EXPAT PENSIONS 2018-2023
‘Big Data is the answer?’

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The Author
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After an internship at the Columbia Law School in New York City Patrick started his career at Arthur Andersen. During his career Patrick had several management positions at financial institutions. During his 10 years at Moore Stephens Amsterdam Patrick build the international pension consultancy practice.

Patrick has more than 20 years of experience regarding International Pension Consultancy. Both collective and expats. Patrick is passionate about quality and adding value. He is a trusted advisor of a number of especially German and Japanese Global Companies. As well as of many Expats of whom most are of Board level.

Changed Expat Position
Until a decade ago expats often had a position that was very different from their current status. They were often given a special status and rewarded accordingly. Especially due to cost reduction and globalization, expats have been increasingly replaced with local talent.

Nowadays expats often have a local contract with accompanying benefits. This changed position of expats and their benefits all the more raises the question how their pension is arranged. Especially in this time in which governmental coverage is often decreasing and corporations have to actively guard costs.

In this article we will focus on the current expat pension coverages, costs, chances and challenges. And finally to what extent Big Data is the answer.

Pillar 1: State Pensions

State Pensions’ Coverage
State Pensions provide often the first layer of pension benefits for inhabitants of a country. Which can also include expats. Typical for State Pensions is their international diversity. The kind and amount of premium and coverages can differ substantially per continent and country. Which has to be taken into account when planning for expats. A certain modest amount of Old Age Pension and Next of Kin Pension is in the western world often regarded as the basis.

In the USA the amount of coverage is related to the taxable income in the past. In the UK the minimum coverage is only applicable if the inhabitant has participated for at least 10 years. Likewise in Luxemburg. In Germany the minimum is 5 years but years in other EU countries can be included. Holland provides a claim for each year of qualifying as inhabitant regardless of income or years of residence.

The Peoples Republic of China deserves extra attention. National legislation obligates most expats to participate in the social security coverage as only few countries have bilateral treaties arranging otherwise. Due to typical Chinese differences in local implementation, you often read that expats do not really have to participate as this is not sanctioned. However, for example in the Beijing region it is sanctioned with stiff fines for both employer and expats.

Voluntary State Pensions
In several countries expats can choose to voluntarily participate in the social security coverage. Often this is only possible if they meet strict conditions. Like in the UK where it is only possible for residents of a certain age and a certain maximum income.

It is advisable to carefully look at the conditions and wonder if the costs are not too high related to the pension claim. Especially due to the low interest rates in the western world, coverage can often be arranged elsewhere in a better way.

Trend in State Pensions
The main trend is that, due to the more than expected increasing longevity, the retirement age is getting steadily postponed. Also we see more countries offering the possibility to start the State Pension between a certain age range. Which is a welcome planning tool for expats. Even though the impact will often be limited due to the often short participation and build up capacity.

In the Northern part of the EU, in the UK and in Australia we see that the retirement age is getting postponed towards age 67 and in due time to age 70. Whereas in the Southern part of the EU the postponement means that the retirement age will go to age 65.

In the USA the benefits can start between age 62-70. In Japan the benefits can start between age 60-70. Japan has also agreed to plans to let people choose to start the benefits even beyond the age of 70. Which can also be expected soon in other countries and even quicker than you might think.

Qualifying Expat State Pension Issue
One of the biggest issues for expats is when they have to participate in a social security system but do not receive anything back due to lack of required annual participation.

For example when an expat works in Luxemburg for 9 years and then goes to the next assignment without any State Pension from Luxemburg as he is one year short of the required minimum participation of 10 years. The legitimacy of this situation is difficult to explain.

State Pension coverage at International Institutions
International institutions in general have their own legal environment separate from the hosting country. Often there is no distinction between State Pension and Occupational Pension coverage. The latter is often generous and more than making up for the lack of State Pensions.

Prevention of Double Taxation
In order to prevent double taxation as of retirement age in both the source country and the retirement residence, several countries have a lot of bilateral tax treaties. Expats are advised to pay attention to the very different methods of preventions that exist as they each can have a very different effect.

Pillar 2: Corporate Pensions

Corporate Pension Coverage
Regarding the kind of coverages the Old Age and Next of Kin Pension are usually standard. It is advisable to in time pay attention to the Disability Pension or insurance. In order to prevent unnecessary costs, it is also advisable to arrange the Death Benefits before the expats leave on assignment. Collective coverage thereof can also save a lot of premium costs.

