

THE PENSIONS MANAGEMENT INSTITUTE

BOARD OF EXAMINERS

Examiners Report

Module	International 2
Session	April 2016

Overview

This was the first year of a new format for the exam with 8 questions instead of 4. Questions 1-5 were short answer questions (total marks 40) designed to test broad international benefits knowledge; Questions 6-8 were long answer questions (total marks 60) designed to test understanding.

It was apparent that most candidates had prepared well for the exam. This was reflected in the pass rate and the number of scripts achieving high marks.

Generally; candidates needed to do well on the longer questions in order to pass. Unfortunately some candidates did poorly on some of the short-answer questions and, in some cases, did not provide very good responses to 1 or 2 of the short answer questions. Such candidates then missed out on a number of potentially "easy" marks; and, for these candidates, doing well on the long-answer questions was even more important.

Candidates from both the Pensions Management Institute (PMI) and the International Employee Benefit Association (IEBA) presented themselves for examination. The majority of candidates came via IEBA. Only a small number were PMI-only candidates, and unfortunately, none of the PMI-only candidates passed (despite appearing making reasonable attempts). It is possible that IEBA candidates may have found certain aspects of the paper easier given it is expected they are working in the area of international benefits. For this reason, PMI candidates may have found the paper harder if they do not actually work in this area. It is therefore important for such candidates to be well prepared for the exam in order to demonstrate they understand the detail and can show understanding.

Question Number: 1	
Briefly outline the advantages associated with multinational pooling (5 marks)	
Comment	Most candidates scored well on this section. Advantages include coordination of information, liberalised underwriting terms, cost savings/dividends, access to local market information, easier renewal processes
Manual Section	Study Manual Section 4, Chapter 1.2.2

Question Number: 2	
Summarise the key features of an Enterprise Annuity in China (54 marks)	
Comment	4A small number of candidates did not score very well on this suggesting that they were not familiar with this type of plan. Enterprise Annuities are one of the main forms of retirement plan in China and increasing number of multinationals are implementing/considering these plans in China. It is type of plan that international benefit practitioners should be familiar with.
Manual Section	Study Manual Part 5, Chapter 4

Question Number: 3	
Describe the medical and other non-pension benefits in Russia. (10 marks)	
Comment	Most candidates did reasonably well. Marks were available for mentioning English-speaking clinics are available in key cities for international assignees; and for mentioning that employer contributions are tax deductible and employees generally do not contribute. Some candidates mentioned that disability benefits are widespread in Russia which is not the case
Manual Section	Study Manual Section 5, Chapter 2.3

Question Number: 4	
Outline the key areas of focus of due diligence from the perspective of employee benefits in relation to mergers and acquisitions (10 marks).	
Comment	7Scores were generally good. To achieve full marks, candidates needed to mention financial due diligence (looking at liabilities, costs, risks and cash flow requirements); reviewing legal documentation and member communications; identifying recent/pending disputes; understanding how benefits will be treated post-acquisition (including treatment of past service and any costs/liabilities triggered by the sale); and understanding the level ongoing support from the seller after the sale
Manual Section	Study Manual Section 5, Chapter 2.3

Question Number: 5

Summarise the benefits environment in Middle East and Africa (102 marks)	
Comment	The examiners split the marks evenly between both regions. Candidates generally scored more marks in relation to Africa than they did for Middle East. For the Middle East, candidates should have provided information on: end of service plans; life cover being problematic for locals on religious grounds; workers compensation for death and disability; medical insurance (including differences for expats and locals)
Manual Section	Study Manual Section 5, Chapter 5.3

