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MARSH MERCER KROLL  
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February 2009

## Managing expatriates in unprecedented times Containing international assignment costs

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Mercer

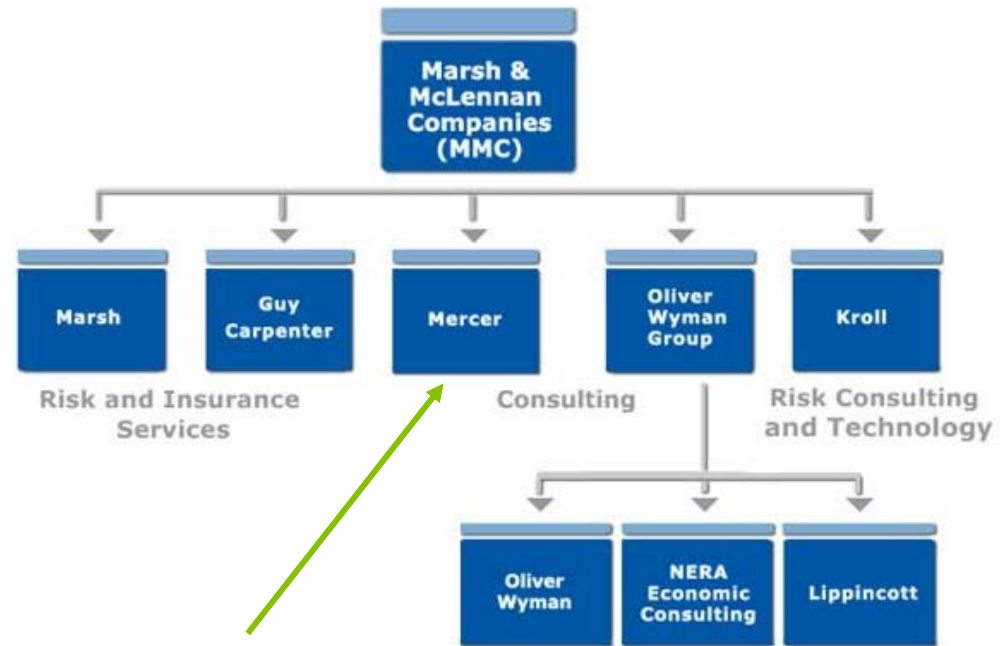


## Agenda

- About Mercer
- Latest Trends
  - Mercer survey results (December and February 2009)
- Compendiums of Expatriate Compensation
  - Methodology
  - Compensation package overview
- Benchmarking Case Study
  - Introduction
  - Overview of results
  - Overview of allowances
- Mercer's Approach

## About Mercer ©

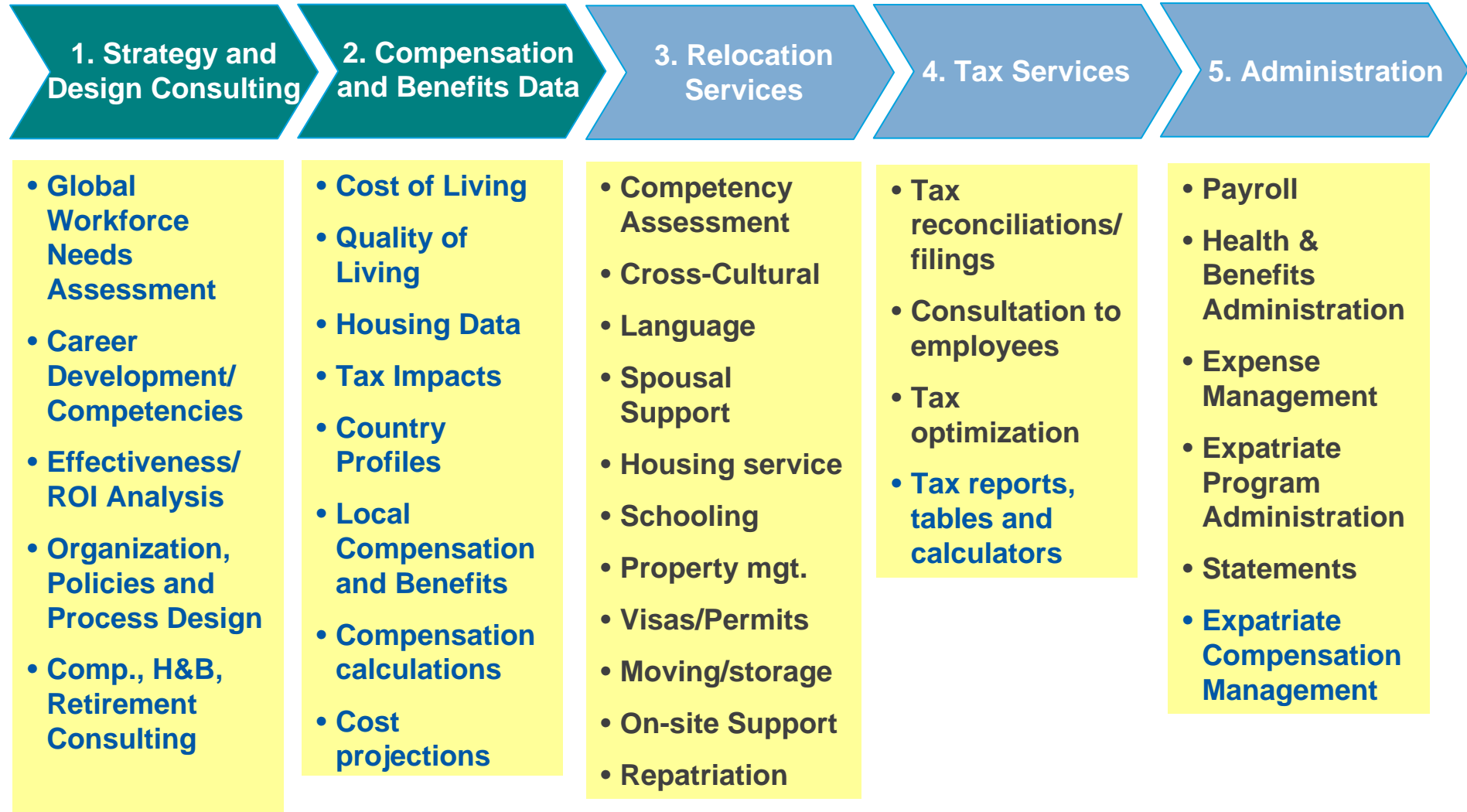
- The largest HR Consulting Company in the world with over 17,000 employees in 42 countries (180 cities)
- Recent industry recognitions:
  - Voted the "Best Employee Benefits Consulting Firm" by readers of Business Insurance magazine
  - Voted the "Consulting Firm for HR Strategy and Management" in China by *China Staff*



### Mercer worldwide countries

- |                |           |             |                |
|----------------|-----------|-------------|----------------|
| Argentina      | Denmark   | Malaysia    | Taiwan         |
| Australia      | Finland   | Netherlands | Thailand       |
| Austria        | France    | New Zealand | Turkey         |
| Belgium        | Germany   | Norway      | UAE            |
| Brazil         | Hong Kong | Philippines | United Kingdom |
| Canada         | Hungary   | Poland      | United States  |
| Chile          | India     | Portugal    | Venezuela      |
| China          | Indonesia | Singapore   |                |
| Colombia       | Ireland   | South Korea |                |
| Czech Republic | Italy     | Spain       |                |
|                | Japan     | Sweden      |                |
|                |           | Switzerland |                |

# Global Mobility Value Chain – where is Mercer

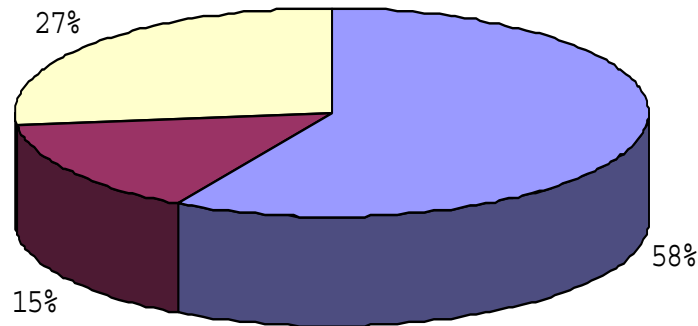


# Latest trends in expatriate compensation management in unprecedented times

## Survey among APAC, North American, Latin American and European Participants

Question: is your company currently or in the near future looking to revise your international assignment policy and management process?

