

MERCER WEBCAST

# Changing Lives, Changing Circumstances Addressing Quality of Living Differences

NOVEMBER 2011



Anne Rossier-Renaud, Geneva

Christa Zihlmann, Geneva

# Agenda

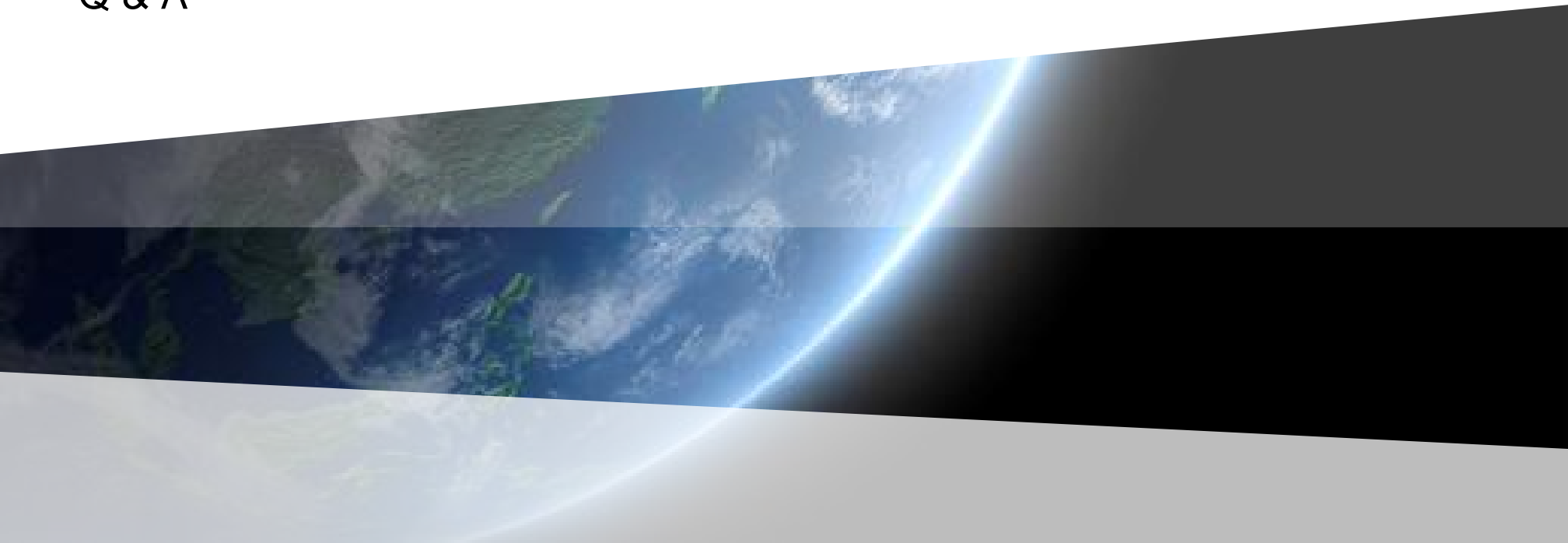
What is Quality of Living/Hardship?

Quality of Living Assessment Approach

Compensating for Hardship

Global Market Practices and Trends

Q & A



# WHAT IS QUALITY OF LIVING?



## Defining Quality of Living/Hardship

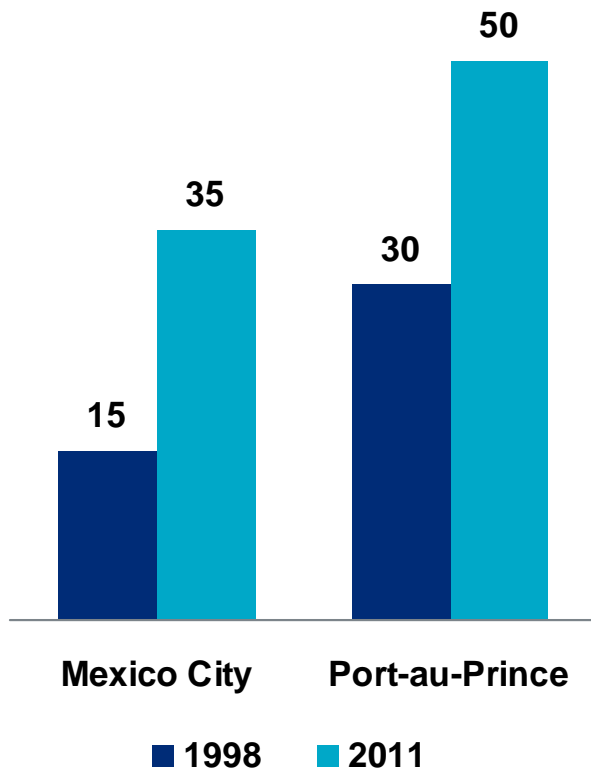
- **Quality of Living vs. Quality of Life**
- **Quality of Living** refers to the living conditions in a location from the perspective of an expatriate and his or her family.
- **Hardship** represents an assessment of negative quality of living
- There is a need for common understanding for increasingly global and diverse workforce
- Quality of living and Hardship evolve over time

