THE PENSIONS MANAGEMENT INSTITUTE &
INTERNATIONAL EMPLOYEE BENEFITS ASSOICATION

April 2021

International 2: Managing International Employee Benefits

Examiners Report

Due to Covid-19, all learners took the exam on-line.

24 learners took the exam of which 15 passed and 9 failed. The pass-rate was 62.5%.

- There was a wide range of marks – the highest mark was 85; and the lowest was 38.
- The pass mark was 57.
    - 7 learners scored 50 or less and were clear fails.
    - 10 learners scored 70 or more and were clear passes
    - 7 scored between 51 and 69, and the examining team reviewed each script carefully before setting the final mark for each learner and pass mark for the paper.
- In order to ensure the pass mark was appropriate, the whole examining team reviewed the 4 scripts just below the pass mark, and concluded that these candidates did not achieve the level required to pass the exam and be awarded the Diploma

Cheating

As this was an online exam, learners were reminded that they should not refer to any course manuals or other material whilst sitting the exam. Unfortunately, there was one exam paper where the examiners felt that several of the answers to the questions (including the long report questions) had been "cut and paste" from the course material. This included some of the tables. This was brought to the attention of the Pensions Management Institute who carried out an investigation. The learner was not able to provide any reason as to why their paper seemed to mirror the course material in many places, and as a result this learner was not awarded any mark.

All learners are reminded that cheating is not tolerated, and it is taken on trust that professionals sitting the exam online in remote environments following the exam guidelines strictly. Breaking that trust threatens the integrity of the exam to those who do comply with all the rules, and those found breaking that trust will be identified and appropriate action taken (which could include notification to employers or other professional bodies that learners have qualifications from).

Comments on the actual paper

The paper continued the format of the April 2020 paper (which due to Covid-19 was postponed until April 2021). This included a choice of two long-answer questions with up to 60 marks on each. The purpose of these questions is to allow learners to show how much they know about international employee benefits (including knowledge of specific benefits in a range of countries) and apply this to a wider business setting.

- The long-answer questions require learners to provide opinions, and to provide reasons for and against different positions – for such questions there is no single right answer, and examiners are testing how well learner applied their knowledge to the question, and to provide reasoning to support their views.
- For the long-answer question, answers are given a grade on a 5-point scale, and the grade is then multiplied by 12 to provide the final score for the question.
- In order to pass the exam, learners really need to score a Grade 3 or above on the long-answer question and ensure they provide decent responses to the other questions (ie scoring around 60% of the available marks). If they only score a Grade 2 or less, then it will be unlikely they will pass the exam.
- The long-answer question has 60 marks available. The examiners expect that learners will spend 1.5 – 2 hours on this question, and it is expected that the answers will be at least 3-4 pages long. Some learners provided relatively short answers eg 2-3 pages. Short reports, even if well-structured and containing key points, will generally not be sufficient to gain a decent grade and gain anywhere near 60 marks. Since 60 marks are available, the examiners do expect learners to show off what they know, and to make the most of the time available to write an appropriate length report.

This report contains the following appendices to help learners understand the standards required for the long-answer question

- Appendix 1- summary of approach for grading the long-answer question
- Appendices 2 & 3 – example of a Grade 5 answer to the long-answer question (ie a very strong answer, and a clear pass)
- Appendix 3 & 4 - examples of Grade 2 answers to the long-answer questions (ie not meeting the standard expected required to pass)

CTH
Principal Examiner
October 2021

Question Number 1
Traditionally the seller in a corporate transaction would facilitate due diligence through the provision of raw data to potential bidders. Describe two recent developments in this area, and explain the key advantages for both parties. **(5 marks)**
Examiners' Comments The examiners were looking for comments on the following • Vendor Due Diligence Reports- these are addressed to buyer/commissioned by seller/seller can exert influence on presentation • Fact Books – these are addressed to seller / prepared on info supplied by seller / no comment on whether figures are correct or appropriate to buyer • Both will speed up process Some learners described the information that should be included in a due diligence. This was not necessary and did not earn any extra marks. The purpose of the question was on how information is presented. The information required was in the manual.
Manual Section: *(Manual 1, Part 9 – Mergers & Acquisitions, 1.3 Due Diligence, page 149)*

Question Number 2
A UK based technology firm is sending a small number of employees and their families on a 2-year secondment to the Middle East. Explain what medical coverage they may be able to receive, and what could the company do to ensure continuity of their existing coverage in the UK? **(5 marks)**
Examiners' Comments This question required learners to pull together information from both the Middle East and Expatriate Benefits parts of the course. Some learners focused on UK local medical benefits only (eg NHS) and did not cover the medical benefits that might be provided in the Middle East (which is what the question required). Full marks were awarded to those who mentioned at least of 5 of the 6 points below • Most provision will be through state system or private insurance with local provider • Medical provision may be compulsory in some countries • Will be "gaps" with what home country/UK provides • Home country benefits only extended at basic care level • No cover if wanting to return home after serious accident or illness • International Medical Policy can ensure continuity of cover and medical repatriation
Manual Section: *Manual 2, Part 1 Chapter 2, Regional Round-Up Middle East p.15);* *Manual 1, Part 8 – Internationally Mobile Employees; Section 1.4 (p126) and 1.8 (p.136))*

Question Number 3
In the Russian Pension System what are the two types of pension provider in the Third Pillar (voluntary pension systems)? In addition, describe the key tax advantages for both employer and employee contributions made to this Third Pillar. **(5 marks)**
Examiners' Comments Examiners were looking for learners to make the following points Two main types of pension provider • Pension insurance agreement with an insurance company • Non state pension fund *Additional marks (out of the 5 on offer) were available for learners who provide the following additional information to help explain their answer* • *Pension insurance agreements can be combined with life insurance* • *Majority of new plans are non-state pension funds* Key Tax Advantages • Employer contributions - tax deductible for corporation tax up to 12% of payroll fund • Employer contributions are tax deductible up to 120K RUB pa • Employer contributions for non-state funds are not subject to social insurance tax This question was reasonably well answered by most (as the information was contained in the manual). = Some learners went into too much detail (which was not necessary give there was only 5 marks available)
Manual Section: *(Study Manual 2 - Russia section; 11.2.1, p.86-87)*

