Headlines

Worldwide Pay and Benefits

Compiled and written by Towers Perrin in August 2000

International

Responding to the global 'internetworked' economy

To assess how multinational organisations are responding to the challenge of e-commerce today and how they expect to respond in the future, Towers Perrin conducted a survey with over 300 major companies at the end of 1999.

Participants recognise that the real challenges involved in pursuing successful e-commerce strategies are people-related (ie, recruitment, retention, motivation, rewards, organisation) and acknowledge that, in this respect, they have yet to create a blueprint for e-business success.

Key people-related findings include:

- 87 per cent of participants agree that not enough of their key managers have e-commerce skills and insights.
- Almost three-quarters concede that their organisation structure tends to inhibit the pace at which decisions are made.
- 59 per cent view their organisation's culture as a barrier to getting things done.
- Two-thirds admit that they are struggling to attract the best people to take advantage of e-commerce opportunities.
- Over the next two years, companies believe that they will be looking beyond compensation and towards broader reward and job satisfaction drivers to solve their recruitment and

retention needs. For example, 40 per cent or more of participating organisations think that they will see a major change in individual growth opportunities, intrinsic job fulfilment and employer branding.

- 40 per cent or more of respondents also expect that, over the next two years, there will be significant changes in the way that companies work. In particular, there will be a greater emphasis on cross-functional team work, greater empowerment, more flexible teams and more outsourcing of non-core activities.
- Respondents realise that employees lack the skills and capabilities to make e-commerce happen, yet they also acknowledge that traditional training and people development approaches are clearly inadequate.

Interestingly, companies with more than two years' e-commerce experience face many of the same people-related challenges as newer entrants; this indicates that there is no built-in learning curve that helps to tackle these issues.

Other key findings are:

- Although e-commerce represents only 4 per cent of sales today, participants expect this to grow to 16 per cent in the next two years.
- Over two-thirds of respondents currently have their e-commerce operations fully integrated into the main business and expect them to

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remain that way for at least the next two years.

- The most common reason for pursuing e-commerce strategies is to increase brand equity (44 per cent, closely followed by the desire to deepen customer relationships (40 per cent) and to reduce operational costs (37 per cent).

The survey findings demonstrate that the real winning edge for any company striving to win in the new global internetworked economy lies with people. Advanced technology, a good market idea and a great strategy are important parts of the puzzle. But it is only by combining these with human innovation that the conditions for a breakthrough will be created.

Canada

New foreign service rules for Canadian registered pension plans

The Canada Customs and Revenue Agency has now extended from three to five years the period of foreign service for which employees can remain in a Canadian registered pension plan on temporary assignment.

Last year, Towers Perrin encouraged the Department of Finance to amend this policy on the basis that it impeded the ability of Canadian companies to compete globally through effective foreign employment transfers. We are pleased that the new policy reflects our practical suggestion.

New report on the future of Canada's retirement income system

The Association of Canadian Pension Management (ACPM) has recently released a new report entitled 'Dependence or Self-Reliance: Which

Way for Canada's Retirement Income System?' The report highlights the crisis in Canada's retirement and healthcare systems expected as a result of retiring baby boomers, rising life expectancies and falling birthrates. The ACPM is calling for a national debate on the future of Canada's retirement income system, involving governments, plan sponsors, unions and the public. The report is intended to jump-start the process by raising the issues and presenting 26 wide-ranging and often controversial recommendations.

Some of the more controversial issues relate to debt reduction and changes in the current tax system to encourage retirement savings and to create greater equity between retirees and working Canadians. Non-controversial recommendations include a move to uniform national pension standards legislation and pension fund governance procedures, and better education of Canadians on retirement planning issues.

The ACPM is comprised of representatives from the pension industry, including Towers Perrin. Its mission is to advocate the growth and health of the retirement system in Canada.

Federal legislation provides equal treatment for same-sex partners

The Canadian federal government recently introduced an omnibus bill that will extend benefits and obligations to same-sex couples on the same basis as common-law, opposite-sex couples. Bill C-23, The Modernization of Benefits and Obligations Act, amends legislation to recognise the principle of equal treatment for all common-law relationships under federal law.

The Supreme Court of Canada has ruled that governments cannot limit benefits or obligations to opposite-sex, common-law relationships. Several

provinces have also changed or are in the process of reviewing their laws to comply with the Charter of Rights and Freedoms. Consequently, many Canadian employers are amending their pension and benefit programmes to extend survivor and other benefits to same-sex partners.