# Evolution of Quality of Living, 1998 to 2011

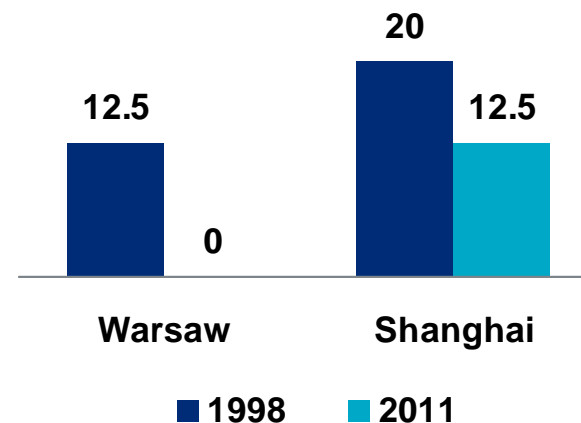
## Quality of Living index. Base city: London

The number of hardship destinations is increasing

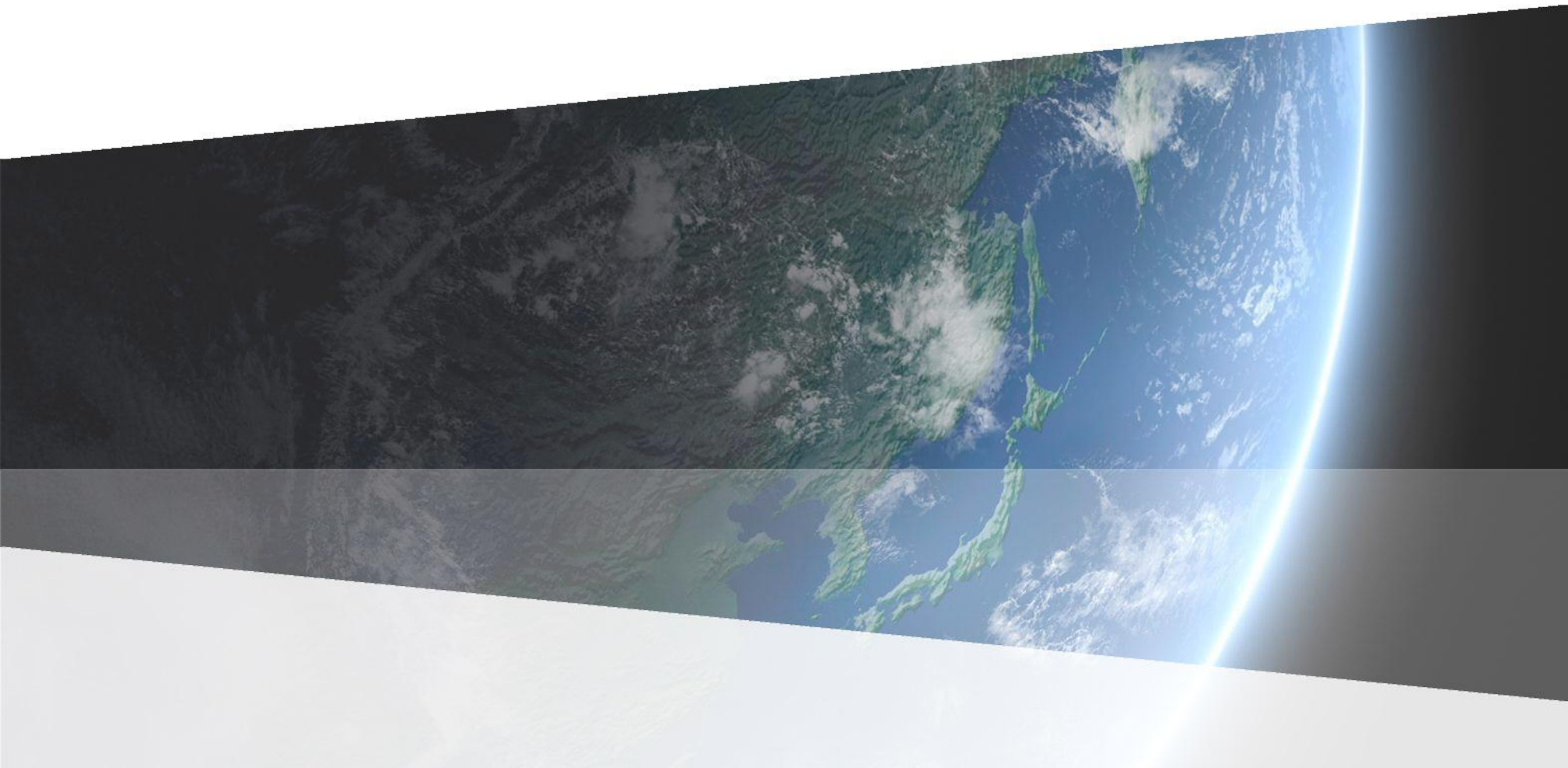
**Increasing Hardship Premiums**  
Recommended %, 1998 and 2011



