Headlines

Worldwide Pay and Benefits

Compiled and written by Towers Perrin in March 2001

INTERNATIONAL

Companies moving HR activities onto the Web to improve efficiency

Over the last few years, companies have been spending heavily on Web-based applications that allow them to streamline their HR activities and connect directly with employees and managers. A recent survey by Towers Perrin has studied this phenomenon and looked at the way the Internet has improved the efficiency of the HR function. The survey collected information about the HR service centres of nearly 100 US-based employers.

Here are some of the key findings:

- 85 per cent of the companies surveyed have an HR web site and approximately half of these allow widespread employee access, with 75 per cent of employees accessing the site at work and only 39 per cent of respondents allowing employee access from home
- Information on the sites typically includes details about retirement and welfare plan provisions, healthcare networks and providers and 401(k) savings plan activities
- Between 1999 and 2000:
 - the use of Web sites to facilitate important HR transactions such as annual benefit enrolment, personal data changes and 401(k) plan

changes has doubled or tripled

- the number of companies using the web to facilitate employee benefit choices at annual enrolment increased from 10 per cent to 35 per cent
- the number of companies conducting new hire benefit enrolments on the web jumped from 3 per cent to 17 per cent
- the number of companies conducting personal changes on the web (changes of address or dependants) increased from 13 per cent to 28 per cent
- The information that employees can most frequently view on their company's HR web site are:
 - job postings (86 per cent)
 - benefit plans and policies (83 per cent)
 - 401(k) data (65 per cent).
- Companies are reporting that the use of web-based transactions is yielding measurable improvements in timeliness and accuracy and a reduction in their HR workload. Of those asked to evaluate the impact of replacing old paper or voice response based methods with web-based HR transactions the following results were collected.
 - Among companies allowing family status changes:
 - 100 per cent said timeliness improved
 - 38 per cent said accuracy improved

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- 50 per cent said workload was reduced.
Among companies that allow web-based enrolment:
- 90 per cent said timeliness improved
- 65 per cent said accuracy improved
- 39 per cent said workload was reduced.

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ARGENTINA

New health care regime will increase costs for employers

The Argentine government has introduced a new regulatory framework for healthcare plans that will increase costs for employers and may prompt them to review their healthcare plans. The new rules took effect in January 2001.

In Argentina, healthcare for employees is mandatory and financed by a 3 per cent employee payroll contribution and a 5 per cent employer contribution (with a salary cap of US\$62,400 per year). Up until December 2000 all healthcare providers had to grant a minimum level of coverage and the system was segmented into coverage for:

- blue-collar employees (organised by the unions); and
- white-collar employees (organised by professional administrators).

In general the coverage provided for white-collar workers was better organised, better financed and of higher quality.

The new framework will mean that:

- all employees are free to choose their healthcare provider from among the

private carriers and not-for-profit organisations (both unions and non-unions) offering healthcare products

- providers must provide a uniform plan, financed with mandatory contributions, to all affiliated employees
- any improvement in medical benefits for particular employees will have to be financed with additional employer contributions specifically for those employees
- all providers will be required to grant a specified minimum statutory level of coverage.

Actions for employers

These reforms will result in a significant increase in the labour costs of employers who wish to maintain their current level of medical coverage for their white-collar employees. Employers will need to review their medical plans and examine how to reduce the financial impact of this new regulatory framework.

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BRAZIL

New accounting standard set to evaluate benefit-related assets and liabilities

Employers in Brazil will need to evaluate the effects of a new accounting standard that will be used to determine employee benefits costs.

IBRACON, the Brazilian Accounting Institute, used international accounting standards (IAS19) as its benchmark for the new standard, which seeks to:

- make companies account for their

long-term benefits related assets and liabilities

- create a standard methodology for recognising such assets and liabilities
- provide investors with more comprehensive and transparent financial information in order to better assess company performance.

The new rules will be effective from 1st January, 2002. Certain disclosures will be required in company accounts relating to the 2001 tax year. Companies will have, if they wish, five years to recognise the adjustment for prior years in their accounts.

