

Mercer webcast



November 2010

International Pay Structures

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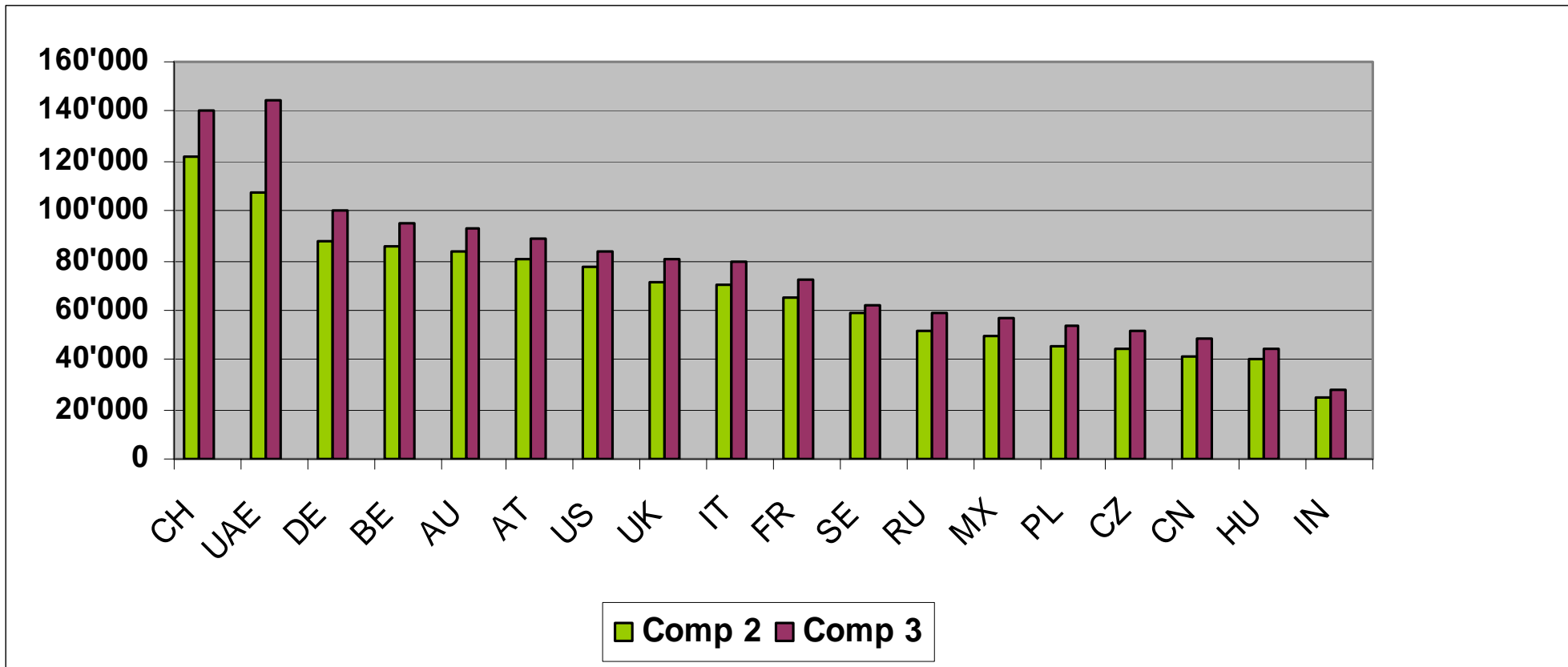
- How salaries compare globally?
- The impact of taxation and social security on salary levels
- Why a cost of living adjustment in itself will not ensure consistent global purchasing power?
- Why some companies require an international pay structure?
- How to construct and maintain a global international pay structure?



How salaries compare globally?

How salaries compare globally?

PC 55 (Middle Management) - All Countries Comparison (in €)

