n 2012, Mercer surveyed 288 multinational companies on key aspects of employee benefits provision for their combined population of over 119,000 expatriates. When compared to those of the previous Mercer survey in 2008, the results indicate that the corporate perspective on expatriate benefits has changed since the onset of the economic crisis.

Indeed, in the years leading to 2008, many multinationals seeking to rapidly deploy experienced employees to developing markets such as the Middle and Far East were focused on incentivizing mobility rather than managing cost. Most mobility managers are familiar with locations such as Dubai and Singapore, where rich, individually negotiated expatriate packages were frequently established by exception rather than adherence to policy.

But the 2012 survey highlights that the downturn has sharpened the focus on cost containment and governance. Mobility costs are on the agenda for 85% of participants, and 37% are looking to make immediate changes to expatriate benefits to reduce cost. Multinationals are also seeking greater consistency in their approach to rewarding expatriates in order to achieve greater internal equity.

However, as multinationals seek greater harmonization across their expatriate benefit practices, a complex combination of factors—associated with the length of assignment, the loca-
How multinational companies manage expatriate benefits has changed in recent years. Companies need to balance a consistent approach with flexibility to account for the needs and desires of individual expatriates and regional circumstances.

Approaches to Expatriate Benefit Provision

Mobility managers have long been segmenting their expatriate employees based on duration of assignment, and this remains an important distinction in helping determine an approach to providing benefits.

A home country approach focuses on maintaining employee benefits in the expatriate’s country of origin. Often viewed as the best solution for traditional expatriates (sent on assignment for up to five years with a documented intent to return home at the end of the assignment), the home country approach creates a level of comfort and consistency for the individual by retaining plans that they are familiar with and which reinforce the link to their home country. While home country plans are often the preferred approach of the individual and utilized to motivate employees to move on assignment, they can be expensive and inefficient when delivered across borders—particularly if they are subject to host country taxation.
A *host country approach* seeks to transition expatriates—often those who are moving for longer periods or permanently—to the benefit programs in place for local employees in the host destination. The host country approach has the advantage of creating greater equity between the expatriate and his or her new local peer group. It is also often more tax efficient and may be cheaper if the home country is a developed market where employee benefits constitute a greater proportion of total employment cost compared to the host country.

A third approach uses offshore or international benefit plans that are established in zero- or low-tax jurisdictions such as the Channel Islands, Isle of Man and Bermuda. This approach has clear advantages for truly nomadic employees who are likely to move from one country to another over numerous assignments, as it creates benefits programs that can remain in place as the individual moves between countries.

The reality facing many international benefits managers is that a fourth, hybrid approach is required that uses a combination of home, host and international plans to cater for different circumstances. Understanding which approach is optimal is far from simple, however, and requires a multidimensional perspective.

### Different Solutions for Different Benefits

For retirement benefits in particular, the home country approach can be appealing as it helps to avoid expatriates accruing fragmented benefits in another country that can be extremely difficult to transfer back to a home country on the conclusion of the assignment. Legislation in areas such as the European Union (EU) make pensions transfers to another region particularly difficult. Mercer’s 2012 survey confirmed that the home country approach remains the most popular way to manage retirement benefits for expatriates, with 63% citing this as their preferred policy option. (See Figure 1.)

While host country retirement plans tend to be provided to expatriates in cases of necessity (for example, in Australia, where mandatory requirements exist to provide local superannuation benefits to all categories of employee), international pension plans are of increasing importance to multinationals. In the last five years, mainstream insurers such as Zurich, Generali and Aegon, to name a few, have been investing significantly in their offshore plan investment platforms and administration systems as well as introducing sophisticated online member communications to allow nomadic employees to access best-in-class investment funds from anywhere in the world. These plans are also becoming more popular for delivering retirement benefits in locations such as the Middle East and Africa where there are few or no local providers.

The main drawback to international plans is the lack of tax deductibility associated with contributions, as they are not tax-approved in the host location of the expatriate. For an increasing number of multinationals, this potential tax equalization cost is secondary to the need to deliver an effective and high-quality retirement program to an increasingly important section of their workforce. Twelve percent of the respondents to the survey offer an offshore retirement plan to expatriates, and in Mercer’s experience the use of these plans is increasing.