Actions for employers

While the new standard will affect all benefit-related assets and liabilities, it is those that relate to long-term retirements and health plans that are likely to have the most significant effect on company balance sheets.

Companies should:

- ensure that they will be ready to comply with the new standard
- evaluate what financial impact the new standard will have on their balance sheets and consider what action is required
- decide between recognising the adjustments for prior years immediately, or recognising them in the five-year period established in the new rules.

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COLOMBIA

Supreme Court ruling will impact private employers

Colombia's Constitutional Court has ruled that salaries for public sector

employees must be raised at no less than the annual inflation rate. While the current ruling applies only to public sector employees, private sector companies should be aware that this development will quickly affect them due to Columbia's tight labour market.

The court's ruling requires the government to readjust all public sector salaries retroactively to 1st January, 2001. This will translate into a salary readjustment of 9.23 per cent for public sector employees in 2001 and will cost the Colombian government 1bn pesos (US\$450,000) to cover the cost of its 800,000 employees.

Action for employers

Private sector employers will need to ensure that they keep pace with public sector pay in order to attract and retain key talent.

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GERMANY

New reforms will alter company pension plans

The long-awaited pension reform bill has begun its passage through the German parliament. As drafted it will:

- give employees the right to divert up to 4 per cent of their salary (up to the Social Security Ceiling of DM 104,400) into a private pension
- introduce government subsidies for employees who take advantage of this salary diversion

- amend the current rules on vesting and book reserving.

The legislation leaves it up to the employer and employee to agree on the vehicle that receives the pension contributions, and it can be a company-sponsored pension fund (if the employer provides one) or an insurance contract. Whatever vehicle receives the payment must satisfy certain government stipulated requirements in order to receive an additional subsidy.

Employees are not entitled to request the use of this facility if a company plan based on employer contributions already exists.

The government has calculated that changes to social security will mean that the ratio of pension income to average salary in Germany will fall from 70 per cent today to 67 per cent in 2030. To compensate for this, the government plans to offer flat subsidies to individuals diverting salary into a pension fund.

Amendments to vesting and book reserving

The proposed amendments include the following:

- minimum vesting to be improved to 30 years of age and five years' membership (from 35 years of age and ten years' membership)
- entitlements based on the new salary diversion rules to be vested immediately
- pension plan benefits derived from salary diversion to be fully portable
- the age at which company sponsored book reserved pensions are accrued to be reduced from 30 to 28 years.

The Bill passed through the (executive) lower house of parliament on 26th January, 2001. However, it has failed, so far, to win approval from the (legislative)

upper house. Changes to the Bill are to be expected before it becomes law.

Actions for employers

Employers should note that the reforms:

- will restrict their ability to decide the plan designs and funding vehicles they use to provide their employees with retirement benefits
- may lead to increased costs and administration for companies already running plans.

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IRELAND

Social Welfare change will increase employment costs

Ireland has announced that the earnings ceiling for employer Social Welfare contributions will be removed effective April 2001. This means that, in future, direct employment costs will increase by 12 per cent of employee earnings over the current threshold of Ir36,000 (US\$42,000).

The change was unveiled by the Irish Minister of Finance in his December 2000 budget statement, which also contained the following announcements that affect pay and benefits:

- the standard and higher rate income tax rates will be reduced by 2 per cent
- Social Welfare benefits, including the Retirement Pension and Old Age Pension, will be substantially increased
- Social Welfare contribution rates for employees will be reduced by 0.5 per cent to 4.0 per cent
- the earnings ceiling for employee contributions to Social Welfare will be increased from Ir26,500 to Ir28,250.

Actions for employers

Employers should note that:

- The removal of the earnings ceiling for employer Social Welfare contributions will substantially increase the employment costs of individuals paid over Ir36,000 per year.
- If their retirement plans include an offset for the Social Welfare pension in the definition of pensionable salary, then the increase in Social Welfare benefits will reduce pensionable salary and hence reduce company pension costs.

Employers should calculate the overall effect of these changes on their ongoing employment costs and decide if and what action needs to be taken.

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ITALY

Italian government to review impact of 1995 state pension reform

The government is set to review the effects of the 1995 state pension reform which changed the basis of calculating of state pensions from a defined benefit to defined contribution. It is not clear what effect the results of this review will have on the ongoing debate over reform of the Italian pension system.