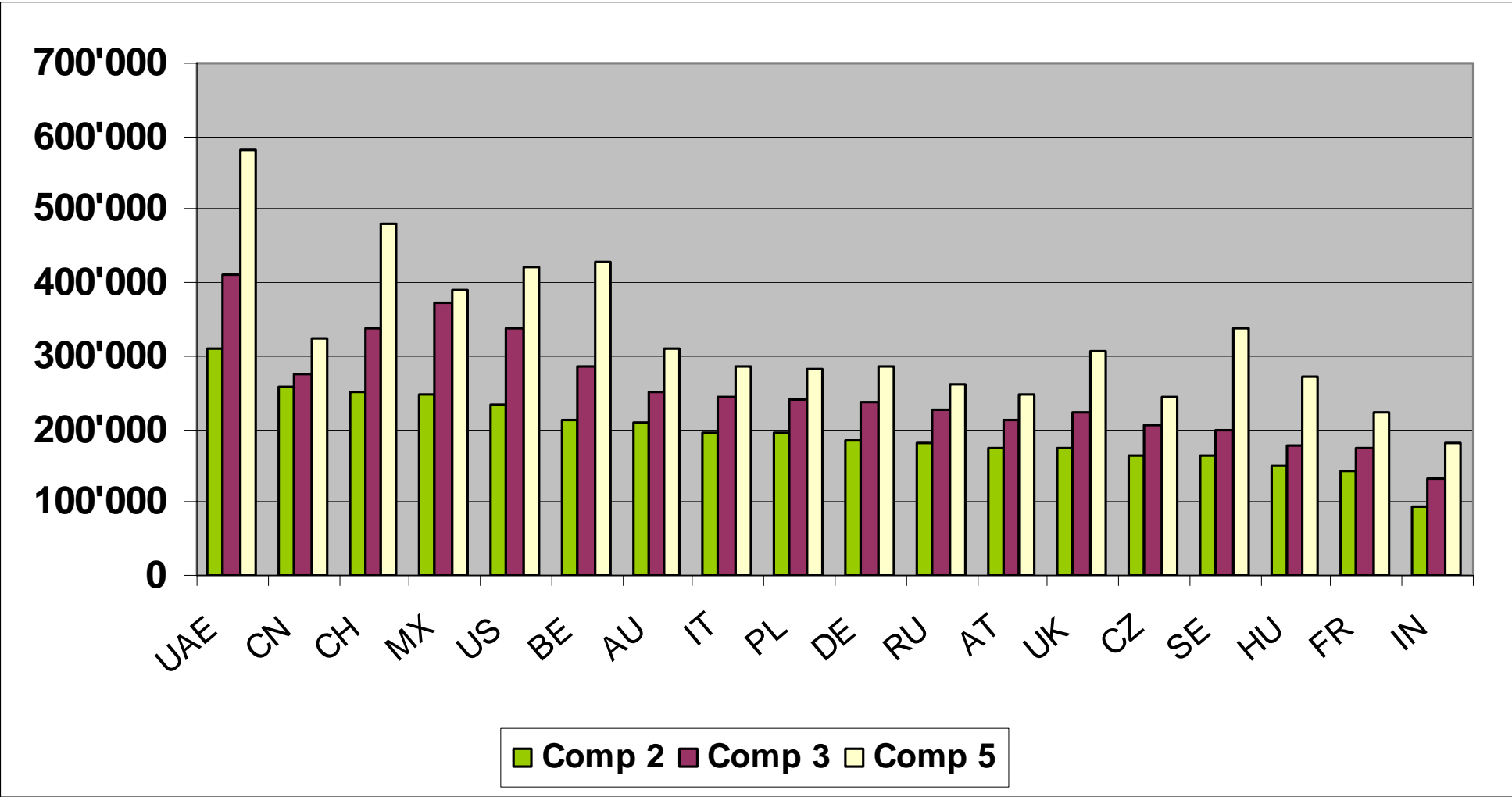


Comp2: Annual Guaranteed Cash Compensation

Comp3: Annual Total Cash Compensation (+short-term incentives)

How salaries compare globally?

PC 65 (Top Management) - All Countries Comparison (in €)