Death and disability benefits are also often better provided through home country or offshore programs. (See Figure 2.) In the case of death benefits, the increasing number of expatriates hired in areas such as the Arabian Gulf and North Africa, where Sharia Law can dictate the distribution of any locally held

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**takeaways >>**

- Many multinationals are focusing more on cost containment and governance than they were prior to the economic recession that began in 2008, when the focus had been on encouraging mobility.
- The length of an assignment, the location and the make-up of the mobile workforce demand a sophisticated approach.
- Maintaining employee benefits in the expatriate’s country of origin is often the approach the expatriate prefers, but these benefits can be expensive and inefficient, especially if subject to host country taxes.
- Providing the benefits of the host country creates greater equity between the expatriate and the new local peer group and may be more tax-efficient and less expensive.
- Having an international medical plan has become more important because of limitations of home and host country plans for medical benefits and the increasing numbers of global nomads.
- The talent pool available to fill positions in emerging markets is growing.
assets on the death of a resident, makes it prudent to ensure that any lump-sum payments be made in the home country of the expatriate, or at least outside the Sharia jurisdiction. In the case of disability, the likelihood that an expatriate would return to the home country to receive associated benefits makes home country plans the most effective in avoiding potentially detrimental overseas taxes and exchange-rate fluctuations.

In contrast to retirement and risk benefits, the home country approach is rarely a viable solution for medical benefits. The degree of variance between the medical environments and the associated design of appropriate employee benefits in countries such as the United States that rely heavily on private insurance, compared to those like the United Kingdom that have universal public medical services, makes home country plan designs too often inappropriate for the host country. Most local providers will not have network agreements in place in host locations or the systems to deal with overseas reimbursements of medical expenses.

Host country medical plans can also pose problems for...
expatriates, however, particularly where they provide benefits via public medical facilities with limited English-speaking capability. In countries such as China and Russia, membership in an international plan is often needed in order to provide expatriates with access to private medical facilities that have English-speaking medical practitioners. The location of the employee’s dependents will also be an important consideration.

The limitations of home and host country plans for medical benefits and the increasing numbers of global nomads has dramatically increased the importance of international medical plans, which are offered to at least some employees by 98% of the survey participants (up from 57% in 2005). Unlike their retirement counterparts, the international medical plan providers such as Cigna, Bupa, Aetna and Alliance have formulated multicountry agreements with regional and local carriers in order to become locally admitted and provide access to comprehensive local medical networks in many host locations.

International medical plans are not without their problems, however, and cost is a recurring concern for the survey participants. Higher tier administration capabilities; richer benefit provisions for expatriates, particularly for maternity, dental and vision benefits; and broader geographical coverage have created something of a perfect storm for the cost of international medical plans. Fifty-three percent of survey participants have experienced premium increases in excess of 6% per year, while a significant minority experienced double-digit premium inflation. This indicates that greater analysis and segmentation of the expatriate workforce is needed in order to ensure that more expensive international plans are provided only where they make economic and practical sense.

Allowing for the Requirements of Different Locations

A second and vital dimension to consider in establishing the optimal solution for expatriate benefits is the specific home and host locations. Some countries such as Egypt and China place restrictions on international investments, for example, creating potential barriers to offshore retirement plans. Other countries place unique requirements on their citizens—not least the United States, where the Foreign Account Tax Compliance Act and global taxation of U.S. citizens combine to make offshore pensions and savings plans impractical for U.S. expatriates or green card holders.

The international benefits manager must also take into consideration international treaties between countries. In some cases, these treaties provide relief against the need for expatriates and their employers to contribute to host country social security programs while also allowing tax relief for home country plans provided in the host location. The treaty between the U.S. and Canadian governments, for example, allows Canadian retirement plans to remain a tax-effective and simple solution for the many Canadian expatriates residing in the United States. Where these treaties do not exist, however, home country approaches are likely to lead to inefficiency or even benefit duplication and significantly increase the cost of expatriation. The issues associated with moving an expatriate to Australia, where the local employing entity must pay 9% of pay to a local superannuation account for the employee, compared to Dubai, where no requirements for retirement provision exist for expatriates, clearly demand different approaches.

