



Managing International Employee Benefits

Notes on Assignment 1

Recommended Time: 3 hours

1. Explain why international employee benefits need to be managed giving examples of two types of risk the Benefits Manager must take into account, and explain the statement “Half the battle of effectively managing employee benefits is knowing what benefits the company has” by reference to the ownership of policy documents and the existence and management of benefit inventories.

20 marks

This question concentrates on two aspects of how companies manage employee benefits

- Why do benefits need to be managed?
- How do companies manage information in the context of benefit management?

Answer should include:

The first part of the question is looking for an appreciation of why management is required.

Points to include are the complexity of benefits, the fact that benefit practice (structure, financing, regulation etc.) vary from country to country, the need for good corporate governance, cost management and consistency with employment objectives. Management is required to ensure risks are managed and controlled.

The types of risks that can be considered are:

- Financial / Accounting
- Compliance / Regulatory
- Reputational

The second part of your answer should include:

- Why information is important in order to manage benefits
 - Why information is often difficult to collect (e.g. inconsistent reporting formats, difficulty to get information from local offices)
 - Why information is difficult to manage (e.g. requires constant management, expertise etc.)
- Additional points covering who manages the information, what is a benefit inventory and what it contains would also receive marks.

2. Define 'Corporate Governance' and explain how it relates to employee benefit provision and identify the advantages and disadvantages of employees being involved in Corporate Governance of employee benefit plans, giving two examples of roles employees can play in this task.

20 marks

Answer should include:

A definition of Corporate Governance to include discussion of:

- Strategy
- Leadership
- Control structures How it relates to employee benefits including a discussion of controlling risks related to the provision and financing of employee benefits, employee benefit provision consistent with corporate objectives and leadership decisions related to employee benefits

Examples may include participation on boards and governance committees, training decisions and share plan participation.

3. Explain the difference between typical Corporate Governance structures in two countries of your choice.

10 marks

Answer should include:

Countries highlighted can include:

- UK and US (often Ireland, Switzerland too):
 - Elected Board of Directors, some of who will be involved in day to day running of company
 - Committees set up with responsibilities in certain areas (Audit, Remuneration, Risk etc.)
 - US influenced by Sarbanes Oxley
- Germany, Netherlands:
 - Supervisory Board (including non-execs & employee reps) reviews major decisions
 - Executive Board responsible for day to day decisions
- Sweden – single board
- Japan – similar to Europe although more complex structures

4. Explain how the decision making process in respect of employee benefit provision and financing should reflect Corporate Governance principles.

10 marks

Answer should include:

Decision making is a key element. Who decides:

- Decisions with material impacts?
- Less material decisions?
- Day to day running?
- In countries with few employees?

reflects view on risk management and structure of corporate governance.

5. In the following examples, highlight the importance of Corporate Governance and give two examples of concrete Corporate Governance measures that may be put in place:

- (i) ABC Manufacturing is a Germany multinational with 50,000 employees in Germany, UK, Switzerland and France. Most employees are in Defined Benefit schemes although new employees since 2009 are enrolled in Defined Contribution schemes in some countries
- (ii) DEF Services is a fast growing American multinational in the software industry. It was formed in 2006 and is represented in over 80 countries worldwide with employee numbers ranging from 20 to 2000.

10 marks

Answer should include:

Examples from material and from the 4 examples in the study text which set out some examples.

Factors to consider can include:

- i. Importance of managing risk related to defined benefit, complex administration if some employees are in two different plans. Would require actuarial valuations and continual monitoring of what are likely to be large liabilities. May be reputational or talent retention issues related to introduction of new defined contribution plan
- ii. Difficult to keep track of a number of different plans particularly if the company is fast growing and expanding in areas without any local presence. May be retention issues later if employees stay a significant period without employee benefits which encourage them to stay in the company. Possible that some 'defined contribution' plans are actually defined benefit in reality.

6. Explain the reasons why a Global Benefit Committee may be set up and outline 5 responsibilities that it may take on.

10 marks

Answer should cover:

Reasons for setting up a Global Benefit Committee are

- Pension and employee benefit risks are seen as substantial business risks and need to be managed in the same way as other business risks
- Multinationals have expanded, e.g. by buying other businesses, and now have significant legacy pension arrangements across a range of businesses
- Companies have increased focus on corporate governance, e.g. as a result of Sarbanes-Oxley in the USA
- Changes to accounting standards have meant that there is greater visibility of pension costs and liabilities
- Companies are becoming more centralised with more decision making and policies being done at head office level rather than at local level

Responsibilities cited can include:

- Managing Pension Risk
- Controlling Total EB spend
- Setting Design Policy
- How benefits should be financed
- Senior Executive and Mobile Employees
- Managing Benefits in M&As
- Global Providers of Services

7. Identify the labour market issues that need to be taken into account when drawing up an International Benefits Policy.

5 marks

Answer should include coverage of:

- A company's first consideration in establishing pay and benefit programmes is the competitive labour market
- Necessary to identify the sector or sectors of the market that represent competition for labour in each sector and country
- First reference is to the industry but each company may compete for different segments of the labour market in different jurisdictions or locations. (Give example – e.g. company in manufacturing will also have service staff)
- Companies will compete for labour within their own industries for certain categories of employees but may also compete in the general local or national market for others.

8. Outline local considerations other than labour market issues that should be taken into account when drawing up an International Benefits Policy.

15 marks

Answer should include the following points: Four key elements are:

- Employee Needs
- Legislation
- Culture
- Regional Alliances / Agreements

In order to achieve full marks, you should put down 3 or 4 points for each element.