependent premium.
  + Maximum Benefits
  + Variable depending on size and risk tolerance of employer – for example tobacco surcharges are variations in insurance premiums based on a policyholder (or dependent’s tobacco use)

(Relevant material is country profile for the USA)