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Setting and Communicating Competitive Expatriate Allowances

Setting and Communicating Competitive Expatriate Allowances



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Today's agenda

1. Expatriate Compensation Trends

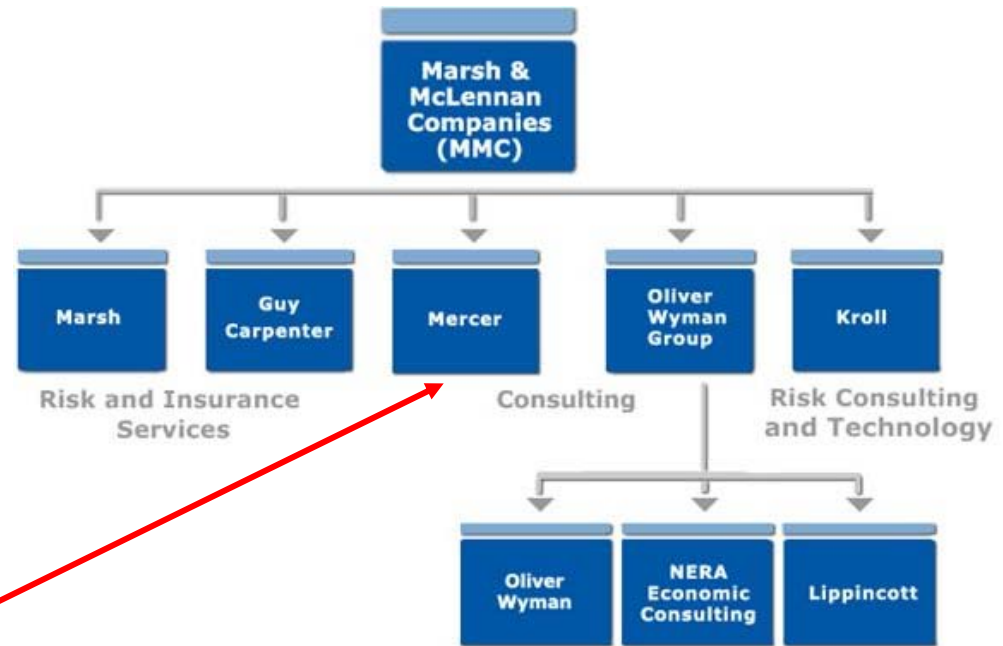
2. Assessing expatriate allowances

3. Determining cost of living allowances

**4. Understanding and communicating changes caused
by exchange rate fluctuations**

About Mercer ©

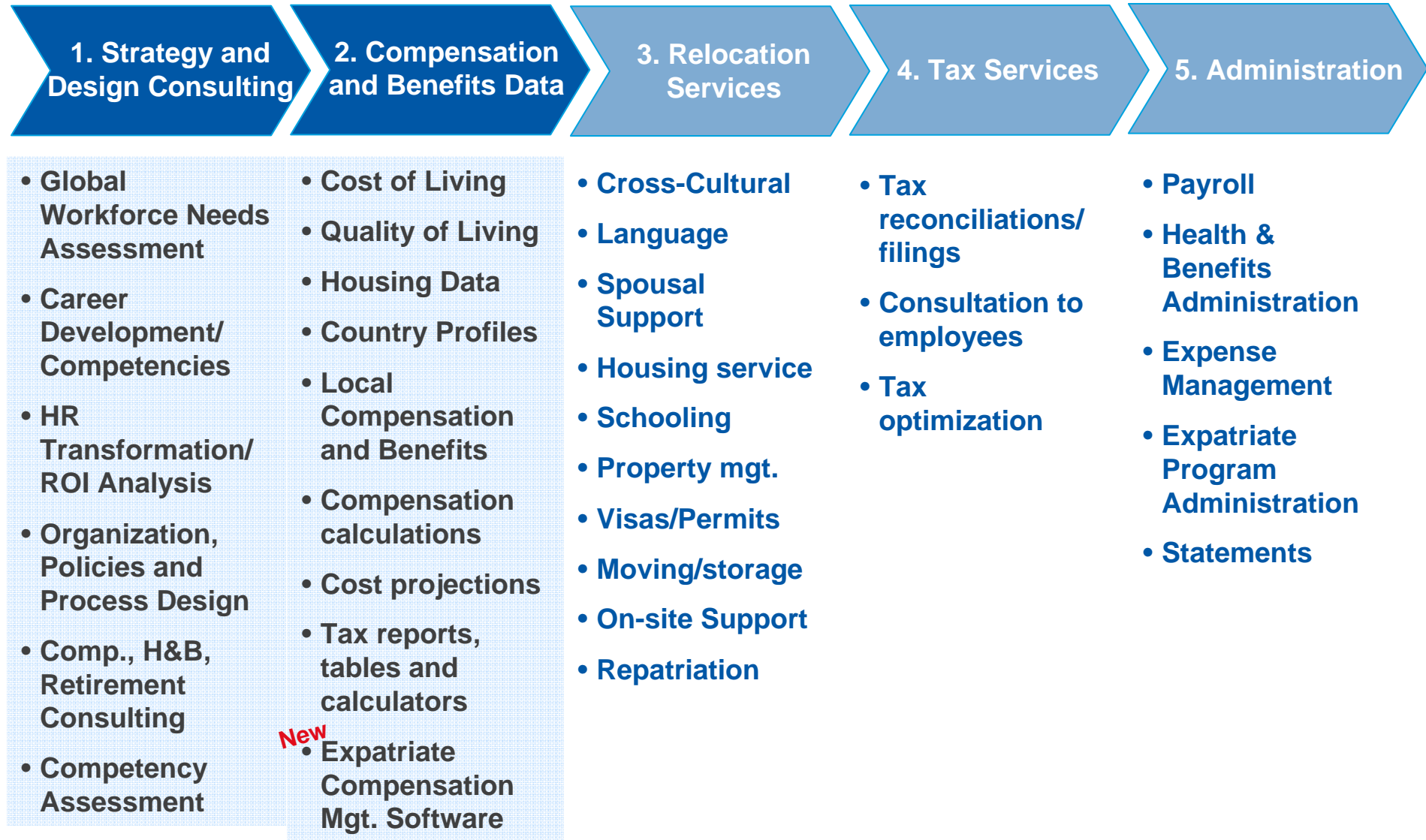
- The largest HR Consulting Company in the world with over 17,000 employees in 42 countries (180 cities)
- Recent industry recognitions:
 - Voted the "Best Employee Benefits Consulting Firm" by readers of Business Insurance magazine
 - Voted the "Consulting Firm for HR Strategy and Management" in China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





