

Mercer webcast



September 2011

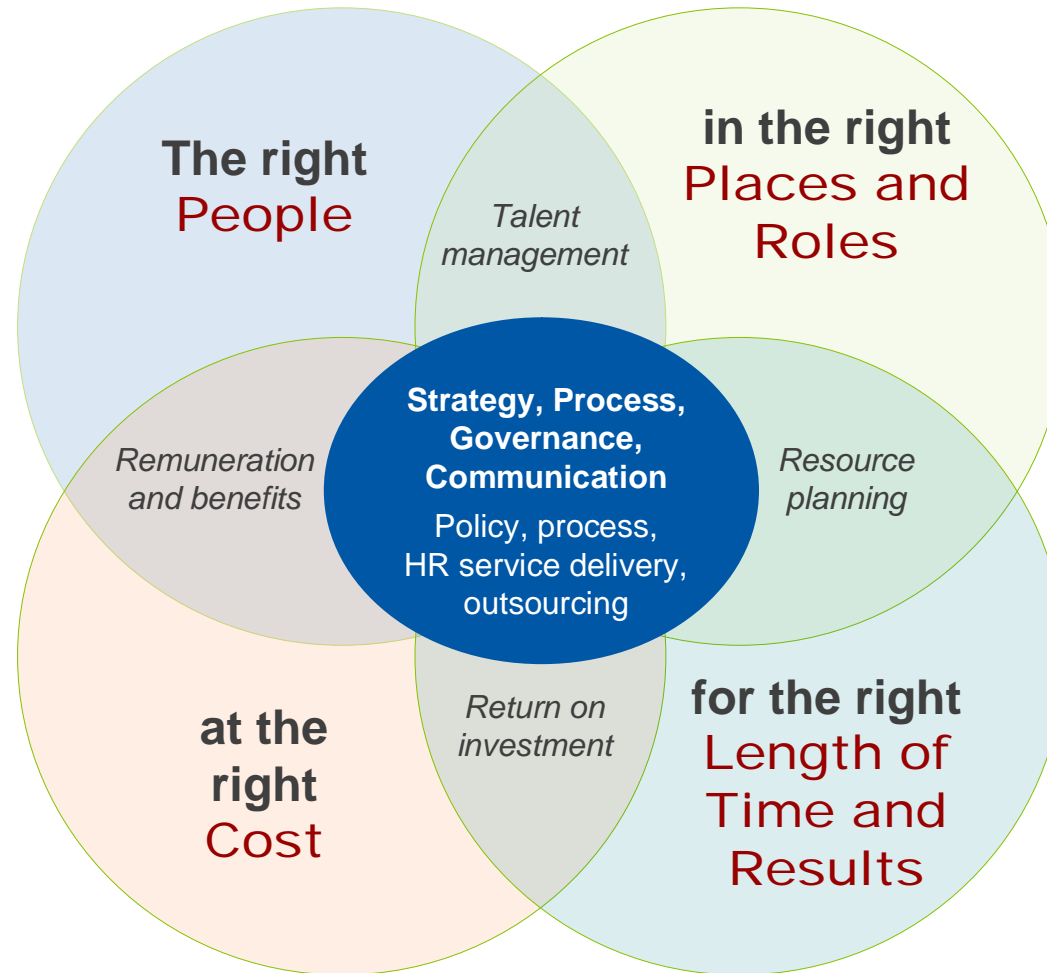
Why auditing your global mobility program is a must-do