The Netherlands

Important changes to pension provisions introduced (part 1)

The Act on Fiscal Treatment of Pensions brings into force a number of changes to pension provisions, namely:

- extension of what constitutes pensionable service
- inclusion of certain elements of pay in pensionable salary
- conditions (currency criteria in the collective sector) for self-administered pension provisions for directors/large shareholders
- penalties for exceeding the fiscal facilitation rules (the rules governing the tax-deductibility of pension costs)
- concurrence of different pension systems.
- educational leave
- educational or healthcare leave
- periods in which the employee cares for one or more children under the age of 12 (once the youngest child has reached the age of six, the non-active period is halved for the purpose of calculating pensionable service)
- periods in which the employee has worked for a foreign company that is connected to the current employer as defined in the Act on company tax, provided that the employee does not participate in the pension provision of the connected foreign company
- periods after involuntary dismissal in which the employee is entitled to salary-related state unemployment benefits
- periods in which the employee is participating in an early retirement plan or is entitled to a pre-pension arrangement
- service with other employers in respect of which pension transfers have been made
- in cases of pension deficits where no pension rights have been accrued, service before 8th July, 1994 (commencement date of the statutory right of value transfer).

In this edition of *Headlines*, the first three issues will be discussed. In the next issue, the consequences of exceeding the fiscal facilitation rules and the concurrence of different pension systems will be explained further.

Pensionable service

In addition to normal service, the following (non-active) periods may count as pensionable service for the accrual of pension:

- parental leave
- sabbatical leave up to 12 months

Pensionable salary

All gross salary components may be taken into consideration, with the exception of a company car.

If pension is accrued according to a final pay system, a maximum salary increase above 2 per cent of the average salary index of collective labour salaries may be taken into consideration five years before normal retirement age.

In a final pay plan, variable salary components that are structured and fluctuate only marginally may be included as pensionable salary if past and

future fluctuations are limited. Other plan designs may be used to include variable salary components on top of the final pay system.

A decrease in pensionable salary as a result of part-time work or a demotion in the ten years before the start of the pension can be ignored.

Directors/large shareholders

Directors or large shareholders are permitted to have self-administered pension provisions, but these must be in line with the pension provision of employees in the relevant collective sector. Therefore, the level of these pensions may not exceed the level of the pensions that are current in the relevant collective sector. However, in final pay plans, a maximum of 2 per cent accrual is allowed, regardless of the level in the relevant collective sector. Those directors or large shareholders whose pension plans are insured with an insurance company are also not subject to the collective sector rule.

For such directors, non-cash benefits may not be included in pensionable salary. The employer must pay at least 50 per cent of the contribution towards the pension plan. A partner's or child's pension may start to accrue only when the director has an appropriate partner or child. Such pensions may then include retrospective accrual for past service.

United Kingdom

Government issues draft regulations for stakeholder plans

The government has issued draft regulations covering the regulation of the new stakeholder pension plans. The regulations were finalised shortly after Easter so that plans could begin registering as stakeholder plans, effective

1st October, 2000. The draft regulations cover:

- **Governance.** Stakeholder plans can either be trusts or 'contract schemes'.
- **Investment.** A default investment option will be obligatory; every plan must have a Statement of Investment Principles and report annually to members on investment performance.
- **Charges.** Except for specific deductions, all contributions and investment returns must be used for members' benefits.
- **Employer access.** Effective October 2001, all employers with five or more people must offer access to a stakeholder plan, subject to exceptions.
- **Disclosure.** Each member must receive an annual statement about contributions, fund growth and charges. Members of with-profit plans must be told how their rights are determined.

Employers express doubts about their viability

A Towers Perrin survey of 150 UK organisations, including 40 of the *Financial Times* Top 200, reveals that benefit and compensation professionals take a dim view of the long-term effects of the proposed pension reforms on their businesses. The survey canvassed opinions under four topics: stakeholder pensions, money purchase versus final salary, meeting the cost and how employers will react.

Stakeholder pensions

Very few employers (16 per cent) are planning to set up their own stakeholder plans.

- Only just over one-tenth think that stakeholder plans will provide

adequate retirement income for employees who are not members of occupational schemes.

- Almost all responding companies believe that contributions to stakeholder arrangements will need to be made compulsory to ensure adequate pension provision.

Money purchase versus final salary

- Almost three-quarters of respondents believe that the government's proposals will accelerate the current trend by employers to switch to money purchase provision.
- The main drivers of this accelerated change will be certainty of cost, the legislative bureaucracy of final salary provision and the reduction in pension costs.

Meeting the cost

- Almost four-fifths of respondents believe that, in the long term, the government will seek to recoup the cost of improving state pension provision from other areas of the pension framework.
- Just over two-thirds take the view that benefit costs for employers will increase as a result of the proposed reforms; slightly fewer think that employees will bear the burden of the increase, either by reduced employer benefits, additional contributions or National Insurance.