Today's agenda

1. Expatriate Compensation Trends

2. Assessing expatriate allowances

3. Determining cost of living allowances

**4. Understanding and communicating changes caused
by exchange rate fluctuations**

The overall trends



Managing expatriates
in unprecedented times – containing
international assignment costs

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Q1 2009 Survey Results with 617 total survey participants

In today's global economic downturn, is your company currently or in the near future looking to revise your international assignment policy and management process?

	# All Participants	% All Participants	European Participants	North American Participants	Latin American Participants
Not sure yet	284	46.0%	41.1%	48.7%	42.2%
Yes	242	39.2%	44.6%	36.4%	44.4%
No	91	14.7%	14.9%	15.2%	11.1%

Main findings (1)

As a result of economic conditions, do you envisage any of the following taking place?	# All Participants	% All Participants	European Participants	North American Participants	Latin American Participants
Avoid policy exceptions	209	33.9%	31.0%	36.1%	26.7%
Localize more expatriate compensation packages (where possible)	184	29.8%	32.1%	28.8%	35.6%
Reduce the number of medium – long term international assignees (2 to 5 years)	176	28.5%	20.8%	32.3%	26.7%
Reduce the number of overseas assignments	149	24.1%	24.4%	23.7%	31.1%
Consider reduction of expatriate allowance and perquisites	139	22.5%	24.4%	21.5%	24.4%
Favor short term assignments over long term assignments	115	18.6%	13.7%	22.2%	8.9%
Reduce the number of short term assignees (2 to 18 months)	77	12.5%	6.5%	14.4%	20.0%
Outsource various components of expatriate management	48	7.8%	3.6%	9.3%	11.1%
Lower the level of foreign investments	20	3.2%	3.0%	2.3%	11.1%
Bring the expatriate management process in-house	17	2.8%	2.4%	2.5%	6.7%

Main findings (2)

Question: Are you currently or in the near future planning to revise any of the following allowances for medium to long-term assignments?

# All Participants	% All Participants	European Participants	North American Participants	Latin American Participants
--------------------	--------------------	-----------------------	-----------------------------	-----------------------------

(% of firms reporting no change at all)

Goods & Services Allowances	335	54.3%	48.8%	56.3%	55.6%
Housing Allowances	382	61.9%	60.7%	62.1%	66.7%
Education Allowances	409	66.3%	67.9%	66.9%	57.8%
Hardship Allowances	401	65.0%	66.7%	64.1%	64.4%
Mobility Premium (Foreign Service) Premium	320	51.9%	51.8%	52.0%	53.3%
Spousal Support	394	63.9%	62.5%	64.4%	62.2%
Pre Assignment Visit	395	64.0%	66.7%	64.9%	44.4%
Home Leave	376	60.9%	62.5%	61.6%	46.7%



