**Managing International Employee Benefits Notes on Assignment 3**

Recommended Time: 3 hours

1. **Outline the elements of employer retirement benefit provision in Australia.**

**10 marks**

In Australia, every employer must contribute a certain percentage of pay (known as the Superannuation Guarantee) on behalf of each employee. The minimum employer contribution rate is scheduled to increase to 12% from July 2025. Contributions are made into a complying superannuation (“super”) fund or retirement savings account. The choice of underlying investments of the super fund or retirement savings account typically rests with the employee.

1. **Describe typical retirement and health benefits in South Africa. 15 marks**

In South Africa, most employers participate in DC Umbrella/Multi-Employer funds. Umbrella Funds typically require the set-up of a Management Committee (or Joint Forum) in each member company with employee and employer representatives. Provident funds in South Africa (which allow the retiring member to receive the full fund value in cash) can no longer be registered and all new registrations will only be pension funds. For individual members,

tax deductions on contributions are permitted up to an annual limit - the lesser of 27.5% of taxable remuneration and ZAR 350,000. These limits apply to all employer and employee retirement funding contributions. A new system is expected from 2024. In the new system, one third of the contributions paid into a retirement fund will go to a savings component and two-thirds will go into a retirement component. The monies in the retirement component cannot be touched until retirement. Access will be allowed to the savings component in times of financial difficulty before retirement.

Citizens who do not belong to a private medical aid scheme qualify for free or subsidized medical benefits from the state. Almost all companies provide medical benefits, and the premium is typically shared equally between the employer and the employee. Gap Medical Insurance coverage, supplemental to the medical aid scheme, is frequently offered and paid or facilitated by the employers.

1. **Summarise the typical benefits provided in Latin America. 10 marks**

* State benefits are often the primary pension source for individuals.
* Some countries have adopted a system of individual accounts, where contributions go into a range of Government approved private funds selected by the employee.
* Legally mandated termination indemnities are an important employment benefit.
* The termination indemnity may be externally funded (Brazil/Colombia), or form the basis of the company sponsored retirement plan (Mexico).
* Multinational companies typically offer risk benefits (such as life and accident disability insurances) as minimum supplemental benefits.

1. **List the typical criteria when selecting the location for an IPP/ISP.**

**5 marks**

Primary factors:

* Flexible pension regulatory regime
* Protection of pension fund assets
* Free from local taxes where plan is located

Other factors:

* Political and economic stability
* Flexibility and sophistication of local law
* Potential for exemption from FATCA/CRS reporting
* Availability of competent and experienced local service providers
* Reputation as a sophisticated international financial service centre
* Ideally, tax recognition by the home countries where members are tax resident
* Minimal benefit restrictions and the ability to take benefits in lump sum form
* Freedom from currency exchange controls
* Linguistic ability

1. **List the allowances often provided as part of an expatriate’s package.**

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

**10 marks**

1. **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

1. **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

1. **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.

1. **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)