Steve Nurney, New York

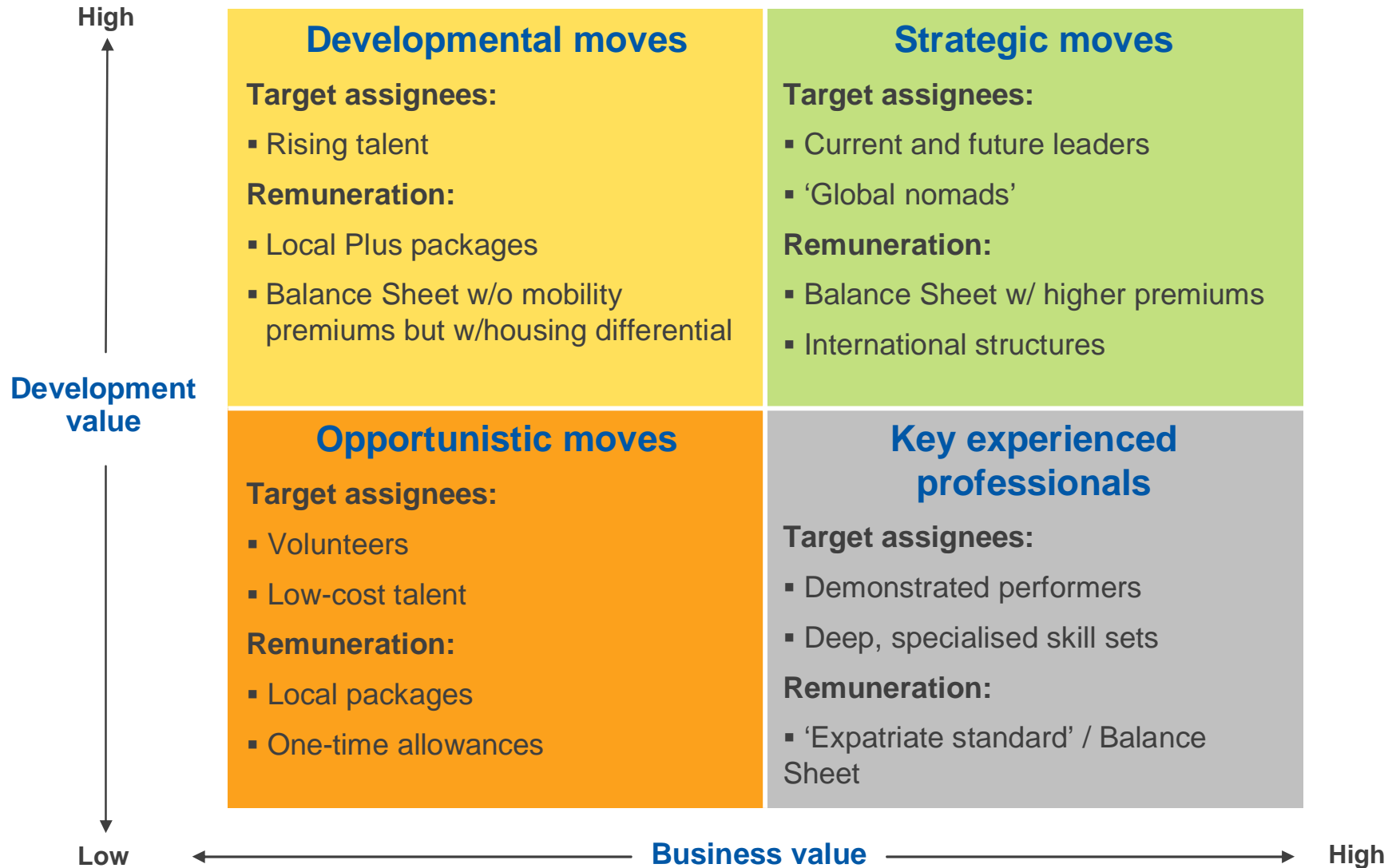
What we'll cover today

- Reviewing the business case for international assignments
- Balance Sheet methodology
- How to interpret data sources
- What's involved in a compensation audit
- Cost savings opportunities

What is your company's global mobility strategy?