Question Number 4

Describe five possible employer advantages of paying more than the minimum required contributions to a defined benefit pension plan.
(5 marks)

Range of Marks:
Median:
Upper Quartile:
Lower Quartile

Examiners' Comments

Full marks could be obtained by mentioning 5 of the 7 points below

- **Favourable tax treatment** – a plan sponsor may enjoy an immediate corporate tax deduction and indirectly benefit from the tax-free earnings on invested monies.
- **Reduced long term costs** – a larger proportion of plan costs will be provided through investment returns; also, an improved funded position may also reduce administrative expenses
- **Improved short-term results** – sponsors can avoid short-term problems that could result from underfunding such as benefit restrictions, member notices of underfunding, regulatory scrutiny, etc.
- **Enhanced benefit security for plan members.**
- **Reduced P&L charge** – the earnings on the additional funding contributions which are assumed for a given period would reduce the sponsor's P&L charge (US GAAP only).
- **Greater predictability of contributions** – as a funding cushion can be built up in good years to help shield against future volatility.
- Any other good reason

This question was reasonably well answered by most (as the information was contained in the manual).

Manual Section:
(Study Manual 1 - PART 5, Funding and Risk Management Chapter 1.3.3 – Maximum Funding Standards, p.68)

Question Number 5
List the key requirements needed to successfully implement a captive solution for risk benefit financing. **(10 marks)**
Examiners' Comments Full marks could be awarded by covering the 10 points below • Risk appetite – detailed analysis to ensure a clear understanding and acceptance of the level of risk and volatility being retained • A strong central mandate for the implementation of a single global solution • Commitment to ongoing management and governance requirements, which may be significant • HR, Risk and Finance departments within the multinational to work together as a team • Effective communication to all stakeholders of the business goals and issues, financial and non-financial benefits, and roles/responsibilities • Management of local considerations, including the type of benefits offered (employee contributions, local dividends) and adjustment of the premium payment cycle • Review of local requirements – permission to transfer reserves and premiums may be subject to type of benefit plan, local regulations and captive domicile. • Premiums and reserves for life, disability, accident and medical benefits can often be transferred to a captive. • Reserves for retirement benefits and corresponding assets are not typically transferred to a captive. • Any other good reason This question was reasonably well answered by most (as the information was contained in the manual).
Manual Section: *(Study Manual 1 - Part 6: Risk Benefits Financing; Chapter 1.2.2, p.86)*

Question Number 6

Write a brief note outlining the potential impact of climate change and natural resource constraints on global employee benefit provision
(10 marks)
(Study Manual 1 - Part 10 (Future Employee Benefit Trends); Chapter 1.4, p.161-2)

Examiners' Comments

This is an extremely topical question, and the examiners were hoping learners would provide information from their own experience and general awareness of this topic. This is one of those questions where the examiners expect learners to "show off" and apply the subject to their own knowledge wider international benefits.

The information in the manual on this topic was limited and focuses on the environmental background to climate change. Repeating this text was not enough to earn full marks. Learners who provided good ideas on how this could impact benefits (including the impact of ESG on pension fund investing) and mentioned the developments in ESG legislation, and how it could be linked to corporate ESG programs could have got the full 10 marks.

For full marks, learners were expected to cover most of the following points.

Background

- Man-made climate change may lead to significant global warming (with regional variations),
- The actual impacts on agricultural yields, extreme weather events and human migration, to name just three, are harder to predict.
- Benefit managers may consider this out of their remit but the risk function in most large organisations will need to consider possible implications of the different scenarios for their organisation
- Energy costs are rising and supplying of some natural resources becoming unstable
- Some minerals will become more expensive
- Will have impact on employment patterns and labour costs

Impact on benefits

- Development of ESG legislation
- Selection of investment managers for pension plans
- Communication of ESG policies
- Provisions of minimum benefits in countries that may be hit by natural disasters
- Employee benefits needed for new countries and locations

Manual Section: *(Study Manual 1 - Part 10 (Future Employee Benefit Trends); Chapter 1.4, p.161-2)*

Question Number 7 and 8
Learners had a choice of 2 long-answer questions. This was the second time such questions have been asked under Paper 2, and the examiners were very pleased with how they were answered. The aim of the questions is to test learner's knowledge of the whole study manual and allow them to apply this to a particular setting. Learners were also asked to provide views and opinions and were marked for the quality and reasoning for their opinions. Examiners graded each answer on a 5-point scale (with 5 being the highest). The grade was multiplied by 12 to obtain the final mark (eg so a candidate obtaining a grade 4 would have been given total a score of 48). In some cases, examiners awarded an additional half-point (eg 3.5 points were awarded if answers were well above the standard needed to achieve 3 points but not at the standard needed for 4 points – in this case the final score would have been 42 ie 12 x 3.5) The long-answer questions were marked in accordance with the guidance on IEBA Exam Question Structure ("Test Specification") document (on the PMI website). This is also contained in Appendix 1 of this Report. https://www.pensions-pmi.org.uk/media/q5ckojv2/ieba-exam-question-structure-oct-2020.pdf The Test Specification included two example questions. The October 2020 exam contained 2 actual questions. The examiners hoped that learners attempted all 4 previously published questions before the exam. Learners who did not try the Test Specification& previous exam questions may have found the exam questions more difficult. The examiners have no way of knowing how learners prepare for the exam, but they do expect learners to look at past papers and test questions.