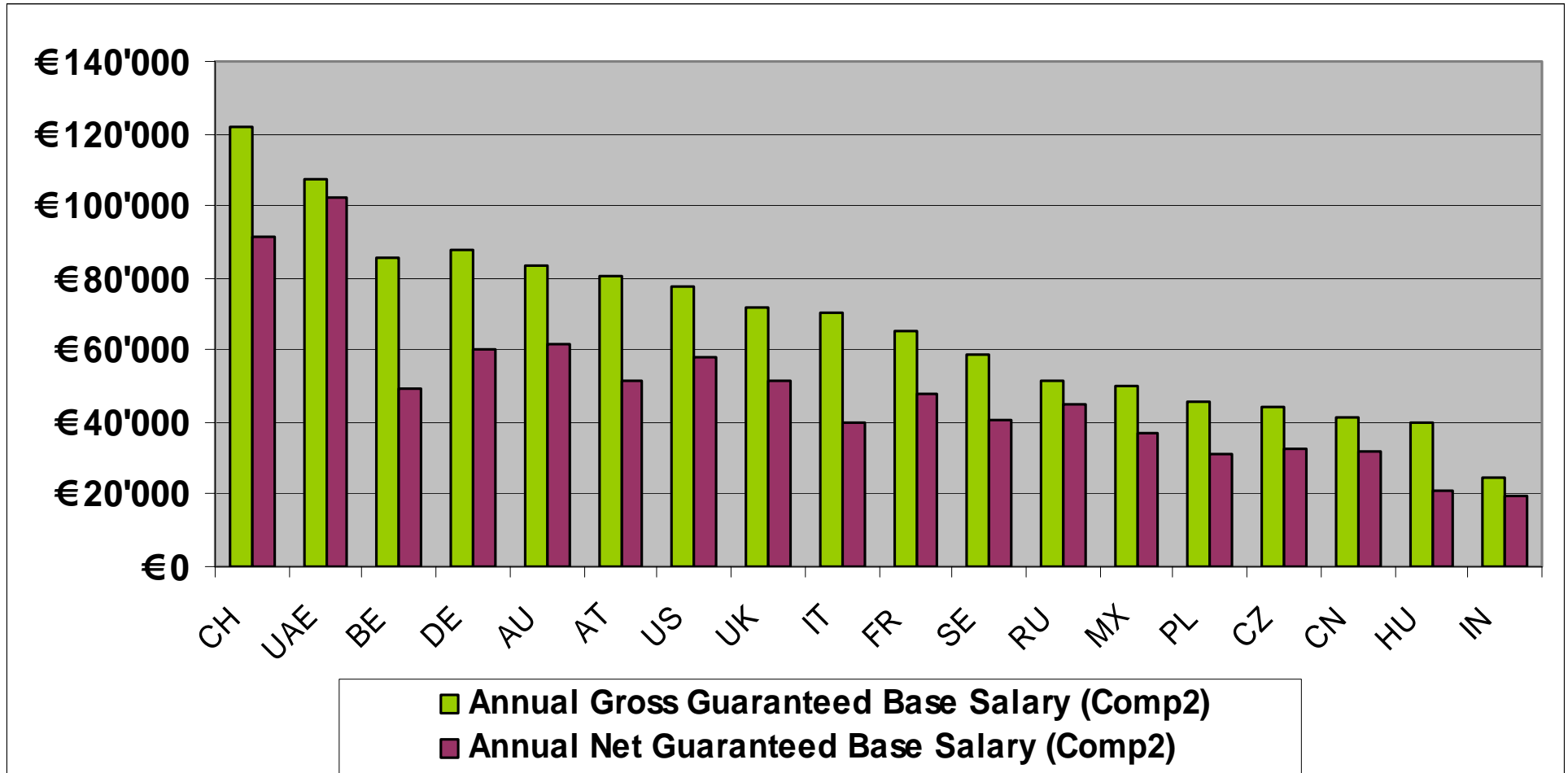


The impact of taxation and social security on salary levels

The impact of taxation and social security on salary levels

Comparison PC 55 (Comp 2) – Gross and Net

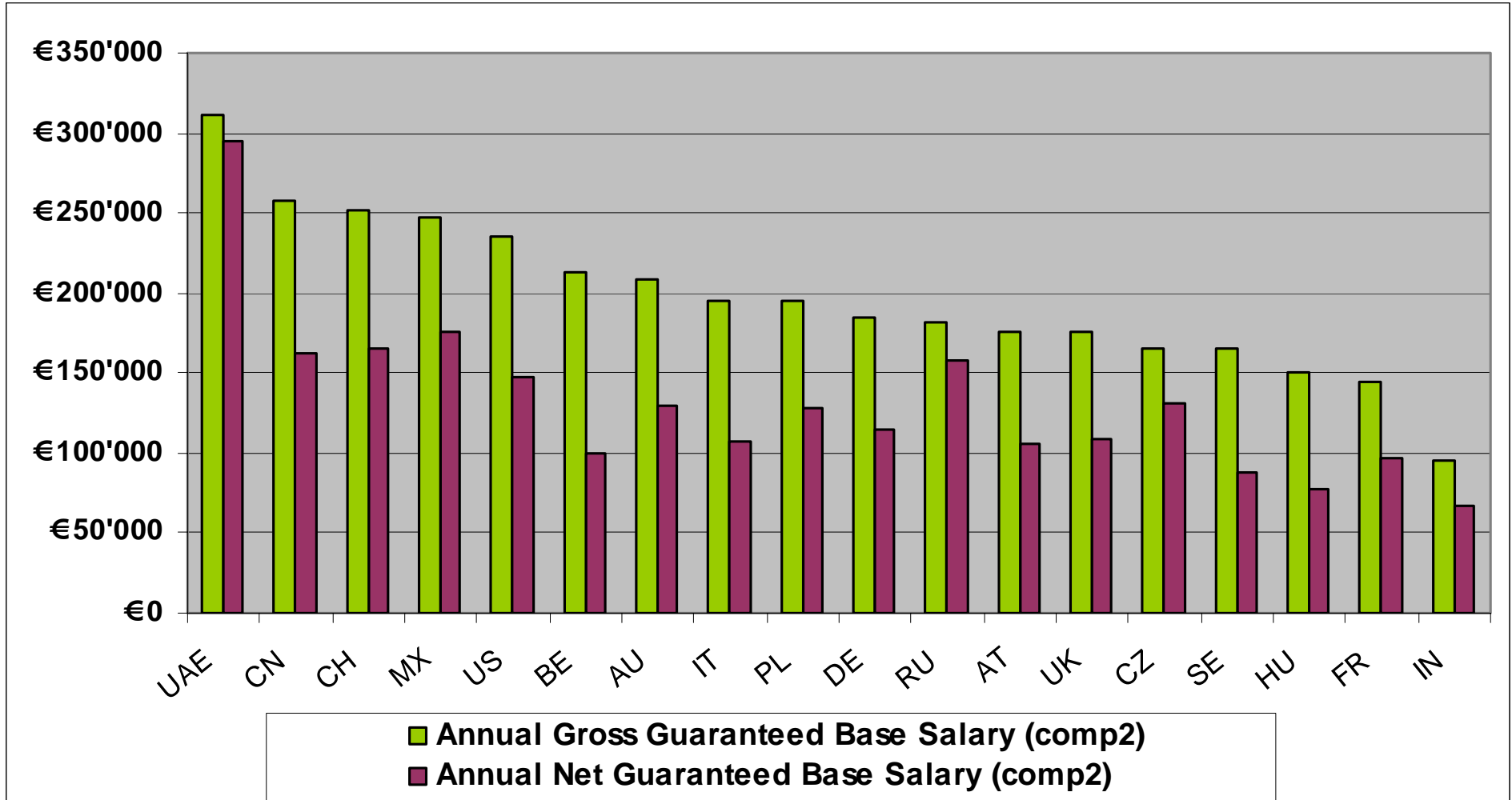
Married + 1, September 2010 exchange rates



The impact of taxation and social security on salary levels

Comparison PC 65 (Comp 2) – Gross and Net

Married + 1, September exchange rates



The impact of taxation and social security on salary levels

Comparison by position

Countries	Tax&SS Rates	
	PC 55	PC 65
UAE	5.0%	5.0%
RU (Moscow)	13.0%	13.0%
CN (Beijing)	21.6%	36.7%
IN	21.7%	28.5%
CH	24.9%	34.6%
US	25.4%	37.3%
CZ	25.5%	20.2%
FR	26.1%	33.2%
MX	26.4%	29.3%
AU	26.6%	37.7%
UK	28.5%	37.7%
SE	30.6%	47.0%
PL	31.0%	34.0%
DE	31.9%	37.7%
AT	36.2%	40.2%
BE	42.9%	52.9%
IT	43.0%	44.9%
HU	47.8%	48.0%



