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International retirement plans

Moore Stephens Isle of Man
Retirement Solutions

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Thinking of establishing an international retirement plan?

Through the media we are reading and hearing more and more about retirement planning.

The two key points that seem to keep recurring are:

- we can expect to live longer and as a result can look forward to more years in retirement than previous generations; and
- the onus of saving for retirement is being passed from governments onto individuals.

Passing the saving burden onto individuals is easier said than done as each individual has differing circumstances which will determine the level of saving they can, or are willing to, commit to their retirement.

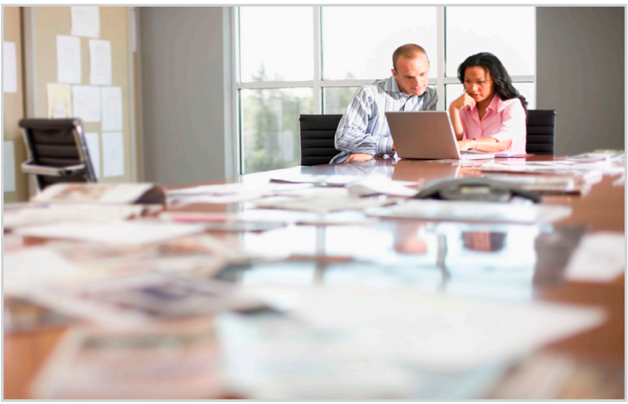
The reality is that the ‘saving burden’ can be shared, as has been demonstrated over the years, by employers providing retirement plans to employees and by doing so, have complimented state arrangements. However, in today’s global economy the pressure on employers to provide retirement savings plans for employees has intensified. Of course this also applies to multi-national organisations with internationally mobile employees (“IMEs”) and local national employees located in jurisdictions without formal retirement provision structures.

Multi-national orgnaisations range in size from the very large to the small. With that in mind small to meduimu sized muliti-nationals (“SMEs”) are in the same position as multi-national companies, that is they want to, or are expected to, provide international retirement benefit plans to their IMEs and, where appropriate, local nationals. Specialist advice in this area is available but can be expensive and at a cost that SMEs are not prepared to pay.

Therefore SMEs tend to go direct to the market, but frequently end up finding themselves in an environment where they have little or no experience and as in any ‘walk of life’, treading into the unknown can result in being confronted with unforeseen hurdles and pitfalls. As a consequence, SMEs can unwittingly commit themselves to entering into an inappropriate and costly arrangement, or alternatively because they feel uncomfortable and uncertain about what is the best course of action for them, end up doing nothing.

So, for Multi Nationals wanting to find out more about what the market offers, or indeed for Multi-Nationals reviewing existing arrangements, what are the salient factors that should be taken into account when choosing a suitable international retirement plan provider?

The following guide covers some of the more important factors that need to be taken into consideration to help you in your decision making.



Plan design

For their IMEs and local national employees plan sponsors seek to replicate existing domestic arrangements (e.g. US 401(k)), with an international retirement plan.

Offshore regulation provides a broad plan framework allowing the plan sponsor to define contribution levels, matching and vesting rules, retirement ages and withdrawal options.

Where should the international retirement plan be domiciled or located?

The following criteria should be taken into account:

- politically and economically stable jurisdictions;
- no exchange controls;
- independent legal and taxation systems;
- favourable tax treatment for non-residents;
- competent service providers;
- part of the international banking system; and
- robust regulatory framework.

Examples of suitable locations include offshore centres such as the Isle of Man and the Channel Islands.

The classic plan structure should comprise the following constituent parts:

- a holding vehicle – this can be a trust, a foundation or an insurance contract;
- operations and administration services;
- record keeping;
- investment administration and nominee services including asset holding;
- 24/7 interactive web functionality; and
- banking facilities.

'Bundled' and 'un-bundled'?

Solutions are available as a 'bundled' version, offered by one provider, or as an 'un-bundled' version, in which case different providers perform specialist roles.

Selecting either 'bundled' or 'un-bundled' is usually determined by plan size and/or historical factors.

Trust or insurance contract?