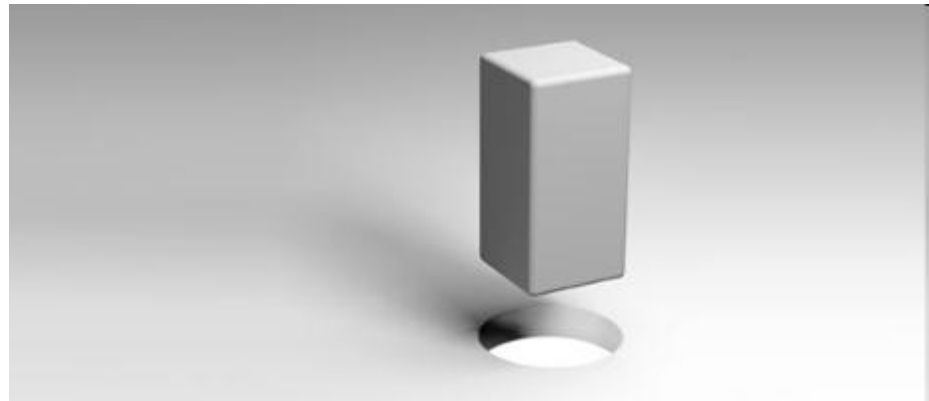


The business case for mobility



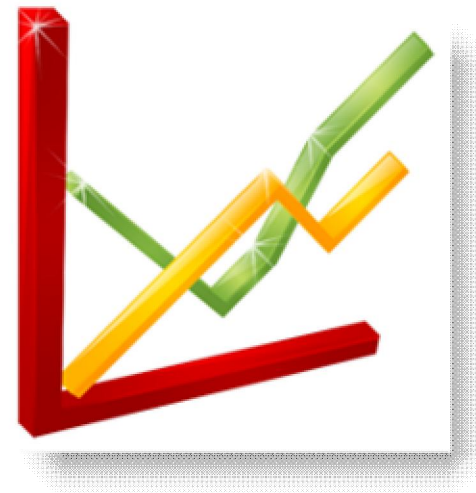
Do your policies reflect your business needs?

- How many policies do you have?
- Do they address your unique business needs?
- Who are your stakeholders? Are they engaged?
- When is the last time you asked your stakeholders whether your policies are effective?
- Have you benchmarked your policies? Are they competitive and cost-effective?



Balance sheet methodology

- Most common approach used by:
 - **83%** of companies in the Americas
 - **74%** of companies in EMEA
- Minimize assignment's financial impact
- Use of statistical norms
 - Income taxes
 - Housing
 - Goods & Services
- Moving targets
 - Economic factors
 - Salary
 - Family size
 - Exchange rate
 - Pay delivery method