Question Number 7
"Inflation, especially medical cost inflation, is the biggest risk impacting global employee benefit costs at the current time". **Do you agree with this statement? Write a paper setting out your own views, and provide examples of how the biggest risks impacting employee benefit costs can be managed by multinational companies. Your paper should also include examples of how different types of risks affect employee benefit costs in at least eight countries in three different continents.** **(60 marks)**
Examiners' Comments Examiners wanted learners to talk about the different types of risk impacting employee benefits. Inflation, especially medical cost inflation, is just one risk. Others include legislation, people living longer, financial accounting standards, changing nature of state provision, tax policy, employee working patterns, technology IN relation to inflation, examiners wanted learners to also talk about other types of inflation that impact benefit costs and not just medical cost inflation eg pension indexation, investment returns on pension funds, flexible benefits with pricing linked to inflation Examiners wanted learners to cover a selection of these risks, and use examples from different countries to show where they were impacting employee benefit costs The conclusion should then have described whether or not the learner felt that inflation was the biggest risk, and explain their reasoning. There is no single right question as to what the biggest risk is – instead examiners were looking for learners to provide a view and to justify that view
Manual Section: N/A Examiners were expecting to apply their knowledge from all parts of the manual

Question Number 8
As the International Benefits Director for your company, you have been asked by the Finance Director to write a paper on healthcare and pension systems around the world. You have also been asked to include your views on which countries have the best healthcare and pension provision for employees and employers. **Your paper should include case studies on healthcare provision from at least three countries and pension provision from another three countries. You should also include information and examples on trends in employee wellbeing.** **(60 marks)**

Examiners' Comments

The examiners were looking for a report that addressed the following; contained good country examples; and provide views on which country provide the best systems

For these questions (especially as 60 marks are available) it is very important learners address all the points in the question

- Some learners just provided descriptions on systems in different countries. but did not provide views on whether they were good or not. This meant that a key part of the question was left unanswered and only a low mark was awarded.

- Some learners did not mention trends in employee wellbeing, and lost out on marks.

For a good answer, learners should have covered most of the following:

Healthcare
- Overview over healthcare systems worldwide incl. local specifics
- Reference to trends in healthcare provision (i.e. telehealth, remote care, machine learning, AI, cost rise)
- Reference to challenges for health care industry (i.e. data protection & management, healthcare cost, cybersecurity)
- Reference to employer interest when providing healthcare options (i.e. positioning, recruiting & retention, back to work soon)
- Reference to employee interest when receiving healthcare options (i.e. access to health care system, security for family members, cost)
- Reference to at least 3 country examples
- Reasoning on which countries provide the best healthcare system

Pension
- Overview over pension systems worldwide incl. local specifics
- Reference to trends in pension provision (i.e. DB to DC, hybrid systems, compensation of state provision, longevity, risk transfer (to employee))
- Reference to employer interest when offering pension provision (i.e. positioning, attractive range of options, funding & risk management of long term employee benefits)
- Reference to employee interest when receiving pension provision (i.e. range of options, choice & options according to life situation, guidance & transparency)
- Reference to at least 3 country examples
- Reasoning on which countries provide the best pension system

Employee wellbeing • Overview over purpose, range of services & aim (i.e. productivity, better talent) • Reference to trends in employee wellbeing (i.e. resilience, mental/financial/social wellness, social interaction during covid-19, employee assistance, telehealth)
Manual Section: Manual Section: N/A Examiners were expecting to apply their knowledge from all parts of the manual

Appendix 1
Summary of approach for grading the long-answer question

The long-answer questions were marked in accordance with the guidance on IEBA Exam Question Structure ("Test Specification" document (on the PMI website) https://www.pensions-pmi.org.uk/media/q5ckojv2/ieba-exam-question-structure-oct-2020.pdf T

There will be a choice of two long-answer questions. Candidates should answer one question only. Marks will only be given for one question. No extra marks given for answering both questions.

If answers are provided to both questions, marks will be given to the question started first (unless the answer to that question is crossed out, in which case marks will be given to the question started last). The questions will be designed to allow learners to demonstrate their range of understanding, knowledge and report writing skills. Questions may require learners to demonstrate the employee benefits needs of global companies and products offered by global insurers and other vendors. Learners should provide examples from a range of countries (at least six) and take account of emerging trends. If the question asks for a recommendation, then candidates should provide a recommendation and the reasons behind the recommendation.

Examiners will grade each response on a 5-point scale (see table below). The final grade will be multiplied by 12 to form the actual mark for each question. For example, if the question is awarded a grade of 3, the final mark will be 36 (ie 3 x 12). Half points may also be given, so if the final grade is, for example, 4.5, the final mark will be 54 (ie 4.5 x 12)

Grade	**Description**
0	*Trivial, irrelevant or absent response. A fail.*
1	*Answer that has some relevance to the question, but which does not address the question in the way demanded. The report lacks logic, has little focus or has serious errors that render it confusing or incoherent. A report at this level is significantly below the level required to be a diploma holder; and is quite likely to be an overall fail.*
2	*Report fulfils most of the requirements of the question but may misinterpret important aspects of the question. The report is set out in a relatively logical manner, but the learner has misinterpreted some aspects of the question or has missed out key aspects of the question. Insufficient detail provided, and few examples given. When asked to provide alternative views (eg pros and cons; or to suggest reasons for and against) or recommendations, these views and recommendations are missing or weak. A report at this level is deemed to be just below, or close to, the minimum level required to become a diploma holder. Learners at this level could potentially be awarded the diploma if they score very well on other parts of the paper.*
3	*The report addresses all aspects of the question and presents good arguments to support recommendations and alternative views. The arguments in the report, but lack sophistication and scope; and could be supported by better examples (with few or no examples from outside of the course material). The learner may have missed out key parts of the arguments. A report at this level is deemed to be at the minimum level required to become a diploma holder.*
4	*A good report addressing all aspects of the question with clear and balanced arguments, counterarguments, and recommendations. Few weaknesses. Reasonable depth and breadth of knowledge shown (eg relevant country examples) with few weaknesses. A report at this level is deemed to be more than the minimum level required to become a diploma holder.*
5	*An excellent report with virtually no weaknesses. All aspects of the question are addressed. The writing is clear and completing with effective structure and logic. The*

	arguments are sophisticated and presented with a good breadth and depth of knowledge (including from outside of course material). A potential prize-winning script. Fewer than 15% of scripts are expected to be scored a 5

Appendix 2

Example answer (Grade 5) – Question 7

The purpose of this paper is split into two parts, with the first part focussed on whether the statement regarding inflation, particularly medical inflation cost is the biggest risk impacting global employee benefit costs at the current time. The second part will be looking at how the biggest risks impacting employee benefit costs can be managed by multinational companies using case studies drawn from several countries across the globe.

Is inflation, especially medical cost inflation the biggest risk impacting global employee benefit costs at the current time?