**Decreasing Hardship Premiums**  
Recommended %, 1998 and 2011



# QUALITY OF LIVING ASSESSMENT APPROACH

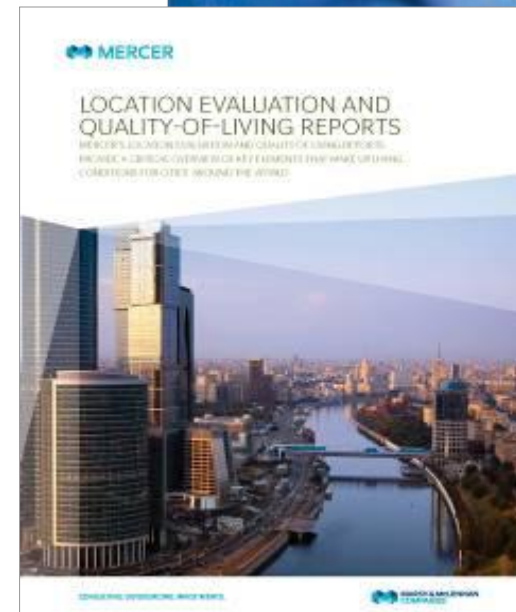


## Common approach for assessment of Quality of Living

- Individual differences but similar needs
- Assessment approach needs to address basic quality of living needs

# Mercer's two hardship products

- **Location Evaluation Reports**
  - For ~ 130 hardship locations
  - Numeric evaluation + comprehensive narrative description
- **Quality of Living reports and calculators**
  - For over 400 locations
  - Numeric evaluation + narrative description
  - Assess relative Quality of Living differences between any two locations
- Both provide **quantitative values for qualitative perceptions**



## Quality of Living/Hardship assessment methodologies

- Qualitative and quantitative methodologies to assess quality of living
  - Globally consistent; enable location-to-location comparison
  - Represent basic concerns for all international employees
  - Neutral, consistent
  - Measurable
  - Transparent
  - Monitored over time
  - Customizable
- Link to recommendations for compensating for difficult living conditions
  - Financial incentive
  - Additional benefits
  - Accommodate different “philosophies” on compensating for hardship