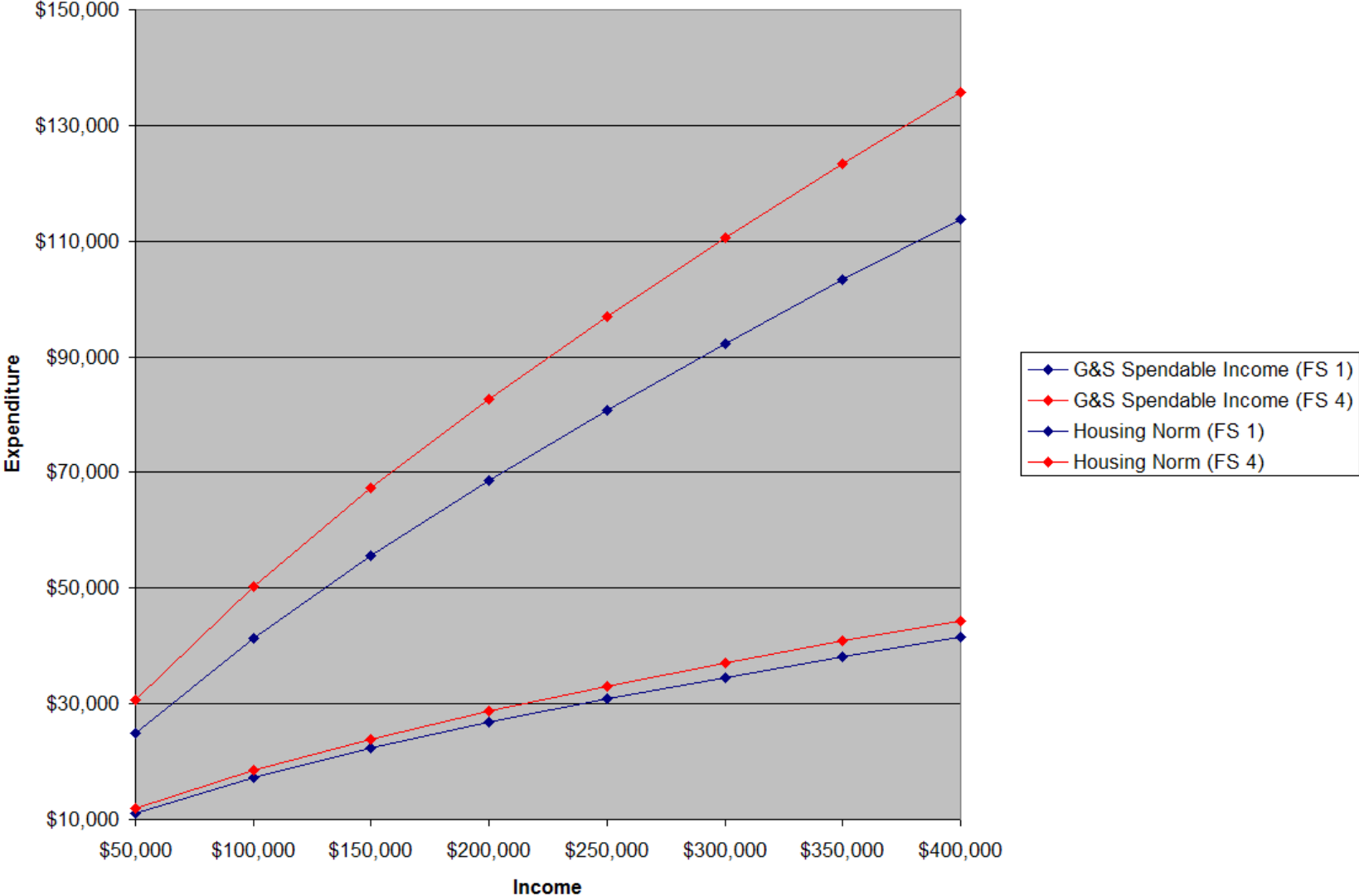


Interpreting compensation information

Home-country expenditure data

- Basis for calculating differentials
- Goods & services spendable income
 - Varies by income and family size, but not linearly
- Housing norms
 - Statistical averages
 - Include renters *and* owners
 - Don't reflect current housing market

United States G&S Spendable Income and Housing Norm



What affects goods and services differentials?

Economic conditions

- Inflation and deflation
 - Home *and* host locations
- Currency fluctuations
- Currency “revaluations”
- Consumer expenditure data

Assignee information

- Salary changes
- Changes to family size

Have packages been updated?

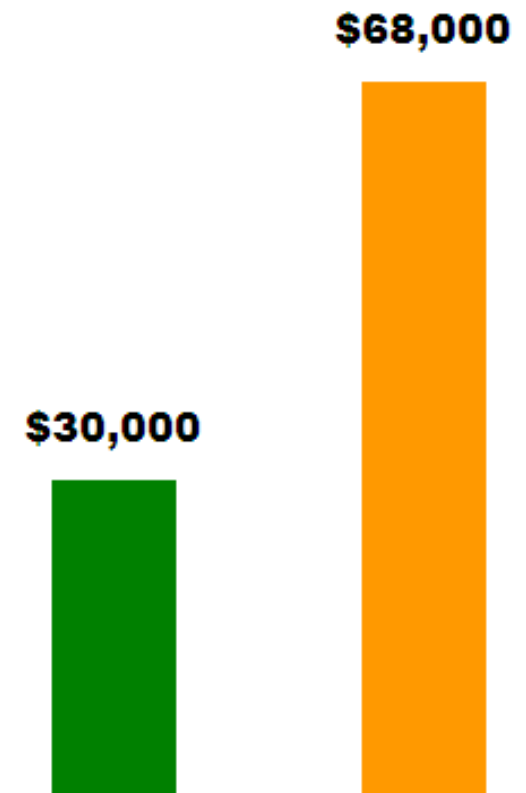


Currency volatility: USD to Swiss franc, 15 May 2010 to 15 Aug 2011



Impact on cost-of-living differentials

- **35%** drop in value of USD against the Swiss franc in 15 months
- US-to-Geneva Goods & Services index (Efficient Purchaser) rose from **175** to **270**
- Goods & services differentials increased by **> 225%**
 - From **USD 30,000** to **USD 68,000** per year
 - Would the assignee have alerted you had the FX rate moved in the other direction?