It is fair to say that in a low interest rate environment, inflation has increased as a result of which consumers' purchasing power has decreased over time. In some countries, like Argentina, this has also put downward pressure on the value of the currency, further exacerbating this issue. Whilst these factors have an impact on a country's medical inflation, the direct factors driving the increase in cost of medical cover are:

• the increase of non-communicable diseases, like cancer. In the UK alone, it is expected 1 in 2 individuals will experience some form of cancer in their lifetime.

• sedentary lifestyle and poor lifestyle habits, and

• the increasing in demand and use of private medical plans, especially group medical plans in countries like the UK and the US, whereby these plans are usually offered to complement the state provision of medical care. In countries like the US, whereby the employer is expected to meet the costs of their employees' healthcare plans given the State medical benefits (Medicare and Medicaid) are not appropriate and following the recent introduction of Obamacare (although there are still some grey areas following the Trump administration), the rising medical cost inflation is indeed one of the biggest risk impacting global employee benefits at the current time. However, whilst an increase in medical cost inflation represents a significant risk and cost as an employee benefit, arguably the biggest risk is longevity with people now living longer than before as a result of which making the provision of retirement benefits the biggest cost due for an employer due to the nature of this benefit as some are offered as an life time annuity and others as a lump sum. Regardless of how these retirement benefits are paid out, they represent the biggest employee cost in terms of benefit provision. In addition to longevity risks, there are other risks associated with the provision of global employee benefits, namely:

• changes in accounting standards

• changes to the state pension provision
• taxation issues

The second part of this paper is aimed at taking a deep dive in terms of how multinational companies can manage these key risks associated with the provision of employee benefits and the associated cost impact using examples of 8 different countries across North and South America, Asia and Europe.

Biggest risks impacting employee benefit costs around the world The suitability of the funding vehicle/structure and benefit design adopted for each employee benefit, such as medical and retirement benefits are interlinked with longevity risk, changes in accounting standards and pension provision and the taxation regime in place locally.

• Longevity risk
As a result of the above mentioned events, interest rates have remained low for years which have subsequently made it more costly to fund defined benefit (DB) pension schemes across the globe. This has led to an unprecedented move from DB to defined contribution (DC) pension schemes, thereby shifting the risk from the employer to the employee. In many countries around the world (as outlined in the examples) below, many multinational companies are only offering DC schemes to their employees, with a large proportion of multinational companies either transitioning their DB to DC schemes or closing their DB schemes together with a lump sum paid to the employees who are subsequently transferred to a DC scheme. Some multinational companies have chosen to offer a hybrid, a combination of DB and DC schemes, but this is not a common option.

• Changes to accounting standards
In recent years, there has been increasing scrutiny on accounting practices to highlight company's pension commitments/liabilities as a result of which they now have to disclose their pension expense under IAS 19 under IFRS as they accrue rather than as they fall due as part of their P&L. This has also led to many countries using a unit of credit projection method in calculating their pension liability.

• Changes to the state pension provision and funding issues attributed to DB plans
As people are now living longer, the State pension commitments' are increasing thereby making it unsustainable to rely only on the State pension system to maintain living standards in retirement as a result of which the Sate in various countries are offering tax incentives to both employers and employees to contribute to employer sponsored plans or voluntary plans to supplement the State pension.

Due to the risk of employers defaulting as a result of funding issues on the back of poor investment return, volatile market and low interest rates, many multinationals are now moving away from DB and adopting a DC plan instead, thereby transferring the risk to the employees.

• Taxation issues
Changes of the taxation provision can create significant liability issues for companies as a result of which companies would typically only contribute up to the maximum tax threshold so that they are able to maximise their tax benefits.

In light of the above risks impacting global employee benefit costs, below is an overview of the situation across the globe and how multinational companies can manage these risks from a cost perspective.

1. United States of America
Retirement Plans
In order to supplement the Pay-As-You Go State Benefit, employers can offer either DB or DC plans. Due to the rising costs of DB provisions, market volatility and changes to accounting provisions, many multinationals have turned towards the provision of DC plans which is either in the form of a profit sharing or 401(k) savings plan to their employees. Whilst the tax deductions for the employer

contributions are complex, in essence employer contributions are tax deductible thereby offering some tax incentives in offering these plans.

Medical Plans

Given the poor state of medical provision, employers are expected to provide medical cover to their employers, whereby they would cover up to 80%of the costs. However, due to the rising medical inflation, employers are now turning towards co-payment plans with employees, contributing a portion of the medical costs in order to ensure these group medical plans continue to be sustainable. For example on dental plans, an individual could pay about 40% of the cost whilst for a family they would pay about 45% of the costs.

2. Brazil

Retirement Plans

The State offers a benefit on a Pay-As-You-Go basis to private employees, with employers able to offer a complementary plan which can either be DB or DC plans. Again, due to longevity issues and changes in accounting practices focussing on liquidity and solvency, DC plans are more prevalent. Multinationals are able to enjoy some tax benefits in contributing to the complementary plan. Due to investment volatility experienced in the market, as part of the investment options offered in DC plans, there is a trend towards the offer of 3 or 4 investment options.

Medical Plans

The state medical system is poor as a result of which, similar to the US it is expected that employers would subsidise the cost of private healthcare cover. However, there is usually a co-payment in place such as for dental cover whereby the cost is evenly split 50-50 between the employee and employer thereby helping the employer in managing costs.

3. Japan

Retirement Plans

As part of the culture, it is expected that the elderly will leave with relatives as a result of which lump sum benefits are favoured in terms of retirement benefits and overall, retirement plans are not as well developed as in other countries. In addition to the State plan, employers can contribute to the supplementary plans offered in Pillar II which can either be DB or DC. In this market, there is a trend to move away from DB as is the case in other countries. However, given the contributions cap on the DC plans is low at JPY 55,000 (maximum threshold for employers to enjoy their tax benefits), many employers need to offer a supplementary plan in order to be competitive. Under the DC plans, the employers are expected to offer at least 3 different investment options with different risk profiles.

Medical Plans

There is universal coverage offered by the State and subsidised by social contributions from both the employer and employee. However, market practice is for employers to provide HIA which includes additional benefits, such as higher reimbursements, additional add-ons like wellness with the employer and employee splitting the cost as a way to control costs. The company would typically pay for at least 50% of the premiums.