# Quality of Living assessment

## Factor categories

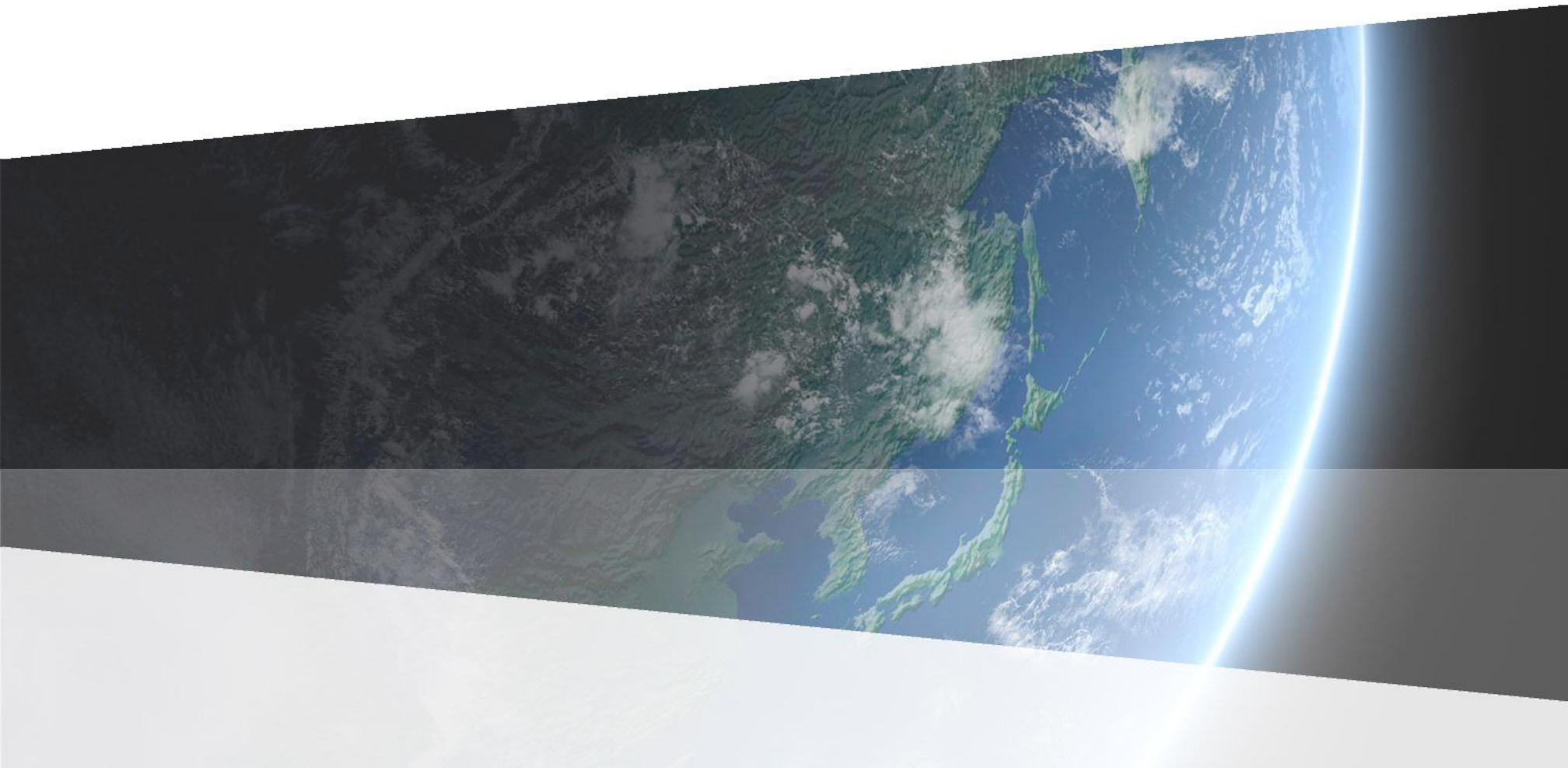
- Political and socio-economic environment
- Crime
- Pollution and sanitation, disease and medical facilities
- Education
- Housing
- Infrastructure
- Leisure and entertainment
- Consumer goods and services
- Natural environment
- Physical remoteness

# Quality of Living assessment

## More options

- Communication
  - Language
  - Culture
- Distance to/from home country
- Extreme conditions
  
- Difficulty of entry (visa and work permit) for expat and family
- Single Status versus family assignments

# COMPENSATING FOR HARDSHIP



## Compensating for Hardship

### Home-host combination approach vs. Host approach

#### Home-host combination approach

- Compares living conditions in home locations vs. in host locations
- Assignees from different countries may get **different** hardship allowance **percentages**

#### Host approach

- Fixed allowance % for each country; ignores assignee's home country
- Therefore, all expats get the **same** allowance **percentage** regardless of country of origin

According to both of these approaches, the hardship **amount** will vary depending on the home salary