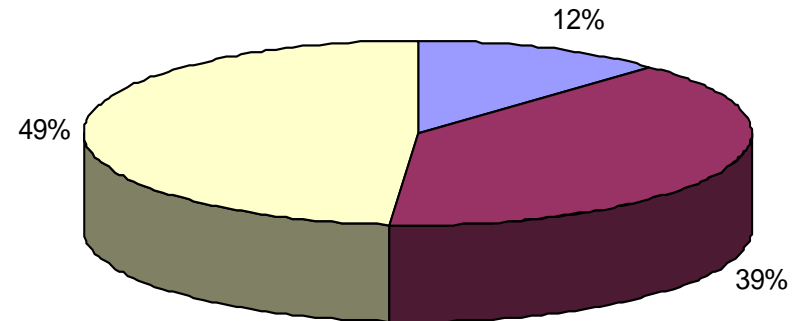
December 2008



■ No 
 ■ Very Likely 
 ■ Somewhat likely

- 70% not likely to reduce # of international assignees
- 21% are somewhat likely
- 9% are very likely

February 2009

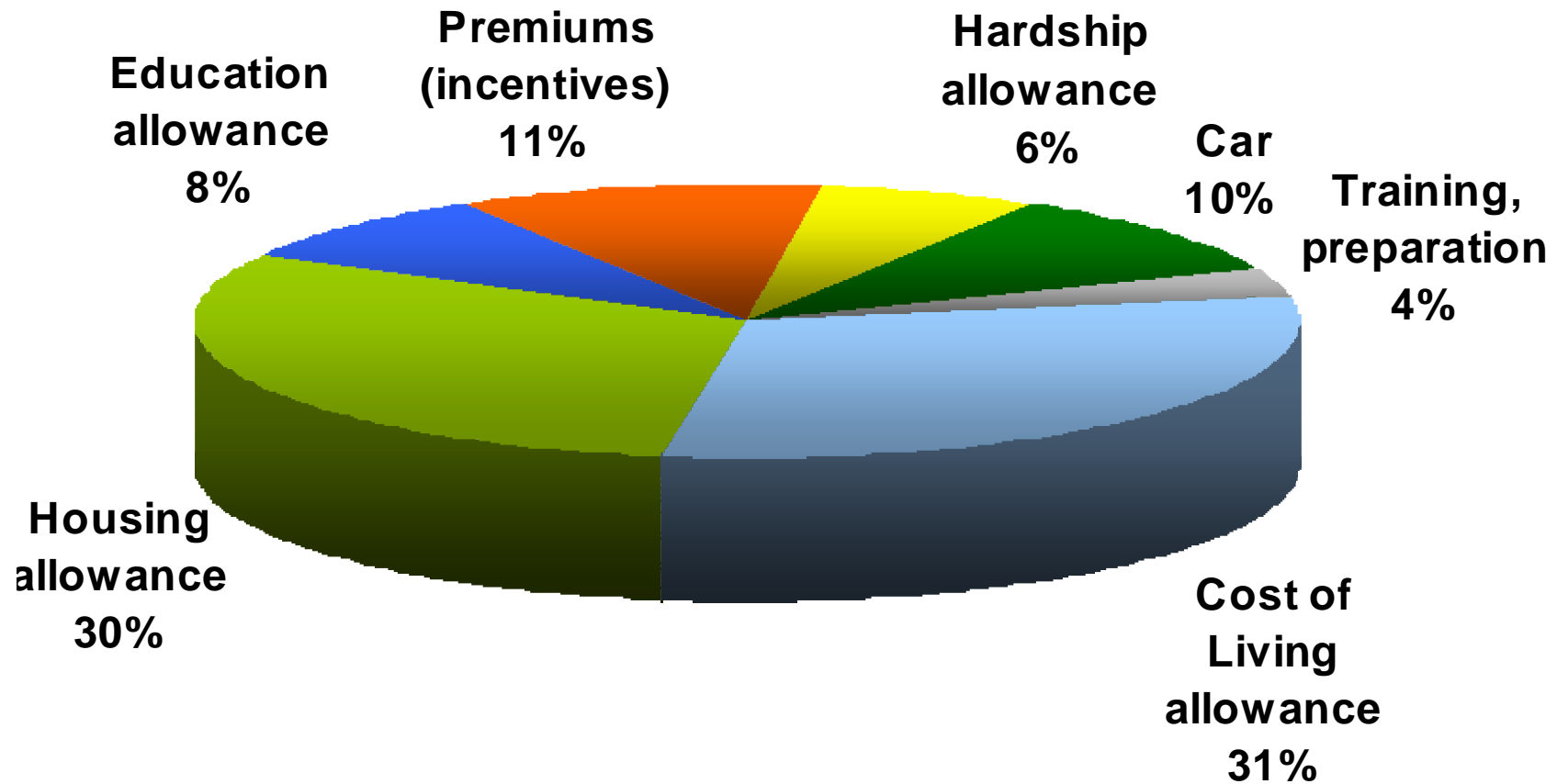


■ No 
 ■ Yes 
 ■ Not Sure

- February survey results are consistent with January 2009 survey
- Higher % of APAC survey participants are not sure (62%) than European (41%), North American (49%) and Latin American (42%)

## What is the most contentious element of the international mobility package from assignee's perspective?

Source: Webinar 29th January "The challenge of expatriate housing - managing costs and expatriates' expectations" Participant survey



## Latest trends in expatriate compensation management in unprecedented times

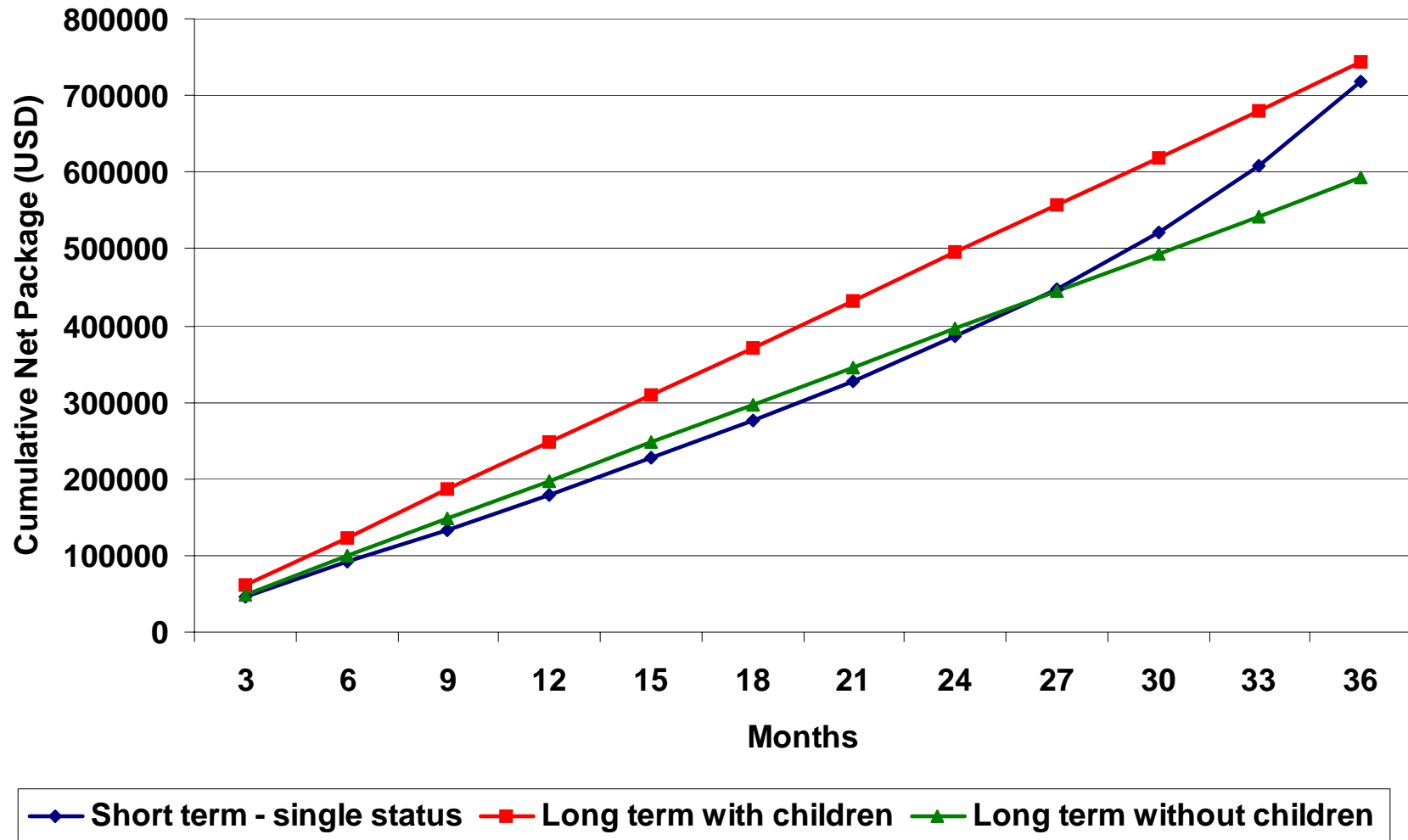
Key Actions for consideration (over 700 survey participants)