4. Switzerland

Retirement Plans

The 3 pillar pension plans include a mandated employer sponsored plan as part of Pillar II for which the multinational company needs to ensure it meets the mandated funding level and minimum investment returns within the plan. As a result of these requirements, the multinational company would typically seek to take out an insurance contract in order to meet the required guarantees. As a result of the changes in accounting treatment, the multinational company needs to ensure its pension plans are valued regularly with the outcome of the valuations outlined in its accounting statements.

Medical Plans
The State offers a comprehensive plan with a set of minimum benefits already laid out as a result of which it is not common for employers to offer additional plans.

5. UK
Retirement Plans
In order to supplement the State pension, auto-enrolment has been introduced which includes both employer and employee contributions. Whilst there are no tax relief for employees, employers can treat employer contributions as a business expense.

Medical Plans
Given the prevalence of flex benefits in the UK, it is common for employers to offer benefits such as medical benefits and disability benefits as part of their flex plans. In order to avoid any cross-subsidisation which may then have a negative impact on the plan's experience, employers would carefully consider the base level of benefits on offer (typically the portion they pay for) with any additional benefits at the employee's expense. This offers a way to controls costs and also mitigate any risk of poor plan experience in the future.

6. Germany
Retirement plans
There are both DC and DB plans on offer and in order to ensure there are no issues with funding for DB plans, employers offering these plans contribute to a premium towards the German Pension Protection Fund. There are voluntary company plans on offer as part of Pillar II and historically these have only been for employer contributions only. However, in a move to reduce risk and cost, employee contributions are now favoured.

Medical Plans
Germany has a comprehensive and compulsory medical plan as a result of which employers would not typically offer additional benefits. If they do, that will be restricted to Senior Management in a bid to retain and attract talent.

7. Netherlands
Retirement Plans The voluntary employer plans are largely DB but employers have reached an agreement with employees to contribute a fixed rate to manage costs and also in terms of ensuring they are able to meet the mandated funding status as mandated locally. These plans are known as CDC plans.

In a nutshell, it is clear there are several material risks and costs in the provision of employee benefits. As outlined in the above examples, increase in medical cost inflation, although a notable risk, it is not the biggest risk to cost for the global provision of employee benefits. The biggest risk is in fact longevity risk, coupled with the funding and investment issues associated with DB plans in respect of the provision of retirement benefits. In light of these risks and the significant price tag attached, it is vital that multinationals have a Global Benefits Committee in-place to monitor any changes to the legal and regulatory landscape, taxation and accounting changes and also monitor the overall health of the financial sector which will have an impact on costs as we have seen since the GFC and most recently COVID-19, although the full extent of the covid impact is yet to be determined.

Appendix 3

Example answer (Grade 5) – Question 8

Healthcare & pension systems around the world

There are a range of healthcare and pension systems in place around the world. Depending on the country (and/or region), responsibility for benefit provision may sit with the state, the employer, the individual or a combination of all three. While there is no one 'best' approach for both employers and employees, there are some countries that have quite strong offerings.

What constitutes 'good' benefit provision?
The definition of 'good' benefit provision will depend on perspective - from an employee's point of view, it may be a guaranteed benefit at little or no direct cost. However, from an employer's perspective, it is probably more reasonable to consider good benefit provision to be stable and sustainable, permit cost sharing between the employer and employee (and the state where relevant), allow for valuable benefits for the employee to support business objectives, permit the company to avail of tax incentives, and not be too onerous from an accounting perspective. Increasingly, employees are looking beyond just the financial aspect of their benefits and also considering wider issues, such as support for DEI initiatives and employee wellbeing. I'll touch on employee wellbeing in this report, as it overlaps quite neatly with healthcare & retirement benefits.

Role of healthcare & pension benefits
Healthcare benefits provide employees (and generally their families) with coverage for in-patient and outpatient services, along with prescription costs and primary healthcare access. In many countries, some of these benefits are provided by the state at no (or low) cost to all citizens or residents. However, it is unlikely that all of these benefits will be covered, and there may be issues with access or quality of services, so private healthcare insurance often steps in to bridge the gap.

Similarly, most countries provide some level of state pension for their citizens/residents. However, this can be set at a relatively low level, or require certain criteria (most commonly contributions or years of service) be met before payment can be made. This state benefit is typically referred to as pillar 1. Pillar 2 benefits are common in most developed countries - these, broadly speaking, are company sponsored pension arrangements - which may be mandatory or voluntary. Pillar 3 pension arrangements are generally individually focused and most likely to be voluntary.

Given increases in life expectancy and decreases in birth rates in many developed nations, the sustainability of state pension systems has been brought into question (and is likely to be further stretched in the future). Many countries have already implemented significant pension reform in response to these longevity pressures and/or recent economic challenges - for example, Hungary effectively nationalised some pensions within the last 10 years. There has also been a move towards increasing state pension ages. Pension reforms (changes to state pension age, benefit calculation, etc) have taken place in many countries recently including Poland, UK, Turkey.

From an employer perspective, providing pension and healthcare benefits can be an attractive feature to attract, retain and reward employees or it might be simply necessary given the level of state benefits available. In general, there are tax incentives for employers in contributing to pension and healthcare costs, so these should be balanced against the costs and the governance required.

Healthcare - country examples

There is a wide range of approaches to company involvement in healthcare - often, this reflects the overall in-country approach to social partnership.

United Kingdom
There is a strong state healthcare benefit in place under the National Health Service (NHS). This is funded via National Insurance contributions (although no direct link between the amount received and the amounts used by the NHS is published) and available to all residents. It is a devolved responsibility and so coverage varies slightly across the countries of the UK - however, broadly speaking this entitles individuals to access hospital and primary healthcare services, along with prescription benefits. Many larger employers typically provide private medical insurance to give improved access (eg private accommodation in hospitals) and to cover excluded benefits. This is a valued benefit, and is treated as a business expense for tax purposes.