Today's agenda

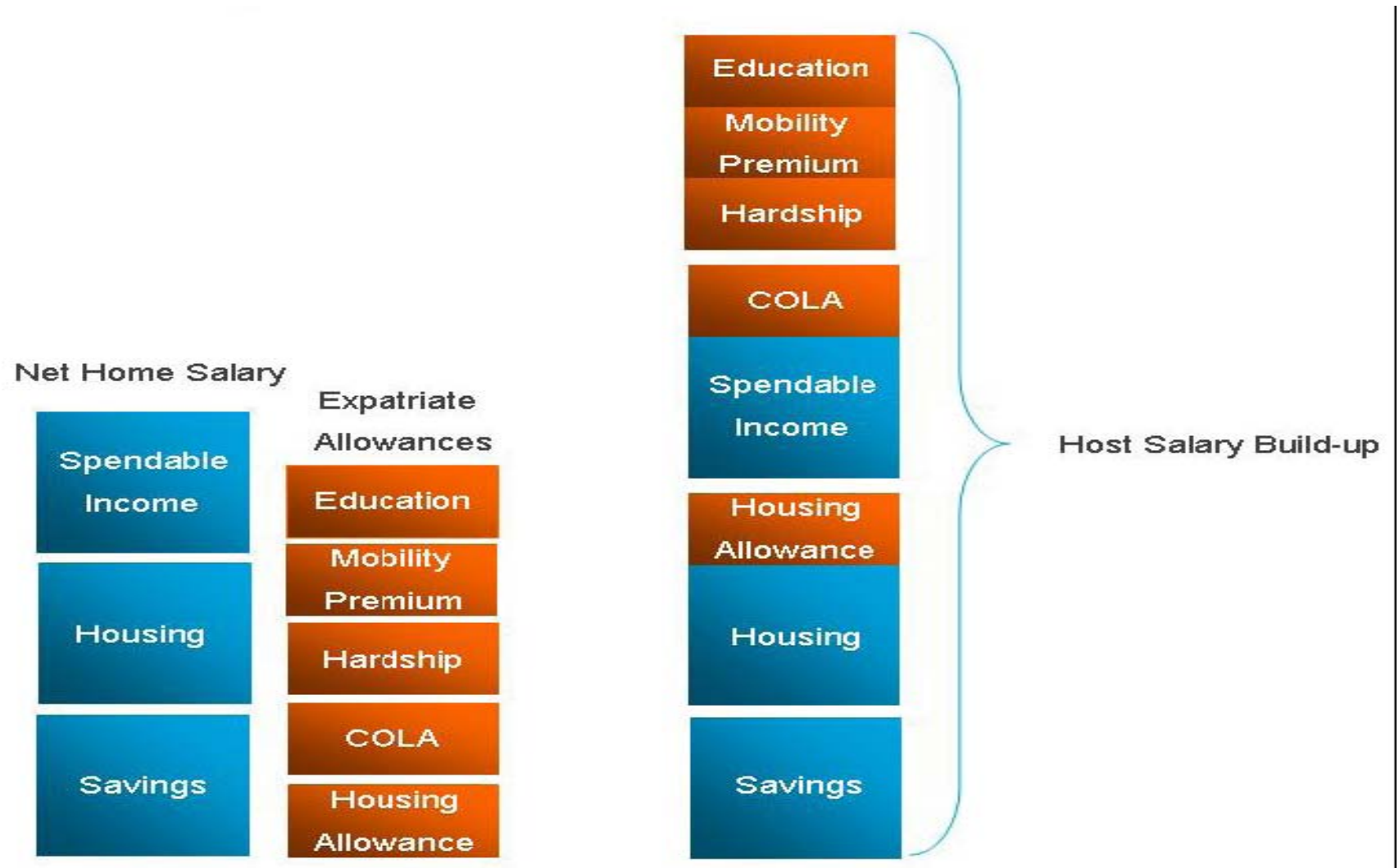
1. Expatriate Compensation Trends

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**4. Understanding and communicating changes caused
by exchange rate fluctuations**

The classic balance sheet model





The options

- **Cost of living allowance**
 - Choice of spendable income
 - Choice of index
 - Negative indices
- **Accommodation**
 - Home housing norm
 - Utilities allowance
- **Education**
 - Choice of schools
 - Choice up to employee
- **Mobility premium**
 - Annual vs. one time or two times
 - Eliminate?
- **Hardship premium**
 - Review the list
- **Pre assignment visit**
 - Exclude family members
- **Transportation**
 - Norm or no norm
- **Home leave**
 - Leave or no leave

Case example – balance sheet calculation

Atlanta to Tokyo, M+2, March 2009 – amounts in USD

	Standard Calculation	Premium Calculation
Gross base salary	150'000	150'000
Net base salary	109'663	109'663
Spendable income	50'938	75'776
COL index	166	203
Exchange rate USD 1: JPY 92.30		
Host build-up		
COLA	33'619	78'050
Housing allowance	127'153	143'527
Mobility premium	15'000	15'000
Education allowance	41'538	41'538
Total	326'973	387'778
as a factor of the net home base salary	2.98	3.54
Potential savings net of tax		
One year		60'805
Two years		121'610
Three years		182'415

