Challenges and Effective Solutions for Small Groups of Non-U.S. Employees

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Discussion Agenda

- Global business challenges
- Alternative employment options and challenges
  - Legal entity, expatriate assignment, independent contractors, employer of record
- Benefit provision and promises
- Multinational pooling
- Global plans and small groups
- Questions and answers
Business Rationale for Global Expansion

- Global expansion is a fact of life today
- The business reasons are compelling
  - Driving revenue growth
  - Locking competitors out of a market
  - Geographic diversification
- But the challenges can be daunting
Issues Arise from Every Area

“I want to make an offer to a sales rep in UK and have them onboarded ASAP should they accept.”

“We’re acquiring a competitor in 3 weeks in Brazil and need to make sure there are no payroll interruptions.”

“We’re spending too much on web development in the US. I want that division moved to India within 90 days.”

“We need to begin manufacturing in France, Germany and Italy. What will the headcount cost be for each?”
You’re not alone—
The market is trying to manage the global expansion challenge

87% of U.S. companies have plans to expand globally*

*Wells Fargo 2017 International Business Indicator

58% of small to mid-size businesses have an international presence*

*USForex Survey, 2016

9.6% of senior management’s time is spent dealing with government regulations*

*TaxSense.com

3-12 months
Is avg. time to establish an entity in a new country ($75k +!)

8C-5
Who and How Do We Hire?

• Staffing decisions are part of a broader model and strategy
  – Location—established or not?
  – Timing—immediate or not?
  – Need—long-term or short/project based (or undetermined)

• A variety of resource types can be used
  – Expatriates
  – Local nationals
  – Independent contractors
  – PEO/GEO/EOR
PEO/GEO/EOR

- Professional Employer Organization
- Global Employer Organization
- Employer of Record
## Alternatives and Considerations

<table>
<thead>
<tr>
<th>Consideration</th>
<th>Local Employees</th>
<th>Expatriates</th>
<th>Independent Contractors</th>
<th>GEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead Time</td>
<td>Long</td>
<td>Long</td>
<td>Short</td>
<td>Short</td>
</tr>
<tr>
<td>Duration</td>
<td>Indefinite</td>
<td>3 mos.—3 yrs.</td>
<td>Shorter</td>
<td>1 mo. or more</td>
</tr>
<tr>
<td>Local Knowledge</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Control of Employee</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Compliance Management</td>
<td>Possible</td>
<td>Possible</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Registered Entity Required?</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
You could create an entity, but that requires all sorts of local labor market expertise.

**Entity Set-Up**
Engage workers through your organization's entity.

<table>
<thead>
<tr>
<th>BUSINESS RISK</th>
<th>UPFRONT INVESTMENT</th>
<th>SPEED TO ENGAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium</td>
<td>High</td>
<td>Slow</td>
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</table>

Limited risk if you know the local laws and have sought accurate legal advice.

Direct hire investments: banking, facilities, insurance, legal, benefits and provisions.

Need to establish your business as a legal entity, which takes time and resources.

9.6% of senior management’s time is spent dealing with the requirements of government regulations.

Source: TaxSense.com
You could bring over expats, but that is costly and doesn’t address local nuances

**Deploy Expats**
Engage workers through your organization’s entity

**Business Risk**
Medium

**Upfront Investment**
High

**Speed to Engagement**
Medium

Highly dependent on selecting the right ee & readiness; cultural implications abound.

Direct cost of ex-pat assignments is 2-3x salary, not including support services.

Most require 6-12 months to deploy, but could be accelerated.

25-40%

Failure rate of expat assignments in developed countries; up to 75% failure in underdeveloped countries!

*Source: Forum of Expat Management, 2016*
You could hire contractors, exposing your organization to a whole host of challenges

**Independent Contractor**
Contract individuals to provide specific services

**Business Risk**
High liability if you misclassify contractors. Local income tax and social security risks.

**Upfront Investment**
Initial, ongoing legal costs. Don't use domestic 1099s for foreign contractors.

**Speed to Engagement**
Quick engagement and contract negotiation likely requiring legal support.

60% of international contractors are non-compliant

Source: Safeguard Global
You could use Employer of Record services, reducing both time and complexity

**Employer of Record**
Engage workers through a third-party local entity

- **Business Risk**: Low
- **Upfront Investment**: Low
- **Speed to Engagement**: Fast

EOR assumes full responsibility for local laws and regulations.
One-time setup charge to cover onboarding and employee contracts.
Operational in 2-4 weeks, depending on your needs and in-country regulations.