**Why a cost of living adjustment
in itself will not ensure
consistent global purchasing
power?**

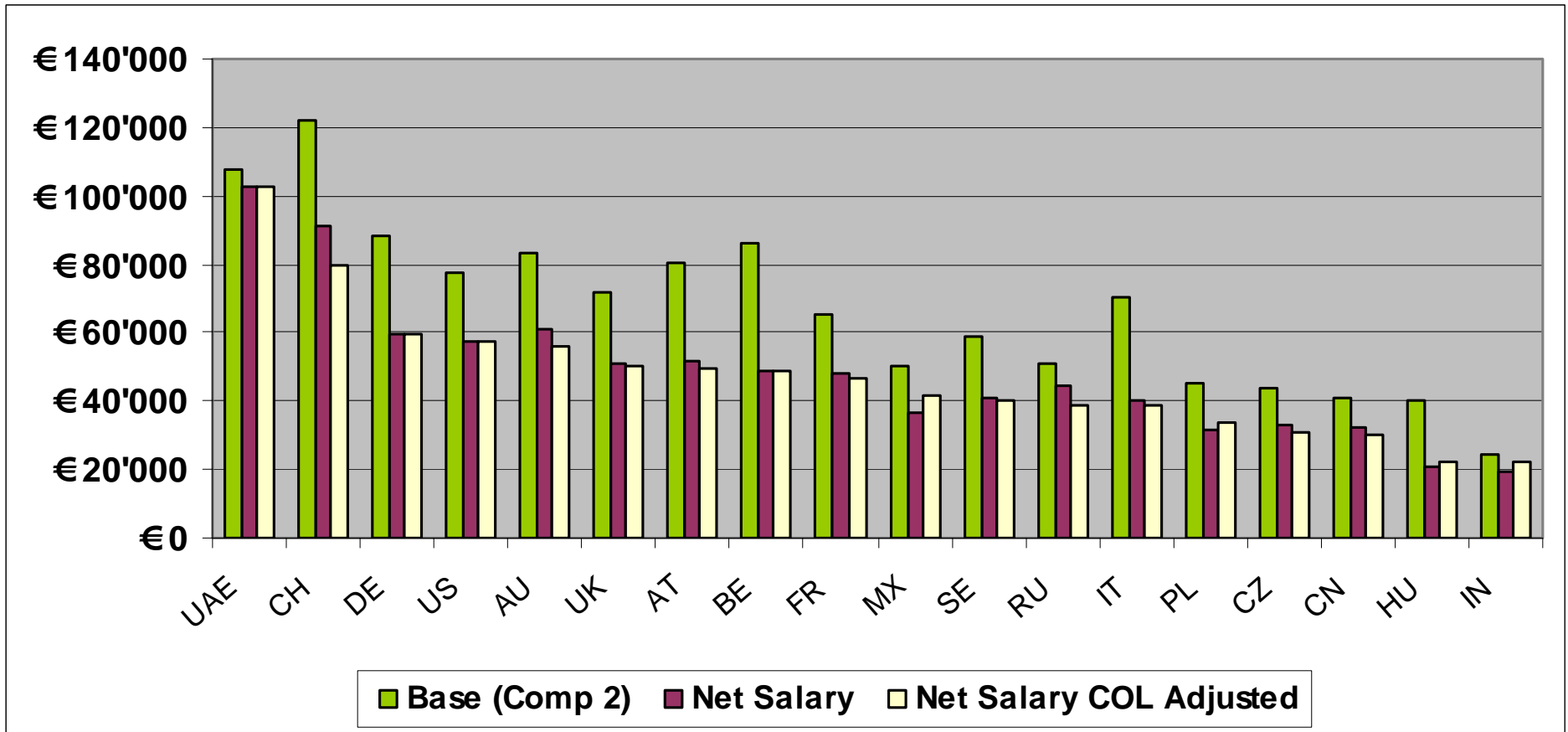
Cost of Living Indices Comparison

Frankfurt Base 100 - March 2010 with September exchange rates

Countries	Cost of Living Indices
RU (Moscow)	129
CH (Geneva)	128
AU (Sydney)	116
CZ (Prague)	111
CN (Beijing)	111
AT (Vienna)	108
IT (Rome)	107
FR (Paris)	105
UK (London)	103
SE (Stockholm)	102
US (New York City)	101
DE (Frankfurt)	100
UAE (Dubai)	98
HU (Budapest)	91
PL (Warsaw)	89
MX (Mexico City)	81
IN (New Delhi)	81

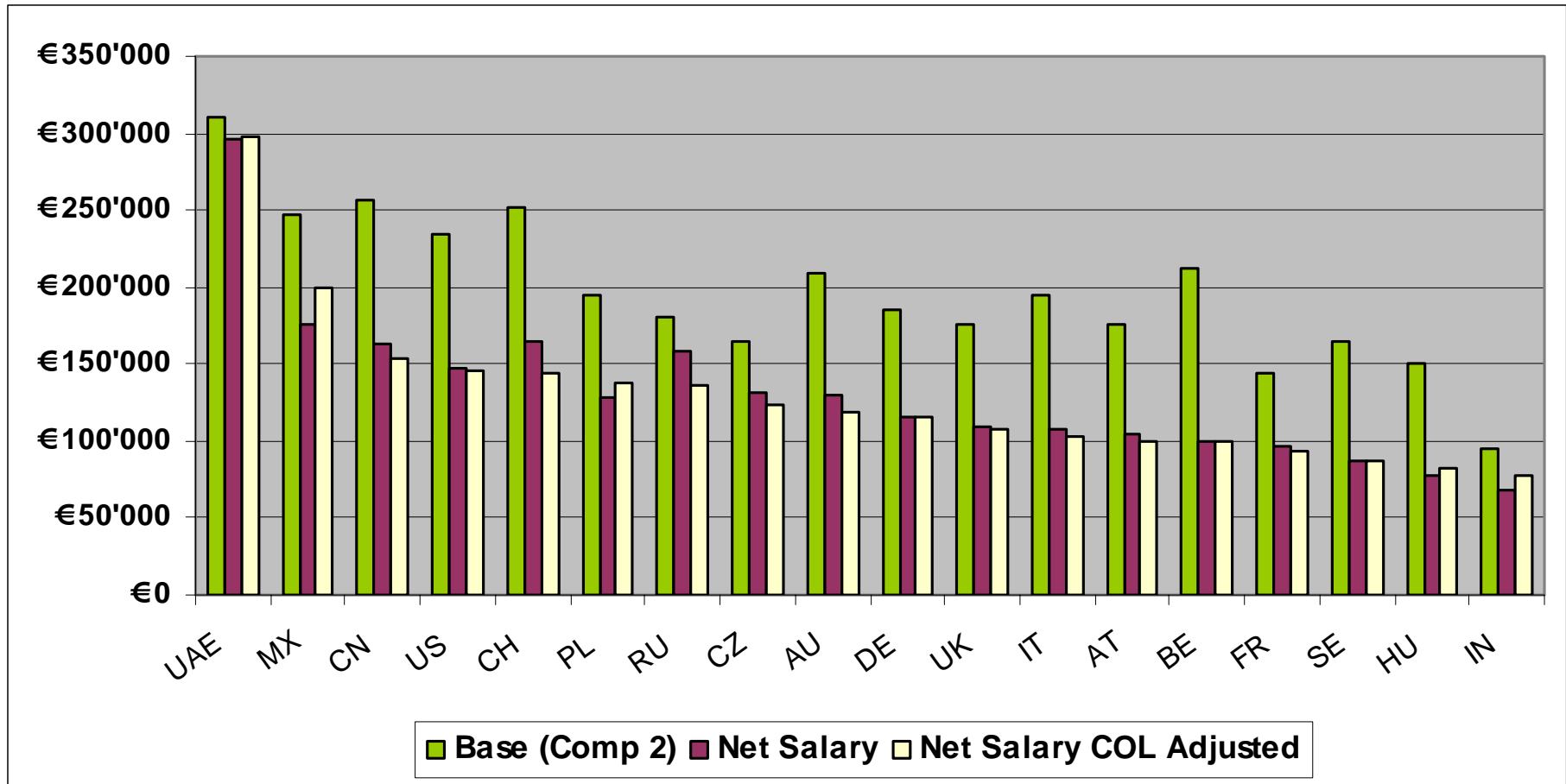
Purchasing Power Comparison - PC 55 (Comp 2)

Married + 1, COL Frankfurt March 2010 with September exchange rates



Purchasing Power Comparison - PC 65 (Comp 2)