Expatriate compensation is complicated

There are many moving parts:

- Home expenditure data
- Host location data
- Salaries
- Families (sizes and circumstances)
- Assignment locations
(even place names and currencies)
- Currency flux
- Currency arbitrarily revalued
 - Venezuelan Bolivar Fuerte doubled from 2.15 to 4.30 per USD; transition completed in January 2011
 - Zimbabwe dollar pegged to USD, then abandoned



Many people may be involved in the process

What's involved in an audit?

- Verify assignee data
 - Home and host locations
 - Salary (and the currency it's denominated in)
 - Application of caps (and currency)
 - Family size (for allowance, tax purposes)
- Confirm the basis for housing and goods & services allowances
- Calculate correct norms, spendables, and differentials
- Compare to existing calculations
 - Using same date, FX rates, etc.
- Diagnose any discrepancies
- Correct errors



Mercer audit of goods and services differentials

- Confirm income to be used
 - Amount (last update?)
 - Currency
 - Caps
- Confirm family size on assignment and at home
- Confirm home location
- Confirm accuracy of calculations and/or use of table and Home-Country Profile data
 - Correct mapping to Mercer data files
 - Application of spendable factors

Mercer audit process

- Client gets template to enter assignee roster information
 - Employee identifier
 - Home/host information
 - Salary and family size
 - Latest allowances (including date of calculation)
- Upload this data along with a file containing the expat comp data we provide the client into a proprietary tool
- Calculate correct home spendable income, norms, differentials, and host spendable income for all assignees at the same point in time

