

THE PENSIONS MANAGEMENT INSTITUTE

April 2019

International 2: Managing International Employee Benefits

Examiners Report

14 learners took the exam, of which 10 passed and 4 failed. Of the 4 learners that failed, three scored very close to the pass mark but, in the opinion of the examiners, did not fully demonstrate the depth of understanding and knowledge that was needed to pass the exam and be awarded the Diploma in International Employee Benefits. The overall pass-mark is set with this in mind - ie have candidates demonstrated the skills and understanding needed to become a Diploma holder. As these 3 were close to the standard required to pass, the examiners believe they are capable of passing and becoming a Diploma holder if they re-sit the exam in the future.

Questions 1-5 were shorter-answer questions and were largely testing knowledge of learners. Learners who passed the paper generally obtained at least two-thirds of the marks available on these questions.

One of the learners that narrowly failed scored low marks in three of the short-answer questions (ie questions 3-5). This dragged down their overall performance and was the main factor for them not passing the overall paper.

Questions 6-8 were long-answer questions, and the examiners used these to test the application of learners' knowledge and depth of understanding. It was harder for learners to score full marks on these questions, but learners who passed the paper generally obtained over half the marks on these questions. Learners were expected to provide descriptions and provide explanatory comments to points on these questions (rather than simply list points)

The other two learners that narrowly failed scored relatively low marks (compared to other learners) on the last two questions. The last two questions on DC governance and employee mobility were designed specifically to test wider understanding and knowledge; and the low scores for the two learners on these questions was a principal factor for them not passing the overall paper and meeting the standard required to be awarded the Diploma.

Question Number:1	
You are Global Benefits Director for a multinational. State (with examples) how decision making should be split between yourself, the Global Benefits Committee, and the company's Board of Directors. (5 marks)	
Examiners' Comments	
<i>This question was well answered. Most learners scored 4 or 5 marks, including 2 of the learners that narrowly failed. To obtain full marks learners were required to provide information on the roles of the company board of directors, global benefits committees and global benefits directors in relation to global benefits decision giving examples of the type of decisions that should be taken by each. Some learners did not fully describe the role of the board of directors which is to sign off decisions with a material financial impact eg plan closures and/or major investment and funding decisions.</i>	
Syllabus Section	1. Outline the employee benefit objectives that multinational companies have, and the factors taken into account in the development of an international employee benefit strategy
Manual Section	Part 2, Chapter 1,1.3.1
Page numbers	7

Question Number 2	
Describe the key themes and features of employee benefits provision in Asia Pacific. (5 marks)	
Examiners' Comments	
<i>This question was well answered with many learners scoring 4 or 5 marks, including all 3 learners that narrowly failed. A few learners scored 3 or less.</i>	
<i>Examiners expected learners to comment on five the following points: societal role of individuals looking after elderly relatives; the fact that state retirement programs are less developed; many retirement benefits are in lump sum format; several countries have compulsory state-sponsored DC plans; wide prevalence of risk and medical plans; and that a few countries have service-related gratuity benefits.</i>	
Syllabus Section	4. Describe typical pensions and employee benefit practice and environment in [Asia Pacific]
Manual Section	Part 5, Chapter 5,5.1
Page numbers	75

Question Number 3	
Provide key details on India's mandatory employer-sponsored Provident Fund system. (5 marks)	
Examiners' Comments	
<p><i>This question was well answered with many learners scoring 4 or 5 marks, including 2 of the learners that narrowly failed. A few learners scored 3 or less.</i></p> <p><i>To score full marks, learners were expected to provided details on the Employee Provident Fund (EPF) contribution, retirement age, benefit payment and eligibility requirements; and also to comment on the two sub-plans in the EPF ie the Employees' Pension Scheme (EPS) and the Employee Deposit Linked Insurance (EDLI)</i></p>	
Syllabus Section	Describe typical pensions and employee benefit practice and environment in India
Manual Section	Chapter 3, 3.2 India – Pension and Risk Benefits Provision
Page numbers	60 – 63