Married + 1, COL Frankfurt March 2010 with September exchange rate





**Why some companies require
an international pay structure?**

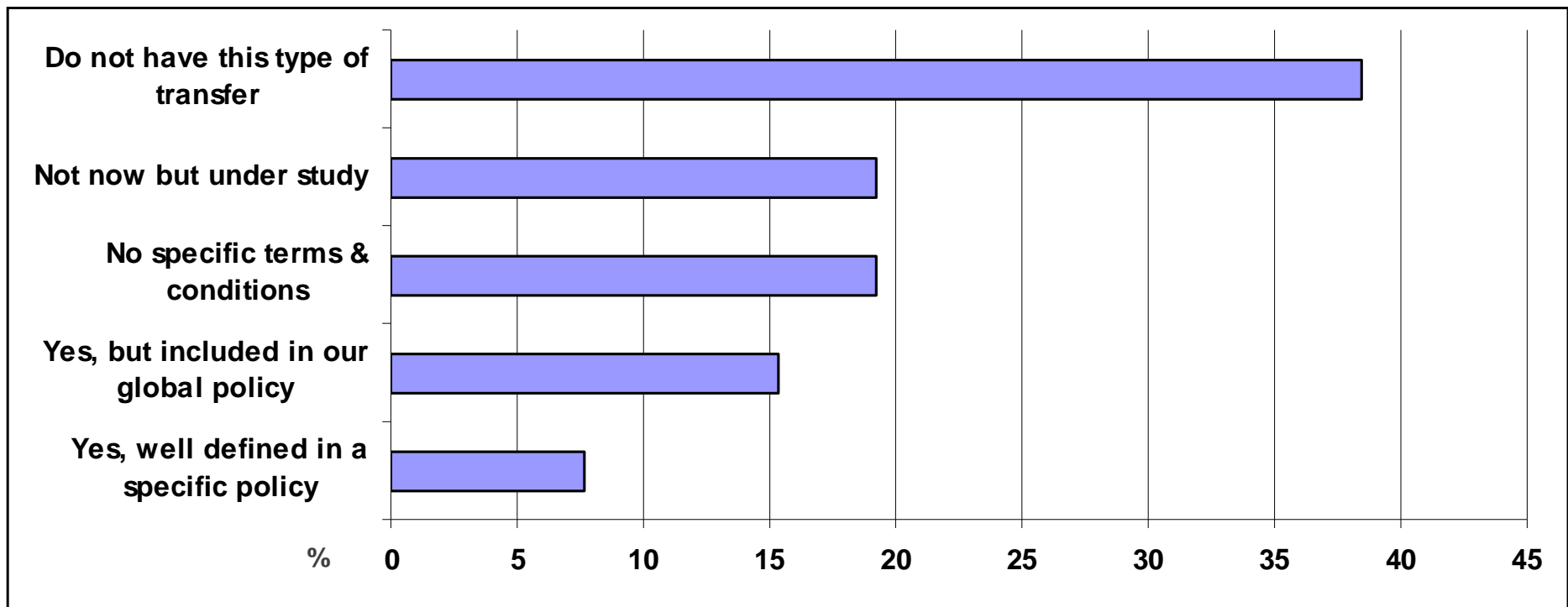
International compensation structure

Career Expatriates / Globalists / Global Nomads / TCN who are they?

- Employees that are sent on a series of overseas assignments and/or employees who are no longer linked to their countries of origin.
- Third Country National (TCN) is an employee who works in a country where the company is not headquartered and who is transferred to another country.
- The selection of the nomad expatriates as well as their career are managed by the headquarter or at a regional expatriate management centre.
- The profile of career expats is determined by:
 - Skilled talent
 - Permanent mobility and availability
 - International mindset
 - Personality
 - Motivation
 - Representation of the company culture overseas

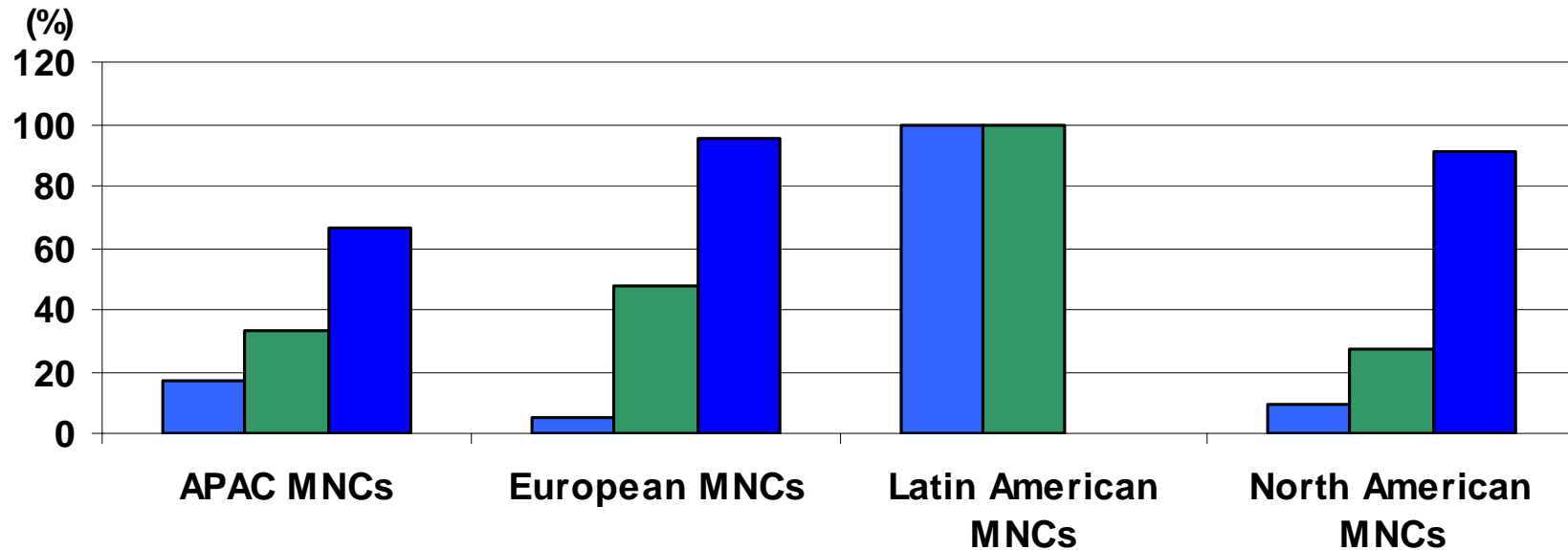
Do companies have a special policy for Globalists/Career expatriates?

The number of Globalists/Career Expats has been stable over the past 2 years.



Source: International Assignment Survey 2010

What are the main benefits of having Globalists/Career expatriates?



- Cost savings to local companies
- Speed in getting things done
- Ability to draw from a pool of skilled talent globally (e.g. when training locals is not a viable option)

Source: International Assignment Survey 2010

Latest Trends in International Assignment Compensation Approach

What are the Key Drivers?

