

BENEFITS PASSPORT



*Updates and Information
on International Benefits*

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AMERICAN BENEFITS
COUNCIL



AMERICAN BENEFITS
INSTITUTE

The American Benefits Institute is the education and research affiliate of the American Benefits Council. The Institute conducts research on both domestic and international employee benefits policy matters to enable public policy officials and other stakeholders make informed decisions. The Institute also serves as a conduit for global companies to share information about retirement, health and compensation plan issues.

SUMMARY OF IBIS ACADEMY AND INTERNATIONAL BENEFITS COMMITTEE ACTIVITY

Through its education and research affiliate, the American Benefits Institute, members and staff of the American Benefits Council (Council) partnered with IBIS Advisors in its recent Academy, held in Edinburgh, Scotland. As in the past, this year's program covered a wide range of topics; but its overall focus was on new approaches to the challenges faced by multinational companies. A record number of Council member companies attended both the Academy and the Council's International Benefits Committee meeting held in conjunction with the conference (see summary of Council meeting). Several speakers, including many Council members, offered perspectives on the impact of global economic and political challenges facing sponsors and their benefit programs.

REGULATORY CHANGES IN CHALLENGING TIMES

The American Benefits Council, the European Association of Paritarian Institutions (AEIP), and the European Federation for Retirement Provision (EFRP) conducted a panel discussion on global regulatory developments. Speakers from EFRP and AEIP

discussed the European debt situation, its origins and potential impact on regulatory initiatives and on companies doing business in Europe. Council staff examined the U.S. deficit and the likelihood of tax reform and its impact on employer-sponsored benefits programs. This included the tax expenditures for health and retirement programs and some of the proposals already put forth to extract tax revenue from both public entitlement programs and employer-sponsored programs.

Following this discussion, Academy participants reviewed the proposed revisions of the Institutions for Occupational Retirement Provision (IORPs) Directive that governs pension solvency in the European Union (EU). The speaker representing EFRP expressed concern that the proposed rules would not lead to stronger pensions and urged a more holistic view of the pension plan's balance sheet.

Solvency II is the new EU regulatory framework for insurance companies and it is to be implemented by 2013. Solvency II is intended to harmonize regulation and to establish a level playing field and provide consumers with equal protection across the EU nations. EFRP's primary objective is aimed at preventing an inappropriate extension of this regime to pension funds. EFRP notes that Solvency II was specifically designed for insurance companies and is unsuitable as a regulatory regime for pension funds. Recently, there has been some indication that implementation of the new rules will be delayed.

In addition, to the impact of Solvency II, the speaker from EFRP covered the impact of regulatory changes including taxation issues and accounting standards and the implications of the Dodd-Frank requirements. The Council is developing a strong relationship with EFRP and AEIP. EFRP recently supported the Council and others in the U.S. business community in our appeal to U.S. regulators with respect to the application of Dodd-Frank requirements to the investment of defined benefit pension funds in swaps for the purpose of mitigating risk.

HEALTH AND WELLNESS ISSUES

Many companies are looking at ways to evaluate and implement global wellness in multiple countries; and the Academy attendees heard presentations examining changes in healthcare strategy and expanding global wellness programs.

The attendees heard a first-hand account from one company on its initiative to restructure its health care program by addressing the root causes of increased costs such as low consumer engagement and unmanaged chronic disease, as well as broken delivery and payment systems. The speaker offered insight into how the company examined current practices, including employee experiences and delivery system processes, and refocused its strategy to be more effective for the employee users and more productive for the company.

Academy participants also listened to a presentation on the global expansion of wellness programs. This presentation described a holistic approach to wellness for life and experiences balancing global standardization goals and customization based on local needs. The presentation looked at some of the drivers for wellness by region, the stages in establishing and maintaining a global wellness program and the ultimate mix of programs to meet the total workforce's health needs while driving down costs.

As a result of the growing interest in global wellness programs, the Council recently held a webinar on the subject. The webinar may be replayed at the following link: <http://snipurl.com/abc-globalwellness-webinar>

RETIREMENT READINESS AND ADDRESSING RISK

Beginning with a session examining the changing definition of retirement and how employers are preparing themselves for the onslaught of retirees in the near future, participants heard how one company is using innovative techniques to better prepare employees for retirement. Identifying the challenges facing many U.S. employees that have saved too little and have not appropriately diversified, the discussion examined the inertia factor, how to motivate employees and how to help them transition to "*encore*" careers. The group then heard a presentation on the results of a white paper examining pensions in Europe. The paper, prepared by Aegon Global Pensions provided insight into how multinational companies are preparing for retirement, how retirement programs are evolving, and the regulatory environment in Europe. The paper, which is a culmination of extensive interviews with multinational companies, looks at corporate culture and examines recent actions taken to improve control and governance and address complexity and cost.