In some cases knowledge of international treaties and regulations is important to avoid potential compliance breaches. Transitioning employees within the EU, for example, and retaining their home country defined benefit pension plan membership, could trigger requirements for the home country plan to comply with EU cross-border funding requirements under the provisions of the Pan-European pension directive with potentially significant financial consequences for the entire plan.

In the area of medical provision, the increasing desire for countries in emerging markets such as the Middle East to move the cost of providing medical benefits to nonnationals away from their...
public medical system and to the private employer is leading to more stringent local regulations. In Saudi Arabia and Abu Dhabi the local regulations require the provision of home country private medical programs for all employees. In many cases this is leading to the duplication of benefits, and significant costs for the employer, where the expatriate has demanded membership of a higher tier international or home country plan. (See Figure 3.)

In addition to considering the pros and cons of different approaches based on the type of benefit and the locations concerned, the 2012 survey reveals that a third dimension to the segmentation of expatriates is becoming increasingly significant.

Segmentation by Type of Assignee

The global workforce is changing rapidly in the wake of the global downturn. Increasingly, employees with international experience are leaving their original employers to follow job opportunities between the new markets in the Gulf and BRIC countries (Brazil, Russia, India and China) and are prepared to sign local employment contracts with new employers. In addition, Generation Y employees are actively seeking international assignments for a combination of career development and life experience opportunities. For this group of third-country nationals, internationally competitive pay, rather than costly expatriate benefits, is a priority.
The global downturn has also reinforced the importance of truly internationally mobile employees, a cadre of versatile employees with common capabilities and easily transferrable skills who can move from one market to another. The rise of the global nomad, an employee who moves between assignments every two to three years with the same employer, is an increasing theme. For this group, international plans that maintain consistent benefits with trusted providers are vital to the expatriate’s sense of well-being and to the employer’s value proposition.

The talent pool available to fill positions in emerging markets is, therefore, growing and changing in nature. While it will remain important for certain positions that require experience and knowledge of corporate culture and politics, or specific skills, to be filled by traditional expatriates who require home country or international benefit plans as incentives to move, this proportion of the mobile workforce is declining. Figure 4 shows that the numbers of short-term and traditional expatriates (on assignment for less than five years), for whom home country-style benefits are generally important, are diminishing significantly.

Survey participants were asked to indicate where they were not receiving a good return on investment from expatriate benefit policy. The overwhelming response was: wherever expatriates move due to personal circumstances or for their own career development. This would indicate that richer tier home country benefits continue to be offered unnecessarily to many employees in these segments.

It is important that multinationals adapt quickly to the changing compositions of the global expatriate population and, where appropriate, utilize host country plans to a greater extent if they are to avoid paying unnecessary benefit costs. Figure 5 provides an insight into current practices of expatriate segmentation and how this has changed since 2008.

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Developing a Consistent Approach

The above factors indicate that the international benefits manager faces the need to reduce costs and drive efficiency through consistency of approach (to avoid the management by exception that characterized the lead-up to the global economic downturn) while ensuring sufficient flexibility to allow for the unique aspects of each assignment.

One solution is to develop process maps to guide the benefits manager to the right approach for each expatriate. Following the process provides consistency, yet the multidimensional options create flexibility to allow for the multiple factors that need to be taken into account in each case. A sample process map, for retirement benefits, is provided in Figure 6 for illustration. The unique challenges of medical benefit provision would necessitate a separate map.

Conclusion

The composition of the expatriate workforce has changed since 2008, with greater proportions of global nomads compared to traditional expatriates and a more abundant international talent pool available within emerging markets. International benefits managers need to drive cost reduction through analysis of the expatriate population and streamline the use of expensive home country benefits for expatriates from mature and developed markets. At the same time, developing regulations necessitate the review of each case to ensure tax efficiency and legal compliance requirements are met. Developing process maps can help to achieve consistency in the face of the increasingly complex and varying requirements for delivering benefits across borders.

Endnote