



Managing International Employee Benefits

Notes on Assignment 3

Recommended Time: 3 hours

- 1. In relation to Brazil; outline the different components of retirement provision, the basic features of the social security system and the benefits offered to general private sector workers.**

10 marks

Retirement provision in Brazil consists of three elements:

- Social security for private sector workers and some public sector workers
- Special regimes for public sector workers
- Complementary system available for all workers.

The social security system is a “pay as you go” arrangement with the benefit calculated as 60% of average earnings plus 2% for each year of service beyond the minimum contribution period (15 years for women and 20 years for men) up to a maximum benefit of 100% of average earnings. Higher rates of benefit apply for those affiliated to the program earlier than 1999. The benefit is financed by employer (20%) and employee (7.5%-14%) contributions calculated on different elements of pay.

- 2. Describe some of the main features of the complementary benefits environment found in Brazil.**

5 marks

There are two types of complementary arrangements— closed and open funds.

Closed funds are typically offered by single employers (though are also used for multi-employer arrangements).

Open funds are typically offered by banks and insurance companies. Open funds are regulated by the Insurance Supervisory Authority.

Open and closed plans can be either defined benefit or defined contribution in nature. DB plans typically target an accrual of 1.5% to 2.0% per annum including social security benefits. DC plans usually target a final benefit of between 50% to 60% of final earnings.



3. Give examples of the differences and commonality between benefits offered in China and Brazil. 10 marks

Answer should include:

Differences

Social security contributions and benefits vary by region in China, and some rural residents lack coverage

Medical care under the Chinese social security system includes individual accounts for the employees' own contributions and a portion of the employer contributions

Commonality

Both countries have universal medical systems, with supplementary medical benefits encouraged

Both countries provide a basic defined benefit social security pension for all workers

Both countries operate a compulsory defined contribution system (FGTS for Brazil and individual retirement account for China)

Both countries are encouraging private pension arrangements to enhance retirement income

4. In the Chinese context, explain an Individual Retirement Account. 15 marks

15 marks

Answer should include:

The individual retirement account is a government advocated and authorised supplemental pension plan. Social security management institutions establish individual accounts for each member.

The individual retirement account is a fully funded defined contribution plan. Employees are required to contribute 8% of pay.

Employee contributions are fully vested immediately.

The account balance is payable at the statutory retirement age (currently, age 60 for males and age 55 for female non-manual workers and age 50 for female manual workers), on death, or on establishing permanent residence outside of China. On retirement, the account balance is payable as a lump sum or instalments. On death and permanent emigration, the account balance is payable as a lump sum.



5. List the allowances often provided as part of an expatriate's package.

10 marks

Typical allowances are:

- Foreign Service Premium (FSP)
- Hardship Allowance/Danger Pay
- Location Allowance
- Housing
- Cost of Living Allowance
- Educational Provision
- Assistance for Spouses
- Tax Equalisation/Tax Protection

6. Identify the different pension provision solutions that can be offered to Internationally mobile employees and explain in what circumstances each might be provided.

20 marks

Answer should cover the different pension solutions and their reasons for being used:

Home-country retention:

If the employee is likely to return home, this is the simplest and most straightforward approach
Consistent with social security for those who are retained on home-country social security program
(typically for shorter-term assignments)

Where there is a tax treaty in place, allowing continued participation on a tax favourable basis

Host-country adoption

This approach aligns the assignee with his/her work colleagues

Most appropriate when the employee is likely to remain in the host country and where ties with the home country have been lost

International Pension or Savings Plan

To provide benefits to IMEs where the employee might be working for limited periods in a number of different countries

To provide benefits to IMEs where the local host country arrangement may be deemed unsuitable (due to difficulties, such as unable to pay the benefit, currency risk when paying the benefit, local compliance issues etc.)



Unusual specific individual circumstances

Cash or Retirement Allowance

Offered in situations where it can be difficult to arrange an appropriate benefit provision

Direct unfunded pension promise

Used in cases where it is necessary to plug a gap in benefit provision

Used when the employee can accept the lack of security of pension promise from the employer

Used in circumstances where a funded pension promise may be tax detrimental

7. Identify the three types of internationally mobile employees.

5 marks

The three international mobile employee categories are:

Secondments

Permanent transfers

Globalist, career expatriates or global nomads

8. Explain the main design considerations for international pension plans (IPPs).

10 marks

Answer should cover plan design considerations for an International Pension Plan including:

- Duration, nature and location of assignments of the potential members
- Benefit expectations in relation to corporate benefits philosophy
- Taxation issues—while the IPP is seldom tax-favoured in itself, careful plan design can be used to enhance the tax-effectiveness in relation to certain countries, for example by avoiding vesting of benefit which may trigger a tax liability
- Flexibility—establishing a plan where there are minimal rules applicable may give the opportunity to design the plan to fit the requirements of the employees in question without the constraint of legislation driven by tax requirements, for example, nature and timing of benefit distributions
- Whether there should be any integration with Social Security, mandatory plans, or other company provision to which the member may be entitled.

The design of benefits in international benefit plans vary substantially, but can broadly be divided into the following two groups:



- Top-up plan to provide additional benefits to that which the members may be accruing in the countries in which they work (“umbrella plans” which top up all accrued local benefits to a defined formula)
- Replacement plans for local participation, using similar benefit formulae, on the basis either that the members will not join those plans; that the benefits from them would be small or unable to be received, or because of the short period of service the member’s entitlement will never vest.

9. Consider the scenarios that an expatriate has been sent to work in each of the following three countries. Describe the minimum requirements that apply by each of these host countries in terms of what must happen:

- **Australia**
- **Switzerland**
- **USA**

15 marks

Answer should cover:

Australia

- Employer must pay the Superannuation Guarantee Levy, except in certain circumstances (generally dependent on the visa and position held)
- Contributions made to home country plans will be ineligible for employer tax deductions and will be subject to Fringe Benefit tax (unless the person is deemed as temporary resident)

Switzerland

- Generally transferring employees must participate in the local Swiss plan (at least to meet the BVG requirements)
- The only exception would be when the transferring employee is exempt from Swiss social security because of the social security agreement and in these cases, it may be possible to argue that home country arrangements are sufficient to avoid participation in the BVG

USA

- Employee must be allowed to participate in qualified programs when the individual meets the eligibility criteria
- Employer contributions to home country programs are deductible to the employer, but create a benefit in kind for the employee’s tax computations (unless there is a substantial risk of forfeiture)