Regarding the kind of Pension System, it is globally a fact that due to the low interest rate the premium based Defined Contribution is the suitable system for Old Age Pension coverage. As well as for the Next of Kin Pension coverage as of retirement age.

Be aware that certain countries have specific own rules regarding the acceptance of a Defined Contribution pension claim. Germany for example does not accept a pure DC plan and insists that there is at least a certain basic guarantee.

Regarding the Next of Kin Pension coverage before pension age often is chosen for either a Death Benefit Capital of a guaranteed Defined Benefit annuity pension claim.

Pension Providers
Expats can have their pension claims insured by a Pension Fund, an Insurance Company or a national equivalent. The last decade many pension funds were forced to reduce existing pension claims due to not anticipated under capitalization. When expats have to choose between different kind of providers, one of the relevant questions is therefore how safe their pension claim will be at each institution.

Standard or Tailor-Made coverage
Many companies try to accommodate their expats in the best way possible. Often they present expats a special tailor-made international pension plan. Or they give their expats the choice between participating in such a plan or the standard local collective pension plan. At least if the latter is not mandatory due to local labor law.

Great that companies and their HR departments try to provide expats the best possible pension claim. In practice though it is often a fact that the tailor-made international pension plan sounds fine but in reality does not provide the best possible coverage at all. Too often these plans do not provide the highly valuable benefits which the regular local collective pension plan does provide.

Recently several HR professionals and even a highly respected director of a governmental supervisory body stated that as international companies were advised by equally large consultancy firms, the mentioned mismatch would not occur. Unfortunately this is not true.

Therefore it is advisable not to get sidetracked by a nice label and to stay focused on the added value.

Periodicity of Pay Out
Internationally there are substantial differences between the allowed kind of pay out of pensions and related insurance coverages. When choosing the kind of expat coverage and in which country, this is an aspect that should be included in the analyses. Especially as the old age pension retirement age keeps getting postponed and flexibility is in expat demand.

For example in Holland expat pensions may only be paid out as lifelong annuity and there is no tax exemption. In the UK it is possible to receive 25% of the expat pension claim tax free and to generally choose between Lump Sum, Drawdown, Annuity or a combination. In Australia and the USA there is even more freedom with the large flexibility of 401 K’s and such tax related plans.

Tax Benefits
An important aspect of optimizing expat pensions, is to use all existing tax benefits. Unfortunately this is not always implemented. Especially tailor-made international expat pension plans often score low on this issue. Which can easily frustrate the build up of a normal expat pension claim.

In case the annual pension premium is tax deductable at for example 50% wages tax and the expat has the possibility to voluntarily deposit more tax deductable premium, this doubles his return on investment.

It is good to also take into account that in countries like for example the UK legislation has increasingly been decreasing tax benefits from pension plans. As the UK for example has substantially decreased the Lifetime Allowance as well as the QROPS regime. In countries like the USA it might in the near future happen that the mentioned but not yet implemented decrease of the annual tax benefit of the 401 K becomes reality.

In countries like Qatar and the United Arab Emirates where there is no income tax the expat need for old age pension build up in a plan seems not high. Why restrict yourself to a pension regime if you can invest an equal amount of capital in your personal investment account without possible further future restrictions?

Voluntary Additional Corporate Pensions
Some countries provide substantial tax benefits for additional own contributions by expats into their existing pension plan. In that case it seems advisable to offer the expats the possibility to if so desired use this facility. Too often however this is still overlooked.

Asset Location Management
Many expat pension claims are based on Defined Contribution systems in which annual premium is deposited and invested until retirement age. This makes it relevant for expats to have the highest return on investment within their own risk profile. Unfortunately these issues often do not get the attention they deserve. Often they are also not kept up to date in the years towards retirement age.

The first step for the expat is to carefully determine his personal risk profile. There are many question forms on internet which can be used to establish this profile. The profile shows what kind of risk the expat is willing and capable to accept while investing until retirement age.

The second step is to invest in the best possible manner within the personal risk profile. The effect of annually compounded return on investment can almost not be overestimated. Therefore it is relevant to make sure the related investment costs are on a (very) low level as costs will not create compounded return on investment for example for 30 years.