A quick look at Goods and Services (G&S) or Cost of Living allowances (COLA)*

Mercer findings

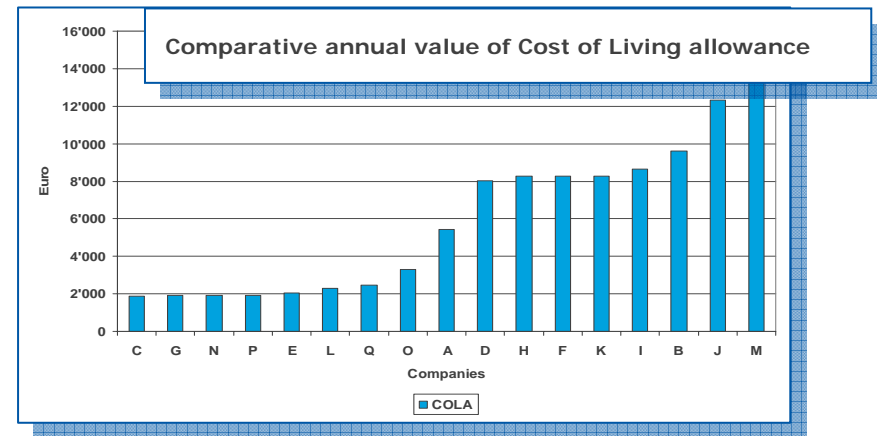
Mercer recently **measured the actual G&S allowance or COLA** among a group of the world's leading multinational firms in the US and Europe

1:10

Variation in net value of COLA

Based on:

- same salary
- same host / home combination
- same family size

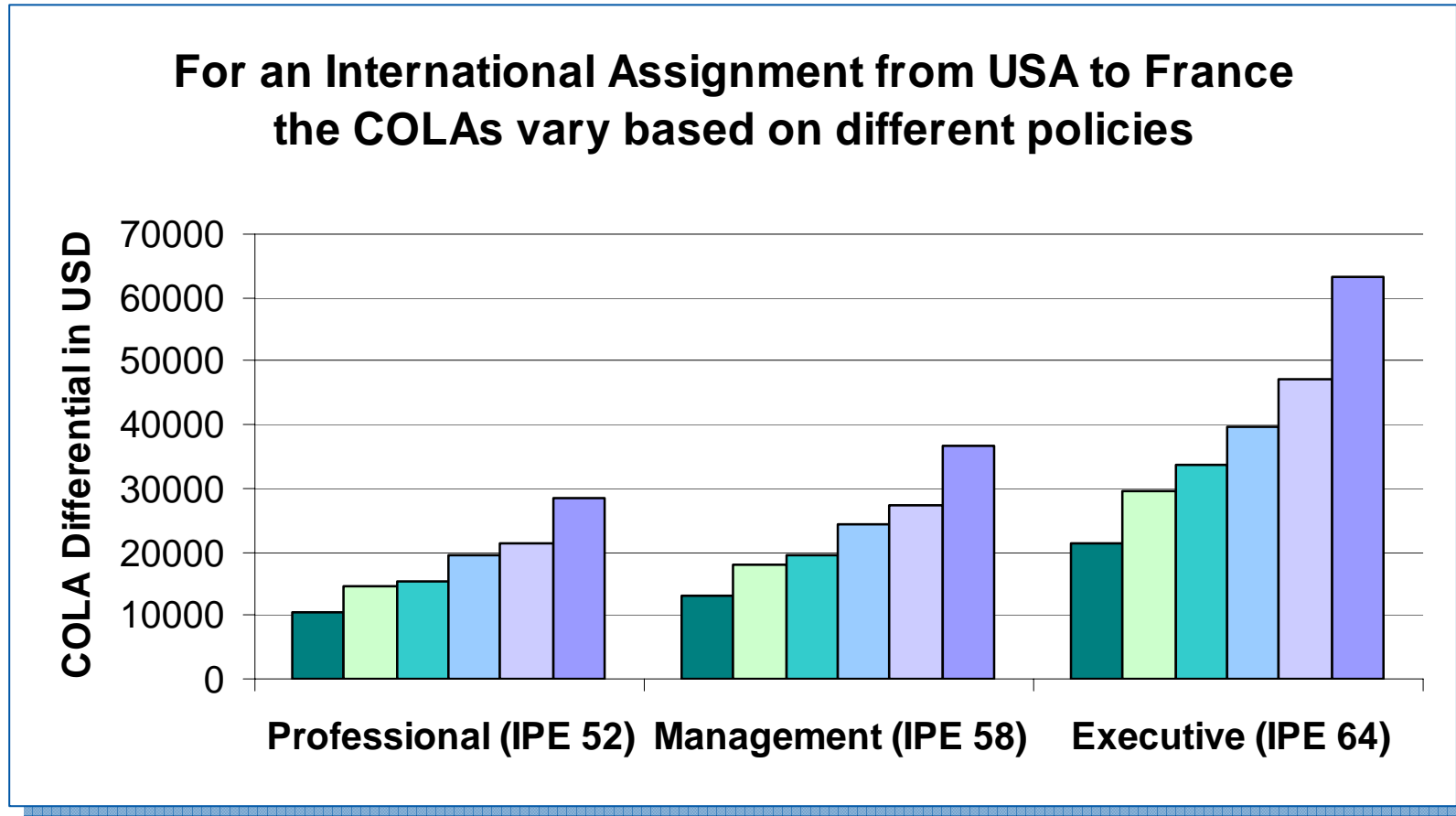


Based on a Frankfurt to Paris, €100,000 gross base salary and family of four

*In this document, we use indifferently “Cost of Living allowance (COLA)” and “Goods and Services (G&S) allowance” to design the same thing.

