Devonshire House

60 Goswell Road

London

EC1M 7AD

T: +44 (0) 20 7247 1452

W: www.pensions-pmi.org.uk

Core Unit 1B – Foundation in International Employee Benefits

Assignment 3 Notes

(Part 11 Regional Profiles and Country Profiles for France, UK, Germany, USA, Switzerland, Netherlands, Japan)

*Recommended Time: 1 Hour*

# As an employee of a UK based multinational, expanding into France, describe the typical pension benefits that are provided in France to the newly appointed British Finance Director.

**10 marks**

Answer should cover:

A multinational company would typically supplement the State social security and compulsory systems of AGIRC and ARRCO with a defined contribution supplementary scheme that is insured with a local provider.

The first source of pension consists of a ‘pay-as-you-go’ state provision in addition to the general social security, all private-sector employees are covered by mandatory complementary pension schemes. These are pay-as-you-go schemes, designed, in theory, whereby the contributions collected will be in balance. Both are points based systems, contributions ate used to buy pension points which are converted into pension rights on retirement.

As this question requires an explanation and the marks are broadly equally split it is expected that a full answer would include coverage of the above points and carry half the marks available for the question overall.

(Relevant material is country profile for France)

# Outline how the private health care system in the UK differs from that provided in France.

Answer should cover:

# 10 marks

The National Health Service in the UK provides comprehensive healthcare coverage which is supplemented by some employers with private insurance. This private cover will generally provide quicker access to services at a date and time convenient to the employee. It runs in parallel with the NHS. It covers less than 10% of the population. It is offered as an alternative to the NHS, generally offering non-emergency treatment at a date and time of the employee’s choice. Private medical policies will not generally cover primary care or long-term care, but the costs of specialist consultants, diagnostic and private hospital surgery and accommodation up to a specified maximum amount will be included.

The national health system in France does not meet all costs and therefore ordinarily the employee would have to pay certain amounts. The private system in France, called prévoyance, pays for the elements of cover not provided through the national health system. From 2016, all employers will be required to offer to their employees a group medical insurance with specified minimum benefit levels. For plans which only meet the minimum mandated levels, employers are required to pay at least 50% of the contribution. Most existing plans are likely to have benefit levels which exceed the minimums the Decree but compliance should be confirmed.

(Relevant material is country profiles for France and the UK)

# Explain the difference between the main financing approach in Germany with that found in the UK.

**10 marks**

Answer should cover:

The main financing approach in Germany is book reserve.

A book reserve system is one whereby the company makes a “direct promise” to the employee and therefore there is a formal obligation on the company to provide these benefits. There are not necessarily separate funds held by the German company, but instead a provision for this obligation is established on the company’s balance sheet. In some cases, these reinsurance contracts may be pledged to the individual members in the event of company insolvency to provide additional security (particularly for those plan members whose benefits are not covered by the statutory insolvency protection fund).In the UK, pensions are provided either through a trust-based scheme or via a third party. In either case, the contract is established between the employee and the Trust or third-party provider. In the UK, it is common to fund the pension benefits in advance and therefore contributions are paid to finance the pension promise whilst the employee is working. Since 2012 large employers have been legally required to automatically enroll their employees into a workplace pension. Trust based plans may be DB or DC or a combination of both; personal pension plans are always DC.

(Relevant material is country profiles for Germany and the UK)

# Describe the social security pension benefits that are provided in the USA.

**10 marks**

Answer should cover:

Social security is provided on a ‘pay-as-you-go’ basis. The full retirement age for both men and is gradually increasing until it ultimately reaches age 67 in 2027.

The benefit entitlement is based on average covered earnings indexed for past wage inflation; the highest 35 years of earnings are used to obtain the Average Indexed Monthly Earnings. This is applied to a 3-tier benefit formula in effect the year in which the individual reaches age 62, regardless of when he or she actually retires or applies for benefits. This amount is then adjusted for changes in the cost of living’ producing the Primary Insurance Amount. The maximum benefit at Social Security Normal Retirement Age is just over $3,000. Benefit amounts are related to career average-indexed monthly earnings. The spouse of a retiree is entitled to a benefit derived from the higher of his or her own earning history or 50% of the spouse’s benefits. The maximum family pension is 150% to 180% of the Primary Insurance Amount.

Retirement benefits may be increased annually for increases in the cost of living.

(Relevant material is country profile for the US)

# Explain the different forms of defined benefit pension provision found in Japan.

**10 marks**

Answer should cover:

Defined Benefit (DB) plans can take different forms including:

* + Retirement allowance plan, or RAP (unfunded DB)
	+ Defined Benefit Corporate Pension Plan (funded under DB law)

There has been a trend towards DC provision, and many large companies have converted a part of their DB plans to a DC basis. However, there is a relatively low contribution cap on Dc forcing employers to supplement their DC plans with an alternative package. Therefore, hybrid plans are very common, and it is rare for an employer to have just a DC plan.