United States
The US has two social security healthcare systems - Medicare and Medicaid. These are both aimed at lower income and/or older individuals and so private health insurance is broadly viewed as an essential rather than a luxury in the US. (ObamaCare or the Affordable Care Act looked to improve the position for individuals accessing private health insurance in the US. Some changes were implemented while others were unwound by the Trump administration.) Employers will typically provide health insurance as a benefit as standard, and will contribute about 70-75% of the premium (with the balance paid by the employees). Coverage is also typically provided for dependants, although the premium percentage paid might be lower. Co-insurance and deductibles are a feature of US healthcare insurance. There are a number of different types of insurance in place - a PPO (Preferred Provider Organisation) will provide access to a network of preferred hospitals/clinics/providers but will also permit individuals to access 'out of network' providers (albeit receiving lower coverage). In contrast, a HMO will provide access only to a preferred network - no benefit will be paid for accessing 'out of network' healthcare. HMO benefits are typically cheaper than PPO as a result.

Insurance policies typically cover dental and prescription costs in addition to hospital/clinic benefits. The level of coverage may vary (eg dental might be basic or incorporate orthodontic cover, and prescription benefits may provide varying cover for generic/dispensary/non-dispensary/specialist drug types). In general, medical insurance costs and medical inflation in the US is very high so any attempts to mitigate the costs - for example, by carrying out a Health Risk Assessment, reducing tobacco use or improving general health via wellbeing programs (see below) can have a significant impact. Premiums are treated as a business expense.

Germany
In contrast with the US, where the employer plays a significant role in healthcare provision, in Germany this is primarily covered directly by employees and so employers have a minimal role.

Russia
State healthcare benefits are available, but the quality is generally perceived to be low. As a result, most multinational employers will provide health insurance via VMI. This provides access to a wider

range of clinics, which is likely to be of particularly benefit in Moscow and St. Petersburg (especially if English speaking clinics are sought). VMI also provides some level of travel insurance. The costs are deductible as a business expense.

Pension - country examples

The approach to pension provision varies significantly. In general, there is a trend towards DC provision replacing DB. DB was particularly popular in Europe in the past and indeed in some European countries, isn't technically possible (or DC plans are effectively treated as having a guaranteed element and so treated as DB - Germany is an example here). Conversely, as pension benefits are more recent in Asia, there was less of a focus on DB and so the majority are on a DC basis. As outlined above, this is an area facing significant reform due to changes in life expectancy and the impact of lower interest rates. In general, favourable tax treatment is a feature of pension provision, with EET (contributions Exempt from tax, investment rollup Exempt from tax, benefit payments Taxable) being the most common approach.

Netherlands
The Netherlands has a very strong social partnership model (the poldermodel) which has produced a robust pension system integrating state, occupational (employer sponsored) and employee voluntary benefits. Employee and employer contributions receive favourable tax treatment. Benefits at retirement are only in the form of an annuity (although a limited lump sum benefit of up to 10% will apply from 2022) and are subject to tax as income.

Brazil
Pension provision will be an increasing issue in Brazil, as only around 50% of the population is covered under social security and less than 20% of the working population has an occupational pension. Pension provision is provided under the CRT, and contributions are tax deductible. Given the anticipated growth in the Brazilian economy, and its history with pension provision, pension coverage is likely to grow significantly.

China
There is limited to no provision for individual pension savings in China (a pilot was recently run in three cities, including Shanghai, and it will be interesting to see how this is expanded across the country) so the vast majority of pension benefits are provided under Pillar 1 and 2. Pillar 2 (employer) includes Enterprise Annuities, with tax incentives and a range of funding options.

Employee wellbeing
Employee wellbeing is increasingly used as a differentiator in terms of attracting and retaining employees - and in some industries, is standard practice across competitors. Wellbeing initiatives initially focused primarily on physical and perhaps mental wellbeing (so introducing programmes to help physical fitness eg trackers/competitions/health assessments, rolling out EAP and CBT treatments in the mental health space) but has now expanded to incorporate financial wellbeing and social wellbeing, among others.

Financial wellbeing particularly helps employees to understand the benefits the employer is making available and to plan/budget for their future needs. This can be helpful for retirement planning especially in the EU where mandatory retirement ages are no longer possible.

Social wellbeing initiatives will help to create communities among employee groups, and are likely to become increasingly important in response to changes in the workplace from new ways of working (hastened by the impact of covid).

Employee wellbeing programmes have moved from being a nice-to-have, to an expected element of employee benefits. In some countries (particularly the US), initiatives under employee wellbeing that improve health scores (eg BMI, heart health) may have a positive impact on healthcare premiums. However, in general, even where there isn't a direct financial impact, it is widely accepted that employee wellbeing programmes help to reduce absenteeism & presenteeism, and improved productivity. The costs invested in wellbeing programmes are generally recouped quickly in terms of better business outcomes. It is important that these take into account the employee population and, like benefits in general, are engaging and well communicated.

Summary

In summary, there is a varying range of state supports for pension and healthcare around the world, and so employer supplementation is generally required to meet HR and employee needs. This is an area that is regularly under review, and so the benefit provision we offer to our employees should also be regularly reviewed to ensure that it meets these changing needs (such as the increased focus on employee wellbeing initiatives). The Global Benefits Committee regularly meets to consider these developments and make any necessary changes to policy or benefit provision. As the CFO, you may wish to join some or all of these meetings to provide input from a financial perspective

Appendix 4

Example answer (Grade 2) – Question 7

Inflation, especially medical cost inflation, is the biggest risk impacting global employee benefit costs at the current time?

This paper is going to reflect on the above statement and provide evidence to why I would agree with this statement.

The old adage of a healthy workforce is a productive one can never more be true as of right now. We sit in the middle of a global pandemic which has seen an unprecedented change in how many multinational companies have to restructure their workforce. The key factors of mental well being and healthy eating have never been so prevalent and in the public eye. So what does this mean for companies and their health care benefit structure. There have been a number of studies that show that the cost to an employer for ill or unwell employees against the cost of providing schemes or programmes to reduce the risk of illness or injury is much higher.

The amount of medical provision can vary dramatically from country to country and with that the cost to provide medical cover can also be very different. There is a growing trend towards the reduction in State medical provision in certain countries which then requires employers to take up some of the burden of the provision of medical benefits for their workforce. Employers need their employees fit and healthy and able to work. SO the need to provide medical benefit can't be argued however the rising cost of providing this is growing and for some employers becoming to big of a cost.

