

**27th International
Congress of Actuaries**



Designing an International Pension Program for Mobile Employees

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International Mobility -- Overview

Internationally mobile employees

- Guaranteed home country retirement benefits, or
- Covered by host country retirement programs for service in each country

These employees often incur a benefit shortfall at retirement

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International Mobility -- Reasons For Shortfall

- Corporate programs do not recognize:
 - Worldwide service, or
 - Worldwide earnings for benefit accruals
- Social Security integrated with the plan of another country
- Low benefit country
- Inappropriate transfer policies

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International Mobility -- Example

Canadian citizen transfers to Germany

<u>Work Country</u>	<u>Service</u>	<u>Benefit Status At Retirement</u>
Canada	6 years	German earnings not recognized
Germany	30 years	Mix of Social Security benefits

Replacement Income At Retirement

	<u>Full Career</u>			<u>Actual</u>	
	<u>SS</u>	<u>EDS</u>	<u>Total</u>	<u>Benefit</u>	<u>Shortfall</u>
Canada	14%	46%	60%	45%	15%
Germany	35%	12%	47%	45%	2%

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International Mobility - Challenges

- No uniform worldwide approach
- Country specific differences – tax and legal
- Company's diverse practices with transitions and acquisitions

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International Mobility – Case Study

- Process multinational corporation went through in designing a pension program
- Plans considered along the way
- Final plan design

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International Mobility - Objective

Minimize retirement benefit shortfalls

To encourage mobility

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International Mobility – “Wish List”

- Keep it simple and easy to communicate
- Make it understandable for employee
- Make it easy to calculate Company's liability

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International Mobility -- Analysis

- The retirement benefits of a sample of mobile employees were analyzed
- Determined that the two major categories must be treated differently
 - International employees
 - US citizens
- Different approaches for various types of shortfalls

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International Mobility – Sample Group

	<u>US Citizens</u>	<u>International</u>
– Number of Employees	45	24
– Age	37	37
– Income Level	\$64,000	\$62,000
– Service		
• Average Host Country	5 years	4 years
• Current	10 years	10 years
• At NRA	30-35 years	30-35 years

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International Mobility -- Immediate Actions

Amend retirement programs to recognize all service and earnings

Identify a retirement income target to determine scope of shortfall

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International Mobility-Income Target

Set Replacement Income Target at 55%

Company Plans + Government Programs + X = 55%

X = Supplemental Benefit, if required

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International Mobility – Shortfall Analysis

- 25% will not incur a shortfall
- 45% addressed by amending plans
- 30% addressed through international plan

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International Mobility – Solutions

- Do nothing
- Ad Hoc
- Target Plan
- Supplemental Plan

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International Mobility – Target Benefit

Targets considered:

- Home Country for full career
- Host Country for full career
- Average replacement income based on worldwide retirement benefits

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International Mobility – Proposed Design

- Supplemental Plan Design
- Defined contribution plan
- Graded contribution rates based on employees age plus service
- Eligibility with employee's second assignment
- Contribution rates vary by work country
- 55% replacement income at retirement from all sources

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International Mobility – Sample Contribution Rates

<u>Age + Service</u>	<u>Australia</u>	<u>Germany</u>	<u>UK</u>
Up to 39	1.0%	0.5%	0.0%
40-49	1.5%	0.5%	0.0%
50-59	2.0%	0.5%	0.0%
60-69	2.0%	1.0%	0.0%
70-79	2.5%	1.0%	0.0%
80+	3.0%	1.0%	0.0%

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International Mobility – US Citizens

Issues with including US citizens in a supplemental plan for internationally mobile employees

Only type of deferred compensation plan (DB or DC) US taxpayer may participate in without adverse tax consequences is a qualified plan under ERISA and US tax laws

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International mobility - Umbrella Provision

- Eligible upon participation in second work country if on local benefits in each country (one being US)
- And US Citizen
- Guaranteed benefit as if always worked in the US offset by benefits received from other countries

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International Mobility - Summary

- Amend existing plans
- Design international retirement plan
- Create umbrella provision in US Plan

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International Mobility



Backup

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International Mobility - Exclusions

- Expatriates - Employees sent to another country for a short duration and are expected to return to their home country. **Home country benefits are guaranteed.**
- Local hires - Employees hired directly by another country and expected to stay there for their career. **They are included in local pension plans.**
- US citizens and US residents - Need to be handled in a way which complies with US tax regulations. To be covered by the US Retirement Plan, not an international pension plan.

International Mobility - US Retirement Issues

US qualified plan requirements

- Comply with ERISA reporting and disclosure requirements
- Nondiscrimination testing
- Legally required plan provisions
- Must be funded
- No tax benefit to non-resident aliens

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