# Compensating for Hardship

Three cities, two approaches, different recommended premiums\*

## Home-Host approach

### Chicago to Bogotá:

- Index: 69
- **Hardship: 20%**

### Caracas to Bogotá:

- Index: 125 (> 100)
- **Hardship: 0%**



## Host approach

### Chicago to Bogotá:

- Bogotá Location Evaluation score: 266
- **Hardship: 20%**

### Caracas to Bogotá:

- Bogotá Location Evaluation score: 266
- **Hardship: 20%**

\* As a % of home gross base salary

# Quality of Living Index Calculation

## Standard options

### Mercer - Quality of Living Index Result

#### Mercer International Basket

September 2011 Survey



* Index Categories	Base City LONDON (GB)	Host City LAGOS (NG)
<input checked="" type="checkbox"/> Political and social environment	100	29
<input checked="" type="checkbox"/> Economic environment	100	42
<input checked="" type="checkbox"/> Socio-cultural environment	100	51
<input checked="" type="checkbox"/> Medical and health considerations	100	43
<input checked="" type="checkbox"/> Schools and education	100	40
<input checked="" type="checkbox"/> Public services and transport	100	34
<input checked="" type="checkbox"/> Recreation	100	38
<input checked="" type="checkbox"/> Consumer goods	100	54
<input checked="" type="checkbox"/> Housing	100	54
<input checked="" type="checkbox"/> Natural environment	100	69
<b>TOTAL INDEX</b>	<b>100</b>	<b>41</b>

Total Index of Base City vs. Host city. QOL in Lagos is lower than in London

QOL allowance as % of home salary

Mercer Recommended Quality of Living Allowance is **30** % of the annual Gross salary.

# Quality of Living Index Calculation

## Score details and narrative description for one category

### Mercer - Quality of Living Index Comparison September 2011 Survey

Category: Medical and health considerations	Base City Score LONDON	Host City Score LAGOS
Hospital services	9	5
Medical supplies	10	5
Infectious diseases	10	4
Water potability	10	1
Waste removal	8	1
Sewage	9	3
Air pollution	6	5
Troublesome and destructive animals and insects	10	3

Note: Ratings are based on score criteria where 0 is the minimum and 10 is the maximum. Click on a category item to view the associated score description.

#### **Host city comments:**

The general standard of health care in Nigeria is reasonable, and hospitals are relatively well-equipped compared to many neighbouring countries. Most foreign companies have established arrangements with private clinics and hospitals for their expatriates. If any treatment other than routine medical or dental care is required, most expatriates travel to South Africa, Europe, North America or home for treatment. Most of basic medical items are usually available but the medicines on sale locally are sometimes fake. Vaccinations against cholera, typhoid, hepatitis and yellow fever are recommended. AIDS is prevalent in Nigeria. Tap water is not drinkable. Waste removal services are inefficient in many parts of the city. Mosquitoes are prevalent and anti-malarial precautions are essential.

# Quality of Living Allowance grid

**Mercer Recommended Quality-of-Living Allowance**

Allowance	0%	10.0%	12.5%	15.0%	17.5%	20.0%	22.5%	25.0%	27.5%	30.0%
Host City > 90	No major differences									
85 - 89										
80 - 84										
75 - 79										
70 - 74										
65 - 69										
60 - 64										
55 - 59										
50 - 54										
< 50										

% to be applied to home Gross Income

Host City Index home city = 100

# Quality of Living Index Calculation

## Additional options

TOTAL INDEX	100	41
-------------	-----	----

Mercer Recommended Quality of Living Allowance is 30 % of the annual Gross salary.

Additional factors	Scores	Index Deduction LAGOS
Communication Facilities		-1
Travel Time	4	-3
Extreme Environmental Conditions		
Internal Stability	2	-2.5
Crime	1	-7.5
Limitation on Personal Freedom	4	-2.5
Climate	4	0
Record of Natural Disasters	8	0
<b>Total Adjusted Index</b>		<b>25</b>

Adjusted QOL index

Adjusted Hardship %

Final Adjusted Quality of Living Allowance is 40 % of the annual Gross salary

# Location Evaluation Report Sample

Rating based on specified category conditions

Factor: **CRIME**

Rating: **5**

Violent crime is rampant in this location, and foreigners are often targeted. Expatriates face a serious threat of violent robbery, armed muggings, assault, burglary, and armed carjacking, which calls for extreme caution, especially after dark—expatriates typically use an armed guard when traveling at night. They also face the constant threat of petty crime and scams and other forms of fraud.