If we look at Switzerland for example. They do not have a national health provision provided by the government so medical benefits are provided by the private sector. This is made up usually by the individuals and employer and has a minimum level of cover. The employer/employee can choose to increase cover for better benefits. The standard cover is non negotiable but the insurance company can negotiate on extra benefit cover. The amount of cost covered by the employer will vary from company to company but most will pay some subsidised amount for employees and their families. T

The UK has a National Health System (NHS) that is free for all permanent residents. The cost is taken from taxes and provides cover on dental, hospitalisation, long term care, physiotherapy and mental health. There is the option to have private health care and some companies provide this option for employees. Private health care offers the opportunity to decrease waiting times for certain procedures and appointments. Again there is a trend to move to more online options for GP and consultant appointments.

In Russia all citizens have access to free health care, however the care provided through the state is considered poor. Therefore most multinational employers will offer a private medical cover. This will cover services like dental, primary care out patient appointments. The cost of cover is very dependent on the establishment that is providing the medical care. The better quality the hospital or health centre the more expensive the cover.

In Germany there is compulsory medical cover depending on an individuals earnings. The state medical cover allows individuals to join at a cost of around 7% for both the employee and the employer. Higher earners can take up private cover with supplementary benefits. It is rare for employers in Germany to offer medical cover higher than the statutory benefits as the cover is reasonably good. For some senior managers or directors they may be offered increased cover.

The medical cover in the Netherlands is similar in that all residents are required to have a minimum level of private medical cover. The individual will normally set up cover themselves and a company wouldn't normally have blanket cover for all employees. Employers however, do negotiate good favourable rates for employees and in particular larger employers can tailor the medical cover in line with the business needs. There Is some state cover which provides cover for long term medical care plans and is generally financed through income tax. The Netherlands has an aging population so the risk of medical cover is increasing. The government are using Group Healthcare Plans as a way to reduce costs which provide a discount for employees that don't have access to the state national Health service. There is a strong push for employers to focus on preventative actions and wellbeing sessions to reduce the impact of long-term health problems.

In Brazil all multinational employers have to offer healthcare benefits as a supplement to the poor State social care programme. The normal contracts are within a network of hospitals and cover primary care and prescriptions and Drs appointments. The cost is normally met by the employer in full but employees are able to contribute for additional benefits. There again has been an increase in companies looking at more effective preventive measure for employees to look at well being to decrease costs in long term care.

In Japan the medical cover is provided by an Employee Heath Insurance. This gives a complete universal cover for all medical, hospitalisation, eye tests, dental and nursing. There is the choice to increase the cover for spouses, children and wider family. The cost is around 5-6% of pay for both the employee and employer. Depending on the employer it is possible to opt out of this cover and join a Health Insurance Association which normally provides a higher level of cover but there would be a higher cost for the employer to provide this.

In the USA the employer would provide health care and retirement savings as part of the benefit structure. The health care system is probably one of the most complicated in the world and the inflation in cost is often higher than the general inflation in the country. There is a large range of products that are offered and taken up by employers. There is no universal system and most medical care is a combination of private and public health care. There are some state and federal options which provide medical care for low income or elderly individuals. Most of the country relies on private medical programs. There was a new policy bought ion under President Obama's presidency called Obamacare which gave more support to those with little or no private medical cover, this however has been reduced under President Trumps tenancy. The cost for employers in the USA to help provide medical cover for their employees continues to increase and options like offering cover to family members is being curtailed and savings are being made to reduce the costs associated. The cost to an employee can range from around 20%- to as much as 30% if they are also providing cover for family members. Some methods that multi national companies are taking in the USA to help reduce costs are using online doctors and phone appointments reducing the cost of seeing a doctor in person. Raising premiums for smokers or those with higher obesity levels.

You can see from the example of medical cover provided in each country above that the level of risks vary depending on the type of cover provided. Medical cover that is provided through insurance is continuing to grow and the cost has to be met by either the employer or a combination of the employer and employee. Employers are needing to reduce the costs. As the population in the world are generally aging it means the strain on employers to meet the cost of providing medical cover to its employers will continue to grow. Educating workforces on how to lead more healthy and well balanced lives will help to reduce the burden of long term medical cover. Multi national employers across all countries are understanding that the need to prevent long term sickness and invest in well being programmes, medical screening and mental health programmes can have a massive cost saving effect. The inflation rises to provide medical cover isn't going to stop so alternative methods to spread the load of cost and methods to reduce this is what is needed.

The global impact on medical cover for all multi-national employers is not going to dissipate but it can be relieved somewhat with clever planning and a strong risk platform.

Appendix 5

Example answer (Grade 2) – Question 8

Dear Finance Director,

Per your request, this paper is outlining healthcare and pension systems in various countries around the world. This paper will conclude with my views of which countries have the best healthcare and pension provision for employees and employers. This paper is split into two sections healthcare and pension; details will be provided on healthcare provision in the United States, the United Kingdom, and Japan, and will detail the pension provision in India, China, and Brazil. Examples on trends in employee wellbeing will be included in the Healthcare portion of this paper.

Healthcare Overviews:

Healthcare systems are generally either public, private, or a combination of the two.

Healthcare System in the United States:

• System:
•
• Traditionally in the United States, healthcare has been provided through private insurance and private facilities until reaching eligibility at retirement, (usually age 65) for Medicare, the state provided benefits.
• Upon reaching retirement age, Medicare provides the majority of coverage to the elderly; however, there is still private insurance that provides additional coverage as Medicare is not fully comprehensive.
•
• Generally, all facilities in which benefits are offered are private facilities.
• The State does provide Medicaid, which is offered for those who have disabilities or a very young and cannot afford healthcare coverage, but most of the population is covered through private health insurance or Medicare.
• Private insurance is funded by employers and most employers require employees to contribute to the cost through payroll deductions.
• Medicare is also funded through a pay-roll tax (FICA) at about 2% for both employees and employers.
• In recent years the affordable care act was introduced to ensure that all Americans were able to receive insurance.
• In general, the private nature of healthcare in the United States results in the system being the most expensive systems in the world. Healthcare System in the UK:

• System:
•
• The UK provides the National Health Service (NHS) to all citizens in the UK. The system is the largest employer of the UK and provides comprehensive healthcare coverage. Virtually all healthcare is provided and administered through the NHS public facilities.
• The NHS is funded through general taxation.
• It is not uncommon for employers to provide private coverage to their workforce as well. Private

coverage in the UK is generally intended to reimburse members for small out of pocket costs as well as to increase speed of treatment.
• While the system is very large and comprehensive, the total cost relative to the private United States system is much lower.

