



SOCIETY OF ACTUARIES

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Increased Interest in International Plans

By Carl Hansen

Recently, we have seen renewed interest in the international (or “offshore”) pension plan. An international plan typically provides benefits for internationally mobile workers of a multinational employer, but can also be used for certain other workers. The plan is usually located in a respected international finance centre.

There are several possible reasons for the recent renewed interest in international pension plans (IPPs). First of all, they remain an elegant and tax efficient way to provide retirement benefits for workers that might otherwise have little or no formal pension provision due to their working location or their mobile lifestyle. In an increasingly global economy, smaller “emerging” multinationals are facing some of the benefits issues once only affecting the very largest employers. There are many fast growing companies with only informal or less uniform pension promises in place for internationally mobile workers. Some employers may have established defined benefit IPPs many years ago, only to be discouraged by some of the general financial and administrative frustrations that have developed over the years with defined benefit (DB) plans. Those employers are now re-evaluating the IPP from a defined contribution or hybrid plan perspective in search of more flexibility and easier administration. A defined contribution (DC) or hybrid IPP can supplement or replace an existing DB IPP on a more cost effective basis.

A newer use for IPPs is to provide retirement benefits for local workers in countries with inadequate or less effective local options because of under developed markets for local pensions. These workers may be excluded from participating in local retirement plans or they



could be local workers with limited options. Typical countries where this approach is most effective are rich in minerals or other natural resources, so employers are often large international oil or mineral extraction operations.

INCREASED FLEXIBILITY

The new generation of DC IPPs are very flexible to meet the needs of a variety of employer types and sizes. Employer contributions can be uniform or vary according to home country, host country, age, service, or a variety of other criteria. Employee contributions may be tax effective depending on individual circumstances. Members can choose from a wide range of investment funds in various currencies to fit their own circumstances. Most

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plans provide some sort of a “lifestyle” fund as a default option for those employees wanting less involvement in the selection of their investments. Administration packages usually include secure websites allowing members to access and change their retirement accounts from anywhere at any time. Depending on the provider, administration services may be

available only as part of a bundled package of services or the employer may be able to dictate their own level of involvement. □

The table below gives a brief comparison of funded plans, unfunded plans, and insured (or contract based) arrangements.

	FUNDED INTERNATIONAL PLAN	CONTRACT BASED ARRANGEMENT	UNFUNDED PLAN
Security	Security for members of externally funded pension	Security for members of externally funded pension	No security for members against employer insolvency
Flexibility	Flexible benefit and payment structures, currency	Inflexible, must fit within constraints of insurance contract. May have limitations on currency for premiums and payments.	Flexible benefit and payment structures, currency
Investment Choices	Flexible investment choices	May have limitations on investment choices	N/A
Costs	Transparent costs; investment returns provide additional benefits	Cost of providing benefits is relatively high, including insurer’s expenses and profit	May have cost savings on administration or investment expenses

Mark your calendars!

The Singapore Actuarial Society is the host of the 17th East Asian Actuarial Conference (EAAC), “Redefining Risk, Creating Value” being held at Resorts World Singapore from October 14-17, 2013. The EAAC brings together actuarial professionals in the Asia-Pacific region to discuss various international and topical issues. If you are not familiar with Singapore, Resorts World is the premier destination in Singapore, with Universal Studios located on site. Other attractions include the casino, shopping and famous Singaporean food. For more details see www.rwsentosa.com.

We will continue to provide more details closer to the date.