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International Pooling
of Employee Benefit Plans

What is international pooling?

International pooling arrangements enable multinational companies to combine the employee benefits provided by their subsidiaries worldwide. This can reduce costs and improve risk management. This article explains how pooling works, the benefits it offers and the key points to consider when implementing it.

THE LOCAL COMPONENT

Many groups have guidelines for establishing benefit programmes in their subsidiaries. Local insurance companies or pension funds assume risks such as longevity (pensions), occupational disability and survivors' benefits.

The local subsidiaries pay insurance premiums to the local insurers. Settlement takes place through what is known as “first-stage accounting”, under which the net cost of personal insurance is calculated, i.e. premiums less local profit participation or discounts.

THE INTERNATIONAL COMPONENT

By transferring the tax provision in the form of a single premium, followed by ongoing premium payments, the severance pay obligation can be outsourced to an insurance company in accordance with a decree issued by the Austrian Federal Ministry of Finance on margin number 3369a of the Austrian Income Tax Guidelines 2000. The insurer undertakes to pay the capital accumulated under the policy directly to the employee when the severance pay obligation falls due (irrevocable earmarking). If necessary, the employer must pay an additional premium. If an employee leaves without entitlement to severance pay, or if the capital already accumulated exceeds the severance pay entitlement, the capital accumulated for this purpose, or the excess amount, is refunded to the employer.

If the local insurers are part of an international network, the group parent can receive an additional consolidated account covering all insurance policies concluded, known as “second-stage accounting”. This requires a pooling agreement with the network.

BENEFITS

- Cost savings through economies of scale
- Aggregation of all risks, for example longevity risk in pension insurance
- Annual “International Experience Report” providing an overview of income and expenditure

Example:
An Austrian group with subsidiaries in Germany and France enters into a pooling agreement with an international insurance network. The local insurers are partners in the network. At year-end, the group parent receives a consolidated statement summarising all premiums, claims and costs. Any surplus is paid out as a “multinational dividend”.

SPECIAL FORMS AND FURTHER BENEFITS

In addition to traditional pooling, there are special forms such as captive reinsurance (“captives” are group-owned insurance companies) and specific pool structures. The design options are varied and limited only by actuarial constraints.

A further benefit of pooling arrangements is the continuous provision of information on developments in employee benefits and the legal framework, including social insurance and taxation, in the relevant countries.

SUMMARY AND RECOMMENDATION

International pooling arrangements give multinational companies the opportunity to structure employee benefit programmes more efficiently and cost-effectively. They allow risks to be managed more effectively and provide valuable information for corporate management.

Recommended action:
Assess whether your company could benefit from a pooling arrangement. We would be pleased to provide individual advice.

Contact:
AKTUAR Betriebliche Vorsorge GmbH - more than 30 years of experience in the international pooling of employee benefit plans.