Healthcare System in Japan:
• System:
•
• For multinational organizations, depending on which sector/industry you are in determines which administration/insurance association you belong to.
• Employers are required to offer annual medical check-ups to their employees.
• Multinational employers often provide supplemental healthcare coverage to their employees that coverers any hospitalization charges. Trends in employee wellbeing: While calculating a return on investment (ROI) is rather difficult and complicated, employers are generally grasping that healthier employees are "better employees" - a definition that is rather fluid. Current trends in the employee wellbeing space are:
• Implementation of a wellbeing portal that focuses on physical aspects of wellbeing, such as global step challenges, etc.
•
• These portals also offer health tips, such as eating habits, exercise, mindfulness/yoga, etc.
• Expanding wellbeing into other areas of employees lives, including mental health, financial education/assistance.
• In the US, there has been a trend to provide financial rewards to employees. This is much less common in other parts of the world.

Pension Overviews

Pension systems can be broken down into two general types of plans, defined contribution plans and defined benefit plans.
• Defined benefit plans are plans in which a benefit is promised to employees at retirement and the employer retains the investment and longevity risk.
• Defined contribution plans are plans in which the specific contribution amount if defined and employees benefit accrue in an account until retirement. Pension System in India: In India the pension system consists of a statutory provident fund, a mandatory gratuity plan, supplemental plans are completely voluntary.

• Statutory Provident Fund:
•
• This is a statutory plan is mandatory for all employers with at least 20 employees.
• Financed by 12% employer and 12% employee contributions. Employers also pay a 0.5% administration charge. The plan is administered by a government entity "EPFO"
• Employer contributions of 8.33% finance a portion of a DB benefit (employees pension scheme 'EPS') that provides earnings related DB benefits, and the remainder of employer and employee contribution go into individual DC accounts.
• Individual DC accounts also have guaranteed interest rates that are rather high compared to most countries that are set by the EPFO.
• Mandatory Gratuity Fund:
•

• This benefit pays an earnings based lump sum based 15 days of final salary per year of service upon termination of service.
• This benefit also has a 5 year service requirement:
• Supplemental/Voluntary Benefits
•
• Superannuation funds and typically DC, but are generally uncommon and reserved from executives.
• The National Pension System, is voluntary. This was originally for government employees but expanded in the early 2000's to all. It consists of a DC account that is broken down into two categories of contributions:
•
• Non-withdrawable: funds that cannot be withdrawn until retirement. • Withdrawable: these funds can be used for large expenses such as purchasing a home, hardships, etc. Pension System in China: This consists of a combination of State and Supplemental Benefits

• Pillar 1 and 2: State benefits with individual accounts
•
• Contributions are funded by 16% employer and 8% employee contributions.
• Benefits include a DB State benefits pay 1% per year of service, with a minimum of 15 years of service
•
• Benefits are tied to earnings, but are linked to the City Average Salary (CAS); between 60% and 300% of CAS.
• Employee contributions go towards an individual account that accumulates and then is converted to an annuity at retirement.
• The state is also providing transitional benefits at this time for benefits accrued under a previous system.
• Pillar 3: Voluntary plans:
•
• Voluntary plans in China are typically established in the form on an Enterprise Annuity; and Enterprise Annuity is a government approved and encouraged scheme that is provided by a licensed provider.
• Enterprise annuities require employees to contribution.
• Collective bargaining agreements are usually required. • Employer contributions are tax deductible up to 5%
• Employee contributions are tax deductible up to 4%
• Any single persons contribution cannot exceed 5x another’s.

Pension System in Brazil:
• Pillar 1: State benefits:
•
• Social Security underwent reform in 2019.
• Benefits are PAYG DB.
• Retirement ages have increased trending with global increases in state retirement ages.
• Contributions for employers are 20% of total payroll
• Contributions for employees range between 8% and 11% based on employee income.
• Benefits are tax free.
• Pillar 2: Complementary schemes:

•
• In Brazil, complementary schemes have a long outstanding history.
•
• There are two types of complementary schemes: Open funds and Closed funds
• Open funds
•
• These are funds that are open to all employers and can be joined at an employers discretion.
• There is generally less flexibility in design and higher administration costs.
• They can be DB or DC in nature
• Contributions are tax favourable.
• Closed funds.
•
• These are funds that are not open and require more formal establishment.
• Plan designed are generally more flexible, and have lower administration costs, but higher asset management fees.
• They can be DB or DC in nature.
• Contributions are tax favourable.
• Pillar 3: Voluntary Schemes:
•
• Voluntary Schemes are common, but mainly amongst multinationals.
• They are traditionally DC designs that incorporate an employer match on employee contributions.
• Contributions are tax deductible. M

y views on which countries have the best healthcare and pension provision:

Healthcare: I believe the healthcare system in the UK is one of the best countries for healthcare for both employers and employees. Employees receive comprehensive coverage at little to no additional cost. Also there is no direct cost to employers as the benefits are funded through general taxation. Further, employers that do wish to provide increase treatment speeds to their employees can voluntarily choose to provide supplemental coverage at their discretions.

Pension: While the pension provision of the Netherlands was not outlined in this report, I believe that the Netherlands has one of the best retirement systems in the world. The Netherlands is often viewed as a leader in the provision of retirement benefits. They have also pioneered the idea of collective defined contribution plans (CDC). CDC plans are hybrid between DB and DC plans. The contributions to the plans by the employer are defined, but the risks to individuals are pooled amongst those in the plans. Notional DC account balance take into account investment returns and longevity of members. Therefore benefits are based on certain actuarial assumptions, such as mortality and investment return (similar to DB plans), but the risks associated with DB plans are shared between employees and employers.

Kind Regards,
International Benefits Director
Company