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88% cost reduction of international establishment when utilizing employer of record solutions

Source: Safeguard Global
So How Do We Provide Benefits?

- Decisions on how and where to employ people will affect the available benefit options
  - Options: Small group, individual, cash
  - Legal entity and expats most flexible if have enough employees (generally minimum 10 for local employees or minimum 2 for all expats globally)
  - Employer of record depends on country
  - Contractors rarely have benefits
Cash in Lieu of Benefits

- Base salary gross-up
- Stipends or allowances
- No control over how funds spent
- May be difficult to change in the future
- Expense reimbursements
- Tax and cost implications
- What happens when employee population grows?
Expatriate Benefits

• Health care options exist, but expensive
  – Need for local, regional or international coverage?
  – U.S. included?
• U.S. carriers offer ACA compliant products
• Life and disability often stay on home country
• Retirement options very difficult
  – U.S. tax laws very restrictive
  – Payment of future benefits from multiple foreign sources, as well as tax implications
Health Care Benefit Promises

• Ability to offer “competitive” benefits
  – Social/mandated and competitive practices by country
  – Restrictive medical underwriting (blood pressure, cholesterol, weight, diabetes, etc.)
  – Pre-existing conditions and other exclusions
  – Waiting periods
  – Limited off-the-shelf insurance products

• Individual insurance market

• Cost of implementation and ongoing admin.
<table>
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<th>Life and Disability Benefit Promises</th>
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<tr>
<td>• Ability to offer “competitive” benefits</td>
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<tr>
<td>- Information on mandated and competitive practice</td>
</tr>
<tr>
<td>- Restrictive medical underwriting</td>
</tr>
<tr>
<td>- Free cover limits</td>
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<tr>
<td>- Few countries offer disability income products (mostly lump sum total and permanent disability)</td>
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<tr>
<td>- Private health information</td>
</tr>
<tr>
<td>• Individual insurance market</td>
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Multinational Pooling

- Combines employee benefit insurance contracts of various countries into a network agreement
  - Eight networks
  - Mostly for life, accident and disability benefits
  - Spreads risk of local insurance contracts
  - Allows for annual dividend with good experience
- Higher free cover limits and other improved conditions
- More flexible local insurer considerations
Global Plans and Small Groups

• “Global” insurance products
• Regional plans with multi-country underwriting (mostly Europe)
• Small group market
• Some local brokers offer small group products
  – Varies by country and local broker
  – Generally have minimum of 5-10 employees
Appendix

- Employer of record case studies
  - Uber
  - Skyscanner
- Employment status decision tool
- Multinational pooling networks
Facilitating Rapid Growth

- Uber: $6.5bn Rev
- Lyft: $700m Rev

2009 - 2015
- Presence in 10 countries

April 2015
- Uber engages Safeguard Global

April 2016
- Safeguard Global enables entry to 18 new countries

March 2018
- Safeguard Global enables entry to 21 additional countries

Growth supported in 39 countries
Speed-to-market reduced from 6+ months to 2 weeks
2014: $2.9bn – 2016: $20bn
589% revenue increase
Ensuring Contractor Compliance

March 2017
Concerned about paying full-time contractors in 7 countries via bank transfer

April 2017
Safeguard advises on HR and employment law in 7 countries
Skyscanner lacks HR resource

September 2017
Contractors transition to compliant employment solution

March 2018
Skyscanner adds another 2 countries to their portfolio

$300k+ saved in new and replacement personnel cost
High Level Employment Status Decision Tool*

Start

International candidate identified

Do org & candidate perceive candidate to be independent contractor?

Y

Strong evidence of employee-employer relationship

Time

Will associate receive pay for completion of a project or time worked?

N

Project

Does org have direct control over how project work is completed?

N

N

Time

Does associate have potential for profit & loss in relation to project completion?

N

Project

Can associate procure additional labor to complete the project without org approval?

N

N

Some evidence of employee-employer relationship

Does org have direct control over how project work is completed?

Y

N

Some evidence of independent contractor status

Can associate procure additional labor to complete the project without org approval?

N

N

Strong evidence of independent contractor status

Does org have direct control over how work is completed?

N

N

Y

Some evidence of employee-employer relationship

Does associate have potential for profit & loss in relation to project completion?

N

N

N

Strong evidence of independent contractor status

Does associate execute project with their own resources and tools?

N

N

Y

*for guidance only; all decisions require legal input and confirmation

8C-24
Pooling Networks

- AIG Global Network
- Allianz Global Benefits
- Generali GEB
- IGP
- Insuroppe
- Maxis GBN
- Swiss Life Global Solutions
- Zurich Global Employee Benefits Solutions