How will employers react?

- Almost half of the participants think that the introduction of stakeholder plans will make it less likely that employers will want to offer or continue to offer occupational pensions.

- Almost two-thirds agree that the introduction of stakeholder plans will compel employers and trustees to offer considerably more pension advice to employees, and over half believe that employers will have to pay for financial advice for their employees.

Somewhat paradoxically, the overall effect of the reforms may not be to encourage pension provision at all, but to encourage the growth of other forms of savings and wealth creation.

Takeover activity has companies reviewing golden parachute provisions

A recent Towers Perrin Comp-Scan survey of change-in-control (CIC) arrangements among major US companies reveals that plan design continues to evolve to meet changing needs. Of over 100 US companies with CIC arrangements participating in the survey, virtually all provide CIC protection to their chief executive officer and top officers, with the median number of executives covered at 10.

Forms of CIC provisions

CIC provisions, more commonly known as golden parachutes, originated in the 1980s, largely in response to hostile takeover activity. They usually come in a variety of forms, including continuation of salary, bonus and/or certain benefits and perquisites, as well as, in some cases, accelerating vesting of stock incentives and/or certain retirement benefits. Some European companies have recently instituted CIC arrangements, but to a much lesser extent than US companies.

Impact of tax rules

In the USA, tax rules play a significant role in the design of CIC arrangements, since penalties are imposed if payments

exceed three times a designated base amount. However, almost two-thirds of survey respondents (65 per cent) report that they would reimburse executives for these tax penalties, while only 18 per cent would restrict payments, explicitly to avoid these penalties.

Triggers for CIC protection

For most companies, CIC protection is provided in the wake of two related events — the company must change hands, and the individual's employment must terminate. While this 'double trigger' remains the norm for most companies, the survey found that some companies are allowing executives to receive severance upon resignation without having to prove that they suffered any hardship in job status — as long as they stay for a designated transition period (typically 12 months).

M&A activity triggers review

The survey indicates that nearly half of the companies plan to review and possibly modify their CIC arrangements within the next two years. Renewed attention to golden parachutes is not surprising, given today's active merger climate. CIC protection should help a company attract and retain a qualified management team that will act in the best financial interests of shareholders, even under the threat of a takeover. It should protect executives against significant negative financial consequences resulting from a change in control, while avoiding potential windfalls from the change.

Venezuela

New Venezuelan constitution affects labour, social security systems

In a popular referendum on 15th December, 1999, Venezuela adopted a

new constitution for the country, which has been renamed the Bolivarian Republic of Venezuela. Following are some of the principal changes regarding labour and social security law mandated by the new constitution:

- No law may establish provisions modifying workers' already acquired rights and the overall progressive improvement of labour rights and benefits.
- In assessing labour relationships, what a person does on the job in terms of roles and responsibilities shall prevail over titles and job descriptions.
- In labour disputes regarding the application or concurrence of rules, the one most favourable to the worker shall be applied in its entirety.
- Labour rights may not be waived. It is possible to enter into a settlement agreement only upon termination of employment.
- All kinds of employment discrimination are prohibited; work that may affect the integral development of adolescent workers is prohibited.
- Any act or measure carried out by an employer that is inconsistent with the constitution is null and void.
- The maximum limit of a night shift is reduced from 40 hours to 35 hours per week.
- The minimum monthly salary shall be adjusted yearly, considering the cost of basic food expenses as one of its references for adjustment. Salary is not attachable to pay debts, with the exception of alimony.
- The new National Assembly (which replaces the former National Congress) must reform the Organic Labour Law within one year in a way that progressively reduces the length of the workday.
- The National Assembly must establish

- a severance system under which benefits are calculated based on length of service rendered and the latest salary earned by the worker, i.e. the system in force until 18th June, 1997.
- The statute of limitations for the new severance benefits will be ten years, instead of one year as currently stipulated.
 - Both employee severance benefits and salary are defined as labour credits that are immediately payable, and any delay in their payment shall generate interest.
 - The law will guarantee labour stability and provide for the restriction of any form of unjustified dismissal. Dismissals inconsistent with the constitution are null and void.
 - The constitution entitles everyone to social security, regardless of their capacity to contribute, for protection from the contingencies of maternity, paternity, illness, disability, serious illness, workplace injury, unemployment, old age, being orphaned, homelessness and any other social welfare matter. Housewives are also entitled to social security.
 - The State must create a universal, integral, joint, efficient and participatory social security system of direct or indirect contributions, funds of which may be used and administrated only for the above purposes.

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