Meanwhile new incremental changes continue to be implemented, such as:

- improved vesting of state pension rights
- fewer restrictions on drawing a pension while still working
- new regulations to encourage contributions to private pensions.

The 1995 Dini reform changed the

system for calculating an individual's state pension from defined benefit to defined contribution. This new system only applied to future contributions and only in reference to employees with less than 18 years' service on 31st December, 1995. Such individuals can choose whether to convert their past service (defined benefit) rights to defined contribution. Previously, this option had been scheduled to be exercisable from 1st January, 2001 onwards, but was then postponed to 1st January, 2003. However, there is now a draft bill, currently under discussion, which will bring forward the 1st January, 2003 date once more, albeit with less favourable conversion rules.

Minimum vesting introduced in state plans

The Italian state pension system is composed of a number of plans run by independent pension agencies. Plan membership is dictated by the industry and class of employment to which an individual belongs. Owing to the different rules of each plan (including different vesting requirements) an individual with membership under several different plans could, until recently, end up not being vested in any of them. New rules mean that, in the future, for vesting purposes, membership in all plans will be taken into account.

Rules relaxed on drawing a pension while still employed

The restrictions on retirees drawing a pension while still earning employment income have been relaxed. An individual's *old age* pension will no longer be reduced if the person is working. This also applies to pre-existing retirees. The reduction affecting state *long-service* and *disability* pensions has also been substantially trimmed.

New regulations on private pensions

New private pension regulations passed in 2000 mean that, effective from 1st January, 2001:

- A better tax position for employees who joined a pension fund after 28th April, 1993. Contributions are now tax deductible up to 12 per cent of income or ItL 10m a year (US\$4,700). However, this new limit requires diverting a share of that individual's book reserved mandatory termination indemnity (previously kept by employers and paid out at the end of employment) into the fund.
- A less favourable tax position for employees who joined funds before 28th April, 1993. For these employees, the tax deductibility of future contributions (which was previously almost total) will be subject to the same levels as post 28th April, 1993 members.

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NETHERLANDS

Change in law allows deferral of tax on stock options

As of 1st January, 2001, employees will be able to defer capital gains tax on stock options until the options are exercised. A request for deferral must be made to the Dutch tax authorities before the initial taxable moment (the initial taxable moment for 'conditional' options is the moment they become unconditional, while for unconditional options it is the moment of grant) and must be made by the employer and employee together.

However, deferral of taxation in this way may incur problems in the context of a merger or breakup, because in principle the conversion is qualified as a 'disposal' of the options, and may result in taxation. The Dutch Ministry of Finance is currently preparing a decree to clarify the tax consequences for stock options under these circumstances.

Action for employers

Employers should decide whether they wish, in the future, to offer employees the choice of deferring tax in this way.

Further information: Marcel Spaans (spaansm@towers.com), 31-20-711-4032 or Miriam Valten (valtenm@towers.com), 31-20-711-4046, Amsterdam.

New rules require proposed for pension fund boards and other policymakers

The Pension and Insurance Chamber has introduced regulations to test the expertise and reliability of pension fund boards and third parties who are involved in plan administration and policy-making. Pension boards will be required to demonstrate that they have at least two members knowledgeable in each of a number of areas defined by the Chamber. Pension board members and other affected individuals appointed after 30th December, 2000 will be tested by the Chamber.

Pension boards and other affected individuals:

- should be prepared to submit a qualified plan to the Pension and Insurance Chamber
- be aware that, in future, it will be important for plans to have in place procedures for screening and training new board members.

Boards also need to ensure that any third parties involved in the administration of

their plan (if they are acting as policymakers) have adequate expertise and knowledge.

Further information: Adrienn Pasztor (pasztoa@towers.com), 31-20-711-4113, Amsterdam.

Retirees must now be allowed to swap survivors pension

Two new pieces of legislation have been passed in the Netherlands that will require pension funds to:

- offer retirees a choice between survivors pension and old age pension
- provide the same pension benefits to members regardless of their gender.