Residential security measures are essential. Many expatriates live in a residential compound with guards and perimeter fencing. Ikoyi and Victoria Island have the added protection provided by the Lagos Lagoon, a natural boundary that separates them from low-income districts on the mainland, where most crime occurs. (Security is particularly tight in Ikoyi, which is home to senior military and government officials and foreign embassy personnel.) While the separation from lower-income areas and higher levels of security reduce the risk, however, they do not eliminate it.

Narrative description of conditions

On the mainland, expatriates are advised to avoid the areas of Mushin, Isolo, Ajegunle, Oshodi, and parts of Surulere and Apapa. On Lagos Island, near Iyoki, some parts of the Dolphin Estate should be avoided, especially at night.

Security forces are ineffective and corrupt. The police are as likely to detain and harass foreigners as a means of extortion as they are to provide assistance.

# Location Evaluation Report Sample

## Overall Evaluation

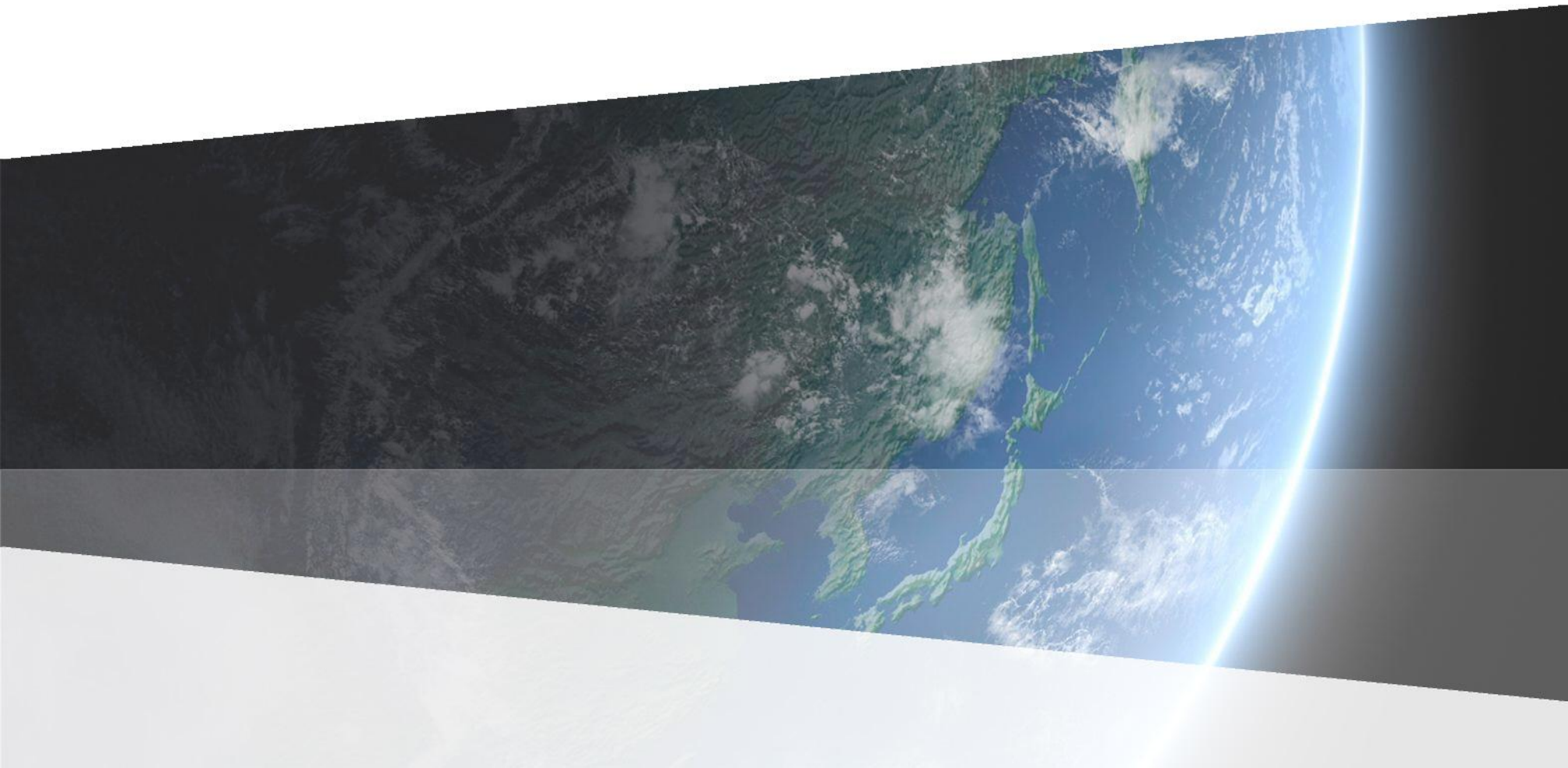
### Lagos, Nigeria

Lagos can be a very difficult location for expatriates. The serious threat of crime is the most important drawback, but inadequate infrastructure, pollution, the risk of disease, poor medical facilities, and the limited availability of quality goods and services also present challenges. Mercer recommends a location premium of 35 percent of base pay for Lagos. *The ratings for housing and infrastructure have been revised from the previous report, but the premium recommendation has not changed.*

Evaluation rating: 1 = Acceptable; 2 = some problems exist; 3 = an important drawback to the location; 4 = a major problem; 5 = very severe conditions.

<b>Evaluation score</b>	<b>417</b>
<b>Mercer recommended location premium</b>	<b>35%</b>

# GLOBAL MARKET PRACTICES AND TRENDS



## Global market practices and trends

- Hardship approach and talent management considerations
- Differences according to nationality, culture and industry sectors
- Paid for long-term (and, increasingly, short-term) assignments
- Hardship premium amount determined:
  - As % of annual gross base salary
  - As % of annual net salary
  - Maximum is usually 50% (of base salary)
  - Fixed amount
  - Mainly paid monthly

## Global market practices and trends, continued

- Increasingly, caps/ceilings are introduced
- Phasing out of hardship premium over time
- Updates usually at beginning of assignment
- Combined (or not) with mobility premium
- Hardship premium included in lump sum (typical for emerging markets)
- Hardship differentiation according to family situation (single vs. married vs. married with children)

