

# Location-Specific Premiums:

Choosing the Right Methodology to Match Your Needs

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For the most part, expatriates face similar needs wherever they live – housing, education for their children, medical facilities, working infrastructure, cultural and recreational outlets, and places to obtain necessary goods and services. Additionally, such things as climate and physical conditions, disease and sanitation standards, ease of communications, and physical remoteness can make a home away from home feel like a pleasant adventure or an unpleasant misfortune. Moreover, the political and social environment, political violence and repression, and crime may give rise to potentially uncomfortable, inconvenient, or even dangerous situations.

In an effort to determine the level of hardship entailed by a host location, as well as a premium appropriate for the location, Mercer offers two products that comprehensively evaluate local conditions while fairly compensating expatriates. The qualitative and quantitative methods involved in Mercer's products – the Quality of Living report and Location Evaluation report – result in a financial incentive that not only helps motivate your employees to accept a foreign assignment, but also compensates them for adverse conditions associated with the assignment location.

## The Benefit of Two Approaches

Determining when (and whether) you should compensate expatriates for difficult conditions can be subjective. You can base these decisions only on an assessment of generally accepted standards of living or an assessment of differences in living conditions between one location and another. Mercer differentiates these options methodologies by offering two distinct tools, each of which provides a detailed narrative of local conditions:

- Location Evaluation Reports (LERs) provide a recommended premium for a given location compared to generally accepted high living standards. Analysts rate the living conditions in the location and calculate an overall score, which is then translated into a recommended location-specific premium (as a percentage of base salary). The LER results in a single recommendation for each location that is not dependent on any home, or base, location.
- Quality of Living Reports (QOL) also assess and rate diverse quality of living factors, but do provide a recommended premium only when a home (or comparative location) is also selected. The QOL calculator enables you to compare the quality of living in two locations, determine a quality of living index between them, and translate the index into a premium recommendation (also expressed as a percentage of base salary). The QOL can result in a different recommendation for a given location, depending on the home location from which the assignee is coming.

## Which Approach Fits Your Needs?

When deciding what works best for your organization, consider these questions:

- How does management feel about paying a different location premium to expatriates from different nationalities in the same location?
- Would payment of a different percentage based on the employee's home country create undesirable employee relations issues?
- As an organization, is it important to compensate for any hardship level or only that relative to the level lived by the assignee at home – that is, only for the differential of hardship and difficult conditions between the home and host locations? (For example, does going to a polluted location from a non polluted location or from an equally polluted location need to be equally compensated?)

The overall factors for selecting a specific methodology focus on these decision points:

- Clients who wish to pay the same location premium percentage to all assignees in a given location regardless of their point of origin prefer the LER approach.
- Clients who believe that they should supplement an expatriate's compensation for arduous conditions only if the situation represents a deterioration of living conditions compared to the assignee's point of origin prefer the QOL approach.

*Before you make your final choice, discuss the issue with your Mercer consultant to find the optimal solution for both your organization and your expatriates.*

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