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International Pension Plans versus Pan European Plans

By Mark Colton

Multinational employers may hear about both international pension plans (IPPs) and pan European plans as possible solutions for many benefit problems. These are two very different savings vehicles, but when is one more appropriate than the other?

An IPP may be described as a pension plan established in an international finance centre, which is the home country of neither the employer nor the employees, to provide benefits for the international staff of a multinational group. For example, a U.K. multinational company might establish an IPP in Guernsey to provide retirement benefits for its international staff working in Africa or Asia. In contrast, a pan European plan is intended to provide a single pension plan for all of an employer's European employees. Several countries (such as Belgium, Ireland, and Luxembourg) have established entities to encourage pan European plans.

IPPs have been around for many years, with well over 500 now in existence. Pan European plans are a more recent development—there are just over 80 now in existence based on recent information from the European Insurance and Occupational Pensions Authority (EIOPA). However, a more in depth analysis of EIOPA's report suggests that pan European plans have had a very limited appeal so far. The report shows that about half of the existing plans cover only employees in the United Kingdom and Ireland via the other country, with only about 15 percent of the plans covering two or more countries.

IPPs and Pan European plans share many similarities. Both types of plans can be a tax effective way to accumulate retirement benefits in a single pot separate from the employer. This enhances security for employees while allowing employers to benefit from economies of scale. Plan rules can be flexible to allow separate benefit structures for different groups of employees (for example, based on where they are working). Both can provide a range of investment options and can include risk benefits. However, there are some key distinctions between IPPs and pan European plans. The primary differences are outlined in the following sections.

WHICH RULES APPLY?

Pan European plans are subject to the funding and governance rules where they are set up, PLUS they are also subject to social laws (and potentially works council negotiations) in each covered country. IPPs are only subject to the rules of the international finance centre where they are established. Since there is only one jurisdiction involved, IPPs can generally be implemented much more quickly.

TAXATION

In exchange for the relative difficulty in implementing a pan European plan, the employer and members should enjoy the same tax benefits as they would from the local occupational retirement plan that is replaced. The tax circumstances of an IPP may not be so straight forward. Investment income and capital gains for IPP assets, as well as distributions to members, should not be subject to taxation where the plan is established. Employers can typically deduct contributions to IPPs as an employment expense. However, in some countries contributions may be immediately taxable as additional income to the member depending on their individual tax circumstances. The position of benefit payments will depend upon where the member is tax resident at that time.

COST EFFECTIVE SIZE

Due to the often complex compliance requirements, pan European plans have been most cost effective for larger employers with significant numbers of employees in the covered countries. Master trust or

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contract based IPPs can be cost effective for smaller employers, or for larger employers covering only a small number of employees.

FUNDING

Under EU rules, pan European plans must generally be fully funded at all times, and there may be additional solvency margin requirements. Funding rules for IPPs tend to be very flexible to allow employers to fund benefits in a prudent manner. For example, it may be more tax effective to NOT fund benefits for certain IPP members depending on individual tax circumstances.

GEOGRAPHIC COVERAGE

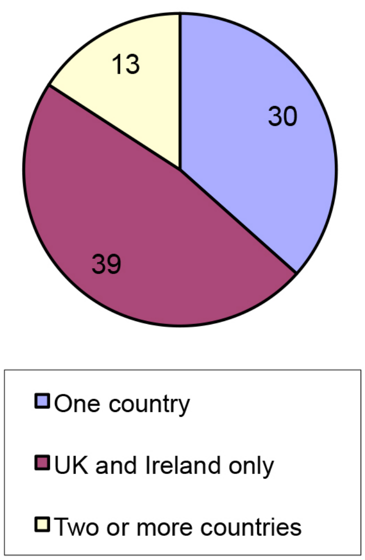
While a pan European plan may be able to cover employees working outside of Europe under some circumstances, its primary function is to provide pension cover for employees working in European countries. An IPP can be thought of as a pan global plan. Current IPPs cover employees working in a wide variety of countries all over the world. While they have traditionally been plans for expatriates and globally mobile employees, many IPPs are also used to cover local staff where there are no suitable local options.

PURPOSE OF PLAN

According to the EU, pan European plans are Institutions for Occupational Retirement Provision (IORPs). In other words, they are intended to provide occupational retirement benefits. While an IPP can be (and usually is) set up as an occupational pension plan, some employers prefer to use them to give employees access to a savings vehicle for shorter time horizons.

	PAN EUROPEAN PLAN	INTERNATIONAL PENSION PLAN
Which rules apply?	Funding and governance rules where set up; social laws in each country covered	Rules of IFC where established
Taxation	Should have same tax benefits as local occupational retirement plans for each covered country	Investment gains and distributions not subject to tax where plan set up; employer contributions typically deductible; contributions may be taxable income to members; taxation of distributions depends on rules where distribution taken
Cost effective size	Typically, more cost effective for multinational employers with large number of employees covered	Can be cost effective for just a few members
Funding	Benefits must generally be fully funded, with possible additional solvency requirements	Flexible to allow funding in prudent manner
Geographic coverage	Primarily intended for European countries	International
Purpose of plan	Occupational retirement benefits	Retirement or savings plan

IORP Coverage



Source: EIOPA 2013 Report on market developments in cross-border IORPs (July 2013)

CONCLUSION

Both pan European plans and IPPs will be increasingly important weapons in the armoury of the human resources director in meeting the employment needs of a global workforce. While the initiatives of the European Union in encouraging cross border and pan-European pension provision are to be commended, the practical complications in establishing such plans have resulted in a relatively small number being established. Additionally, most multinational companies do not confine their operations to European Union countries, and so the availability of pan European plans does not negate the need for IPPs. Even if pan European plans continue to develop, they will not provide a complete solution for most multinational groups, as their activities will extend beyond the EU boundaries. International pension plans and pan European plans can and should complement each other in a well designed benefits programme. □