private health insurance for their globally mobile employees, compared to only 57 percent in 2005. Mercer said that medical benefits, as well as the quality and standards of medical care, vary significantly from country to country.

"[S]o the main challenge for companies is to provide expatriates with a broadly equitable system of healthcare while managing costs," Mercer said. "Other factors that may be driving uptake of international medical plans include an increase in local health insurance compliance and also the increasing demand by employees for medical benefits to be in place prior to the commencement of the assignment," it said.

Price said an international medical plan provides equality among expatriates and cuts administration effort and time resource constraints, but cost-related challenges remain.

Mercer said 53 percent of respondents said they had experienced increases of 6 percent or more in their international medical plan premiums during their last renewal. In addition, 20 percent had experienced premium increases of between 11 percent and 15 percent.

With health care benefits, traditional cost-containment strategies remain popular among survey respondents, Mercer said. Among them are cost-sharing approaches that involve employee deductibles, coinsurance, and annual benefit limits.

Pensions

Employers Weighing Whether to Offer Lump Sum Pensions to Retirees

Contacting retirees who are already receiving pensions with an offer to cash out their remaining benefits may be rare if not unprecedented, but it is happening at General Motors Co. and Ford Motor Co., and other employers are weighing whether to follow their example.

Employers that sponsor defined benefit pensions have been keeping an eye on GM and Ford after learning that both automakers are offering lump-sum settlements to former salaried workers now receiving monthly pension benefits, practitioners told BNA in a series of interviews.

GM and Ford, which have two of the largest pension plans in the United States, might be in a category by themselves, however, and may not be leaders that other companies should follow, according to practitioners familiar with the terms of pension settlement offers the two automakers have made to retirees.

"We have a lot of clients that are interested. I'm not sure they're all the right candidates," Louis T. Mazawey, a principal at Groom Law Group, a Washington, D.C., legal firm that specializes in employee benefits, said in a July 30 interview.

Multiple incentives. No single factor can account for why many pension plan sponsors are thinking that what might be good for GM would be good for them, Mazawey said. "Obviously, increased longevity is one, and the changes in accounting and funding rules have been significant," he said.

The financial markets and the economy have been factors, Mazawey said. "If asset returns weren't so volatile, I think they might not be as concerned. But when you put all these things together, it becomes something they feel they should look at," he said.

Pension consultants also are talking up the business value of settlement offers as a "de-risking" strategy when they meet with corporate chief financial officers, Mazawey said.

Two recent private letter rulings from the Internal Revenue Service undoubtedly will heighten interest among pension plan sponsors in offering lump-sum payments to retirees who are already receiving benefits, Mazawey told BNA. The private letter rulings address lump-sum payouts to retirees already receiving monthly pension benefits. IRS released the rulings—PLR 201228051 and PLR 201228045—in July.

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"Now that the rulings are out, I think more companies will look at it," Mazawey said.

The settlement offers by GM and Ford are without precedent, he said. Companies have used de-risking strategies in the past, but on a lesser scale, Mazawey said. The best example, he said, is employers that have cashed out deferred vested benefits owed to former employees who may have left the company at age 45, for example, a full 20 years before retirement.

Companies that were paying pension insurance premiums to the Pension Benefit Guaranty Corporation for those individuals at some point decided it was money they would rather not spend each year, Mazawey said. "Periodically, the plan sponsor would go out to the deferred vesteds who hadn't started any benefit and say, 'Do you want to cash out? Here's a window to do it.' That's been a pretty well-tried-out approach to some type of de-risking," he said.

'Logical next step.' The GM and Ford decisions to offer to cash out current retirees is a logical next step in the evolution of defined benefit plans but not necessarily a desired result from a tax policy that favors defined benefit plans, Dallas L. Salisbury, president and chief executive officer at the Employee Benefit Research Institute, told BNA July 31.

GM and Ford, two large employers that for decades used defined benefit plans to provide lifetime retirement income, are joining the movement to turn defined benefit plans into generators of lump-sum payouts, Salisbury said. That movement, which began in the 1970s, is changing what it means to have a pension benefit, he said.

"The option now being given to GM and Ford retirees is a social experiment that bears watching," Salisbury said. "Will the takeup be the 15 percent that I have heard some predict? A very low takeup might serve to discourage other employers from taking the same route. Would a high takeup encourage them to follow suit?"