A quick look at Goods and Services (G&S)/Cost of Living allowances (COLA)

Comparison of the potential differences



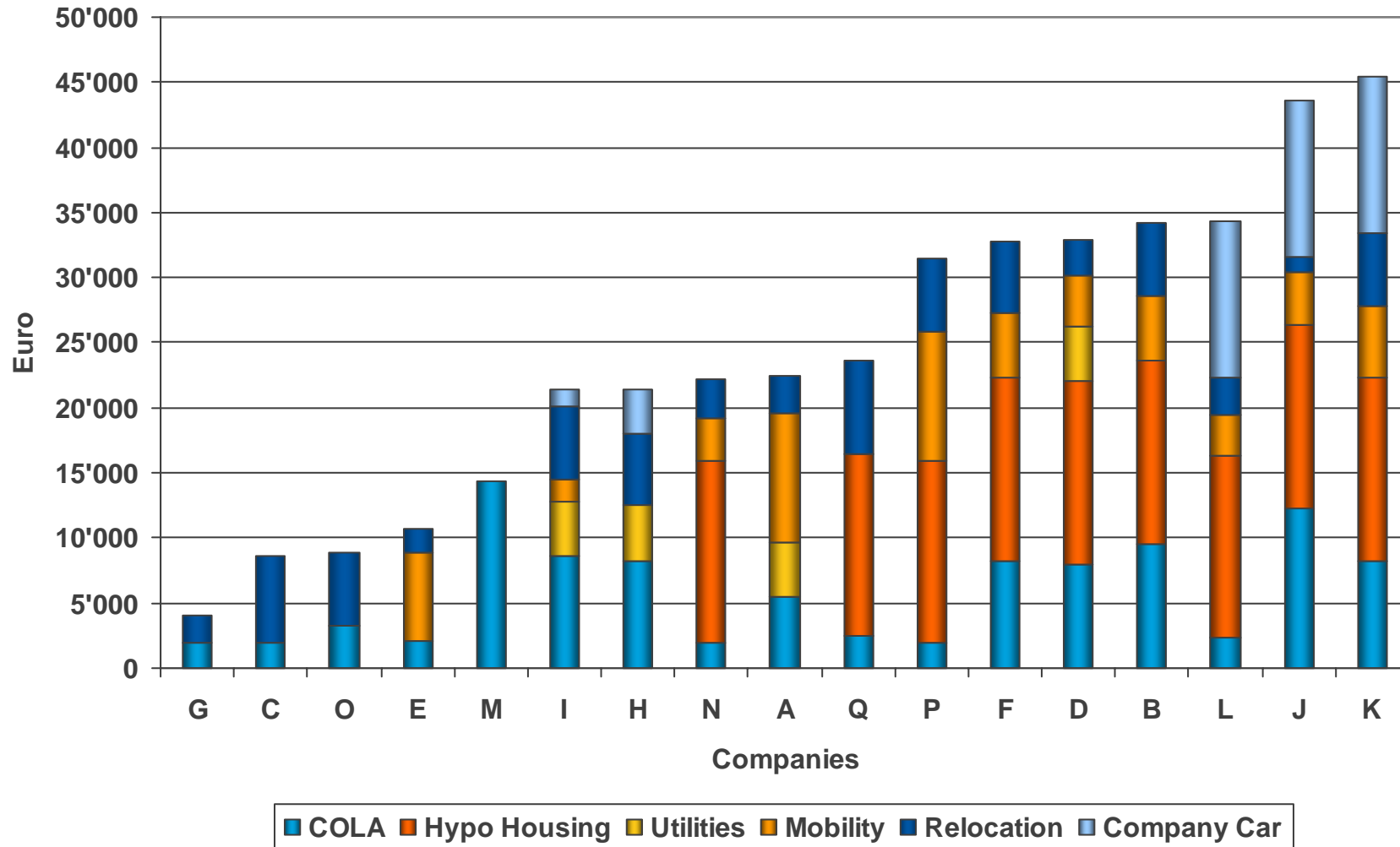
Our audit proposal

Your current COLAs vs. Mercer options

Home city	Host city	Position ID	Status	Your current COLA	Mercer COLA 1	Mercer COLA 2	Mercer COLA 3	Mercer COLA 4	Mercer COLA 5	Mercer COLA 6
Detroit	London	1	M 1	12'000	2'400	3'600	4'800	7'200	8'400	12'480
Detroit	London	2	S	9'000	1'800	2'700	3'600	5'400	6'300	9'360
Detroit	London	3	S	9'000	1'800	2'700	3'600	5'400	6'300	9'360
Detroit	London	4	M 4	24'000	4'800	7'200	9'600	14'400	16'800	24'960
Detroit	Paris	5	M 2	12'000	2'400	3'600	4'800	7'200	8'400	12'480
Detroit	Paris	6	M 2	12'000	2'400	3'600	4'800	7'200	8'400	12'480
Detroit	Paris	7	S	5'000	1'000	1'500	2'000	3'000	3'500	5'200
Detroit	Paris	8	S	2'000	400	600	800	1'200	1'400	2'080
Detroit	Mexico	9	M	2'000	400	600	800	1'200	1'400	2'080
Detroit	Mexico	10	M	10'000	2'000	3'000	4'000	6'000	7'000	10'400
Detroit	Mexico	11	M 2	15'000	3'000	4'500	6'000	9'000	10'500	15'600
Detroit	Mexico	12	M 3	3'000	600	900	1'200	1'800	2'100	3'120
Detroit	Mexico	13	M 3	12'000	2'400	3'600	4'800	7'200	8'400	12'480
Detroit	Tokyo	14	S	24'000	4'800	7'200	9'600	14'400	16'800	24'960
Detroit	Tokyo	15	M 3	36'000	7'200	10'800	14'400	21'600	25'200	37'440
Detroit	Milan	16	M 2	24'000	4'800	7'200	9'600	14'400	16'800	24'960
Detroit	Milan	17	S	24'000	4'800	7'200	9'600	14'400	16'800	24'960
Detroit	Shanghai	18	S	30'000	7'200	10'800	14'400	21'600	25'200	37'440
Paris	Detroit	19	S	36'000	7'200	10'800	14'400	21'600	25'200	37'440
Paris	Shanghai	20	S	12'000	2'400	3'600	4'800	7'200	8'400	12'480
Paris	Shanghai	21	M 1	15'000	3'000	4'500	6'000	9'000	10'500	15'600
Paris	Paris	22	M 2	9'000	1'800	2'700	3'600	5'400	6'300	9'360
Paris	London	23	M 3	9'000	1'800	2'700	3'600	5'400	6'300	9'360
Paris	Milan	24	M 3	24'000	4'800	7'200	9'600	14'400	16'800	24'960
Paris	Milan	25	S	12'000	2'400	3'600	4'800	7'200	8'400	12'480
Singapore	Paris	26	M 3	12'000	2'400	3'600	4'800	7'200	8'400	12'480
Singapore	Shanghai	27	M 2	5'000	1'000	1'500	2'000	3'000	3'500	5'200
Singapore	Shanghai	28	M 2	2'000	400	600	800	1'200	1'400	2'080
Singapore	Bombay	29	M 2	2'000	400	600	800	1'200	1'400	2'080
