**Core Unit 1B – Foundation in International Employee Benefits**

Mock Examination Notes

Recommended Time: *2 Hours 30 minutes*

1. **Explain the concept of integration of pension plan benefits with State provision and provide an example.**

**15 marks**

Answer should cover:

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

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

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

“covered” by Social Security

* + An approximate reduction in benefits amount payable to implicitly take into account benefits from Social Security

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

**2. Outline the main types of financing policy for defined benefit pension plans.**

**10 marks**

Answer should include:

* Mention of funded and unfunded approaches.
* Unfunded included Pay-as-you-go and Book Reserves.
* Funded advantages are tax relief, stability and cash flow, assets in a separate fund and Accounting Practice.

(Relevant section is Part 4, Chapter 1.4)

**3. Write brief notes describing the main types of risk benefits.**

**10 marks**

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

(Relevant section is Part 4, Chapter 2.2)

**4. You are an international benefits consultant and your client has asked you to write a report on post-retirement medical benefits and their use. Draft your report.**

 **20 marks**

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

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

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

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

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

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

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

**5. Write brief notes outlining the main types of share plans.**

**10 marks**

The main types are:

* Share Awards-shares are given to an employee at no cost.
* Share Purchase Plans-an employee has a right to purchase shares either at a discount to the market price or on a tax-favoured basis.
* Share Options-a right to purchase shares at a defined price over a defined time period.

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

(Relevant section is Part 4, Chapter 6.2)

**6. Outline the key objectives of a local pension plan actuary.**

 **5 marks**

Answer should cover:

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

(Relevant section is Part 7, Chapter 9.2)

**7. Your employer is considering expanding operations into France and Italy. You are asked to provide an outline of the mandatory *régimes complémentaires* in France and *trattamento fine rapport* (TFR) in Italy.**

**20 marks**

Answer should cover:

*Régimes complémentaires*in France

* Compulsory contributions at rates that cannot be chosen by the employer
* Contributions used to finance retirement benefits on a national, pay-as-you-go basis
* Run by non-State institutions
* Contributions and benefits decided by employer and employee representatives appointed to institutions
* These systems are expressly included in the EU Social Security treaty

*Trattamento fine rapport* (TFR) in Italy

* Type of termination indemnity
* Obligation to pay one additional month’s salary each year, either into a pension fund or otherwise directly to the Social Security authorities who “administer” it on the employer’s behalf.
* If paid to the Social Security authorities, it is used to finance a leaving service benefit on a pay-as-you-go basis, distinct from the regular Social Security retirement benefit.
* Employees at companies with less than 50 employees can choose for their TFR benefit to be kept by the company and then paid at the end of their employment.

(Relevant material is Part 11, Chapter 1.2.2)

**8. Explain the EET approach to pension taxation.**

**10 marks**

This refers to the three stages at which taxes may be levied in relation to pensions: 1) on contributions paid into a fund, 2) on investment returns

on assets in the fund, and 3) on pensions or other benefits paid out of the fund. So, an EET system is Exempt-Exempt-Taxed:

* + Contributions are exempt from income tax (i.e. income tax relief is given on contributions); this normally refers to the individual who is not taxed in respect of the employer’s contributions or own contributions
	+ Investment income earned by the fund is exempt from taxation (income tax or capital gains tax); this is normally tax-free accumulation within the fund and no tax to the beneficiaries during the accumulation period
	+ Benefits paid out of the fund are taxed to the recipients as income

(Relevant material is Regional Profiles, Chapter 1.2.2)