Workforce

- Growing variety of nationalities and origins of expatriate population
- Growing number of different types and purposes of moves (i.e. Career Expatriates, global nomads, etc.)
- Growing number of locally international hires

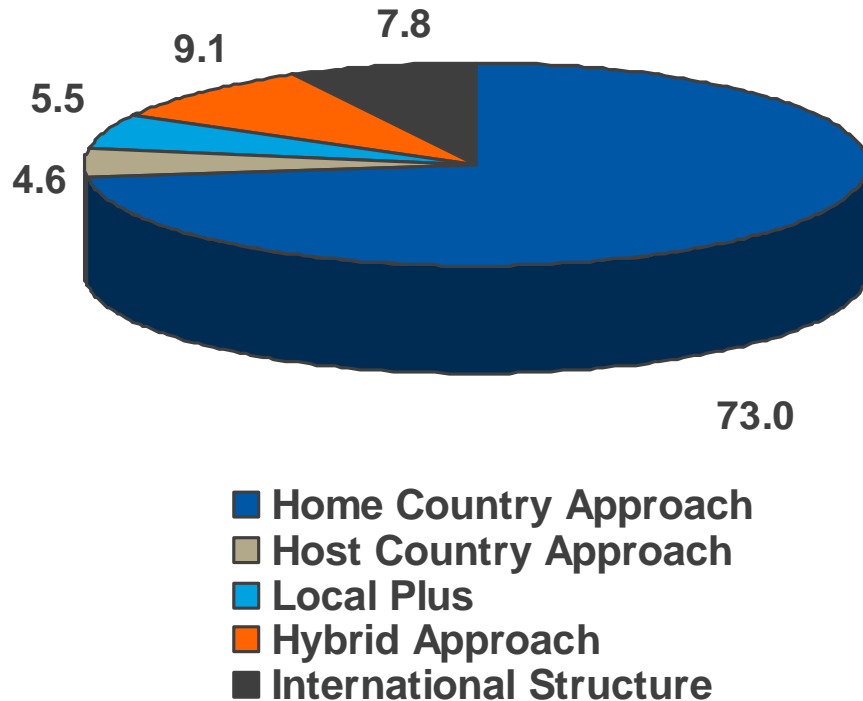
Demographics

- Increasing number of assignments
- Increasing number of destinations & combinations
- Increasing number of single status assignments
- New generation
- Voluntary expatriation

Latest Trends in International Assignment Compensation Approach

Compensation approaches used for long-term assignments (1-5 years)

All MNCs



Home country or balance sheet approach

Host country approach

Local plus approach

Hybrid approach

International structure

Localisation

Source: International Assignment Survey 2010

What are the options?

How Various Expatriate Compensation Models Compare

	Home Balance Sheet Approach		Host Approach (or Local Plus Approach)	International Compensation Structure
	Equalization Approach	Flexible Approach		
Annual Gross Base Salary	Tied to home country - varies by country		Base salary tied to host country levels	Base salary not tied to the home or host country. International base salary levels
Hypo tax	Home Hypo tax deduction		Not applicable	Hypo tax deduction
Hypo social security	Home Hypo Social Security deduction		Not applicable	Hypo SS deduction
Pension, medical plans	Home country plan		Some form of assistance may be included in local plus package	International Plan
Spendable income	Based on home country expenditure survey profiles		Not applicable	International Spendable Income based on average selected countries
Cost of living allowance	Efficient with Negative often applied	Home COLA Efficient or Expatriate with Negative not applied	Not applicable	Reciprocal or Efficient Index with Negative often applied

What are the options?

How Various Expatriate Compensation Models Compare

	Home Balance Sheet Approach		Host Approach (or Local Plus Approach)	International Compensation Structure
	Equalization Approach	Flexible Approach		
Hardship allowance	Home to host based	Home to host based or host based	Not applicable	Host based
Mobility premium	5 to 10% of Annual Gross Base Salary	10 to 15% of Annual Gross Base Salary	Not applicable	10% of the Annual Net Base Pay (sometimes additional amount granted)
Housing allowance	Hypo housing deduction	No Hypo housing deduction	Some form of assistance may be included in local plus package	No Hypo housing deduction, sometimes includes utilities
Spouse support	Yes		No	Yes
Education support for children	Yes		Some form of assistance may be included in local plus package	Yes
Host tax	Tax equalisation		Not applicable	Tax equalisation
Currency protection	Yes		No	Yes

Recent Benchmarking Study on International compensation structure

The most positive consequences of the international compensation structure:

- ✓ Consistency
- ✓ Equity
- ✓ Clarity
- ✓ Easy to administer
- ✓ Transparent

The main key challenges of the international compensation structure:

- ✓ Currency fluctuations
- ✓ High Costs
- ✓ Explaining and “selling” the International Approach
- ✓ Resistance to change from managers
- ✓ Less attractive for assignees from high paying countries



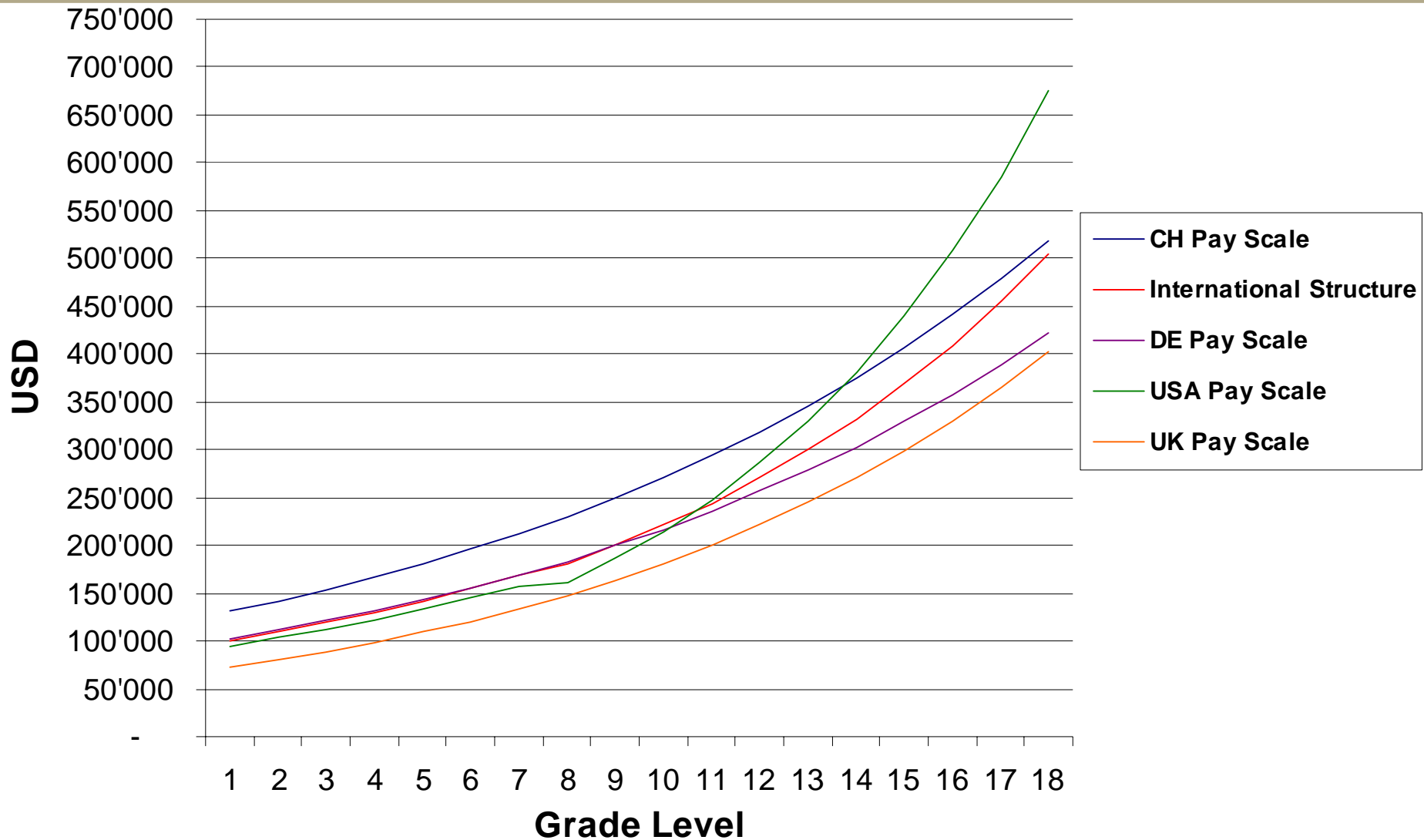
How to construct and maintain a global international pay structure?