Singapore	Sydney	30	M 2	10'000	2'000	3'000	4'000	6'000	7'000	10'400
Mexico	Bogota	31	S	15'000	3'000	4'500	6'000	9'000	10'500	15'600
Mexico	Detroit	32	M 2	3'000	600	900	1'200	1'800	2'100	3'120
Mexico	Paris	33	M 2	12'000	2'400	3'600	4'800	7'200	8'400	12'480
Mexico	London	34	S	9'000	1'800	2'700	3'600	5'400	6'300	9'360
TOTAL				458'000	91'600	137'400	183'200	274'800	320'600	476'320
Potential Savings					366'400	320'600	274'800	183'200	137'400	-18'320
Mercer 1	Mean to mean index with index related spendable income									
Mercer 2	Mean to mean index with total spendable income									
Mercer 3	Efficient with index index related spendable income									
Mercer 4	Efficient index with total spendable income									
Mercer 5	Convenience index (Expatriate) with index related spendable income									
Mercer 6	Convenience index (Expatriate) with total spendable income									

(Amounts in \$USD)

Comparative annual value of allowances – with car





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What are the options?

Which portion of the salary to apply the cost of living index?

Annual gross base salary

- Personal income tax
- Social security contributions

= Annual net base income

- Housing (Home Housing Norm)
- Savings

= Annual net total spendable income

- Medical insurance
- Education, hobbies
- Furniture, vacation

= Annual net spendable income index related

Mercer's 10 categories of daily goods and services:

Food at home, food away from home, alcohol & tobacco, domestic Supplies, personal care, clothing & footwear, home services, utilities, transportation, sports & leisure

How to define the cost of living index

September 2008: Mean to Mean COL index

Basket	Base City	Host City
Mercer International Basket	NEW YORK CITY, NY (US)	LONDON (GB)
Date of Price Survey	01/09/2008	01/09/2008
Date of Exchange Rate	01/09/2008	01/09/2008
Exchange Rate	USD 1 = USD 1	USD 1 = GBP 0.528245
Cross Rate	USD 1 = GBP 0.52825	GBP 1 = USD 1.89306
Previous 6 months inflation	3.75%	2.00%
Previous 12 months inflation	6.60%	6.08%

The Cost of living index is impacted by 2 variables:

Exchange rate

Prices movements in the home and host cities

The COL survey shows price increases over the 12 months of +6.60% in New York and +6.08% in London.

