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A Hanna Global Solutions White Paper

By

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## Globalization of Employee Benefits

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It used to be, if you want to build and grow a business, you had to make, sell and service a widget that satisfied an unmet need of a market familiar to you. You hired a team to do the work. To ensure your team stayed with you, and your business prospered, you offered an Employment Value Proposition, not just a ‘job’. This meant extending benefits of working for you to the family of your employee, and to the time after he or she was unable to work any more, due to old age or disability. The market you addressed had to generate enough revenue to support the needs of the team you hired.

And then came globalization. The potential market became bigger than ever before for most widgets. And it could support the needs of a larger team of people. If *you* didn’t build the team and tap that market, someone else would, probably taking away *your* good people.

You can now make the widget where the costs are low, sell it somewhere else where the cost (and your margin) is high, and service it from a low cost location. Globalization has also made it easier to get your people from anywhere in the world, and have them work anywhere in the world. The varying socio-economic situations in different locations offer new opportunities for cost arbitrage.

What does all this do to your Employment Value Proposition? How do you ensure a consistent, equitable, legally compliant, competitive, value proposition to your employees? Located in multiple countries, with different cost of living and compensation and benefits benchmarks, many of them relocated from their home countries, some of them multiple times, some of them separated from their families for extended assignments, many unsure of where they will be when they retire.

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The answer is not simple. Managing the design, delivery and financing of employee compensation and benefits with a global perspective is a balancing act among:

- Company values
- Business objectives
- Source of skills
- Benefits objectives
- Governmental programs
- Private programs
- Employment laws
- Cultural differences

This white paper is an attempt at highlighting some of the challenges facing a Global Employer in managing this balancing act. Of course, it raises more questions than answers. We believe knowing the right questions to ask is a good starting point, when it comes to designing benefits for the global employee.

### Global Employees

Almost the first thing you hear about when you start on this topic are the three categories of global employees:

Expatriates – these are employees on temporary assignment overseas. These employees are usually paid on the basis of their home country compensation and benefits structure.

Local Nationals – these are employees who are hired locally, or someone relocated to a long term overseas assignment. These employees are usually paid on the basis of local (host country) practices.



Third-Country Nationals (TCN) – these are employees working for a foreign company on assignment outside their home country. Pay and benefits might be provided on a home country, a host country, or some special basis.

Of course, each of the above ‘usual’ situations have exceptions, often driven by regulatory considerations in the host or home country.

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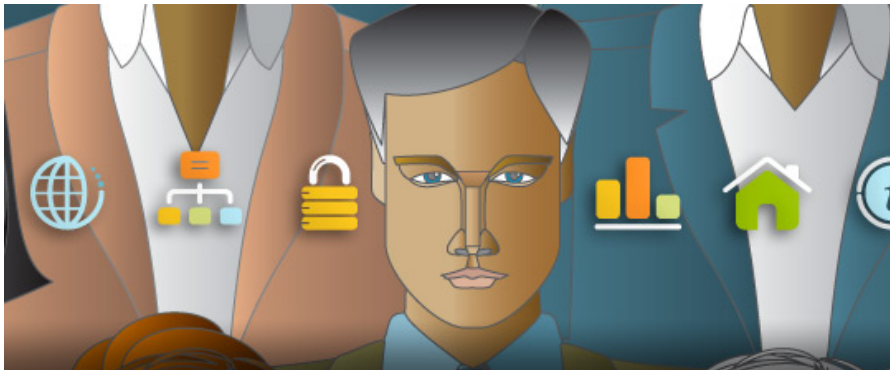
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The direction of movement of the employee – whether to or from a high wage home country – is a big factor in wage and benefits offered on international assignments. When the employee moves from his home in a high cost, high wage country (say USA), to a low cost low wage country (say China), the expat continues to be paid at the higher level, sometimes with additional incentives.

When the employee from a low cost, low wage location moves to a high cost high wage location (China to the USA), the approach by employers have typically been driven initially by immigration and labor laws of the higher wage countries, than by any company policy. The employees are paid at the higher wage level, and offered benefits prevalent in the higher cost country.

