Foundation in International Employee Benefits
Assignment 1 Notes

Recommended Time: 1 Hour

1. Explain why employee benefits are provided by companies.

10 marks

Answer should cover:

Employee benefits help support recruitment, retention and release of employees. They can also reward employees for their contribution to the business. Other indirect reasons might be:

- It is a legal requirement to offer benefits
- There are tax breaks available
- It supports the paternalistic nature of the business
- Competitors do
- To preserve the company's reputation it is important to offer benefits.

2. Outline an example of a DB pension plan that integrates with the State social security system.

10 marks

An example could be where a company wishes to provide a target benefit of 60% of final salary after 40 years' service, including retirement benefits payable from Social Security. The company adjusts its benefit formula to ([1.5% x salary x service] – benefits payable from Social Security).

3. Outline the advantages and disadvantages for two approaches to financing risk benefits.
10 marks

Risk benefits can either be – self-insured, fully insured or partially insured.

Answer should cover the advantages and disadvantages of any two of the approaches:

Approach	Advantages	Disadvantages
Self-insurance	Reduced cost (since employer cuts out insurance company margins/profit)	Employer takes greater risk
	More tax efficient	
	Cash-flow advantages	
Fully insured	Reduced risk for the employer	More expensive
	Direct access to insurer expertise	Employer pays company margin/profit
	Services and administration provided by insurer	
Partial insurance	Sharing of risk means better rates for the employer	Some exposure to risk
	Incentive to reduce risk which leads to better workplace practices	Potentially more complex to administer

4. Outline an example of a jubilee award and explain how these are typically funded.
10 marks

Answer should cover:

Jubilee awards provide an amount of benefit after certain service milestones. An example might be lump sum payments of a multiple of monthly salary after achieving service milestones of say:

- 10 years – 1* monthly pay
- 20 years – 1.5* monthly pay
- 30 years – 2.0* monthly pay
- 40 years – 2.5* monthly pay

Typically these benefits are unfunded and therefore the company meets the cost of these benefits out of cash reserves at the time they fall due.

5. Describe “post-retirement medical benefits” and outline how these benefits are delivered; and generally financed and funded.

10 marks

Answer should cover:

“Post-retirement medical benefits” are medical benefits provided by the employer after the employee has retired, either because the State does not provide medical benefits, or in order to supplement or to substitute for the medical benefits provided by the State.

Benefits are generally delivered in the same way as “in-service” medical benefits, either:

- through a medical insurer: the employer pays an insurance premium to an external medical insurance company, which then provides and administers the benefit.
- through a Third Party Administrator: the employer directly pays the cost of medical treatment through a Third Part Administrator (TPA), which is often an insurer that is providing Administrative Services Only (ASO).

Benefits are generally financed and funded in the same way as "in-service" medical benefits, either:

- Insured: the employer pays an insurance premium to an external medical insurance company, which then provides and administers the benefit.
- Unfunded: the employer directly pays the cost of medical treatment.