Tax policy. Salisbury said Congress should consider the following public policy question when it takes up tax reform: whether to revise the tax code rules that permit substantially more salary and wage income to be deferred in late-career contributions to defined benefit plans than to defined contribution plans. If both types of plans are primarily a means to fund lump-sum payouts, generally at retirement, why should defined benefit plans receive more generous tax incentives than 401(k) or other defined contribution plans, he said.

Perhaps tax policy incentives should not encourage the accumulation of wealth in individual accounts without regard to whether those tax incentives will guarantee income in retirement, Salisbury said. Perhaps instead, the tax code should offer the most generous tax incentives to defined benefit and defined contribution plans that provide retirement income for the lifetime of the retiree, he said.

Corporate balance sheets. Increasingly, decisions affecting the retirement security of current and future retirees are being considered as a strategy for improving corporate balance sheets, another practitioner told BNA.

"What Ford and GM are doing is really about managing their balance sheet," John W. Ehrhardt, principal and consulting actuary at Milliman in New York, said in an Aug. 2 interview. "The size of these pension obligations and assets are so big relative to the size of everything else on their balance sheet, the balance sheet doesn't look like the balance sheet of a manufacturing company. It looks more like the balance sheet of an insurance company," Ehrhardt said.

GM said the settlements would reduce its pension obligations by $26 billion. Its projected benefit obligation stood at $134.3 billion at the end of 2011.

The settlement steps that GM and Ford have taken are similar but not identical, Ehrhardt said. Ford is offering its retirees a choice between "taking the lump sum or keeping their Ford pension," he said. GM is spinning off its active and inactive participants into a new plan and leaving its retirees in the old plan, he said. GM also is terminating the old plan through a standard termination process.

To settle its pension obligations, GM is offering retirees a lump-sum distribution of their remaining pension benefits, Ehrhardt said. Retirees who decide not to take the lump sum will receive group annuity benefits from Prudential Insurance Co. of America and be guaranteed "all the same benefits, rights, and features of the old plan," he said.

The major difference is that the GM corporate pension was guaranteed by PBGC, whereas the new pension will be backed by insurance company reserves and protected under state insurance laws, Ehrhardt said.

Historically low rates. Ford and GM took today's historically low interest-rate environment into account in their decisions to remove a large chunk of pension liabilities from their corporate balance sheets, Ehrhardt said. However, under the rules of pension math, they will be settling their pension liabilities at near record-high valuations because of the low interest rates used to put a value on those liabilities, he said.

"My initial reaction was, 'Why are you doing this?' " Ehrhardt said. Notwithstanding the differences in rates used for plan funding, calculating lump sums, and accounting purposes, all are at historic lows, which means companies that offer lump sums and buy group annuities to settle pension obligations now are paying a high price to do so, he said.

For GM and Ford, the price may be worth it, but for other companies, paying the price might be imprudent, Ehrhardt said. The decision depends on a company's focus, he said. "If you're trying to reduce the size of your obligations so they have less of an impact on your balance sheet, paying lump sums or buying an annuity does that," Ehrhardt said. However, employers will be buying annuities at the highest price point and paying lump sums at the next-to-highest price point, he said.

Lump-sum payouts will be significantly more expensive for employers next year because interest rates for calculating lump sums have dropped well below the permissible look-back rate for the current fiscal or plan year, Ehrhardt said.

Affected individuals. One of the IRS private letter rulings, which approved a settlement window of 60 to 90 days, said a plan amendment to that effect could apply to participants currently receiving benefit payments, former employees who have retired but have not begun receiving benefit payments, terminated deferred vested participants, beneficiaries who are receiving pre-retirement or post-retirement survivor benefits or who are eligible to receive survivor benefits under the plans, and alternate payees.

Choosing between a lump sum or annuity benefit "is probably the most significant financial decision these people may be making in their lives, short of getting married and buying their first house or making a decision to have kids," Ehrhardt said.

There are two ways to view the choice between a lump sum and annuity payments, Eleanor Blayney, Certified Financial Planner Board consumer advocate, told BNA Aug. 1. "One is that it's a big, difficult decision, but I think, too, that it's an opportunity for some good financial planning," Blayney said.

"Every single one of these decisions, one way or another, will be based on some estimation of risk: How long am I going to live, who is paying me, and what is the risk? You eliminate all issuer risk if you take it all upfront," she said, "but now you're at risk of your own failings, your own financial blind spots."

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