The requirement to introduce the choice of old age or survivors pension comes into effect on 1st January, 2002. The rules requiring plans to provide the same benefits for both sexes come into effect on:

- 1st January, 2002 for defined benefit plans
- 1st January, 2005 for defined contribution plans.

Action for employers

The rules requiring equal benefits for men and women may require employers to vary the contributions they make on behalf of male and female members to take into account their different life expectancies.

Further information: Adrienn Pasztor (pasztoa@towers.com), 31-20-711-4113, Amsterdam.

Regulations finally define boundary between pension funds and insurance companies

Regulations have been passed that define the operational scope of pension funds in

the Netherlands. The regulations follow an agreement reached between STAR (a government advisory body with members representing employers and employees), the insurance companies association and the pension funds association in November 1998.

According to Dutch law, a pension fund is treated as an insurance company and must comply with the appropriate regulations. However, if a pension fund imposes certain operational limits upon itself, it is not treated as an insurance company and, the insurance industry claims, gains an unfair competitive advantage.

According to the regulations, a pension fund may continue offering pension plans (without being treated as an insurance company) provided that the plan:

- is subject to the Dutch Pension and Saving Fund Act
- has been negotiated as part of a (collective) labour agreement
- meets certain criteria to ensure adequate solidarity among plan members.

Company pension funds can only insure the pension plans for the company and companies to which they are related, whereas industry-wide pension funds can operate for the whole industry. Compulsory industry-wide pension funds must charge a level premium across all employers.

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NEW ZEALAND

Employers continue to move pension arrangements to master trusts

The trend among employers to outsource pensions provision to run externally

defined contribution 'master trusts' continues. It has been estimated that the assets in master trusts are now approaching 30 per cent of the defined contribution market. The reasons for this trend include the reduced requirement for employer involvement and the attractive features such plans are able to offer members.

However, there are crucial issues that employers need to consider when switching to master trust arrangements. Since New Zealand does not possess provisions to allow block transfers of members from one plan to another, employers have two options:

- obtaining member consent
- winding up their old plan and starting again.

Of these options, member consent offers the important advantage of continuity.

Moving employees from defined contribution arrangements

The crucial issue for employers transferring members from an internal defined contribution arrangement to an external master trust is making certain that no members are left in the transferring plan. Reasons that might be used to persuade members to transfer include:

- up-to-date benefits and structure
- the inclusion of different member investment choices and fund managers
- the option for members to take a cash lump sum as part of the transfer.

Where an employer is less confident that members will transfer and therefore decides to wind up its old plan, members need to make a positive decision to reinvest their fund in a master trust. It should be noted that when this option is exercised, members are often

disappointed with the low rates of investment return and use their funds for non-retirement purposes.

Moving employees from defined benefit arrangements

Moving members from defined benefit arrangements is inevitably more complex as employers must also deal with the transition from defined benefit to defined contribution. Older members might be put off by:

- the fact that existing benefits are relatively generous
- uncertainty about the level of future investment returns.

Actions for employers

If an employer is considering outsourcing its pension arrangements to a master trust it should evaluate:

- the current advantages of retaining in-house control
- whether employees' appreciation of the current arrangements is sufficient to justify retaining them
- whether changing to a master trust would involve an increase or saving in fees.

Further information: Mark Weaver (mark.weaver@mjwactuary.co.nz), 64-9-300-7155, Auckland.

TRINIDAD & TOBAGO

Company sponsored group plans move from DB to DC

There is an increasing trend away from defined benefit and toward defined contributions plans in Trinidad and Tobago. This has been caused by the easier administration associated with defined contribution plans and the high cost of conforming to International

Accounting Standards, which are used as the local accounting standard for defined benefit plans and require annual valuations.

Both types of plans must:

- be registered with the relevant authorities
- be offered to the entire workforce, with no exclusions
- have total contributions not exceeding one third of employee chargeable income (capped at US\$12,000)
- have no member age limitations.

All benefits must be taken in the form of an annuity, with no element of cash payment. Loans cannot be taken out against pension policies.