Mercer audit results

Annual Salary	Host Family Size	Table ID	Table Date	Exchange Rate	Index	Full Home Spendable	Annual Goods and Services Differential Mercer	Annual Goods and Services Differential Client	Difference Overpay (Underpay) USD
HKD 1,163,625	4	Hong Kong to New York Metro, United States - EPI, Standard	01/22/10	1 HKD : 0.1289 USD	132.35	HKD 498,305	HKD 161,202	161,825	80
GBP 95,000	4	United Kingdom (London/SE England) to Bangalore, India - Expatriate, Standard	01/22/10	1 GBP : 74.4413 INR	75.00	GBP 38,076	n/a	-	-
GBP 95,000	3	United Kingdom (London/SE England) to Bucharest, Romania - Expatriate, Standard	01/22/10	1 GBP : 4.6713 ROL	102.51	GBP 35,892	GBP 901	901	1
GBP 73,100	2	United Kingdom (London/SE England) to Budapest, Hungary - EPI, Standard	01/22/10	1 GBP : 299.6595 HUF	103.13	GBP 28,561	GBP 894	896	3
GBP 55,100	1	United Kingdom (London/SE England) to Budapest, Hungary - EPI, Standard	01/22/10	1 GBP : 299.6595 HUF	103.13	GBP 21,504	GBP 673	675	2
GBP 65,000	1	United Kingdom (London/SE England) to Budapest, Hungary - EPI, Standard	01/22/10	1 GBP : 299.6595 HUF	103.13	GBP 24,266	GBP 760	761	3
GBP 50,007	1	United Kingdom (London/SE England) to Budapest, Hungary - EPI, Standard	01/22/10	1 GBP : 299.6595 HUF	103.13	GBP 20,031	GBP 627	628	2
GBP 65,000	1	United Kingdom (London/SE England) to Budapest, Hungary - EPI, Standard	01/22/10	1 GBP : 299.6595 HUF	103.13	GBP 24,266	GBP 760	761	3
GBP 95,000	4	United Kingdom (London/SE England) to Chennai, India - Expatriate, Standard	01/22/10	1 GBP : 74.4413 INR	71.22	GBP 38,076	n/a	-	-
GBP 36,000	1	United Kingdom (London/SE England) to Dubai, United Arab Emirates - Expatriate, Standard	12/18/09	1 GBP : 5.9772 AED	117.21	GBP 15,751	GBP 2,711	2,708	(4)
GBP 95,000	4	United Kingdom (London/SE England) to Geneva, Switzerland - EPI, Standard	02/19/10	1 GBP : 1.6801 CHF	159.53	GBP 38,076	GBP 22,667	22,656	(17)
GBP 95,000	4	United Kingdom (London/SE England) to Hong Kong, Hong Kong - EPI, Standard	01/22/10	1 GBP : 12.6695 HKD	118.31	GBP 38,076	GBP 6,972	6,970	(4)
GBP 95,000	1	United Kingdom (London/SE England) to Hong Kong, Hong Kong - EPI, Standard	01/22/10	1 GBP : 12.6695 HKD	118.31	GBP 32,029	GBP 5,865	5,870	9
GBP 83,900	4	United Kingdom (London/SE England) to Hyderabad, India - Expatriate, Standard	01/22/10	1 GBP : 74.4413 INR	72.67	GBP 35,064	n/a	-	-
GBP 88,200	4	United Kingdom (London/SE England) to Hyderabad, India - Expatriate, Standard	01/22/10	1 GBP : 74.4413 INR	72.67	GBP 36,246	n/a	-	-
GBP 95,000	3	United Kingdom (London/SE England) to New York Metro, United States - EPI, Standard	01/22/10	1 GBP : 1.6332 USD	103.16	GBP 35,892	GBP 1,134	1,131	(5)
GBP 95,000	1	United Kingdom (London/SE England) to Johannesburg, South Africa - EPI, Standard	11/20/09	1 GBP : 12.3234 ZAR	88.13	GBP 32,029	n/a	-	-
GBP 67,860	3	United Kingdom (London/SE England) to Johannesburg, South Africa - EPI, Standard	11/20/09	1 GBP : 12.3234 ZAR	88.13	GBP 28,469	n/a	-	-
GBP 95,000	4	United Kingdom (London/SE England) to Johannesburg, South Africa - EPI, Standard	11/20/09	1 GBP : 12.3234 ZAR	88.13	GBP 38,076	n/a	-	-
GBP 95,000	1	United Kingdom (London/SE England) to Johannesburg, South Africa - EPI, Standard	11/20/09	1 GBP : 12.3234 ZAR	88.13	GBP 32,029	n/a	-	-
GBP 95,000	1	United Kingdom (London/SE England) to Johannesburg, South Africa - EPI, Standard	11/20/09	1 GBP : 12.3234 ZAR	88.13	GBP 32,029	n/a	-	-
GBP 61,500	2	United Kingdom (London/SE England) to Johannesburg, South Africa - EPI, Standard	11/20/09	1 GBP : 12.3234 ZAR	88.13	GBP 25,276	n/a	-	-
GBP 85,840	2	United Kingdom (London/SE England) to Kiev, Ukraine - Expatriate, Standard	02/19/10	1 GBP : 12.5858 UAH	93.74	GBP 31,998	n/a	-	-
GBP 95,000	1	United Kingdom (London/SE England) to Lagos, Nigeria - Expatriate, Standard	01/22/10	1 GBP : 247.2665 NGN	126.14	GBP 32,029	GBP 8,372	8,379	11
GBP 95,000	1	United Kingdom (London/SE England) to Manila, Philippines - EPI, Standard	01/22/10	1 GBP : 74.4739 PHP	76.61	GBP 32,029	n/a	-	-
GBP 95,000	1	United Kingdom (London/SE England) to Milan, Italy - EPI, Standard	02/19/10	1 GBP : 1.1471 EUR	139.44	GBP 32,029	GBP 12,632	12,642	16
GBP 95,000	2	United Kingdom (London/SE England) to Monte Carlo, Monaco - Expatriate, Standard	01/22/10	1 GBP : 1.1262 EUR	144.67	GBP 34,376	GBP 15,356	9,902	(8,908)
GBP 95,000	3	United Kingdom (London/SE England) to Moscow, Russian Federation - Expatriate, Standard	11/20/09	1 GBP : 47.9617 RUB	139.31	GBP 35,892	GBP 14,109	14,073	(58)
GBP 95,000	4	United Kingdom (London/SE England) to New York Metro, United States - EPI, Standard	01/22/10	1 GBP : 1.6332 USD	103.16	GBP 38,076	GBP 1,203	1,203	(1)
GBP 95,000	5	United Kingdom (London/SE England) to New York Metro, United States - EPI, Standard	01/22/10	1 GBP : 1.6332 USD	103.16	GBP 41,006	GBP 1,296	1,295	(2)
GBP 95,000	4	United Kingdom (London/SE England) to New York Metro, United States - EPI, Standard	01/22/10	1 GBP : 1.6332 USD	103.16	GBP 38,076	GBP 1,203	1,203	(1)

What to look out for

- Use of appropriate indexes and modifications
- Modifications (removal of transportation, etc.) correctly accounted for
- Correct home/host locations associated with each assignee
- Current salary and family sizes
- “Frozen” allowances
- Math errors
- Correct payroll instructions



What to look out for, cont'd

- Failure to update base salaries and family sizes
 - Child who went off to college? Spouse who moved out?
- Is compensation data mapped correctly to each individual?
- Has home data been updated?
- What currencies are in play?
- Rents have fallen in many places; is it time to renegotiate?
- How is pay delivered?
- How often are packages updated?



