High Technology, Incorporated: The International Benefits Problem

Case 5.2
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Part A

At High Technology Incorporated (HTI), the benefits policy for international assignments states that:

> Wherever legally possible, HTI will attempt to provide the employee with Home Country benefits under the Life Insurance, Disability Pension and Social Security Plans during temporary international assignments.

HTI employees typically spend one to three, and sometimes as long as four years overseas. Historically, during this time, many employees have received benefits equaling or surpassing those of the home country. Recently, company policy has shifted toward equalizing benefits across countries. The system has been less than perfect, however, with some employees finding that their stay overseas has reduced their benefits. At a 1984 conference for the corporate personnel managers of local companies, Jack Cooke, HTI Corporate International Benefits Manager, commented on HTI's difficulties in fairly compensating its U.S. employees abroad. During his discussion, he made the following points.

Home Country Coverage

In 1984 HTI carried out an audit of employees and inventoried people for the purposes of determining offsets—the benefits given to overseas employees to offset loss of home country coverages for pensions, insurance, and similar benefits. The issue was to examine offsetting benefits

to determine (1) if there was enough funding and (2) if the funding was allocated to the appropriate areas.

HTI gathered pension and benefits data for each employee on overseas assignment. A benefits book was published for each individual. The audit revealed that there was a considerable amount of overfunding (in the plans of four countries) and some underfunding—people with no plans at all. Cooke believed that HTI was not fulfilling its promise to provide equitable contracts to employees sent overseas. The audit pointed up the fact that whereas HTI was providing adequate funding, the money was being put in the wrong buckets—it was not being well distributed among the countries and individuals who needed it.

Cooke noted that the employees' main fear concerns the security of their coverage. He vividly recalls the old saying "Don't worry . . . but don't die or get sick on assignment!" and how it applied to a Canadian employee in Scotland. The employee died on the last night of his assignment. When his wife was questioned by Scottish authorities shortly after the death, it was discovered that the man had been covered by Canadian Social Insurance (federal social security), and so was ineligible for death benefits in Scotland. The Scottish social security agency refused to pay a death benefit and returned all HTI contributions to the wife, saying the employee should not have been covered in the first place.

The Scottish case highlights the need to review the current local policy to determine when coverage should apply and what steps should be taken to ensure continuity of coverage. Currently the company does not cover the employee under foreign programs when an employee cannot be maintained in a home country plan. A lack of coverage results in one of two major ways.

First, the home country legal requirements or plan documents may not permit participation by nonresidents. For example, a citizen and resident of Country A is transferred to Country B. Country A does not provide certain coverages, retirement income coverage, for example, to its citizens if they live outside Country A. HTI does not provide this coverage either.

Second, nonnationals in the home country are not allowed to stay in home country programs. For example, a citizen of Country B is working in Country A. In Country A, he is only covered for health insurance for a specified period, after which, unless he becomes a citizen, he will not be covered. Again, HTI has no policy to cover him.

To give a real-life example: "What about my pensions in the U.K.?" is a question often asked by "permanent" British employees living in the U.S. From the company's viewpoint, it may be difficult to decide what "permanent" means. Cooke pointed out that any American citizen on a United States payroll is covered by U.S. Social Security any-

PART C

The Bandits

HTI faces an additional problem, one faced by most international companies. The problem is reclassifying people from temporary to permanent. Cooke noted, "We have thirteen to fourteen American 'bandits' living in Geneva, Switzerland. Their kids can't even speak English, and they own ski chalets. They have home leave benefits that are more generous than others. But they are 'temporary,' and they are so powerful we can't get them to change to permanent status." The same problem is found among some employees who live in the United States. Exhibit 1 indicates how many bandits of various nationalities are employed by HTI.

On the other hand, if HTI does change the bandits' designated home country, the new home country must give them benefits as if they spent their entire career there. This can be costly to the company in some instances, but it can also be an inducement: "Come over to Switzerland at age sixty-three and we'll fix you up. If the company does not do this, it reduces its flexibility to move people."

Exhibit 1. Employees on Extended Assignments

	Assignment Years				
	4-5	5-7	7-10	10 +	Total
To Switzerland	13	18	11	7	49*
To U.S.	9	18	6	1	34

*From Germany n = 11, Netherlands n = 8, U.K. n = 17, U.S. n = 13.
Source: Sample of 550 expatriates.

Part 6

LABOR AND EMPLOYEE RELATIONS