Life is getting more complicated. The relocation of employees to other countries is not an exception but the rule, in most large companies above a certain level in the organization, and in certain industries, at all levels. The number of such employees who are located outside their ‘home base’ is in thousands. In some companies, back and forth movement per month is in hundreds. Some employees are moving to new locations and choosing to get localized. They are ‘settling down’ in these new countries, with children going to school there, and families building social networks, but some of them continue to receive the ‘short term’ relocation benefits for many years. Some other employees are becoming ‘career expats’ who jump from one overseas assignment to another, and are never in their ‘home’ location for an extended period of time. Employee benefit costs are becoming a major component of company cost, and there is increasing pressure to rationalize and justify company policies.

An emphasis on equity resulting in a one-size-fits-all approach, is neither viable (the regulations in each country are too



different), nor necessary (global companies can leverage cost advantages even in employee benefits budgets). It is important to understand local environment in each host country carefully while formulating Global Benefits Policies.

### Host Country Local Environment

Statutory and government-provided benefits must be taken into consideration. They have to be budgeted for, as well as considered while deciding on benefits that may be otherwise offered at an additional cost to the company. These benefits generally include retirement, death, disability, severance, and medical plans, and they vary significantly from country to country. Some countries have very comprehensive plans that mitigate the need for additional plans. Some other governments offer minimal benefits. Most governments fund these benefits from tax on employer and employee, whereas some fund these benefits from general revenues.

Pension and retirement plans are the most highly regulated and different from country to country. As the globally mobile employee moves from country to country and one pension plan structure to another, what benefit does he retain of the tenure with the company? What benefit does he gain, from government sponsored social security plans into which he has paid a good portion of his wages, but still does not qualify for benefits due to the duration of participation? Employees who get located to the US and return home within 10 years do not get any benefit from Social Security, even though they contribute 7% of their wages. Additionally, during this time in the US, his home country pension fund does not grow since he nor his employer contributes into it during the time he is in the US.

Possibly the globally mobile employee is too young (as yet) to think about retirement. But as he comes across the literature educating him about the value of compounding, the benefit of early entry and consistent deferrals, and tax savings and tax deferrals, he is going to question that aspect of the value proposition of her employment. If not he, his family will. Employers will have to consider creative ways to address the gap among the various pension and other social benefits and offer a reasonable vision of retirement to the employee. If not, the company will lose the wisdom and leadership potential of this employee, nurtured through various global assignments.

### The Global Work Week

The standard work week in many countries includes a half- or full-day on Saturday.

Some countries have special rules for Sundays – workers in Netherlands cannot work more than 4 Sundays in any 13-week period. Workers in Germany must have 15 Sundays free each calendar year.

Israel observes the weekly Sabbath from Friday evening through Saturday evening.

In Muslim countries, the weekly day off is Friday.

The European Union's Working Time Directive requires employers to limit the workweek to an average of 48 hours, provide a daily rest period of at least 11 consecutive hours and a weekly rest period of one day per week.

The standard workweek is 40 hours in China, 44 hours in Brazil and Korea, and 48 hours in Peru and Taiwan. Hong Kong does not prescribe a maximum number of working hours per week.

Overtime has to be limited to 80 hours per year in Spain, 130 hours per year in France, 2 hours per day and 12 hours per week in Italy and Columbia, and 3 hours per day and 36 hours per month in China. In Israel, you need a government permit before workers do overtime.

Retirement and old age benefits could be in the form of a pay replacement plan, or defined-contribution plan with employee and employer contributions into a pension fund from which benefits are paid out in a lump sum. Pay replacement plans up to 90% of final pay exist, requiring little or no supplemental private retirement plans. Some interesting options emerge, in choice of where one works in the years just before retirement!

The level of life insurance benefit that is necessary, or is the typical benchmark in the home country may be very different from what is the standard benefit in the 'host' country. For example, an executive of a global service firm has a coverage of 4 times annual salary in the UK, which translates to about £400,000, but the same

executive has a coverage equivalent of £30,000 while employed in India. Given the wage structure and cost of living, the level in India is typical and reasonable, but would not meet the objectives of an employee whose family may have to locate back to the UK if the employee dies.

Some form of national health insurance for all ages is provided by most countries. Some of them provide sufficient comprehensive coverage eliminating the need for supplemental

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plans. However, in some countries the quality and availability of service from the governmental system is so low that companies have to provide supplemental private insurance to make the coverage equitable to their employees in other countries.

Some countries have statutory severance benefits that are significant and an important factor in supplemental plan design. In some countries in South America, statutory severance benefits can be as high as 2 months' pay times years of service.