Question Number 4	
Describe some of the recent trends and developments in pension funding. Your answer should include examples for at least three different countries. (10 marks)	
Examiners' Comments	
<p><i>Many learners scored 8 or more marks, including 2 of the learners that narrowly failed. However, a number scored 6 or less. The other learner that narrowly failed only covered a few points, did not provide enough detail, and as a result scored very poorly.</i></p> <p><i>Learners were expected to discuss items such as US funding relief matters; the use of letters of credit and contingent assets; the use of maximum tax limits to prevent overfunding in a few countries; the use of risk-based supervision in number of countries. A few learners did not provide examples from 3 different countries (as requested in the question); so missed out on some easy additional marks.</i></p> <p><i>One of the learners that narrowly failed provided a very short response (less than 10 short lines); and did not expand on content other than that shown in the relevant section of the course notes. As a guide, the response to 10-mark question for this type of exam should cover at least one side of paper, with appropriate detail to support each point. The examiners felt that, despite hitting many of the marks on the marking schedule, the learner did not show the same level of depth and knowledge as other learners on a question. This was a consideration that the examiners took into account when setting the overall pass mark. Learners are not just expected to reproduce information in the course notes – they are also expected to expand on this and show off their wider knowledge and understanding; and this is a key differentiator when assessing overall scores and setting the pass mark.</i></p>	
Syllabus Section	2. Describe the funding and risk management aspects involved in provision of retirement benefits, in particular defined benefits arrangements. 7. outline the current and likely future global trends in pensions and employee benefit provision
Manual Section	Chapter 3, 1.3.4
Page numbers	26-27

Question Number 5

You are the Pensions Manager for a multinational construction company. The newly appointed CEO has asked you to review a Sale Agreement that has been drafted for a proposed sale of a European based business. Draft a short paper outlining the key points regarding employee benefits that you would expect to see covered in such an Agreement, including some country specific examples. (10 marks)

Examiners' Comments

There was a wide range of marks on this question, with the average score being around 6 marks. Two of the learners that narrowly failed scored significantly less than this; and so this question contributed to them not meeting the overall pass criteria.

Learners that scored poorly generally did not discuss what should happen to pension plan assets and liabilities (ie which plans will transfer, which will stay, can changes be made to the plans) and how the pensions price should take into account the pension liabilities)

As in the previous question, marks were available for providing relevant country examples (eg treatment of unfunded plans in Germany; treatment of post-employment medical plans in USA) but many learners did not provide examples so also missed out some on easy marks.

Syllabus Section

6. demonstrate an understanding of the pensions and employee benefit issues in respect of mergers and acquisitions

Manual Section

Part 7, Chapter 1, 1.4

Page numbers

106

Question Number: 6

You are the International Employee Benefits Manager of an IT company with operations in Brazil, China, Russia and Switzerland. It is your company's intention to make best use of financial and organisational synergies within the field of insurances. Your CFO has asked you to draft a paper outlining the following aspects:

- a) Overview of risk benefits in the four countries mentioned (8 marks)
- b) State which types of risk benefits can be placed with insurers (2 marks)
- c) Explanation of a multinational pooling and of a captive approach (5 marks)
- d) Discussion of advantages and disadvantages of multinational pooling and a captive approach, in order to decide how to best finance risk benefits (5 marks)

(Total: 20 marks)

Examiners' Comments

This was a high scoring long-answer question, with almost all learners scoring more than half-marks.

A number of learners did not provide information on typical risk benefits in Switzerland (eg spouse and family pensions are mandatorily insured; there is mandatory accident and short-term disability insurance; employees must choose mandatory medical insurance). Learners were expected to draw upon their knowledge for Paper 1. Learners did generally provide comments on the three other countries.

Part (b) was poorly answered by many. The examiners were simply expecting learners to describe what types of benefits are typically insured in each country eg Brazil – medical and life insurance

The answers to (c) and (d) were generally good. Some learners did not provide sufficient detail on the advantages and disadvantages of multinational pools and captives; nor explain how the pooling dividend is calculated; nor discuss the types of different loss systems that can be used in multinational pools.

Syllabus Section

3 . Describe the importance of managing risk benefits and outline the activities that are carried out;
4. Describe typical pensions and employee benefit practice and environment [in the selected countries]

Manual Section

Brazil: 1.2.2, 1.3 ; China: Intro, 4.3 ; Russia: 2.3
Switzerland (Paper 1)
Pooling: 1.1; Captive: 1.2

Page numbers

Brazil: 47, 52; China: 68, 74 ; Russia: 58 - 59
Switzerland (Paper 1):
Pooling: 38 – 41; Captive: 42 - 43

Question Number 7

You are the Pensions Manager for a multinational company and you are developing a new governance framework for your company's Defined Contribution ("DC") pensions globally.

Draft a memo for the Global Benefits Committee describing:

- the key risks that the company faces relating to DC pensions;
- the key elements of DC pension arrangements that should be assessed on an ongoing basis;
- activities that could be carried out by the Global Benefits Committee in respect to DC pensions globally;
- key features of typical DC plans in Switzerland, China and Brazil.