As a result of economic conditions, do you envisage any of the following taking place? PLEASE SELECT ALL THAT APPLY	Global Avg %	% APAC Participants	European Participants	North American Participants	Latin American Participants
Avoid policy exceptions	32.3%	35.3%	31.0%	36.1%	26.7%
Localize more expatriate compensation packages (where possible)	38.3%	56.9%	32.1%	28.8%	35.6%
Reduce the number of medium – long term international assignees (2 to 5 years)	26.6%	26.5%	20.8%	32.3%	26.7%
Reduce the number of overseas assignments	23.2%	13.8%	24.4%	23.7%	31.1%
Consider reduction of expatriate allowance and perquisites	25.8%	32.9%	24.4%	21.5%	24.4%
No change in conditions provided to employees on international assignments	21.4%	23.3%	20.2%	17.7%	24.4%
Favor short term assignments over long term assignments	17.6%	25.4%	13.7%	22.2%	8.9%
Reduce the number of short term assignees (2 to 18 months)	13.4%	12.7%	6.5%	14.4%	20.0%
Outsource various components of expatriate management	7.8%	7.1%	3.6%	9.3%	11.1%
Lower the level of foreign investments	5.0%	3.5%	3.0%	2.3%	11.1%
Bring the expatriate management process in-house	5.6%	10.6%	2.4%	2.5%	6.7%

February 2009 Survey

# Latest trends in expatriate compensation management in unprecedented times

## Short term vs. Long term assignment costs



## Latest trends in expatriate compensation management in unprecedented times

### Cost Of Living Allowances (COLA)

Are you currently or in the near future looking to revise your Goods & Services Allowances for medium to long term assignments? PLEASE SELECT ALL THAT APPLY.	Global Avg %	% APAC Participants	European Participants	North American Participants	Latin American Participants
No change	53.2%	52.3%	48.8%	56.3%	55.6%
Update the Cost of Living allowance on a more regular basis	17.2%	16.6%	20.8%	15.9%	15.6%
Apply a less generous Cost of Living index to contain costs	9.8%	16.3%	8.3%	5.8%	8.9%
Switch Cost of Living provider for more cost effective data	5.2%	6.0%	4.8%	3.3%	6.7%
Start to apply negative Cost of Living allowances	2.1%	0.4%	4.2%	1.8%	2.2%
Eliminate the Cost of Living allowance	1.8%	3.5%	0.6%	0.8%	2.2%

February 2009 Survey

## Latest trends in expatriate compensation management in unprecedented times

### Housing Allowances

Are you currently or in the near future looking to revise your Housing Allowances for medium to long term assignments?	Global Avg %	% APAC Participants	European Participants	North American Participants	Latin American Participants
No change	60.2%	51.2%	60.7%	62.1%	66.7%
Reduce the total housing budget for expatriates (i.e. revise the housing budget levels)	15.6%	25.8%	17.3%	10.4%	8.9%
Apply an expatriate minimum contribution (home housing norm deduction)	4.8%	7.1%	6.5%	5.8%	0.0%
Eliminate the housing allowance	1.6%	2.5%	1.2%	0.5%	2.2%

February 2009 Survey

## Latest trends in expatriate compensation management in unprecedented times

### Educational Allowances

Are you currently or in the near future looking to revise your Education Allowances for medium to long term assignments?	Global Avg %	% APAC Participants	European Participants	North American Participants	Latin American Participants
No change	63.9%	63.1%	67.9%	66.9%	57.8%
Reduce the education allowance by selecting a more cost effective school alternative, i.e. good quality of local schools vs. expensive international schools	10.1%	11.0%	7.7%	6.3%	15.6%
Apply an expatriate minimum contribution (home education norm deduction)	5.7%	7.8%	3.6%	4.5%	6.7%
Eliminate the education allowance	1.5%	2.1%	0.6%	1.0%	2.2%

February 2009 Survey

## Latest trends in expatriate compensation management in unprecedented times

### Hardship Allowances

Are you currently or in the near future looking to revise your Hardship Allowances for medium to long term assignments?	Global Avg %	% APAC Participants	European Participants	North American Participants	Latin American Participants
No change	65.8%	67.8%	66.7%	64.1%	64.4%
Reduce the hardship allowance in some countries?	7.0%	0.0%	8.9%	7.8%	11.1%
Eliminate the hardship allowance	4.0%	8.8%	1.8%	3.3%	2.2%

February 2009 Survey

## Latest trends in expatriate compensation management in unprecedented times

### Mobility/Foreign Service Premiums

Are you currently or in the near future looking to revise your Mobility Premium or Foreign Service Premium to long term assignments?	Global Avg %	% APAC Participants	European Participants	North American Participants	Latin American Participants
No change	52.0%	50.9%	51.8%	52.0%	53.3%
We have never provided a mobility premium	13.7%	16.3%	14.9%	14.6%	8.9%
Reduce the mobility premium	7.2%	8.5%	8.3%	3.0%	8.9%
We already phased it out	3.1%	2.8%	3.6%	3.8%	2.2%
Eliminate the mobility premium	2.2%	3.2%	1.8%	1.8%	2.2%
Phase out the mobility premium	0.9%	0.7%	1.2%	1.5%	0.0%

February 2009 Survey

## Latest trends in expatriate compensation management in unprecedented times

### Spouse Support

Are you currently or in the near future looking to revise your Spouse Support policy for medium to long term assignments?	Global Avg %	% APAC Participants	European Participants	North American Participants	Latin American Participants
No change	63.5%	65.0%	62.5%	64.4%	62.2%
Plan to introduce a spouse support policy	5.7%	1.8%	7.7%	4.5%	8.9%
Reduce the spouse support conditions	3.2%	4.6%	3.6%	2.3%	2.2%
Eliminate the spouse support	3.0%	4.6%	3.6%	1.5%	2.2%

February 2009 Survey

## Latest trends in expatriate compensation management in unprecedented times

### Pre Assignment Visit Conditions

Are you currently or in the near future looking to revise your Pre Assignment Visit conditions for medium to long term assignments?	Global Avg %	% APAC Participants	European Participants	North American Participants	Latin American Participants
No change	58.6%	58.3%	66.7%	64.9%	44.4%
Must be in connection with a business trip	9.0%	13.4%	9.5%	6.3%	6.7%
Reduce the pre assignment visit conditions	7.5%	6.7%	7.1%	5.1%	11.1%
Children not able to accompany employee	4.3%	4.2%	5.4%	3.3%	4.4%
Eliminate the pre assignment visit	2.5%	3.9%	0.6%	1.0%	4.4%
Spouse not able to accompany employee	0.2%	0.7%	0.0%	0.0%	0.0%

February 2009 Survey

## Latest trends in expatriate compensation management in unprecedented times

### Home Leave

Are you currently or in the near future looking to revise your costs of Home Leave for medium to long term assignments?	Global Avg %	% APAC Participants	European Participants	North American Participants	Latin American Participants
No change	59.7%	67.8%	62.5%	61.6%	46.7%
Reduce costs by change in travel class	13.5%	13.1%	12.5%	8.6%	20.0%
Reduce the frequency	7.5%	5.3%	10.7%	7.1%	6.7%
Eliminate home leave	1.0%	1.4%	0.0%	0.5%	2.2%

February 2009 Survey

## Key Findings

### Based on Survey results



- APAC survey participants are more willing to consider localization as well as reduce expatriate allowances and perquisites (as a result of economic conditions) than European, North American and Latin American survey participants
- For the most part, companies are still reluctant to make any direct changes to the expatriate's package particularly for educational, hardship allowances, spouse supports and home leave policy (although Latin American survey participants are more aggressive)
- More companies are willing to review COLA practice, housing allowance, pre-assignment visits (although the majority of surveyed companies still indicated no immediate change):
  - Updating COLA on a more regular basis to reflect the market condition
  - Reduce total housing budgets for expatriates
  - Introduce tighter pre-assignment visit conditions

## Check List

### Containing costs of international assignments



- Put in place awareness of international assignment costs looking from a total cost standpoint and not as a stand-alone reviewing process
- Explore alternatives/options in existing policies and practices:
  - For example, offer employees the opportunity to stay on assignment at lower costs (i.e., local or local + status)
- Avoid policy exceptions:
  - Harmonize where it makes sense
  - Leverage/consolidate existing benefit programs/policies
- Track assignments duration, avoid assignment extensions
- Measure and monitor the ROI of international assignments

## Check List

### Containing costs of international assignments (cont.)



- Compare what-if analysis, scenario planning
- “Outside the box” staffing strategies
- Reduce the duration of the assignment or choose alternate short term assignment solutions where possible
- Monitor housing costs, contract renewals, put pressure on housing agencies and moving companies to find better deals for you
- Review your mobility incentives/premiums whether they are relevant and appropriate in the current environment:
  - Mobility Premiums
  - Hardship Allowance
- Explore and maximize tax efficiency practices

