Focus on *International* Plans

International Plans

There has been significant interest from employers in both international pension plans (IPPs) and international savings plans (ISPs) in recent months. However, it is not always clear which type of plan best fits an employer's particular needs. Both IPPs and ISPs are typically established in international finance centres – such as Guernsey and Jersey – to take advantage of enabling legislation, a favourable tax regime and good support services. Both can be elegant and tax efficient ways to provide longer term savings or retirement benefits for workers who might otherwise have little or no formal pension provision due to their working location or their mobile lifestyle. For some employees, IPPs or ISPs are the only viable solution to ensure adequate retirement income security.

> *"important tools in the employee benefit manager's toolbox"*

IPP - The "Pension" option

An IPP typically provides benefits for internationally mobile workers of a multinational employer, but they can also be used for certain other workers. In an increasingly global economy, smaller multinationals are facing some of the employee benefits issues once only affecting the very largest employers. There are many fast growing companies which have hitherto only had informal or less uniform pension promises in place for internationally mobile workers. An IPP offers an opportunity to organise and administer these promises in one central place.

IPPs are also used to provide retirement benefits for local workers. Typically, this is common in countries with inadequate or less effective local options due to under-developed markets for local pensions. These workers may be excluded from participating in local retirement plans, due to their employment status, or they could be local workers with limited options. An IPP serves as a centralised fund in a stable currency, regardless of where employees are based.

ISP - The "Savings" option

Many countries around the world – especially in the Gulf region and Latin America – have requirements to pay end-of-service gratuities or termination indemnities when an employee leaves employment for a variety of reasons. The payment amounts and conditions vary widely, with many jurisdictions using a defined benefit type formula that takes into account the number of years of service and salary. Requirements may differ between local and expatriate staff. These payments may be in lieu of some sort of pension provision by the employer based on local practice.

While the liability for the benefits falls under local and international accounting standards, actual benefit payments are often provided on a pay-as-you-go basis from the employer's cash flow. The employer's liability can 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), meaning larger payments and an increased likelihood of meeting qualification requirements.

Many employers are considering prefunding the local end-of-service payments. This helps to better manage the risks associated with an ever expanding liability and to provide comfort to employees and shareholders. Since ISPs can pay benefits on leaving service at any age, they can be used as a vehicle to fund these payments. A formal employer ISP can also be used to top up local end-of-service payments. This can be an effective recruiting and retention tool in competitive employment markets.

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Which one's better?

Both IPPs and ISPs are very flexible and so can meet the needs of a variety of employer types and sizes. Employer contributions can be uniform or vary according to home country, host country, age, service, or a variety of other criteria. Members can typically choose from a wide range of investment funds, in various currencies, to fit their own circumstances.

The key difference between IPPs and ISPs is in the payment of benefits. If an employer needs (or wants) to allow access to benefits before age 50, an ISP is more appropriate. This makes ISPs a better match with end-of-service payments. Since an ISP is not necessarily a retirement plan, the standard exemptions from reporting under the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS) are unlikely to be available. On the other hand, an IPP may be able to meet the requirements for exemptions from reporting.

It is possible to address the specific needs of more jurisdictions using an ISP. However, some employers may appreciate the retirement focus of an IPP for their workforce.

Both IPPs and ISPs offer significant flexibility on coverage, plan design and funding to fill pension and long-term savings gaps. Both are important tools in the employee benefit manager's toolbox to meet the retirement or long-term savings needs of an increasingly global workforce. If an employer is not able to decide which plan is better for their needs, it is certainly possible to have the best of both worlds by setting up both an IPP and an ISP with each plan covering appropriate jurisdictions!

Comparing Guernsey IPPs and ISPs

	International Pension Plan	International Savings Plan
Guernsey Tax Status	Section 40(o) recognition or formal Section 154A approval regime	Section 40(nn) recognition
Regulatory Status	Regulated by Guernsey Financial Services Commission	Regulated by Guernsey Financial Services Commission
Target Members	Expatriates and mobile employees working in any country; local employees where no good local benefits options exist	Employees working in countries with mandatory end-of-service payments
Age for Benefits	Benefits generally not available before age 50	Benefits available when leaving service at any age
Benefit Payments	Benefits are typically paid as a lump sum in a currency chosen by the member	Benefits are typically paid as a lump sum in a currency chosen by the member
Plan Design	Fully flexible	Fully flexible
Investment Options	Range of investment options, often with default option being lifestyle investing targeting expected retirement date	Range of investment options; may have shorter term focus and more emphasis on capital preservation
FATCA/CRS Reporting	May be exempt from reporting	Probably subject to reporting