

EXPAT PENSION RELOCATION AND COMPENSATION

'Be Transparent And Objective'

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The Author

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After an internship at the Columbia Law School in New York City, Patrick started his career at Arthur Andersen. During his career Patrick had several management positions at financial institutions. During his 10 years at Moore Stephens Amsterdam Patrick build the international pension consultancy practice.

Patrick has more than 20 years of experience regarding International Pension Consultancy. Both collective and expats. Patrick is passionate about quality and adding value. He is a trusted advisor of a number of especially German and Japanese Global Companies. As well as of many Expats of whom most are of Board level.

Introduction: Always A Sensative Project

We have often assisted Expats and Companies with establishing a projection of the effect of expat pension relocation and the, if so required, suitable kind and amount of compensation.

It is often merger related when Executives are expected to move to another country or continent. Often this means that the former pension coverages have to be replaced by new pension coverages.

The projection of the differences between the old and new pension claims can only be an estimation. As the financial differences between different kind of projections are quickly substantial, these projects are always very sensative. Even more so due to the many technical aspects which both parties often find quite difficult to comprehend and which can contribute to a feeling of insecurity.

For the project to succeed, it requires from both the Company and the Executives transparency and objectiveness. Which results in trust.

Step 1: Correct Scenario's

The first step is to decide which scenario will be used while comparing the former and new situation.

Often this means that one has to choose between comparing old versus new:

- For the next 10 years;
- Until retirement age.

The difference between both scenario's can be very substantial. Especially if one of the involved coverages has a 'DB Back Service Effect' when the other one does not.

As these days Executives often do not stay with a Company until retirement age, it seems understandable to use the 10 year period scenario.

Which choice can be combined with the clause that in case the Executive stays longer than 10 years, there will be a similar re-evaluation as of that date for the next 10 year period. This approach gives the Executive the correct coverage/compensation while also preventing too high costs for the Company.

Step 2: Parameters

It is relevant to use correct and transparent parameters when comparing the old and new pension claims and deciding about the kind and amount of compensation.

Transparency means that for each parameter the following aspects are dealt with:

- To explain the relevance of the parameter;
- To mention the options regarding interpretation and valuation;
- To mention the usual interpretation in similar cases;
- To explain why has been chosen for a certain interpretation.

Step 3: Type Of Claims

You might not expect this, but it has often occurred that beforehand the Company and Executives had not discussed about which kind of pension claims would be compared.

A logical question is if all possible State/Corporate/Private Pension coverages and related Corporate Insurances are compared and thus not only the corporate coverages.

To also compare State Pension Claims is understandable as those coverages and premiums can be different in each country. Likewise for the benefits regarding Private Pensions.

Step 4: Valuation

Once it is clear which claims will be compared, it is also relevant to state how these claims will be valued. In general it seems advisable to use the regular Commercial Valuation as used at the new location.

This valuation includes several aspects:

- The height of the annual wages increase and possibly existing offset;
- The height of the interest rate within products;
- The amount of annual/total costs and related charges in products;
- If pension claims are to be annually indexed, the projected level thereof.

Step 5: Tax Equalization

The national tax regime regarding tax rates/tax benefits/international double taxation issues can be very different. Which can have a huge impact. Thus it seems advisable to beforehand address this aspect and whether or not to include it.

As pensions are in the build up phase often a gross entity and as wages are often not to that extend, it is an option to have a separate tax policy regarding each type of remuneration.

Step 6: How To Make All Those Little Choices

During the comparison of old and new claims and when deciding the correct kind and amount of compensation, there are often more details relevant than most people would expect.

To be able to make progress and not lose a lot of valuable time on minor details, it seems advisable to beforehand decide how such small decisions will be made by the consultant.

It seems advisable to beforehand decide whether to give the benefit to the Executives or to the Company and to thus round.

Of course it only regards small details but in total this effect can add up.

Step 7: How To Handle Investment Based Claims

If the former or new claims are investment based, it is advisable to address several aspects:

- Establish the Personal Risk Profile which is relevant for the projection of the annual return on investment;
- Compare the amount and quality of investment options and if they fit the Personal Risk Profile;
- Check if investment funds have a correct Benchmark and how they perform compared with the Benchmark;
- Are the funds Index Trackers and are there quality Life Cycle Funds;
- Compare the projected annual and total cost exposure.

Step 8: Kind And Amount Of Compensation

If compensation is required, it seems advisable to compensate in such a way that:

- The Company has the lowest costs;
- The Executive has the highest gain.

Which means to make optimal use of tax regimes and low cost compensation options.

Do the Company and Executive beforehand agree to the approach that to the extend possible, compensation will be provided within the new corporate pension plan?

If that plan does not already make use of all allowed options for additional coverages with tax benefits, it seems advisable to look into those options first.

Step 9: Equality Issues

If the project might relate to more Executives, it might seem logical to treat all Executives equal. But that does not always have to be the case.

If certain Executives have a very different and much more expensive old pension coverage, then there can be a good reason to treat certain groups differently. Of course it seems logical to treat all Executives within the same group equal.

Step 10: Formalization & Accountability

Due to the many facts, wishes, options and possible future changes in legislation, it is relevant to provide a clear accountability. It should provide all details but at the same time also give a simple final conclusion and advice.

Thus I recommend to provide one complete, correct and easy readable Relocation Memorandum. Which includes all facts, wishes, options and recommendations.

And a separate one page Management Summary which provides oversight and explains which final choices have to be made.

Conclusion

The financial implications are often substantial and most Executives are not international pension experts.

Therefore it is relevant that the Executives must be able to trust the presented outcome and negotiate based on those facts and scenarios.

One way to create this climate is to hire an independent, licensed and objective international pension consultant. If required the Company can also provide the Executives with a budget to hire their own consultant in order to check if the presented information is correct and complete.