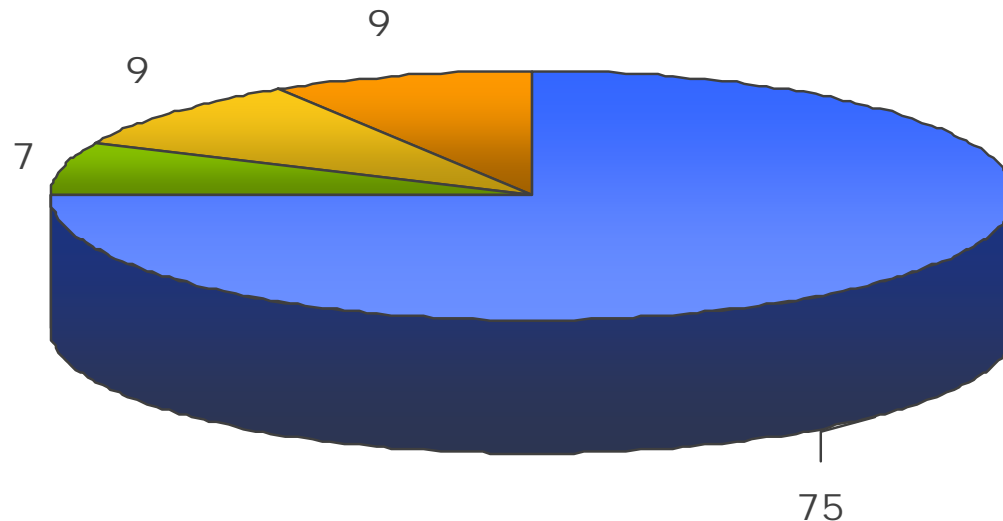


# Expatriate Compensation Reports

## Most firms use the home country balance sheet approach

How it works:

- In a well constructed package there should be no gain, no loss.
- BS is transparent - facilitates understanding and acceptance.

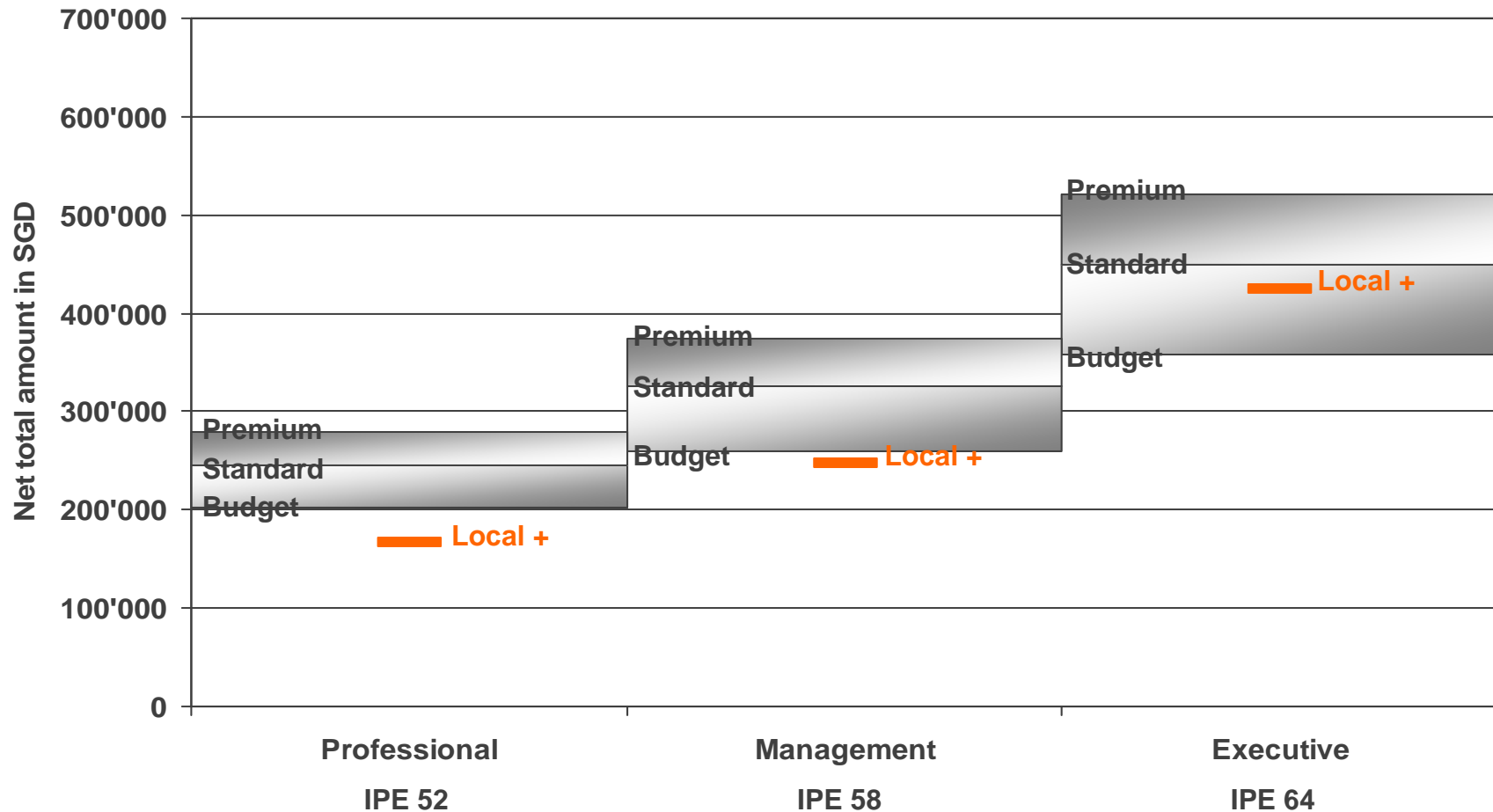


- Home country balance sheet approach
- Local Plus approach
- Hybrid Approach
- International compensation structure approach

# Net Expatriate Compensation Levels in Singapore

Net base salary and recurrent allowances (M+1)

