Fidelity Workplace Consulting
International Retirement Newsletter

Are Multi-Country Pension Plans Worth Revisiting?

February 2020

Fidelity's International Retirement newsletter focuses on the key issues surrounding employer-sponsored retirement issues globally.

Looking at key legislative developments across the globe, Bermuda and Dubai have made changes mandating coverage for foreign workers. Australia has passed legislation impacting risk coverage within DC superannuation plans, and in the UK, proposed legislation may result in more cumbersome governance on DB plans and a significant increase in the general levy on both occupational and personal pension plans.

This newsletter's feature article discusses retirement options for internationally mobile employees and third country nationals through the provision of International Pension Plans. Please click here to watch a short introductory video by a member of our Global Consulting Team.

What's Inside

Fidelity INVESTMENTS

Legislative Updates

Australia

Effective April 1, 2020, certain DC superannuation plan members (new members under age 25 or with balances under AUD 6,000) will lose their risk coverage (death and disability) unless they opt in.

DC superannuation plans have risk coverage available for their members and the coverage is generally funded through automatic account deductions. Before April 1, 2020, the coverage was automatic unless employees opted out. The new regulation is an attempt at avoiding erosion of account balances (particularly for younger employees and those with low balances) due to risk cover premiums, by requiring a member opt-in.

Action Required

Take Action – employers can no longer ensure employees are automatically receiving risk coverage through the superannuation plan. Employers may want to review their provision of risk benefits and consider the ramifications of uninsured deaths or disablements.

United Kingdom

Proposed legislation (the Pensions Schemes Bill) in the UK is aimed at defined benefit (DB) retirement plans which would require plan trustees to document and report on their long-term funding and investment strategy. Other key areas of the bills include:

- Requiring of advance notification to The Pensions Regulator (TPR) for company activities that either:
  - Gives creditors priority over the employer's debt to the plan, or
  - Involves divestiture of a significant stake in the sponsoring employer's business / assets
- The ability for TPR to impose civil penalties and criminal sanctions for "willful or reckless behavior" related to pension schemes.
- The introduction of mandatory online dashboards that would allow participants access to their information from both private and state pensions in one place.
- The framework for the establishing, administering, and regulating Collective Defined Contribution ("CDC") Plans.

Separately, the Department for Work and Pensions (DWP) has proposed a 10% increase in the general levy (which funds the pensions supervisory regime) on occupational and personal pension plans from April 2020, followed by future increases which have not yet been determined.

Action Required

Monitor – employers should monitor the proposed legislation, and be mindful of the potential implications. Companies and pension plans should also factor the general levy increases into their budgets.

Bermuda

Legislation has been passed resulting in the extension of mandatory coverage of company retirement plans to foreign workers. The previous exclusion of foreign workers had encouraged employers in their hiring. The legislation not only extends the coverage for these employees, but also amends other aspects of the mandatory coverage to local hires including:

- Pensionable earnings now fully include bonuses and profit sharing, effective January 2, 2020.
- The maximum vesting period will be reduced from two years to one year, effective March 2, 2020.
- US employees who are covered by a 401(k) retirement plan are now excluded from mandatory coverage, effective March 2, 2020.
- Employees who are working in Bermuda for less than 12 months are not required to have coverage.

Action Required

Take Action – employers with Bermudan operations should review the updated legislation and take the necessary next steps.

United Arab Emirates

A new mandatory savings plan is being launched by the Dubai International Financial Centre (DIFC), which will move foreign workers from the current (largely unfunded) DB structure to a funded DC structure.

The mandate does not include Emiratis or other Gulf Cooperation Council (GCC) nationals, although they may enroll in the new plans on a voluntary basis.

The new mandatory Employee Workplace Savings Plan (DEWS) is replacing the current-end-of-service benefit (EOSB) for future service.

Employers have until March 31, 2020 to enroll covered staff or opt out via a Qualifying Alternative Scheme (QAS).

Employers have the option to offer a QAS, by applying to the Dubai International Financial Center (DIFC) but will require approval during a 60-day application period between December 3 and February 1 annually.

Employer DEWS/QAS contributions are to be 5.83% of monthly base pay during the first 5 years of service, and then 8.33% after 5 years. Employees may contribute voluntarily.