Some countries tax benefit plans as 'benefit in kind'. Not all countries offer complete tax relief on pension plans. In many countries, it is all right to design benefit programs that discriminate by age, sex, classes of employees and so on, very alien to a US employer. There are financing and funding restrictions that vary from country to country –the types of banks, insurance companies that can be used by employers to fund/insure employee benefits, and where retirement plan funds can be invested. The labor laws and requirements vary not just from country to country, but could also have region specific requirements within a country.

### Administration and Financial Management

Many Global Employers do not know how much is being spent on employees located away from home base. With the many different vendors they work with in different countries, they may not be able to estimate the total cost of their international programs, or may not even be aware how many employees they have overseas at any time.

Examples of Employer initiatives to manage costs are: sending fewer workers overseas, ensuring shorter stints, localizing expats after a certain period on the assignment, being less generous about perks, and hiring third country nationals. We believe that all this is just the early stages of managing employees in a globally distributed and mobile work force in an equitable and fair manner, supporting the long term stability of the employee in the company, addressing the work-life balance, and ensuring that corporations do not lose their future global leadership.

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### Activity Sequence for a Global Employee Benefits Assessment

- 1. Inventory** - This involves working with the HR management and staff to gather the information about the benefits they are currently providing. This starts with a “high level” review which involves a discussion about which types of benefits are offered, at which locations – Life, Personal Accident, Disability, Medical, Pension, Vacation, Allowances, Company Car, etc. This can be helpful in itself but leads to the next step, a detailed inventory, using a 30-page questionnaire.
- 2. Compliance Audit** - A review of existing benefits package to check for potential compliance problems such as: missing benefits, inadequate benefit levels, plans that are not adapted to new rules, etc. The inventory is a starting point for this analysis although some additional questions may arise. It is best to involve benefits advisors on the ground at each location. The intent here is to review whether at least the
- statutory minimums in each country/ location are provided.
- 3. Benchmark Analysis** - This involves comparison of benefits package against peers, competitors or similar companies in each location. Depending on the country this may involve a local advisor’s proprietary database, accessing private databases or conducting a custom survey.
- 4. Gap Analysis** – To identify areas where benefits fall short of benchmarks or legal requirements, and present recommendations to overcome these deficits.
- 5. Global Analysis** - Review of global strategies, such as multinational pooling, that may streamline global program and/or reduce costs. This is usually the capstone of the Benefits Assessment project.
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A review of international benefit plans and assessing the potential to take an integrated approach is the first step toward a Global Benefits Policy. It starts with collecting information from all international locations of the company. Using the data collected, a determination of potential cost savings can be done by evaluating the following:

- Relative competitive position through a benchmark analysis
- Integration of current plans with governmental benefits
- Compliance with local statutes
- Identification of gaps compared to competitive and statutory benchmarks.
- Potential savings through consolidated sourcing and negotiation
- Funding and investment management considerations
- Risk management options, including multinational pooling of risk
- Savings in consolidating administration

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The challenge of the ‘balancing act’ for employee benefit managers is to develop and maintain their company’s competitive edge globally, balancing the growing and complex concerns of the global employee, local host country economics and statutes, nurturing a nimble and mobile employee base, and keeping an eye on equity and cost.

The right strategy to develop and maintain a competitive global employee benefits value proposition is to partner with a trusted advisor who has an appreciation for the challenges, can access local resources, manage the complexities of coordinating multiple vendors, and offer you a single point of contact.

Hanna Global Solutions client roster includes leading Global Employers. We offer capabilities to support the requirements of Global Employers worldwide. As a Partner Broker of Globex International, we have local representation in over 120 countries, through our 336 Partner Brokers. Our high-tech, high-touch solutions combine all the advisory, process, administrative, platform, and support center requirements of delivering Employee Benefit Solutions to the Global Employee.

Mathew Augustine is a Principal at Hanna Global Solutions, responsible for developing strategic solutions for Hanna’s global clients. He graduated from India’s premier technology and management schools, IIT and IIM, and his 25 year career spans marketing and advertising, technology products and services and HR and employee benefits, in India and in the United States. He holds an insurance license for CA, and earned credentials as Registered Employee Benefits Consultant (REBC) and Registered Health Underwriter (RHU).