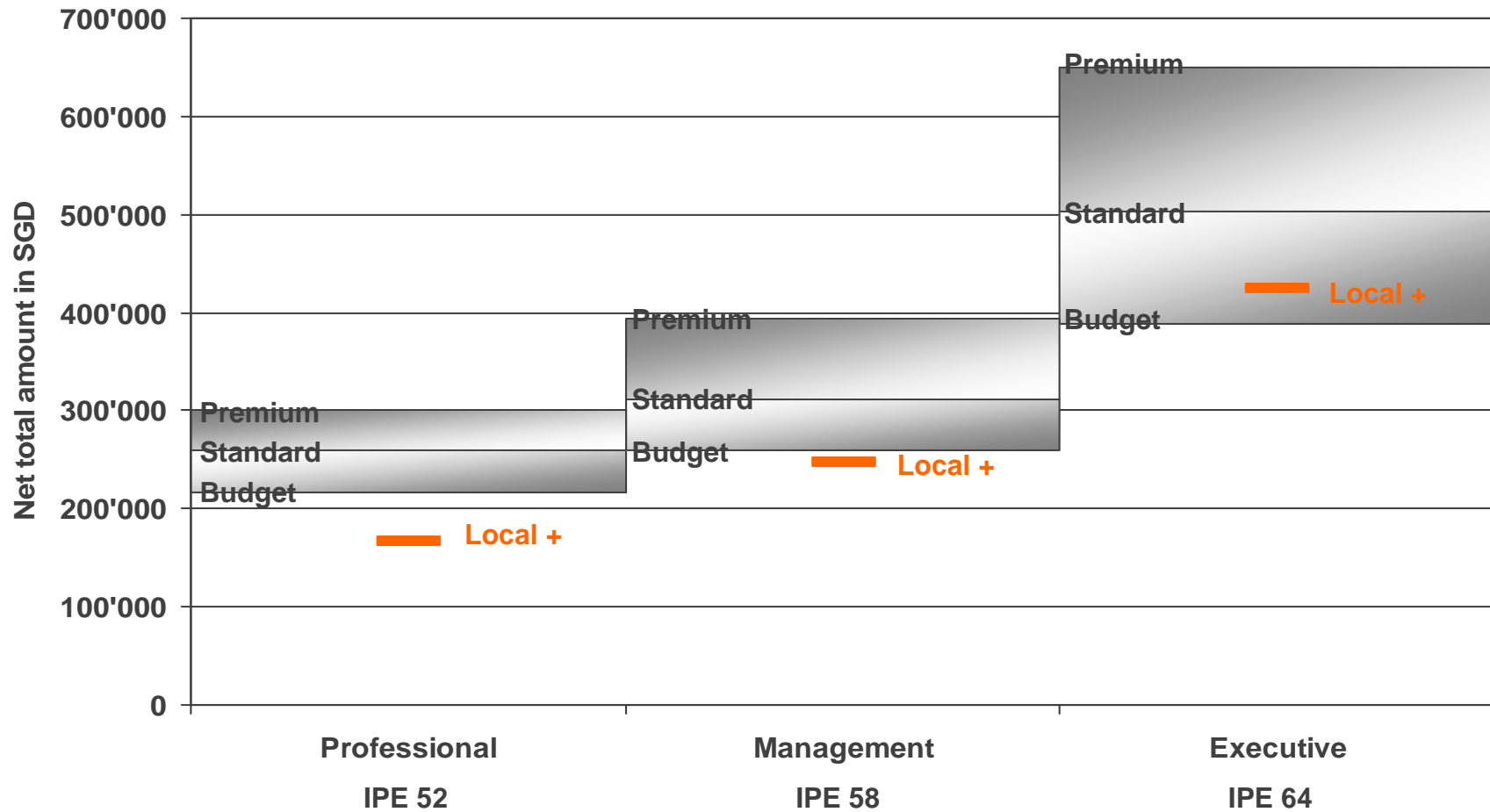
## German Companies



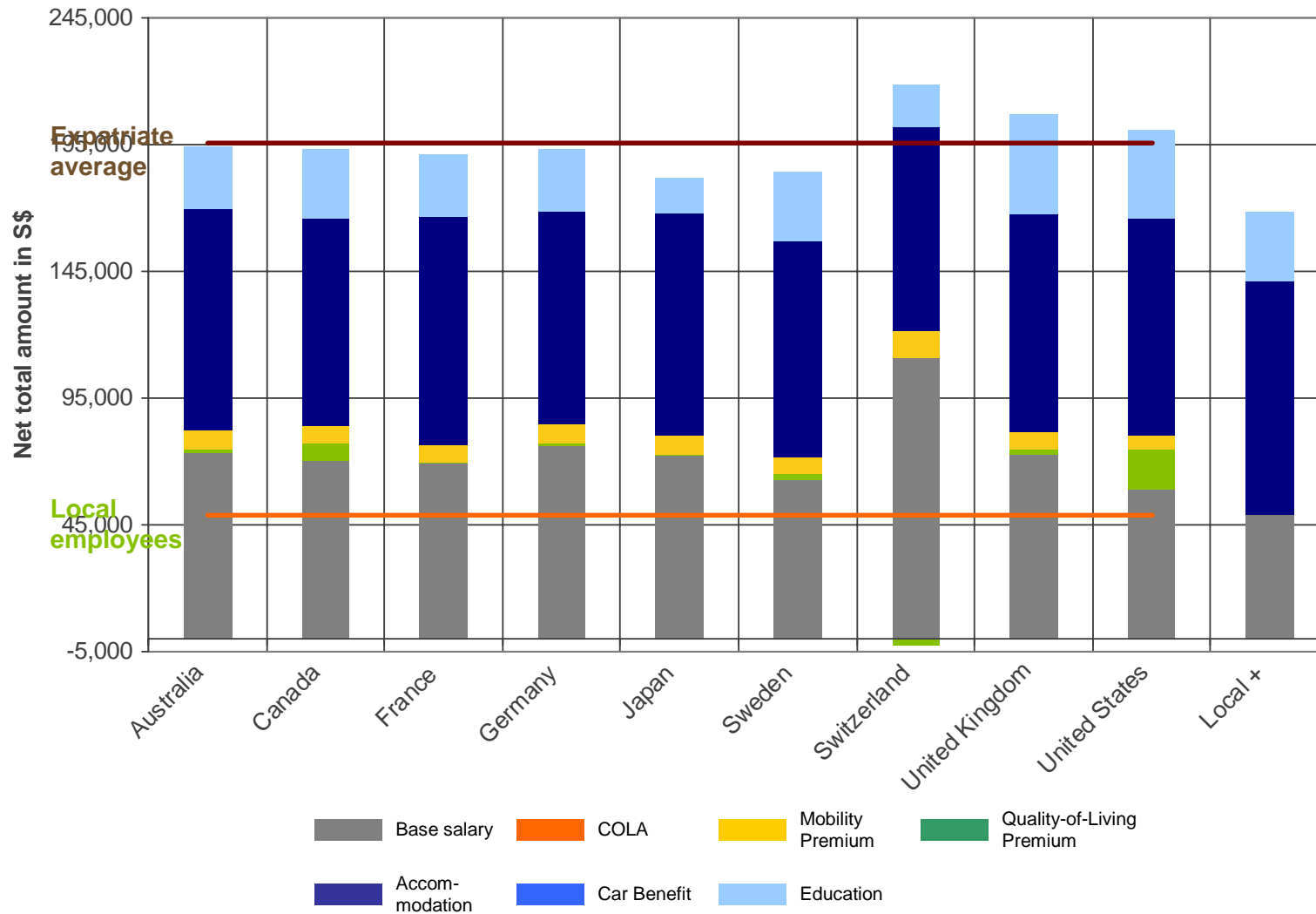
# Net Expatriate Compensation Levels in Singapore