What to do with audit results

- Explain discrepancies
- Develop a plan to correct
 - Fix the problem!
 - May require retroactive adjustments
 - Grandfathering
 - Communication
 - Conduct regular audits



Housing policy

- How are allowances (or budgets) set?
- Are allowances adjusted? When? Why?
- How to account for “seasonal” family members?
- What information is used to establish allowances or guidelines?
How current is it?



Where should expatriates expect to live?

Map interface showing neighborhood recommendations for expatriates in Geneva, Switzerland. The map is overlaid with colored pins (A-F) corresponding to the listed neighborhoods.

Airports [Hide](#)

- Geneva Cointrin International Airport

Neighborhoods-1 (Less Expensive) [Hide](#)

- Acacias
- Jonction
- Meyrin
- Plainpalais
- Servette

Neighborhoods-2 (Moderate) [Hide](#)

- Carouge
- Chene-Bourg
- Eaux Vives
- Paquis



Other cost-saving opportunities

Time to localize?

When and how

- Expat compensation designed for *temporary* assignments away from the home country
- When does *home* location change?
- Implications?
 - Income taxes
 - Housing costs
 - Net income
 - Schooling
 - Benefits
 - Company (pension)
 - Government (social security)

Mercer Net-to-Net/Gross Comparison

Company: XYZ Corp.
 Assignee Name: John Doe
 Family Size: 4

Index: 102.7250
 Index Date: September 1, 2011
 Index Price Type: International
 Exchange Rate: 1.4413

Home City: United States (Houston, TX)
 Assignment Location: Singapore (Singapore)
 Home Currency: United States of America, Dollars
 Assignment Currency: Singapore, Dollars

Current Compensation United States

	<u>USD</u>
Current Base Salary	150,000
Current Bonus	15,000
Total Cash Compensation	165,000
Taxes	
Tax - Federal	(24,454)
Tax - State	-
Social Security / National Insurance	(9,014)
Housing	
Local Housing	(24,336)
Net Income at home	107,196
Cost-of-Living Adjustment	1,647
TARGET NET INCOME AT HOST	108,843

Equivalent Compensation Singapore

	<u>SGD</u>
Target Base Salary	193,826
Target Bonus	19,383
Target Total Compensation:	213,209
Taxes	
Tax - Federal	(20,962)
Tax - State	-
Social Security / National Insurance	(14,080)
Housing	
Local Housing	(21,291)
Target Net Income	156,876
<i>exchange rate: USD 1.00 = S\$ 1.4413</i>	
	156,876

Company Proposed Compensation Singapore

	<u>SGD</u>
Proposed Base Salary	225,000
Proposed Bonus	22,500
Total Cash Compensation	247,500
Taxes	
Tax - Federal	(26,702)
Tax - State	-
Social Security / National Insurance	(14,608)
Housing	
Local Housing	(23,998)
Target Net Income	182,192
Net Difference	
<i>equivalent v. proposed</i>	SGD 25,316

Multi-level policies

- Unique relationship between business and developmental needs
- Differentiate by:
 - Job level
 - Assignment purpose
 - Pay basis (home, host, host+)
 - Housing standards
 - COL
 - Financial incentives

Cost-effective allowances and differentials

- Goods & Services index types, from conservative to generous:



- Modify to account for other policy benefits
 - Car
 - Furnishings
 - Medical care
- Capping



Summary

- ✓ Mobility is a key element of talent management strategy, so it must be **aligned** with business needs
- ✓ Review policies and practices **regularly**
- ✓ Expatriate compensation is **complicated** – be sure it's done correctly!
- ✓ **Cost-saving** opportunities can often be found

Questions and contacts



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