International Pay Structure Build Up

- Average of select countries Annual Gross Base Salary representative of the expatriate population origins.
- International compensation structure ranges developed by position levels/grades.
- Tax and social security contributions, require tracking for each home and host combinations or Hypothetical flat tax rates.
- Expatriate allowances determined as a percentage of the International Compensation structure and by position levels/grades.
- Currency: International compensation structure in one identified currency.

International Pay Structure Example

Average of CH, UK, DE, US Pay Scale

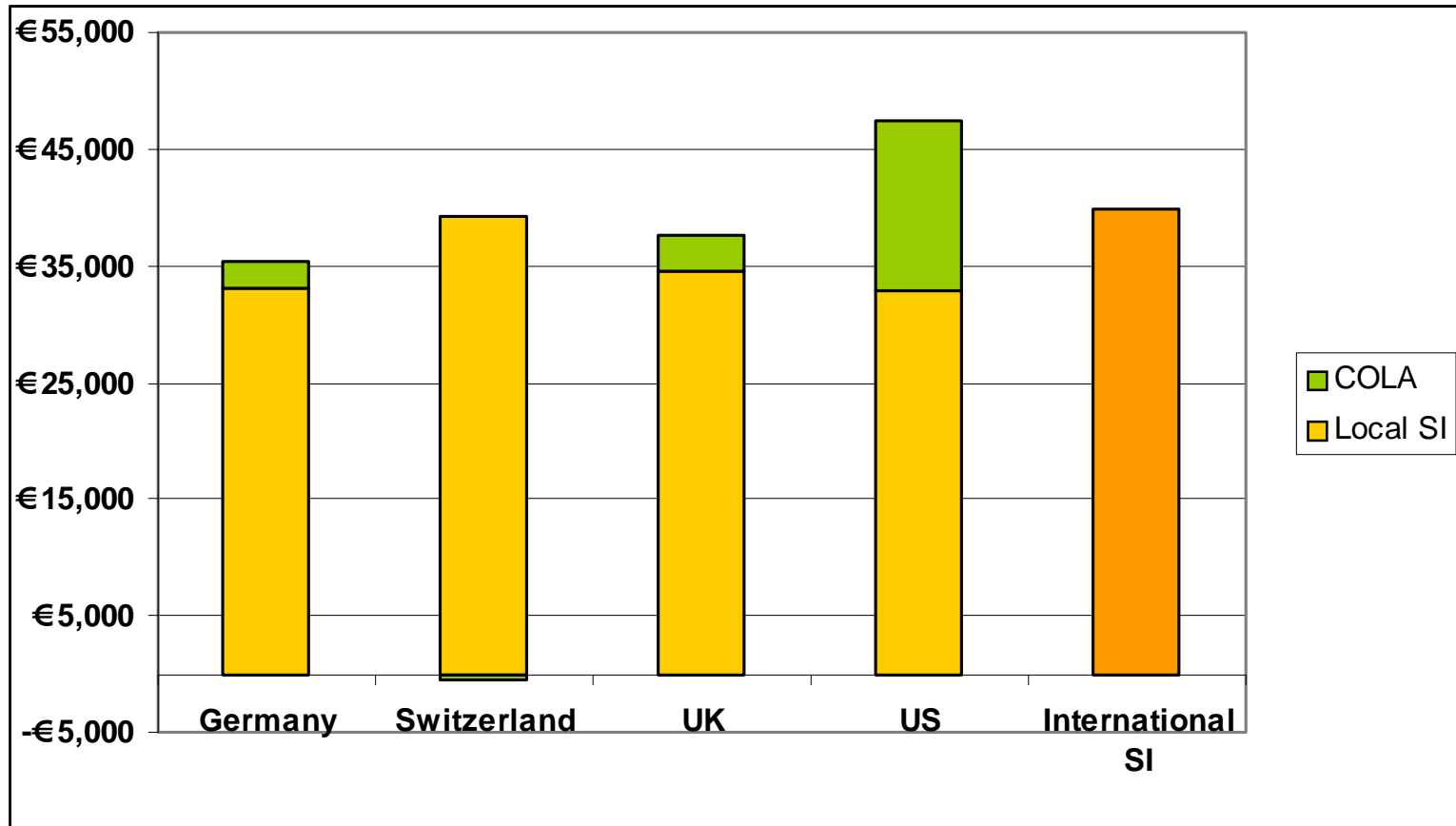


International Pay Structure Challenges

- The International compensation structure as the average of select countries Annual Gross Base Salary by job levels/grade.
 - Market salary surveys evolve differently market by market.
 - What about if you have an employee with a salary above the international structure?
 - Impact of the currency on market salary data to determine the average international structure, EUR vs. GBP, USD vs. CHF, etc.
 - Potential challenges to have an international structure which deviates from the market and not be able to update it.
 - Potential challenges to develop a consistent and stable structure year after year.
- Tax and social security contributions, require tracking for each home and host combinations unless Hypothetical flat tax rate is applied.
- Currency risks remain.