## Net base salary and recurrent allowances (M+1)

### United States Companies

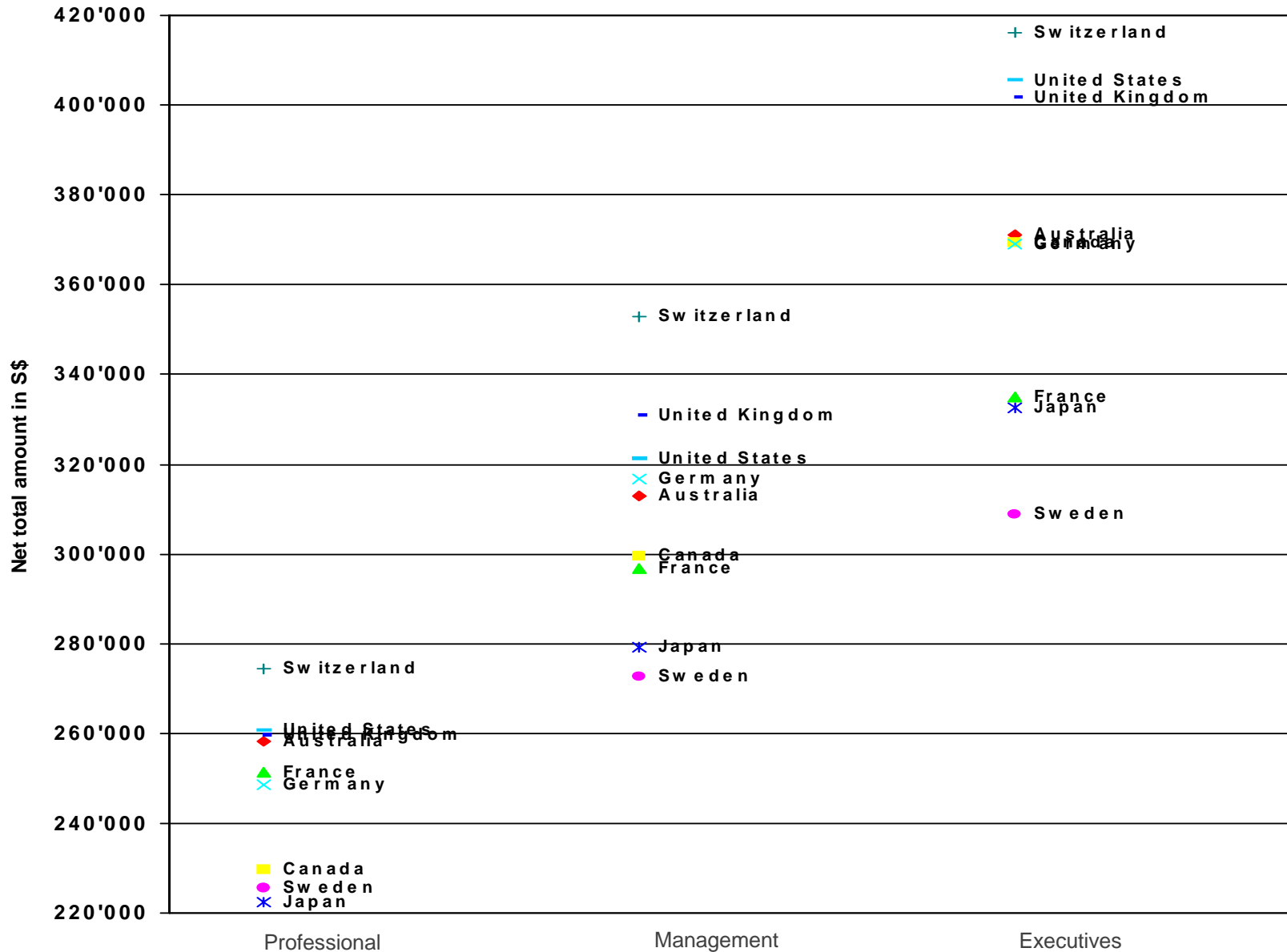


# International assignment package overview by position level and policy type



# Expatriate Compensation Levels - Host Country: Singapore

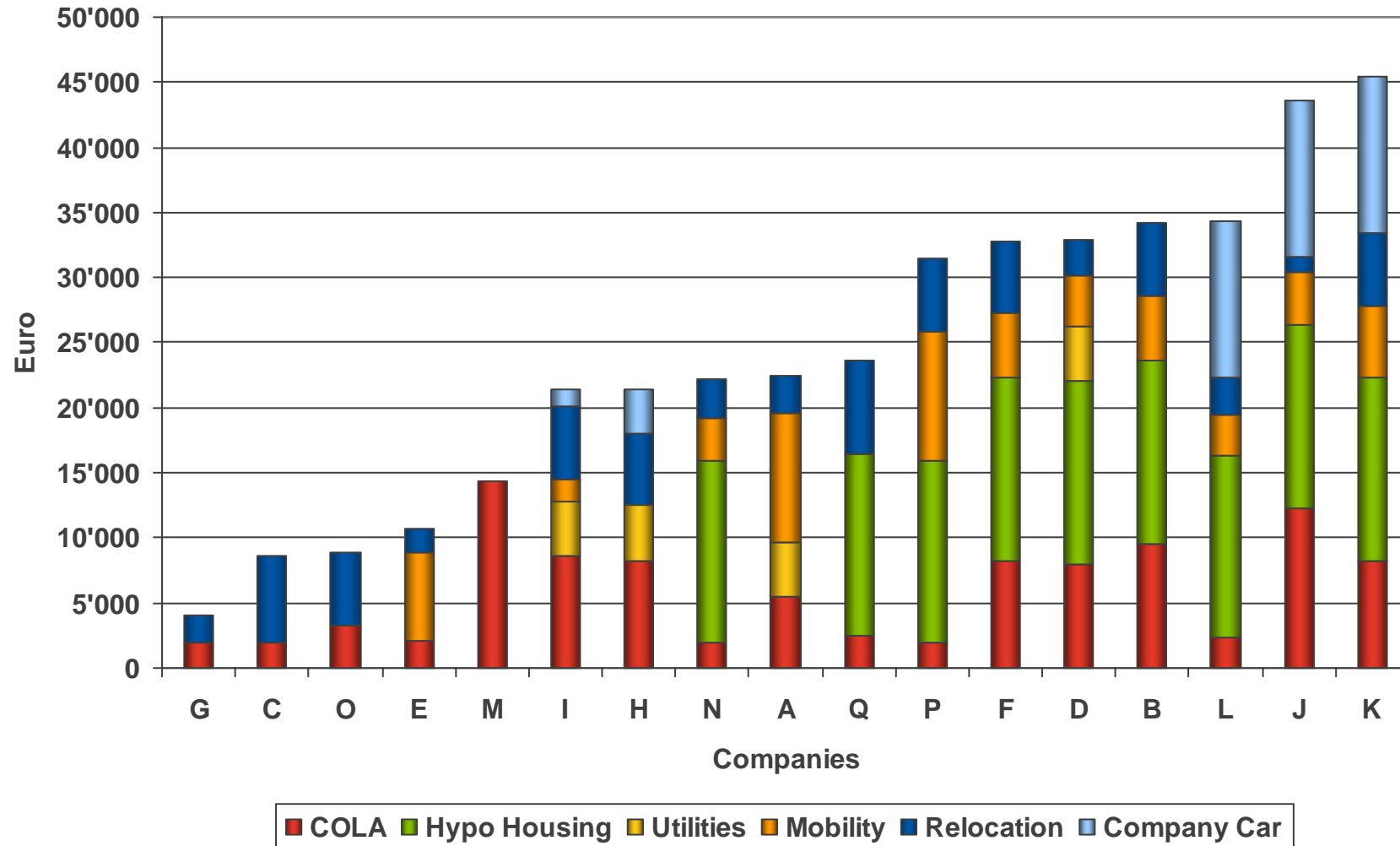
(M+1 2008 – standard package)