## Additional premiums for hardship destinations

- **Risk/Danger pay** for extremely dangerous destinations (political turmoil)
- **“Pioneer” premium**
  - For first representative of a company in a new hardship destination
- **Completion bonus**
  - Typical practice in oil & gas, construction, mining industries
- **Remote Location premium**
  - Requires a clear definition of what “remote” means

## What makes a location remote?

- Location where hardship is experienced due to physical and social isolation
- Variables for classifying a location as remote:
  - Population size
  - Travel time to the nearest city/large town
  - Transportation available for in-country travel
  - Availability of cultural events/entertainment
  - Telecommunication infrastructure

## Additional measures for hardship destinations, continued

- **Rest and Recreation leave**
  - Period granted to expats in a hardship location to spend time away from it
- **Security measures**
  - Training and continued information provision
  - Evacuation plans
  - Secure compound/security guards
- **Rotational assignments**
  - Employees spend weeks in a location to work, followed by days or weeks at home or on Rest and Recreation leave, with the pattern of work and leave repeating throughout the assignment. Almost always for single-status assignments.

## Rotational assignments

- Common in oil & gas, energy, construction, mining industry sectors
- Almost always single-status assignments
- Often similar to Rest and Recreation leave
- Linked to hardship locations
- Various types
- Duration usually one to three years
- “Rotational bonus” or allowance mainly in Middle Eastern companies

## Special situations: Japan and North African turmoil



- Few companies have increased hardship premiums in temporary hardship situations
- “Ad hoc” allowances paid
- Actions focused on facilitating evacuation, support for family
- Case-by-case solutions

Long-term impact on living conditions



# Questions and contacts



**Anne Rossier-Renaud**  
Geneva  
+41 22 869 3091  
[anne.rossier-renaud@mercer.com](mailto:anne.rossier-renaud@mercer.com)



**Christa Zihlmann**  
Geneva  
+41 22 869 3054  
[christa.zihlmann@mercer.com](mailto:christa.zihlmann@mercer.com)

## QUESTIONS

Type your questions in the Q&A section of the toolbar and we will answer as many questions as we can.

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



CLICK HERE TO ASK A QUESTION TO "ALL PANELISTS"

## FEEDBACK

A feedback form will pop up in a new window when the session ends. Please complete it so we can continue to improve.

[www.mercer.com/webcasts](http://www.mercer.com/webcasts)

View past recordings and sign up for upcoming webcasts