Action Required

Take Action – employers have small window to enroll in the DEWS. Most employers are expected to enroll in the DEWS, while considering QAS in future years. This could be a desirable option for moving away from book reserves for end of service benefits to funded DC accounts.

Multi-Country Retirement Plans

Retirement Options for Internationally Mobile Employees and Third Country Nationals

As the number of internationally mobile employees ("IMEs") and third country nationals ("TCNs") continue to grow, multinational organizations continue to focus on delivering cost effective and consistent benefit packages that meet the needs of employees and their families. As both types move between countries, their assignments are typically not long enough to accrue meaningful benefits under the host country plans (if accrual is possible – they typically do not meet vesting requirements for either employer-sponsored plans or State provisions). Additionally, they may not be able to keep participating in home country plans.

While this gap in retirement savings is sometimes met through either higher base compensation or allowances, that money may not be saved by employees for their retirement (for a variety of reasons). As our readers will know, saving for retirement is a key element of financial well-being and leaving this to an employee to self-manage may not be the most effective route. Vehicles such as International Pension Plans ("IPPs") provide multinational organizations with opportunities to act, and can serve as an effective retention tool as compared to an allowance via compensation.

IPPs, synonymously referred to as International Savings Plans ("ISPs"), are most often funded defined contribution ("DC") arrangements in structure and are traditionally trust-based. They are often domiciled in low-tax jurisdictions, such as Bermuda, Guernsey, the Isle of Man, Jersey and Luxembourg. While IPPs are certainly not new to the marketplace, there has been an increasing demand in recent years. IPPs provide plan sponsors with the opportunity for:

Benefit **consistency and flexibility**:

- For groups of IMEs/TCNs, rather than having individual arrangements.
- To bring all employees with no retirement provision under a single plan.
- To provide a vehicle for a global minimum retirement benefit.
- To provide a comparable benefit to a home country program (e.g. US 401k) to encourage mobility.

Providing retirement benefits in local markets where the local **market is either underdeveloped or non-existent** (commonly in parts of the Middle East).

Providing retirement benefits in local markets where employees are **not eligible for local programs** (e.g. in Singapore, where non-citizens are not permitted to participate in the Central Provident Fund).

Building on existing benefit provider relationships to maximize efficiency, governance, increase control and achieve **consistency in experience** (for both the company and employees).

IPP Market Trends

Multinational organizations have moved beyond the traditional use of IPPs for senior, internationally mobile employees to include local hires in regions where no viable product exists, or as a top-up to local provision. More dynamic companies are using these as vehicles to ensure a global minimum standard in their retirement provision consistent with the global benefits adequacy considerations in their global benefits strategies.

We're seeing our clients wanting to ensure that there are sufficient savings by employees irrespective of local market practice. Beyond minimum standards in plans for local hires, the practical application of IPPs allows employers to ensure a cost-effective vehicle that reflects their culture in areas such as savings rates, investment options, vesting criteria, and employee education for those with gaps in local coverage. Without the strict criteria that typically accompany tax-advantaged local plans, companies need to determine the design elements of their plans.

For example, existing plans have been updating their rules to ensure they are more retirement focused rather than just being a general-purpose savings vehicle. This is reflected both in vesting criteria and more limited in-service withdrawal allowances (allowing for withdrawals only at retirement, on leaving employment, or under certain hardship circumstances).

Technology and the Employee Experience

Companies and their mobile employees expect easy access to plan resources, similar to what they would experience in developed local retirement markets, irrespective of their local working location or conditions. Access to plan balances and data, being able to transact and manage investments online and employee education are becoming key requirements. As technology has evolved, this can be more easily accommodated within IPPs, especially via the use of mobile applications with secure log in features.

The Oil & Gas industry are large users of IPPs. Many employees are working offshore on boats and rigs.

Tax Efficiency

One particular challenge for companies offering IPPs, and their employees, is tax efficiency. Given the nature of the need to support employees in a range of locations, IPPs are not under the typical local tax-advantaged retirement plan provisions available in most countries. Generally speaking, contributions to IPPs will not be fully tax deductible and may be treated similar to the extra salary or allowances sometimes used in lieu (individual tax circumstances always apply but employees will likely not be worse off). However, the need to support employee savings should supersede these concerns. With the right financial well-being focus in the provision and education, this should lead to a high appreciation of these plans by eligible employees.