Several discussions were devoted to further examination of risk in retirement plans and retirement plan investment strategies for multinational companies. Not surprisingly, participants concluded that, given ongoing financial pressures from core business, there will continue to be more de-risking of defined benefit pension plans. With respect to defined contribution plans the trend will be toward lifecycle investment concepts and more governance from the sponsors in the U.S. and Europe. There were also a series of ancillary discussions relating to multinational pooling including an examination of the types of pooling and trends, including the use of captives and self-insurance.

PENSION GOVERNANCE

This session profiled one company's top-down approach to implementing better control over pension governance. The presentation examined the value of local involvement. Critical elements regarding local involvement include: (1) establishing functioning local

pension committees that meet regularly, (2) ensuring that the committees are appropriately staffed and adequately trained, and (3) successfully tracking pension-related activity. The presentation also examined plan fiduciaries' responsibilities, local committees' roles and responsibilities, the risk areas covered by the governance system, the risk assessment process and the company's results.

Finally, attendees had an opportunity to discuss strategies for dealing with various elements of due diligence in the context of mergers and acquisitions, and special issues affecting divestitures.

On a related matter, the Council, in conjunction with Aon Hewitt, has conducted a global governance survey, the results of which will be released this fall. This study of approximately 140 multinational companies examined global benefits-related challenges and actions companies are taking to improve corporate oversight and control of benefits. The Council will be issuing the report on the survey in the coming weeks.

GLOBAL EXECUTIVE COMPENSATION

No discussion on global benefits could be complete without examining the changing rules on executive pay and how, with increased emphasis on disclosure and transparency, companies are seeking to control risks associated with global and mobile executives. The discussion began with an update on the myriad changes affecting compensation programs and then turned to a discussion of the potential for shareholder and governmental intervention, with increasing regulatory requirements that sometimes conflict or create impediments to moving executives.

The presentation covered developments in "Say on Pay", how regulatory changes are affecting transparency and design and how the trends in case law, which is increasingly protective of shareholders and employees and is affected by social media, are shaping the developments in this area. Many companies are considering changes to improve "Say on Pay" votes including additional analysis on the link between pay and performance, modification to severance pay plans and more attention to the discussion of compensation in disclosure documents.

TRACKING CHANGES

Just the sheer volume of changes as companies become increasingly global can be one of the toughest challenges for plan sponsors. IBIS Academy participants heard speakers provide a series of updates from countries around the globe. An analysis of the United Kingdom's automatic enrollment rules reflected the compliance challenges resulting from changes in UK pension processing. Other presentations included an update on pension reform in Canada and social security reform in Greece as well as the latest

policy issues in Mexico and Brazil. Ancillary discussions provided an opportunity for listeners to learn more about methods to gather and vet information from a range of sources and the pros and cons of benefit systems with mandatory savings programs.

One of the toughest areas to grapple with is due diligence associated with mergers and acquisitions. This session delved into the detailed phases of due diligence, as well as the hot button risks including benefits and executive compensation. An ancillary discussion took the next step and provided insight into the strategies used “post-deal” to harmonize benefit programs from a legal and cultural perspective.

GLOBAL MOBILITY

This presentation offered insight into the continued growth of expatriate populations. Seeking overseas markets is leading companies to expand their expatriate populations and the ways they are compensated. The emphasis is on efficiency and cost effectiveness. As a result many companies are reevaluating their policies to add greater flexibility, diversity and consistency with company objectives.

Ancillary topics included a series of discussions addressing expatriate tax and social security issues, gaps in health coverage for short term assignments, comprehensive health care for those on longer assignments and addressing retirement issues through off-shore retirement plans.

TALENT

The Academy concluded with several presentations looking at the HR function and the attraction and retention of talent on a global basis. One presentation examined the increased use of “pay for retention” in the technology industry in which the pay is promised and delivered with the primary intent of creating “holding power” over employees rather than “pay for performance.” The concept of “pay for retention,” is a direct response to the need to address talent shortages that are inconsistent across the globe and industries. One presentation examined corporate commitment to creating a globally consistent approach to managing talent. Finally, another presentation focused on the changing role of HR and the struggle to find and retain talent despite economic instability. The presentation examined strategies for matching critical jobs with the right skills, acknowledging that there is a clear war for talent with respect to some functions in some geographic areas.

CONCLUSION AND NEXT STEPS

As the Council looks forward to an even more global future for most of our members, we are pursuing strategies to be a resource. The Council's research affiliate, the American Benefits Institute, also anticipates building on the relationships we have formed with other groups committed to employer-sponsored benefits, providing additional opportunities for companies to exchange information with one another on key benefits issues and trends, and offering a series of webinars focused on international benefits and equity programs.