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UNITED KINGDOM

High Court ruling permits employers to use DB surplus

Employers will be relieved by a recent High Court decision in connection with the Barclays Bank UK Retirement Fund, that the surplus in the defined benefit section of a plan can be used to fund defined contribution contributions within the same trust. The judgment is good news for companies who operate hybrid plans or are considering opening a defined contribution section.

On 17th March, 2000, in a case brought by members of the defined benefit section, the Pensions Ombudsman ruled that the Barclays Bank UK Retirement Fund could not use surplus built up in its defined benefit section to fund employer contributions to its

defined contribution section. The Ombudsman said that the employer was in breach of its duty of good faith and guilty of maladministration.

The High Court has now overturned this decision, ruling that because the two sections are part of the same trust, the company is entitled to credit employer contributions to members' accounts from the plan's defined benefit surplus.

Action for employers

The case turned largely on the interpretation of the documentation governing the plan. Therefore, companies operating both defined benefit and defined contribution sections should satisfy themselves that the documentation implementing those arrangements (including formal rules, member communications and booklets) has been drafted in such a way that the two sections are clearly part of the same trust, not two separate trusts.

Further information: Clive Briggs (briggsc@towers.com), 44-1635-550-0200, Newbury.

Equitable closing may affect occupational plan investments

In December 2000, the Equitable Life Assurance Society (Equitable) announced that it was to close to new business. Trustees may therefore wish to review any defined contribution investments, such as additional voluntary contributions (AVCs), invested with Equitable, particularly if they are held in the with-profits fund.

On 20th July, 2000 the House of Lords (the highest court in the UK) found against Equitable Life Assurance Society (Equitable), the world's oldest life assurer, in a case about whether the company should be allowed to use its discretion to offset the terminal bonuses it pays out to with-profits policyholders

who choose to exercise Guaranteed Annuity Rates.

After that case, Equitable said that it planned to demutualise and seek a buyer, but after several months of negotiations was unable to find a purchaser. This was mainly due to uncertainty about the scale of its liabilities. On 8th December, 2000 Equitable Life announced that it would:

- close to new business
- look to sell off business assets including its sales force, investment manager and permanent insurance company
- ‘run-off’ its existing business (while continuing to accept premiums and pay benefits under existing policies).

Regarding the with-profits fund, Equitable said that it would:

- reduce the 2000 bonus rates
- impose a transfer penalty on members seeking to disinvest
- probably have lower bonus rates for the foreseeable future.

Equitable’s statement sent shock waves through the financial services industry and rapidly turned into a major financial scandal. Equitable has now found a last-minute buyer in the Halifax, a bank which normally specialises in mortgages, but which is seeking to develop its business in the wider financial services sector.

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UNITED STATES

New health information privacy policy gives patients increased rights

Patients have been given significant new rights which will allow them to

understand better and control how health information about them is used.

The new regulation was released by the US Department of Health & Human Services and is the first comprehensive federal policy on the privacy of individual health information. The regulation covers health plans, healthcare clearing houses and healthcare providers which conduct certain healthcare, insurance and administrative transactions electronically.

The policy applies to these standard transactions and to ‘individually identifiable health information’ held or disclosed by relevant bodies in any form.

Important elements of the new policy are as follows:

- *Patient education regarding privacy protections.* Patients must be given a clear written explanation of how they can use, keep and disclose their health information.
- *Access to medical records.* Patients must be able to see and get copies of their medical records, including a history of most disclosures.
- *Consent for information release.* Providers are required to obtain patient consent before sharing their medical information for treatment, payment and healthcare operations purposes. Treatment and benefit coverage may be conditioned on receiving such a consent. Specific authorisation must be granted for sharing information for non-routine uses and most non-health care purposes (such as the release of information to financial institutions).
- *Recourse if privacy protections are violated.* Patients have the right to complain to a provider, or directly to the Secretary of Health & Human Services, about violations of this regulation or the health information policies and procedures of a relevant body.

Bodies misusing healthcare information may be subject to civil and criminal federal penalties.

The regulation requires compliance by all relevant bodies, including employers, by 14th April, 2003.

Actions for employers

Employers should satisfy themselves that their healthcare arrangements comply with the new policy.

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