In recent years many pension providers have increased the availability of investment funds. Some now offer 180 different funds. In general Life Cycle Funds can be useful as they automatically decrease the risk level as the expat's age nears retirement age. However, it still is important to check the total cost level as well as the percentage of Equity several years before retirement age. There are Life Cycle Funds that are not recommendable so expats and their advisors should be critical.

Collective Pan European Pension Plan
Ten years ago there was some mentioning of creating a collective Pan European Pension Plan. The benefit for an international company with expats and departments in different parts of Europe is that it could still have just one plan and increase efficiency.

In the beginning this was hardly effective and if so only possible for Defined Contribution plans. These days however it is clear that it is possible to have such a collective Pan European Pension Plan with not just DC but also DB plans. As time goes by it will get increasingly easy to implement and gain attractiveness.

Transfer of Value
Many expats have corporate pension claims in several countries. Administration wise it would be efficient to have them all transferred into one plan. Unfortunately it is not always that simple.

The first step is to check whether a transfer of value is possible within the applicable legal and tax regulations of both countries. Many countries treat this differently so this requires a hands on and accurate check.

The second step in case transfer of value is possible is to check whether it is desirable for the expat to have a transfer of value. Due to differences in pension claims and possible high costs of a transfer this also has to be checked thoroughly.

As all legal, tax, actuarial and product details are rather technical, it seems wise for expats to seek advice about these issues.

Future Trend in Corporate Pensions
Due to the focus on cost reductions and also due to the current low interest rates in the western world, it seems that the trend in expat pensions is going towards even more individual capital based pension claims.

Maybe that it will remain possible to have a collective risk coverage in order to benefit from the related lower collective rates.

Pillar 3: Private Pensions

Private Annuity Coverage
There is a vast amount of different kinds of private annuities. Private annuities that can be especially attractive for expats have the following characteristics:

- The total premium is tax deductable at an attractive rate
- The plan has low annual and total costs
- There are great investment possibilities
- The pay out period is flexible and if so desired also short

Individual Pan European Pension Plan (PEPP)
In 2017 the European Commission launched the PEPP. It is meant to provide more individual pension build up capacity within the EU. The PEPP should have full tax benefits and with free traffic throughout the EU. As many people within the EU do not yet have sufficient pension funds, the idea of a PEPP sounds logical.

However, the PEPP still has a long way to go as many wonder if the member states are going to provide tax benefits equal to for example pension plans. As expats often already have a pension plan, the PEPP will probably not become an interesting new proposition for expats in general.

Conclusion
The private annuity can be especially attractive for expats who prefer to retire early. During those first years of retirement they can thus arrange additional income in an attractive manner if the private annuity has all the mentioned attractive characteristics. Therefore good not to overlook this possibility.

Big Data is the Solution?

Benefits of Big Data

Big data refers to the large volume of information that companies deal with on a daily basis and the way they analyze it for strategic purposes. This is where it is already highly useful for the pensions sector. The increasing availability and implementation of big data strategies are leading to decreasing costs. Which is why there has been a big data revolution in the pensions industry.

One of the new developments is for pension providers to use blockchain technology to make administrations cheaper, safer and more transparent.

The different ways in which Big Data can be applied in the expat pensions sector:

- Personalisation, particulary in pensions communication
- Probability calculation, especially for mortality
- Investment, e.g. assessing the mood of investors
- Monitoring and enforcement

Obstacles in Big Data

There are obstacles that can cause problems:

- A lack of reliable data makes it much harder to analyze
- It can be difficult to assess the value of all this big data. Companies will need to invest in training and figure out the best analyzes and procedures.

Big Data is the future

Big data is here to stay in the pensions sector. There are many problems in the pensions industry which big data can help solve. Especially as the costs to do so are decreasing.

Conclusion

The foremost characteristic of expat pensions is that the situation is often different for each expat and that flexibility towards the future is essential. Good expat planning requires that this individuality and flexibility is acknowledged and implemented.

In the planning can be taken into account that first pillar state pensions are not always actually contributing. If they do, they will deliver often at a later age than expected.

In practice it is too often seen that tailor-made corporate expat pension plans are not expat friendly. The pension is too important for the expat to make such unnecessary errors. Therefore it is recommended to be highly critical about these plans.

It is possible to actively watch over company budgets and at the same time provide the expat with the best available pension plan. In this regard Big Data if applied correctly can contribute to keep costs low and add value by accurate analyzes.