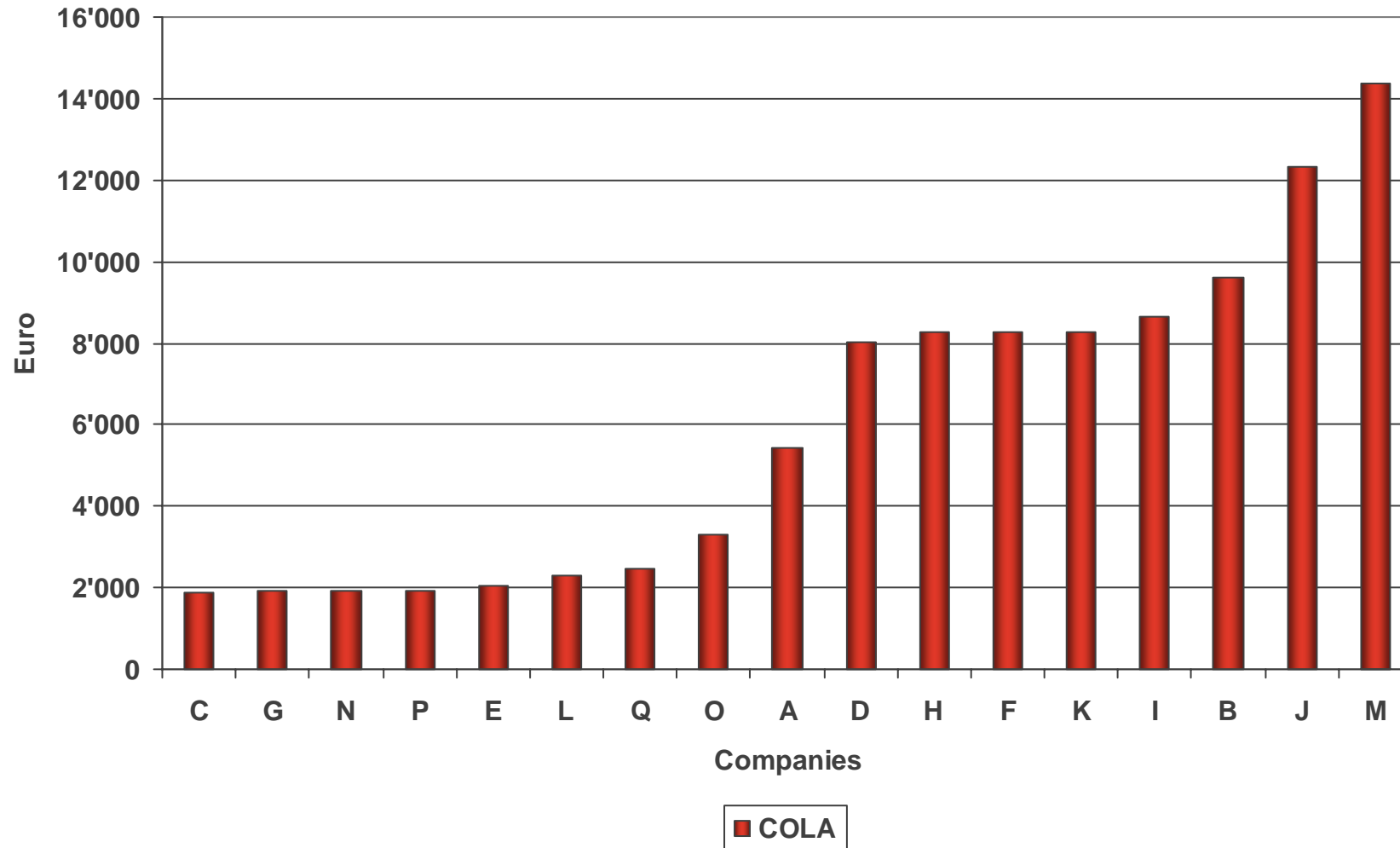


# Benchmarking Case Study

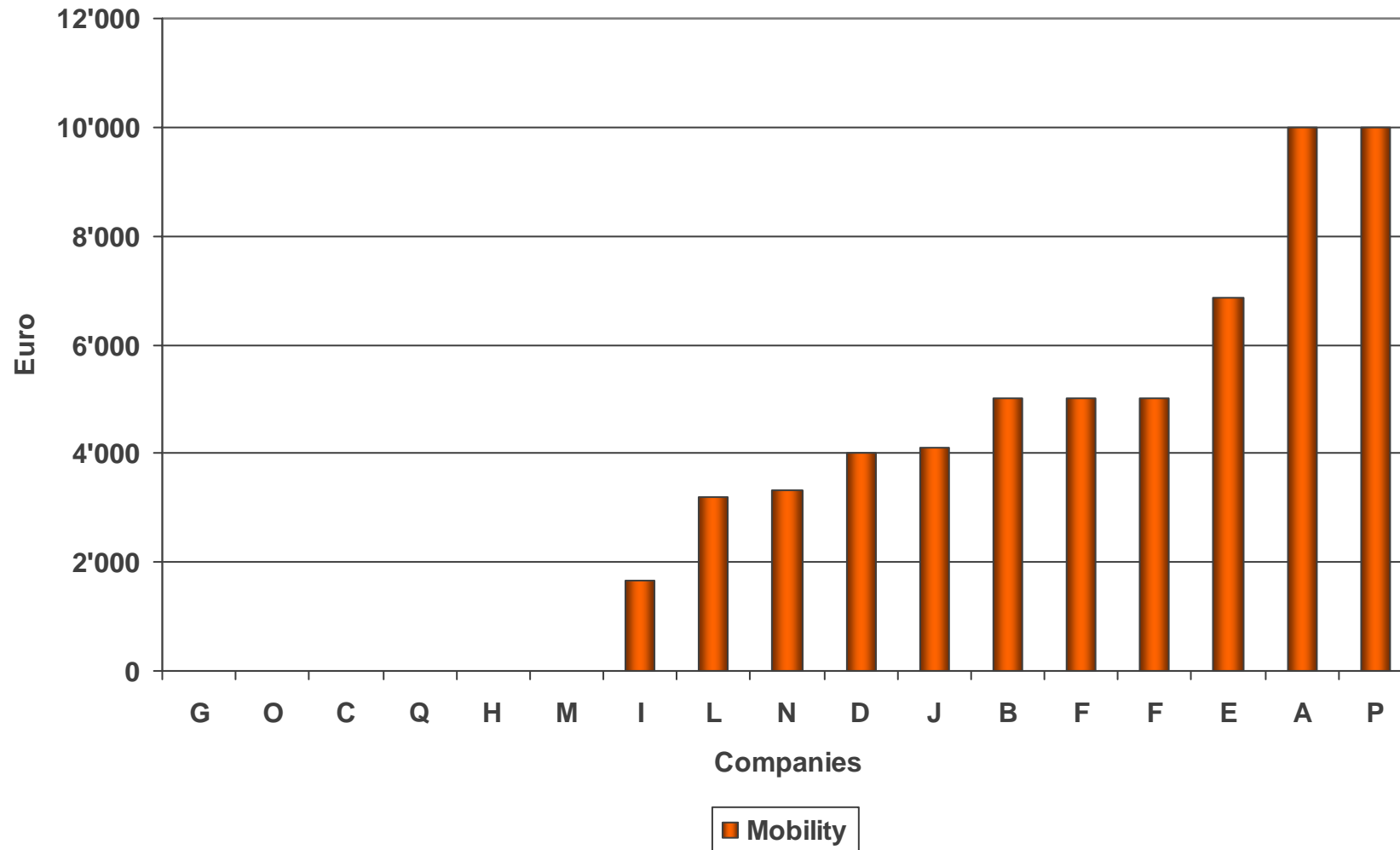
## Comparative annual value of allowances – with car



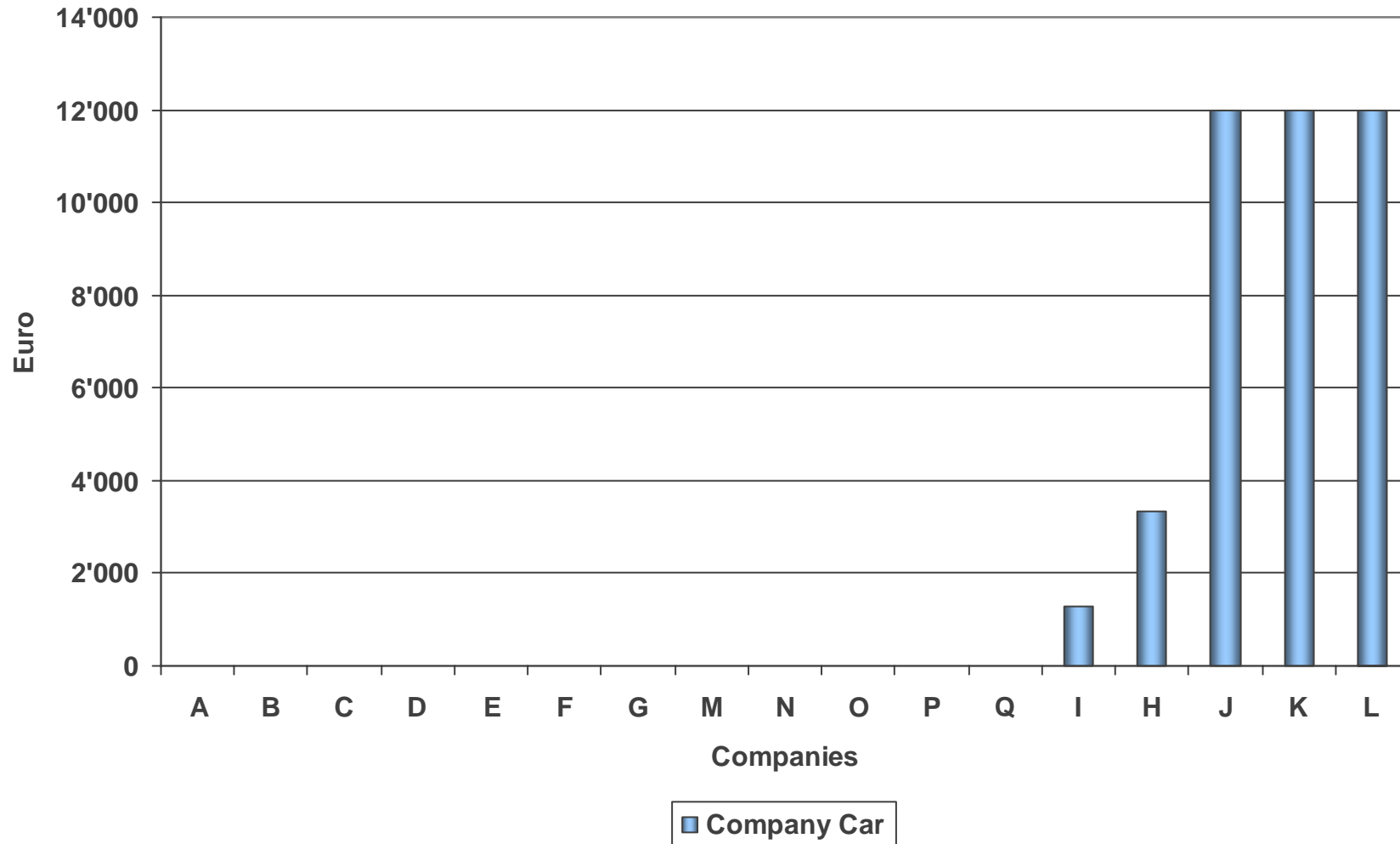
## Comparative annual value of Cost-of-Living allowance