(20 marks)

Examiners' Comments

Most learners scored 13 or marks on this. 2 of the learners that narrowly failed scored just below 13 marks, and this impacted their overall performance

This question was a good test of learners' wider knowledge and understanding of the course material and applying it to a topical situation (but one that is not specifically given as an example in the course manual). The examiners were pleased by the relatively high scores for this question.

To achieve a good mark, learners were expected to have covered the need to have a global DC policy; and the risk of DC members not having adequate savings in retirement, experiencing high charges, and the risk of employers not meeting compliance/regulatory/legal requirements.

The key elements to assess on an ongoing basis could have covered items such as plan design contribution rates; provider capabilities and operational performance; investment funds (including default); investment performance monitoring (including ethical/ESG considerations); quality of communications.

The activities that could be carried out by the Global Benefits Committee could include: monitoring total spend on DC; approving design and plan changes; monitoring investment performance; monitoring legislative developments; approving vendors; keeping a register of all DC plans globally; approving DC policies for each country; reviewing activities to help employees prepare for retirement and keep track of their savings

For the last section; a few learners did not provide much or any information on the key features of DC plans in Switzerland, although they did for the other countries requested. Although the information on this was from the course of material for Paper 1; this is a topic that examiners would expect learners to know when taking Paper 2 (ie there is a compulsory defined contribution plan in Switzerland; with minimum contribution levels and investment return guarantees; and which are considered to be defined benefit plans for accounting purposes)

Syllabus Section

1. outline the employee benefit objectives that multinational companies have and the factors taken into account in the development of an international employee benefit strategy

Manual Section

Part 1, Chapter 1, 1.3

Page numbers

7-11

Question Number 8

You are global benefits adviser to the EMEA regional headquarters of a global bank.

The bank has 30 employees in London that will, from the end of the year, work in either France or Germany. Some employees will move under an international assignment for a limited period of time; others will move permanently; and others will still be based in the UK but travel to their new location on a regular basis as a business traveller.

You have been asked by the Global Human Resources Director to provide recommendations on the future approach for pension and medical benefit provision (including social security) for each group of employees.

Write a report covering the above points for the Global HR Director.

(25 marks)

Examiners' Comments

A number of learners scored very well on this; whereas several scored less than half marks (including all 3 learners that narrowly failed).

Given this was not a standard book-work question and had 25 marks, this was a key question in which learners could show their depth of knowledge and understanding and apply it to a specific situation. When setting the overall pass mark, the examiners look for a good response on these types of long-answer questions, as these differentiate between those who can demonstrate they know and can recall the information in the manual and those who can apply the information in the manual.

Examiners' were looking for a report covering three areas

- *Treatment of workers on short-term secondment*
- *Treatment of workers on permanent transfer*
- *Treatment of workers considered to be business travellers*

For each area, the examiners were expecting learners to comment on the

- *Treatment of social security benefits (including whether workers should remain in home or host country systems)*
- *Treatment of company pension scheme benefits (including whether workers should remain in home or host country systems; and whether pension plan benefits could be transferred)*
- *Eligibility and treatment of medical plan benefits (including what type of coverage may be provided locally; and whether a supplementary plan would be needed)*

The question related to banks, and workers moving to France and Germany. Banks have many high earners. Consequently, marks were available for talking about the specific type of benefits that might be available to banking staff in these countries and how these may be impacted upon a transfer (eg medical plan for high earners in Germany; supplementary medical plans in France; difficulties in transferring UK pension benefits to book reserve plans in Germany)

Some learners gave examples of what should happen to benefits if moving to Africa, Netherlands, Korea (which was not relevant given the question referred to France and Germany); and also went into a lot of detail on pan-EU IORPS. The examiners were not expecting nor requiring this, and this gave the impression that learners were simply providing information on everything they knew about the wider topic without applying it to the actual question. This was also a consideration when determining the overall pass mark for the paper.

The examiners also expected learners to provide a recommendation on what should have happened for each type of worker. Some learners provided details of possible options, but did not give a recommendation; and so lost out on some marks. Examiners were wanting learners to provide a specific recommendation and their reasoning for it, rather than "sitting on the fence" and just provide a list of pros and cons.

Syllabus Section	5. explain the issues relating to internationally mobile employees in respect of their pensions and employee benefits and describe the possible solutions to the different challenges in mobility of employees
Manual Section	Part 6, Internationally Mobile Employees (+ information on France & German medical benefits from International 1)
Page numbers	Pages 78 – 98

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