

An Introduction to International Retirement Plans

Helping Build Retirement Security
for Your “Global Nomads”



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For multinational companies, growing a business means leveraging the right talent in the right place. In the world of “global nomads” — expatriates and third country nationals who spend much of their working lives away from their home country — the provision of future financial security becomes ever more important. To attract and retain the right talent willing to move across borders, whether on a temporary or permanent basis, employers need to provide competitive compensation packages that include a retirement savings component. This paper details how to address retirement security for a mobile workforce.

Expats and Retirement

Compensation has evolved substantially over the years, with the focus shifting away from relocation allowances to global special benefits. As pension debates in many countries bring retirement planning to the fore, employer-sponsored retirement benefits are often seen as key in a competitive remuneration program. Many mobile employees do not remain long enough in a given location to build an old-age retirement benefit under the local rules, and local social legislation and related tax regimes often complicate their participation in locally organized retirement plans.

As part of a creative pay package, an International Retirement Plan (IRP) provides a straightforward and flexible solution for your mobile employees regardless of their employment locations. An IRP can help them save for the future efficiently when local statutory and supplemental programs don't provide sufficient financial security.

Target Group

In general, participation in an IRP is reserved for those employees who are either highly mobile — the true global nomads — and for those permanent transferees for whom the local provisions in the host country are not sufficient or possible.

The most common approach with mobile employees is to maintain their active membership in the retirement program of their home country while they are relocated. But when tax or legal matters make such a solution sub-optimal or even impossible, a move to the retirement arrangement established in the host country is another solution. The first option may be appropriate for employees on short-term assignments, while the second might be recommended for long-term assignees or employees who permanently relocate.

However, for some mobile employees, neither of these options may work, as the move from country to country for short amounts of time may not always let them meet all vesting and participation requirements. What's more, the payout of benefits when retiring abroad may not occur in a tax-efficient manner.

An IRP may help solve the challenges of these globally mobile employees. Of course, due to the absence of fiscal incentives and sometimes even the ability to deduct contributions, these plans may be more expensive than local supplemental plans. Therefore it is important to clearly define the target group and to lay out a consistent retirement strategy for your mobile employees.



Exclusion of US Tax Residents

Because US citizens and US tax residents are being taxed on their worldwide income, additional reporting requirements apply to these employees. As a result, most providers exclude these employees from IRP participation to avoid these requirements and related administration demands.

Design

Trust vs. Insurance

The current global trend is that IRPs are being set up as defined contribution savings plans financed and administered through either an insurance or trust arrangement. The choice between these structures generally depends on the actual or anticipated number of plan members and/or the level of contributions.

	Insurance	Trust
Target Plan Size	Limited number of participants (fewer than 100) and/or low contribution levels (up to USD 1,500,000 p.a.)	Significant number of members (100 or more) and/or contribution levels (USD 1,500,000 and more p.a.)
Plan Design	Simple plan design (off-the-shelf) with limited customization options	Customized plan design tailored to sponsor's needs
Administration and Other Services	Insurance, administration and investment services are commonly bundled	Most providers offer bundled administration and investment services Customization may require additional services not included in the bundle
Cost Structure	Low implementation fees and limited ongoing costs due to the limited customization and bundled services	Higher start-up fees and ongoing operation costs due to the customized plan design
Company Liabilities	Plan sponsor is the holder of an insurance policy Plan assets are held by the insurance company/ plan provider	Plan sponsor has fiduciary responsibility Plan assets are held and independently controlled by the trustee, separate from the assets of the employer

Plan Membership

The career path of expatriates and third country nationals is often not as predictable as that of their less mobile colleagues, and requires more flexibility in terms of benefit and membership eligibility. Because IRPs are non-qualified plans and are not subject to any social legislation in the countries where they're established, employers can set their own criteria for eligibility and contributions within the often very wide framework provided by the diverse vendors. Most plans, for instance, have immediate vesting with no minimum age or service requirements.

Contributions

In defined contribution IRPs, contributions mainly depend on the location of the sponsoring company. They vary between 7% and 15%, with higher contributions up to 20% offered by some European sponsors. Plans may integrate social security accruals from the home or host country, by reducing the contributions in part with any payments to a local social insurance system.

Investment Options

Participants can usually choose from a range of funds denominated in major currencies, allowing participants to tailor their portfolio to fit their needs regardless of the location to which they're currently assigned or plan to retire.

Setting Up

Step 1 – Select the participants.

Before setting up an IRP, it is important to identify all possible members of the plan. Because of the higher costs, it is highly advised to carry out an inventory of all mobile employees, and to assess how their current conditions affect their retirement savings arrangements. That way, a single global retirement strategy for the mobile workforce can be established with the proper distinction between those employees for which local plans with fiscal benefits are possible, and those for whom such local solutions will provide too little value.

Step 2 – Design the plan.

Dealing with a mobile workforce requires a genuine global approach to retirement plans. Where local plans commonly supplement the level of statutory benefits, this approach usually doesn't work for a diverse expatriate group.

Sponsors should design a contribution structure that best meets the needs of the selected employee population within the limits of statutory requirements.

Step 3 – Select the vendor.

This is a niche market for providers, so when choosing an IRP provider it is important to base your choice on the vendor's experience with the product, its financial strength, and its ability to help and inform your participants regardless of their location.

Location

IRPs are generally set up in an offshore location such as Bermuda or the British Channel Islands where investment income enjoys favorable tax treatment. This fact ensures that these plans are commonly non-qualified and therefore are not subject to any specific social legislation. That also means they don't benefit from the same tax treatment that applies to approved local retirement plans, such as tax deductible contributions and other tax incentives. Nevertheless, in most cases sponsors are able to claim the costs related to these plans as business expenses.

Fees and Charges

An IRP's cost structure generally depends on the following factors: number of employees, level of contributions, chosen investment manager and the structure.

Most IRPs with insurance providers work on a flat level fee basis, while most trustee plans use a levy based approach where fees depend on the level of contributions and/or assets under management. Also, trust structures require flat set-up fees for the development of the trust deed and plan rules of up to USD \$5,000.

Other Considerations

In addition to their future financial security, employees who work or live overseas are of course concerned about their current benefits coverage. Employers should take a thoughtful approach to health and accident risk, gain a solid understanding of foreign legal systems, and develop the expertise to design a global benefits strategy that affords quality protection at an acceptable cost to ensure they attract and retain the right talent worldwide.

About the Author

We have the knowledge and experience to help with defining your global retirement strategy for your mobile employees, designing your international plan, selecting a best-fit provider and governing the plan and policy for continued success. We can assist you in business travel coverage, employee paid plans, global travel medicine, expatriate and third-country national benefits, controlled master plan, and multinational pooling.

For more information, please contact our Wealth Practice consulting team at **1.866.355.6647** or **hrconsulting@xerox.com**

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