## Comparative annual value of the Mobility Premium



## Comparative annual value of Company Car or Allowance





# **Mercer's Policy Design Framework**

## Mercer's approach - Designing the international assignment program

### Management

International business strategy  
Impact on business outcomes



### Workforce Perspective

Selection  
Preparation  
Engagement



### HR

- Policy / Compensation model
- Process management
- Skills Management



### External Benchmarking

Competitive assumptions  
Lead vs. follow

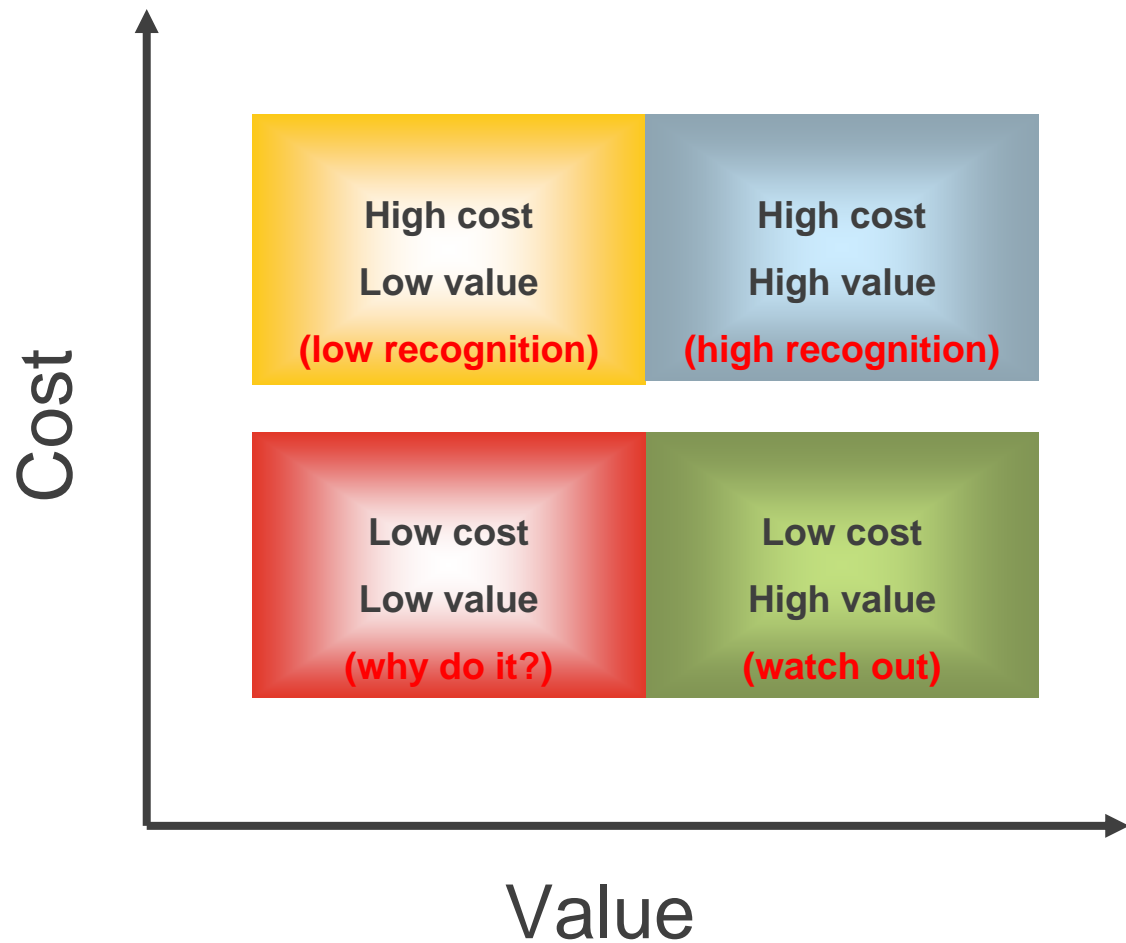
### The Organization Perspective

What does your organisation require

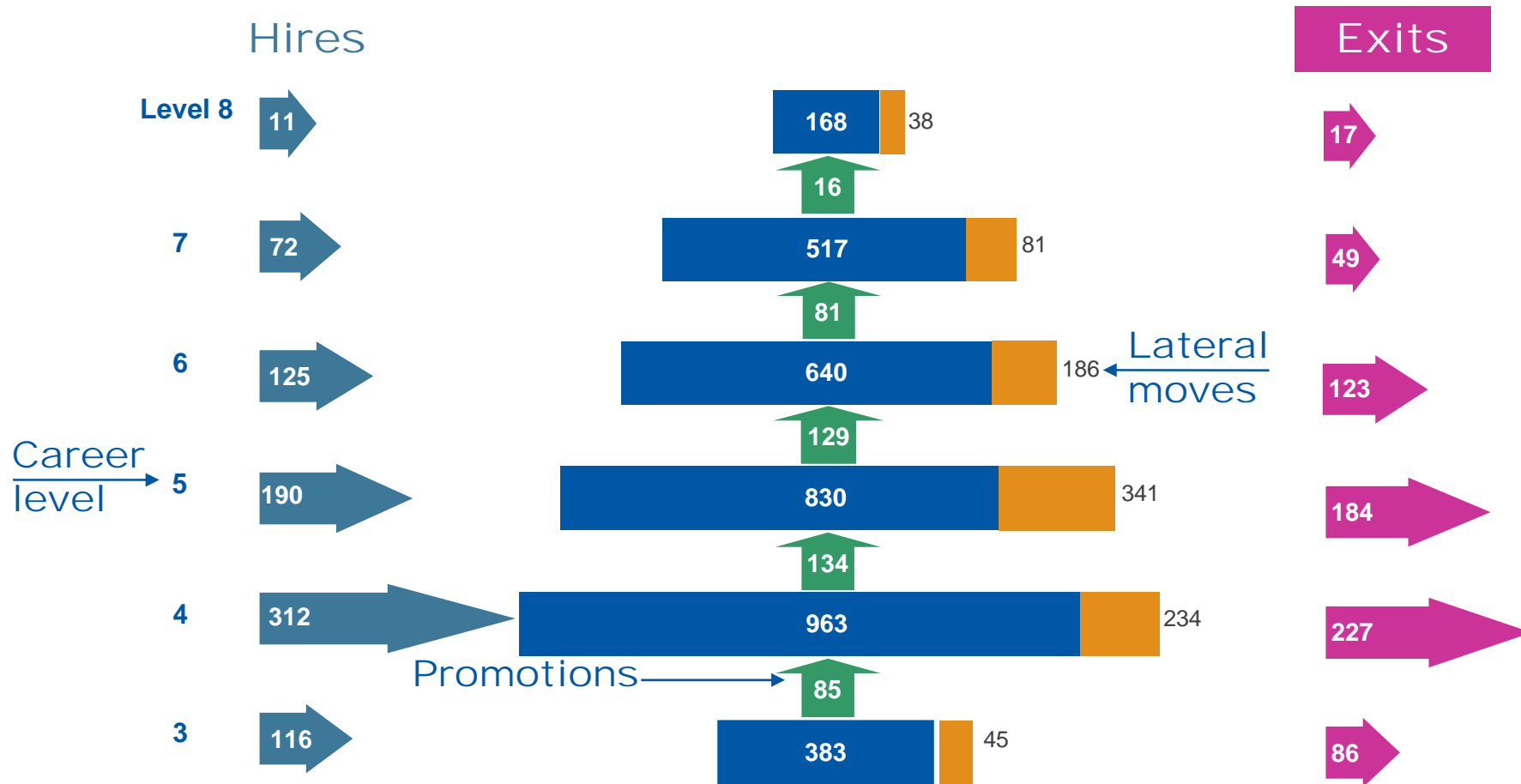


## Looking at assignments through cost and value metrics

... Can you measure the value brought by assignments and differentiate assignment types?



# ILM™ analysis starts by “mapping” the flows that determine what your workforce looks like



Expatriate assignments take place in a system. Assignments are but one of several practices influencing employees and the business

# Questions/Answers

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## Survey of expatriate housing costs and practices in major cities worldwide



How do housing policies vary from one global region to another?

What housing-related costs do companies usually cover?

How do employers handle expatriates' purchase of accommodations?

What are the tax implications of expatriate housing for employers and employees?



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Current housing information around the world

Accommodation information across 50 cities to aid your expatriate housing decisions

Housing remains one of the most sensitive issues in the expatriate package negotiation process, primarily because of its cost but also because of its significant impact on the assignee and family. Mercer's expatriate accommodation costs information can help you make better-informed expatriate housing decisions.

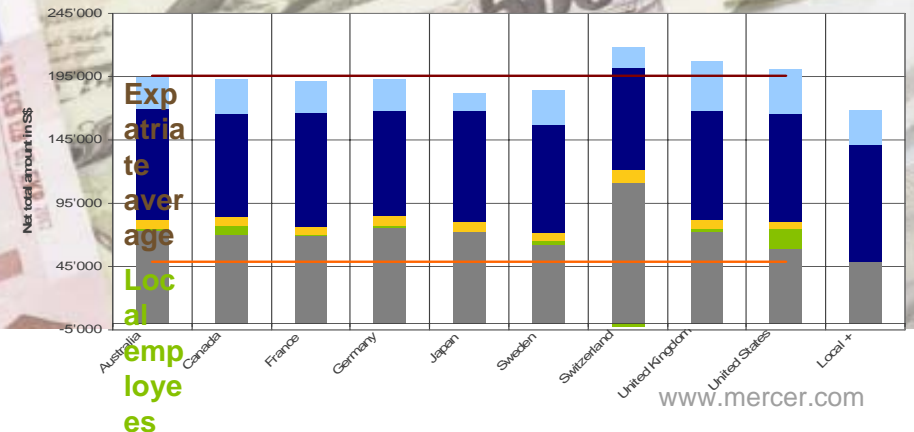
Mercer's new report, *Survey of expatriate housing costs and practices in major cities worldwide*, presents housing policies and practices as well as complete, current housing-related cost survey data to help you apply them. The report will help both decision makers and assignees with information on pricing and availability for preferred expatriate neighbourhoods in each city covered.

This 2008/2009 survey provides essential information to help you design your expatriate compensation packages. It can also help your employees relocate with confidence that housing issues will be handled effectively and fairly.



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## Compendium of Expatriate Compensation in Singapore



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