- a trust segregates employee and employer contributions:
- a trust segregates members' assets from the assets of the employer; and
- segregation between the employer contributions and assets from those of the members is fundamental in case of the employer/plan sponsor becoming insolvent.

Operations and administration services should include:

- record keeping;
- flexible contribution processing;
- investment of plan contributions;
- investment switch and redirection processing;
- automated fund prices and exchange rates; and
- processing of withdrawals, terminations, retirements and death claims.

Investment administration should include:

- access to a core range of offshore domiciled investment funds (offshore funds are not taxed - benefit being that the funds will enjoy 'gross roll up');
- opportunity to invest with globally recognised external investment fund managers;
- access to institutional and retail class funds (institutional class funds have no (or very low entry fees) and lower annual fees than retail class funds);
- preferably the funds selected should be 'daily traded' and without redemption penalties (daily traded funds maximise flexibility around purchasing and redeeming investments. As a result contributions and fund switches can be invested in a timely manner and encashment payments can be administered quickly and efficiently). Therefore to conclude 'avoid weekly/monthly or annually traded funds';
- multi - currency; and
- lifestyling options.

Web-based servicing should include:

- plan sponsor and member access;
- member investment switch and redirection requests online;
- beneficiary nominations;
- full member contribution history;
- online enrolment for new members;
- standard suite of reports – for both members and plan sponsors;
- dynamic plan valuation by fund or contribution type;
- access to investment fund fact sheets;
- member statements available electronically; and
- retirement planning tools.

Investment advisory services

Plan sponsors will want to provide a suitable fund range from which members can select. Plan sponsors generally feel uncomfortable about selecting funds and so revert to either of the following:

- provide a selection of funds to the members from the plan provider's pre-defined fund menu; or
- appoint an investment advisor to compose a fund portfolio appropriate to the plan sponsors requirements and/or in adherence to the plan sponsors investment parameters (typically defined in a 'statement of investment proposals'). Further, the investment advisor may be retained to monitor the ongoing performance of the portfolio.

Fees and pricing

It is obvious to state that you need to understand fully what the fees you will be paying are for and that you are paying a 'fair price for a fair reward'. So, be prepared to discuss and raise the following points when talking to your provider and/or intermediary:

- if the fees and pricing 'fully transparent'. Some providers make implicit (or hidden) charges and these are not always obvious or disclosed.
- if you are working with an intermediary the plan pricing may include built in commissions, compensation or remuneration for the intermediary. Even if you are paying the intermediary an engagement fee for their services, they may also be receiving remuneration from the plan provider.
- ask the intermediary to disclose (in writing) any commissions, compensation or remuneration that they will be receiving from the plan.
- if the plan provider or adviser what class of investment funds are being used – institutional or retail. Institutional funds have no (or very low) entry fees. Retail funds may charge an entry fee. If this is the case ask the plan provider or adviser if these fees are waived and, if not, where does the entry fee go? Does it stay with the provider or is it passed on to the intermediary as a commission payment?
- similarly the ongoing (annual) investment fund fees are lower for institutional class funds than for retail class funds. From the retail class funds, the investment fund manager will pay rebates (sometimes referred to as trailing commission and/or marketing allowance) to the plan provider or the intermediary. Ask how these rebates are treated – are they paid back into the member accounts, retained by the plan provider or passed onto the intermediary?
- ask for a breakdown of all fees. For example will fees related to the maintenance and continued governance of the plan be passed on? For example, the preparation of trust accounts.
- what costs will be incurred for plan changes, development or web enhancement?
- ask if there will be charges for fund switching and withdrawals; and
- will any costs be incurred for offsite meetings with the plan sponsor, including travel and time cost charges?

Pricing schedules differ from one provider to the next but essentially there will be plan setup or establishment fees together with ongoing fees.

Expect there to be separate plan sponsor and member fees. The plan sponsor will be responsible for their respective fees but can also pay the member fees.

Payment of plan sponsor fees will typically be settled by invoice although direct member fees can be deducted from the member accounts. More often than not the plan sponsor will settle both the plan sponsor fees and the member fees by invoice.

Though this list is not exhaustive, it will provide sufficient pointers to guide you through planning your company sponsored international retirement plan.

For more information, please contact us.

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