Cross Border Pensions in the European Union

In the European Union ("EU") market, the Institutions for Occupational Retirement Provision ("IORP") Directive regulates the second pillar retirement systems in EU Member States, and established broad principles to facilitate cross-border pension funds for occupational retirement provision. IORPs offer employers the opportunity to offer a single retirement plan across multiple EU member countries while maintaining the local tax advantages and specific design elements of each country. Having a single integrated plan structure enables vendor consolidation driving operational, governance and administration efficiencies, that could lead to reduced costs and an improved employee experience. Furthermore, when an employee transfers between EU countries (within the same company), they could remain in the same occupational pension plan, facilitating easier mobility of a multinational company's workforce across the region.

Yet despite the advantages, the market for these plans has not developed as expected over the last 15 years since inception. As of the end of 2016, there were 73 active cross-border IORPs, which is a small subset of the total IORP (and "Article 4") assets of EUR 3.8 trillion (covering over 46 million participants and beneficiaries)[1]. There have been many challenges, complexities, and local stakeholder opposition to implementing such a plan. In general, only the very largest multinational organizations have attempted to implement such plans, with limited success.

The new IORP II Directive, which became effective in January 2019, clarified some ambiguities in the original 2003 IORP I Directive, and focused on increasing member protection by improving governance and transparency. Given this, in conjunction with the growing and maturing providers, and global trends in how multinational companies manage their retirement benefit programs (such as governance, consolidation, de-risking and the move to defined contribution, optimizing efficiency, consistency of employee experience), we expect the EU cross-border pension market to grow significantly over the next decade, as it addresses many of the issues that multinational companies are seeking to solve.

[1] http://www.actuarialpost.co.uk/article/eiopa-publish-its-report-on-pensions-and-cross-border-iorps-13118.htm

What's Next for Multinationals' Desire for Multi-Country Retirement Plans?

As companies think more holistically about their rewards packages and their employees' financial well-being, we are seeing increased use of International Pension Plans across a variety of applications and situations for those with gaps in coverage. Advances in technology make it easier than ever for employees to access their account information and transact securely online no matter where they are located. This is an established market that is set to continue its growth.

For local hires across the EU, the growing use of cross-border IORPs should simplify governance and reduce costs in the long term. IORPs will also enable similar technological benefits and facilitate easier mobility between countries within the EU. While these are relatively early days in the development and roll out of these plans, they have the long-term potential to revolutionize the EU retirement landscape.

For more information on any areas covered by the newsletter or to discuss your international benefits or global mobility programs, contact:

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About Fidelity Workplace Consulting Global

Fidelity's Workplace Consulting Global team is independent and focuses on supporting clients in meeting their business objectives through the provision of impartial, but tailored, advice reflecting market trends and best practice.

Global Benefits Governance	International DC Governance	International Retirement & Financial Wellbeing	International Health care & Wellness	International Miscellaneous
Design/ implementation of a tailored global benefits governance structure International audit and compliance review of overseas plans Benchmarking and development of global policies and standards Independent ongoing support to global benefits committees Advice on global financing opportunities, including risk financing Training on best practices in international benefits management	Developing fiduciary and compliance oversight and policy for international DC plans Cross border implementation of best practice and group policy Development of preferred provider arrangements to drive operational and financial efficiency Support on enhancing employee experience through developing & implementing communication best practice Ongoing support to global benefits committees	***Financial Wellbeing*** Benchmarking/ implementation of global best practice Design/ implementation of programs to support financial well-being Vendor selection and oversight for globally consistent local implementation ***International Retirement*** Benchmarking/ setting of globally consistent financing assumptions Advice on opportunities for de-risking in respect of retirement plans Consolidation of financial reporting & budgeting	***International Health care*** Vendor selection for international health care policies Advice on strategies to improve employee behaviors and reduce health care costs Development of health care policies to improve financial/ operational efficiency ***Wellness*** Global wellness education strategies & programs Benchmarking and deployment of global wellness programs Vendor selection for International providers	Development of global insurance programs to reduce costs/commissions and improve operational efficiency Advice on country benefits practice (both Mandatory and typical practice) Support for benefit aspects on mergers, acquisitions and divestitures/splits Independent second opinions on local advice Strategy to respond to legislative changes Facilitation of global stock plan advice On-site support and benefits leadership

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