Question Number: 6	
<p>You are a newly appointed Global Compensation & Benefits Director of a technology company headquartered in Singapore. The company is listed on the US stock exchange</p> <p>The company has operations in Asia and South America</p> <p>The company has historically operated on a decentralised basis, but is now becoming more centralised.</p> <p>List the various benefits to the company of putting in place a global benefits policy. (20 marks)</p>	
Comment	<p>The examiners wanted candidates to apply knowledge from across the syllabus. To achieve good marks, candidates were expected to cover items including the following</p> <ul style="list-style-type: none"> • Consistency with company's approach to corporate governance • Sarbanes-Oxley requirements (as company is US listed) • Monitoring costs and risks of benefit plans • Ensuring compliance with legislation • Global consistency in approach (including for expats) • Helping with decision making • Helping with market positioning when determining benefits <p>Candidates were also expected to list benefits likely to be specific to the example company (ie a technology company in Asia Pacific) eg controlling medical costs; financing termination indemnity plans; helping to supplement state benefits (often low); providing benefits suitable for needs of workforce</p>
Syllabus Section	Part 2 (Objectives of a Multinational Company) Part 5 – Chapter 5 (Regional Round Up)
Page numbers	4-17; 70-72

Question Number: 7	
<p>You are the International Benefits Manager for a large textile company with its headquarters in the UK. The HR Director has advised that the company is considering expansion into the Far East, Australia and North America, which will involve a number of UK employees being seconded there to help with the set up. He has asked for a paper from you covering the following things:</p>	

<p>a) The data and information that should be captured as a minimum in the assignment documentation for each seconded employee (5 marks)</p> <p>b) The purpose of Social Security Agreements (SSA). This should also include a description of the type of SSA's and provide examples of those which will apply in the countries they are expanding into. (15 marks)</p>	
Comment	<p>a) As well as basic employment and benefit plan information; marks were available for commenting on social security coverage and details of assignment allowances/relocation benefits</p> <p>b) To achieve full marks, candidates needed to describe the Totalisation, Reciprocal Credit and Contributions Only model; including country examples. Not all candidates gave correct country examples. However marks were also available for making general observations for having these agreements (ie to avoid paying contributions under 2 systems at the same time; to avoid employees paying contributions to systems where they may receive no benefit; and to try and treat employees as if they had never been away)</p>
Syllabus Section	Part 6
Manual Section	Chapter 1
Page numbers	75, 77-78

Question Number: 8	
<p>The Finance Director of a large multinational company has asked for a review of the financing of the defined benefit pension plans that the company sponsors around the world. She has been talking to various financial analysts who have suggested that the company would benefit from a change in approach. Draft a paper that includes the following areas:</p> <ol style="list-style-type: none"> 1) The primary objectives of pension plan funding. [3 marks] 2) The main reasons why a company would finance a plan through an insurance contract. [4 marks] 3) How government bodies and pension regulators in different countries may influence the funding of a plan through a benefits trust, with specific examples. [7 marks] <p>[1 mark available for drafting]</p> <p>The Finance Director has also mentioned that the analysts do not like the fact that the company's pension plan in Germany is financed through a direct pension commitment, and they have raised the idea of using a Contractual Trust Arrangement ("CTA"). The Finance Director would like to understand more about this arrangement. Describe how a CTA would operate and what benefits this would bring to the company.</p> <p>[5 marks]</p>	
Comment	<p>Parts (1) and (2) were generally well answered. In part (3); the examiners were looking for comments on minimum/maximum funding rules; frequency of valuations; methods and assumptions for use in valuations including recovery plans; rules on minimum and maximum level of benefits and plan eligibility; treatment of surplus; and rules/guidance linked to investment strategy and assessing the strength of plan sponsor</p> <p>In the final part; marks were available for commenting on the legal status of assets in the CTA (including use for paying pensions; but still being recognised as a company asset for legal purposes but a plan asset for IAS19 assets); and the impact</p>

	setting up a CTA can have on the company's financial statements (ie lower balance sheet liability; lower net interest cost with reduced volatility; and positive response from investors)
Syllabus Section	Part 3;
Manual Section	Chapter 1;
Page numbers	19 to 24

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