* Index Categories	Base City	Host City
		M / M
<input checked="" type="checkbox"/> 1) Food at Home	100	108
<input checked="" type="checkbox"/> 2) Alcohol and Tobacco	100	128
<input checked="" type="checkbox"/> 3) Domestic Supplies	100	127
<input checked="" type="checkbox"/> 4) Personal Care	100	96
<input checked="" type="checkbox"/> 5) Clothing and Footwear	100	113
<input checked="" type="checkbox"/> 6) Home Services	100	100
<input checked="" type="checkbox"/> 7) Utilities	100	103
<input checked="" type="checkbox"/> 8) Food away from home	100	113
<input checked="" type="checkbox"/> 9) Transportation	100	161
<input checked="" type="checkbox"/> 10) Sports and Leisure	100	130
Total Index	100	121
A) Excluding Utilities	100	123
B) Excluding Transportation	100	113
C) Excluding both above	100	114

How to define the cost of living index

March 2009: Mean to Mean COL index

Basket	Base City	Host City
Mercer International Basket	NEW YORK CITY, NY (US)	LONDON (GB)
Date of Price Survey	01/09/2008	01/09/2008
Date of Exchange Rate	01/03/2009	01/03/2009
Exchange Rate	USD 1 = USD 1	USD 1 = GBP 0.69249
Cross Rate	USD 1 = GBP 0.69249	GBP 1 = USD 1.44406
Previous 6 months inflation	3.75%	2.00%
Previous 12 months inflation	6.60%	6.08%
* Index Categories	Base City	Host City
		M / M
<input checked="" type="checkbox"/> 1) Food at Home	100	83
<input checked="" type="checkbox"/> 2) Alcohol and Tobacco	100	98
<input checked="" type="checkbox"/> 3) Domestic Supplies	100	97
<input checked="" type="checkbox"/> 4) Personal Care	100	75
<input checked="" type="checkbox"/> 5) Clothing and Footwear	100	87
<input checked="" type="checkbox"/> 6) Home Services	100	77
<input checked="" type="checkbox"/> 7) Utilities	100	78
<input checked="" type="checkbox"/> 8) Food away from home	100	86
<input checked="" type="checkbox"/> 9) Transportation	100	124
<input checked="" type="checkbox"/> 10) Sports and Leisure	100	100
Total Index	100	93
A) Excluding Utilities	100	94
B) Excluding Transportation	100	87
C) Excluding both above	100	88

The COL index is recalculated based on the March 2009 exchange rate of 1 USD = 0.69249 GBP (GBP devalued by 31% since Sept 08).

The COL index will decrease to compensate the potential gain in currency conversation.

Mercer Global HRMonitor Web tool allows companies to adjust the Cost of Living index with the latest exchange rate instantly.

How to define the Cost of Living Allowance

Impact on applying or not applying the negative Cost of Living allowance

- Management Level – Transfer from New York to London
- Family status: Married couple + 2 children

Dates	Annual Gross Base salary (USD)	Spendable Income Net (USD)	COL Index Mean to Mean	Exchange rate 1 USD = GBP	Exchange rate Variation (%)	COLA (USD)	Spendable Income adjusted by COLA & exchange rate (GBP)	Variation (%)	12 month inflation New York	12 months inflation London
September 2007	65'000	33'497	129	0.494		9'714	21'338			
September 2008	65'000	33'497	121	0.528	7.0%	7'034	21'411	0.34%	6.60%	6.08%
March 2009 (Estimated)	65'000	33'497	93	0.692	31.1%	-2'345	21'573	0.76%		

COL Index fluctuates

Goods and Services Allowance Amount is stable in host city



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Understanding and communicating changes caused by exchange rate changes

- In high currency fluctuations economy, expatriates tend to start to question their COLA's and overseas purchasing power. It is important to even more **communicate** with your expatriates.
- It is possible that the expatriates are **not actually spending** the whole host part of the salary in the host location; they are saving more than expected and are sending more money back home.
- Consequently when the **currency devalues strongly** such as the Argentinean Pesos, the Brazilian Real, Chilean, Colombian, Mexican currencies have against the USD, the expatriates are losing on the additional saving opportunity of the salary.
- Therefore the discussion about the COL index evolution with your expatriates may not be a true concern about their COLA's but in reality a concern about their **additional savings opportunity**.

