International Savings Plans

"expatriate assignments are becoming longer"

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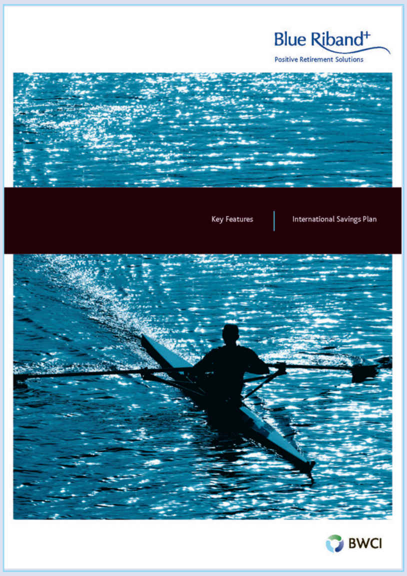

Various countries, but particularly those in the Gulf region and Latin America, require employers to pay end-of-service gratuities or termination indemnities, when an employee leaves employment. The amounts and conditions attached to these mandatory payments vary widely, with many jurisdictions using a defined benefit type formula reflecting the number of years of service and salary.

While an employer's financial liability to provide end of service benefits is recognised under local and international accounting standards, historically the actual benefit payments have often been provided on a "pay-as-you-go" basis from the employer's cash flow. However, the risk with this approach is that the employer's liability potentially could grow to be substantial, due to the defined benefit nature of the commitment. Also, evidence suggests that expatriate assignments are becoming longer, or even permanent, making it increasingly likely that more individuals will satisfy the service qualification requirements for termination payments.

As a result of these risks, many employers are now considering prefunding termination payments to better manage the risks. In addition, prefunding provides a greater degree of security for employees, as well as some comfort to shareholders.

International pension or savings plans can be used to fund termination payments. Historically international plans were established, in a central international finance centre location, to provide benefits for internationally mobile staff. While this is still common, the inherent flexibility of international plans means that they are now employed more broadly, including providing retirement or savings benefits for staff where local infrastructure and practice may be less developed. A pre-funded employer plan can also be used to "top up" local end-of-service payments, providing an effective recruiting and retention tool in competitive employment markets.

New Rules for Jersey and Guernsey

With effect from from 1 January 2019 Jersey has introduced a new statutory end-of-service benefit savings plan, covering non-residents, with the approval regime being administered by the Jersey Taxes Office.

The Guernsey Income Tax legislation has also been amended, from the beginning of 2019, to include a new section specifically allowing local tax exemption for end-of-service plans.

This change means that the Guernsey income tax rules are now aligned with the pensions and gratuity plans regulatory regime that has been in place since 2017.

In both islands, the principal difference between traditional pension plans and the savings plans under the new rules is that these new savings plans allow payments to be made immediately when leaving service before age 50, while payments before age 50 are not generally permitted from pension plans.
The concept of an international savings plan is not new for either island. Many already exist, especially in Guernsey. However, until now there has not been any statutory basis for exemption from local taxation. In practice there has been discretionary tax exemption, in the same way as for other private trusts. Some plans had also been successful in gaining recognition as a pension plan, despite paying benefits before age 50.

These developments mean that both islands can now promote a broader range of employee benefit arrangements to employers worldwide. Either island's savings plans can be structured flexibly to pay benefits when major life events occur. However, only Guernsey currently offers statutory tax exempt retirement and savings plans on a regulated basis. This allows Guernsey to build on its market leading international plan expertise, while staying at the forefront of international best practice. Jersey is currently consulting on the introduction of regulation of pension arrangements and so may be able to provide an equivalent solution in the future.

The BWCI Solution

As a result of the new Guernsey legislation on end-of-service benefit plans, we are delighted to be able to announce that the Blue Riband International Savings Plan is the latest addition to the Blue Riband family of pension and savings products, giving employers a flexible solution.

Blue Riband International Savings Plan

- bundled administration
- trusteeship
- wide range of investment funds
- simple to establish
- employer involvement minimised
- members' website

BWCI

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