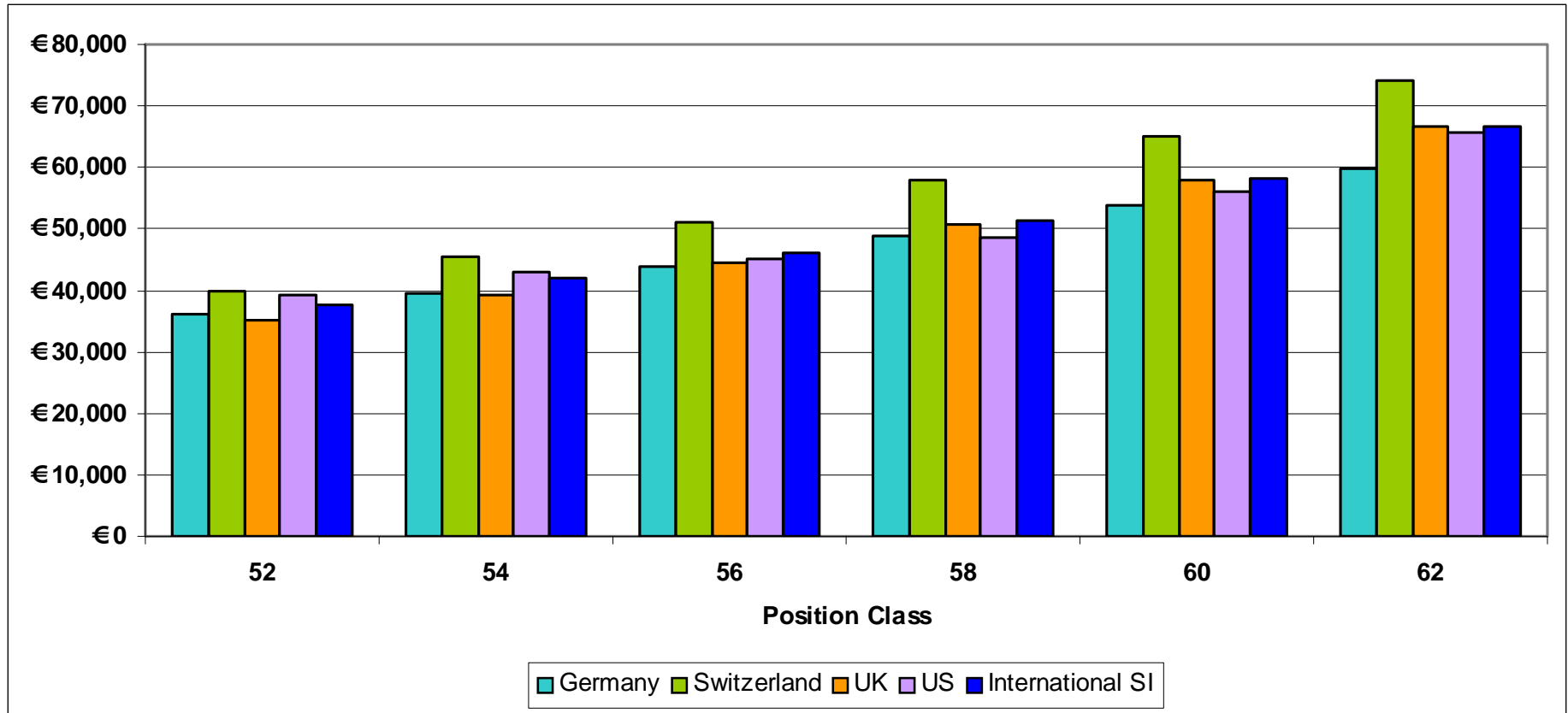
National Spendable Income adjusted by COLA vs. International Spendable Income

PC 58, married+ 2 children Example



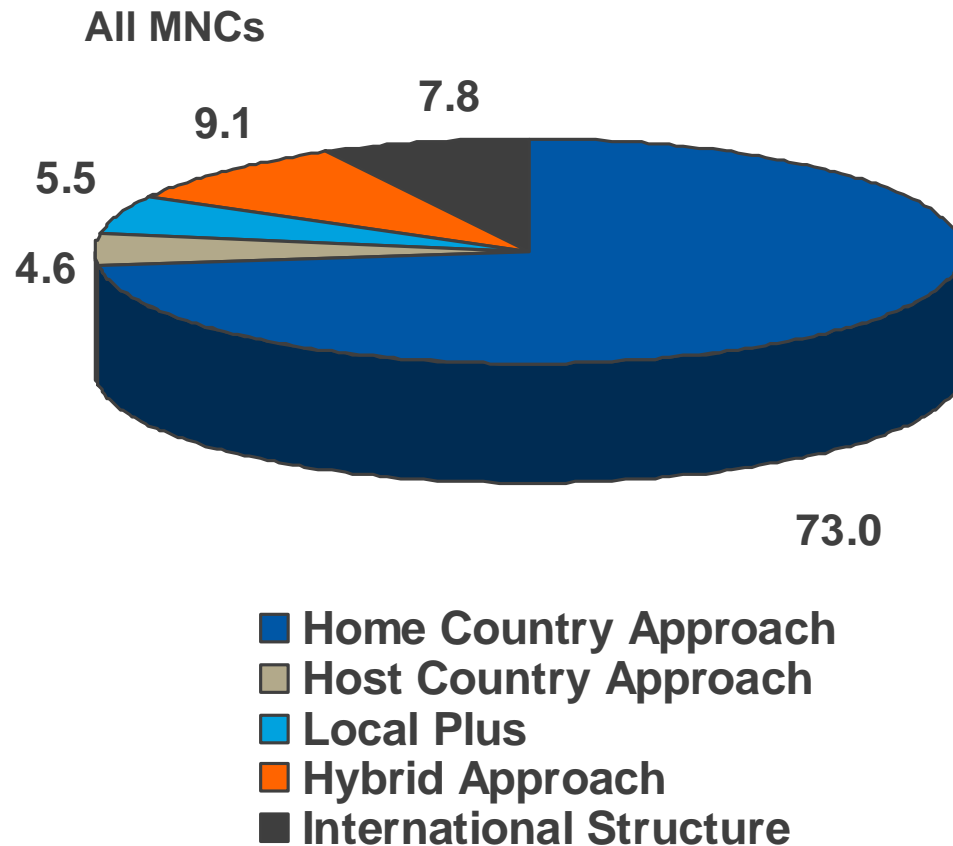
National Spendable Income vs. International Spendable Income

Family size: Married+ 2 children by Mercer IPE grading



Conclusion

Compensation approaches used for long-term assignments (2 to 5 years)



Source: International Assignment Survey 2010

Questions and contacts



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Questions

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To submit a question while in half screen mode, use the Q&A panel on the bottom right-hand side of your screen.



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TO "ALL PANELISTS"

Survey

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