Pension Programs for Multinational Companies

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1:30PM – 3:00PM

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My assignment
- Provide perspective on large corporation thinking
- Discuss Corporate steps taken, control and influence of local plan
- Review overseas executive packages

Background
- International consulting practice leader
- Over 15 years of International Consulting Experience
- Clients include AT&T, Lucent, Concert, Fluor, Convergys, etc.
Pension Programs for Multinational Companies

- Why is this a Corporate issue? Empowered employees accept responsibility, right?

- Little decisions result in big impacts
  - Short term financial impact
  - Long term financial impact
  - Precedent, practice and privilege (ARD)
Little Decisions Result in Big Impacts

Little decisions result in big impacts

For want of a nail, the shoe was lost;
For want of the shoe, the horse was lost;
For want of the horse, the rider was lost;
For want of the rider, the battle was lost;
For want of the battle, the kingdom was lost,
And all for the want of a nail.

Why is Corporate Interested in Little Decisions

Real world example:
• Primarily book reserved retirement plan
  – Managing Director died, widow owed a benefit
  – Some direct insurance available
  – Book reserve contribution made 1 month prior
to executive’s death used to purchase computers
  – Insufficient cash on hand to pay benefit
  – Who was asked to pay?
Why is Corporate Interested in Little Decisions

*Real world example:*

- Small professional unit 10 employees with a retirement plan
- Over 10 years things changed

- Formula: \( I/80^h \) DB to \( 1/60\)ths DB
- Employee Cost:
  - 5% of pay
  - No employee contributions
- Form of benefit:
  - SLA
  - J+100%, 10 year certain
- Actuarial reductions
  - Subsidized early retirement at age 55
- Cost:
  - 8% of pay
  - 18% of pay

Why is Corporate Interested in Little Decisions

*After 10 years*

- Growth in country population – to 30 employees
- Acquisition of 400 employees, into what retirement plan?
Why is Corporate Interested in Little Decisions

Short-term financial impact

- Amend plan benefits – no cash cost – plan still fully funded
  - Locally, this may be sold as "no cost"
- Country profitability exceeded cap on bonus payout
  - Locally, provide some benefits enhancement as recognition
  - Special pension bonus – DC (e.g., additional 2% of pay contribution)

Why is Corporate Interested in Little Decisions

Long-term financial impact

- Amendments will increase plan costs for years to come
  - Under SFAS87
    + Only increase amortization costs for 10-15 years on average (FWL)
    BUT
    + Increase SC for all existing and future employees working careers
    + Increase IC for all existing and future employees for their lives
### Why is Corporate Interested in Little Decisions

**Long-term financial impact**

- Amendment may impact
  - Other business units
  - Future Deals
  - Ongoing profitability
  - Ultimately, Corporate, Shareholders

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**Why is Corporate Interested in Little Decisions**

**Long-term financial impact**

- SFAS87 expense ↑ or income ↓

*This results in:*

- Corporate earning per share ↓
  (May not be individually significant, but if the goal is EPS ↑ 20%/year, P/E ratio of 50)
- The Share Price can be impacted
### Why is Corporate Interested in Little Decisions

**Precedent, Practice and Privilege**

- Once provided, may not be able to rescind
- May be forced to provide similar or same benefits to new hires
- May be used as template for other plans
- May impact cost of divestiture, merger, etc.

### Pension Promises for Multinational Companies

**What do Companies do to control and influence?**
Pension Promises for Multinational Companies

What do Companies do to control and influence?

- Direct oversight
- Indirect oversight
- Strict delegations

Recent survey found >40% U.S. multinationals did this

Control and Influence

- Direct oversight
  - Companies may place a Corporate (often U.S.) representative on trustee board
    - Provides "Corporate" perspective/philosophy on decisions, direction
    - Provides for consistency in benefits provisions
    - Provides "inside" knowledge regarding potential changes
    - Recent NFTC survey found >40% U.S. multinationals did this
    - May be restricted from voting in certain countries
Control and Influence

- Indirect oversight
  - Companies may require that certain decisions be approved, or reviewed, by Corporate
    - Even where direct oversight exists, this may be required
    - Provides consistency, "Corporate perspective"
  - Companies may provide "sounding boards" that even provide advice. Committees often draw from:
    - International HR
    - Asset Management/Treasury/Finance
    - Legal
    - Communications
    - Actuarial
    - Outside benefit consultants

- Strict delegation
  - Local management may have the ability to create or amend a plan, but if and only if...
    - Delegations restrict ability of unapproved local changes
      - Annual cost threshold
      - Total liability threshold
      - Coverage group (non-top hat, dirigenti, officers, etc.)
Corporate Perspective
Overseas Senior Executives

- Regular International Assignee/Expat Benefits
  - Tax equalization/protection
  - Housing/Housing allowance
  - Continuation of retirement plans/supplementation
  - Additional medical coverage (evac., etc.)
  - Additional life insurance
  - Goods & services allowance
  - Home trips
  - Car
  - Cultural acclimation and language training
  - Assignment bonus
  - Educational assistance
  - Etc.

Corporate Perspective
Overseas Senior Executives

- Special executive benefits
  - “Entertaining appropriate” housing
  - “Special” car and driver
  - Bodyguard (depending upon country)
  - K&R insurance
  - Cook and other household help(ers)
  - Additional home trips
  - Visitor trips for family, friends
  - Club memberships
  - 0% interest loans