Challenges of companies paying expatriate compensation packages in home currency

New York to London

Marital Status: Married with 2 children Transfer from New York to London		USD
Annual Gross home country reference salary		65'000
Annual Net home country pay		53'039
Non-Spendable income: Hypothetical Home Housing Costs, Savings and Other expenses		19'542
Spendable income index related (daily basket of goods and services)		33'497
Cost-of-Living Allowance (COLA): Mean to Mean COL index 121 Exchange rate: 1 USD = GBP 0.52825		7'034
Housing Allowance		80'485
Expatriation premiums		6'500
- Mobility premium based on 10% of Gross		
- Education allowance		63'834
Total annual net host country pay		210'892

	USD	GBP value in Sept. 08	GBP value in March 09
Saving Part	26'042		
Spending Part	184'850	97'647	128'007
Currency fluctuation GBP & USD Sept. 08 to March 09		31.1%	30'360
Gain of the spending part when converted in GBP by +31%			
Full salary paid in Home Currency USD Currency protection needed for the spending part			

Challenges of companies paying expatriate compensation packages in **host** currency

New York to London

Marital Status: Married with 2 children Transfer from New York to London	GBP
Annual Gross home country reference salary	34'336
Annual Net home country pay	28'018
Non-Spendable income: Hypothetical Home Housing Costs, Savings and Other expenses	10'323
Spendable income index related (daily basket of goods and services)	17'695
Cost-of-Living Allowance (COLA): Mean to Mean COL index 121 Exchange rate: 1 USD = GBP 0.52825	3'716
Housing Allowance	42'516
Expatriation premiums	
- Mobility premium based on 10% of Gross	3'434
- Education allowance	33'720
Total annual net host country pay	111'403

	GBP	USD value in Sept. 08	USD value in March 09
Saving Part	13'757	26'042	19'866
Spending Part	97'647		
Currency fluctuation GBP & USD Sept. 08 to March 09	31.1%		-6'176
Loss of the saving part when converted back in USD by +31%			
Full salary paid in Host Currency GBP Currency protection needed for the saving part			

Split payment of expatriate compensation package New York to London

Marital Status: Married with 2 children		Home City NEW YORK (USD)	Host City LONDON (GBP)
Annual Gross home country reference salary		65'000	34'336
Annual Net home country pay		53'039	28'018
Non-Spendable income: Hypothetical Home Housing Costs, Savings and Other expenses		19'542	10'323
Spendable income index related (daily basket of goods and services)		33'497	17'695
Cost-of-Living Allowance (COLA): Mean to Mean COL index 121 Exchange rate: 1 USD = GBP 0.52825		7'034	3'716
Housing Allowance			
		USD	GBP
a) Host location expatriate accommodation costs		90'163	47'628
b) Hypothetical home country housing costs		9'678	5'112
c) Housing allowance		80'485	42'516
Expatriation premiums			
- Quality of Living allowance		-	-
- Mobility premium based on 10% of Gross		6'500	3'434
Other allowances (according to company policy)			
- Education allowance		63'834	33'720
Total annual net host country pay		210'892	111'403
Split payment		26'042	97'647



Recommendations



It is very difficult to estimate which part of the salary will be really spent in the host country and which part will be kept in the home country

Most companies will leave the decision on the split with a certain limit to the expatriate

This approach prevents any future discussion with the expatriate

The responsibility is put on the expatriate's shoulders

Questions/Answers

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2008/2009 Edition

MERCER



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.

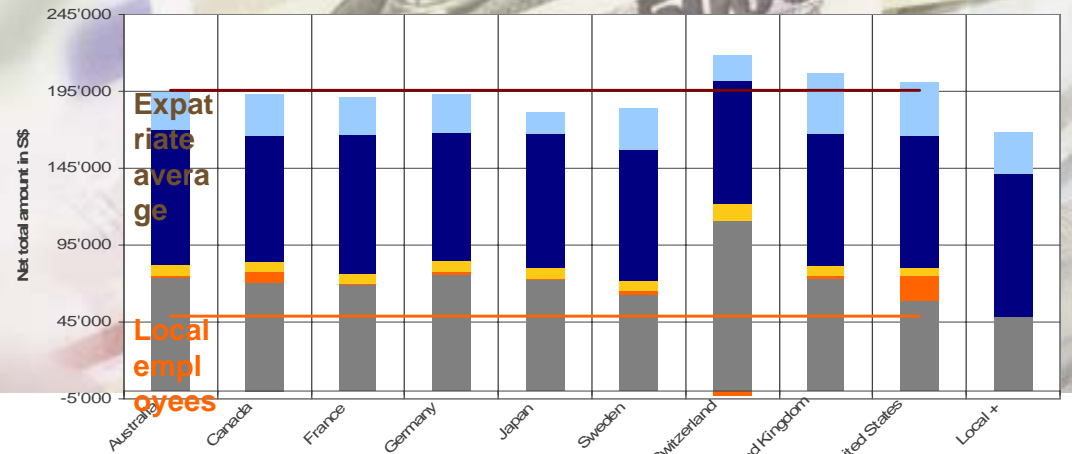
Mercer's new report, *Survey of expatriate housing costs and practices in major cities worldwide*, presents housing policies and practices as well as complete, current housing-related cost survey data to help you apply them. The report will help both decision makers and assignees with information on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