

Mercer webcast



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Outbound from Everywhere

How to appropriately compensate
your diverse international team

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AGENDA

1. **Context** for increasing global assignments
2. Basic **philosophy** for compensating expatriates
3. Challenges in compensating assignees from **developing markets** (in this presentation, “DMs”)
4. **Solutions**
 - Local pay plus
 - Position allowances
 - International spendable income calculations
 - High-income earners
5. Managing **future** talent compensation



Context for Increasing Global Assignments

CONTEXT FOR INCREASING GLOBAL ASSIGNMENTS

Global mobility overview

Why invest in global mobility?

- The world is becoming flatter, and opportunities are scattered across the globe.
- A well-run global mobility program can help to build an international perspective within the business as a whole.



CONTEXT FOR INCREASING GLOBAL ASSIGNMENTS

Defining “internationally mobile employees”

- Employees on a work assignment for their employer outside of their home country, typically for a finite period
- **Definition issues:**
 - Employees hired locally who are not nationals of the country of hire
 - Employees on assignment for an indefinite period
 - Employees on assignment – country pay and conditions
- Who is the policy meant to cover?
- Is the policy mobility-driven, pay-driven, or both?



CONTEXT FOR INCREASING GLOBAL ASSIGNMENTS

Global mobility key drivers

Key drivers for international assignments

- Skills gaps in international locations
- Management development
- Technology transfer
- Senior management role
- Training

Primary compensation design decision drivers

- Operational need
- Cost
- Motivation to accept assignment
- Deploying key/core competitive resources
- Administrative simplicity
- Equitable treatment

CONTEXT FOR INCREASING GLOBAL ASSIGNMENTS

Where expats are going (sorted by 2010 %)

Assignment locations	2000	2006	2008	2010
Middle East	5%	10%	15%	22%
Western Europe	27%	29%	20%	19%
U.S./Canada	21%	17%	15%	18%
Asia Pacific	19%	16%	18%	15%
China	6%	9%	9%	9%
Latin America	8%	5%	4%	5%
Africa	3%	5%	9%	4%
Japan	2%	2%	2%	2%

Source: Mercer's/ORC's *Worldwide Survey of International Assignment Policies and Practices*

CONTEXT FOR INCREASING GLOBAL ASSIGNMENTS

Where expats are coming from (sorted by 2010 %)

Source of expatriates	2000	2006	2008	2010
Western Europe	33%	31%	28%	24%
Asia Pacific	3%	13%	12%	23%
U.S./Canada	28%	27%	23%	22%
Japan	27%	17%	15%	16%
Latin America	3%	3%	3%	4%
Africa	1%	1%	12%	2%
Middle East	1%	2%	1%	2%
China	0%	1%	1%	1%

Source: Mercer's/ORC's *Worldwide Survey of International Assignment Policies and Practices*

CONTEXT FOR INCREASING GLOBAL ASSIGNMENTS

Why is it complex?

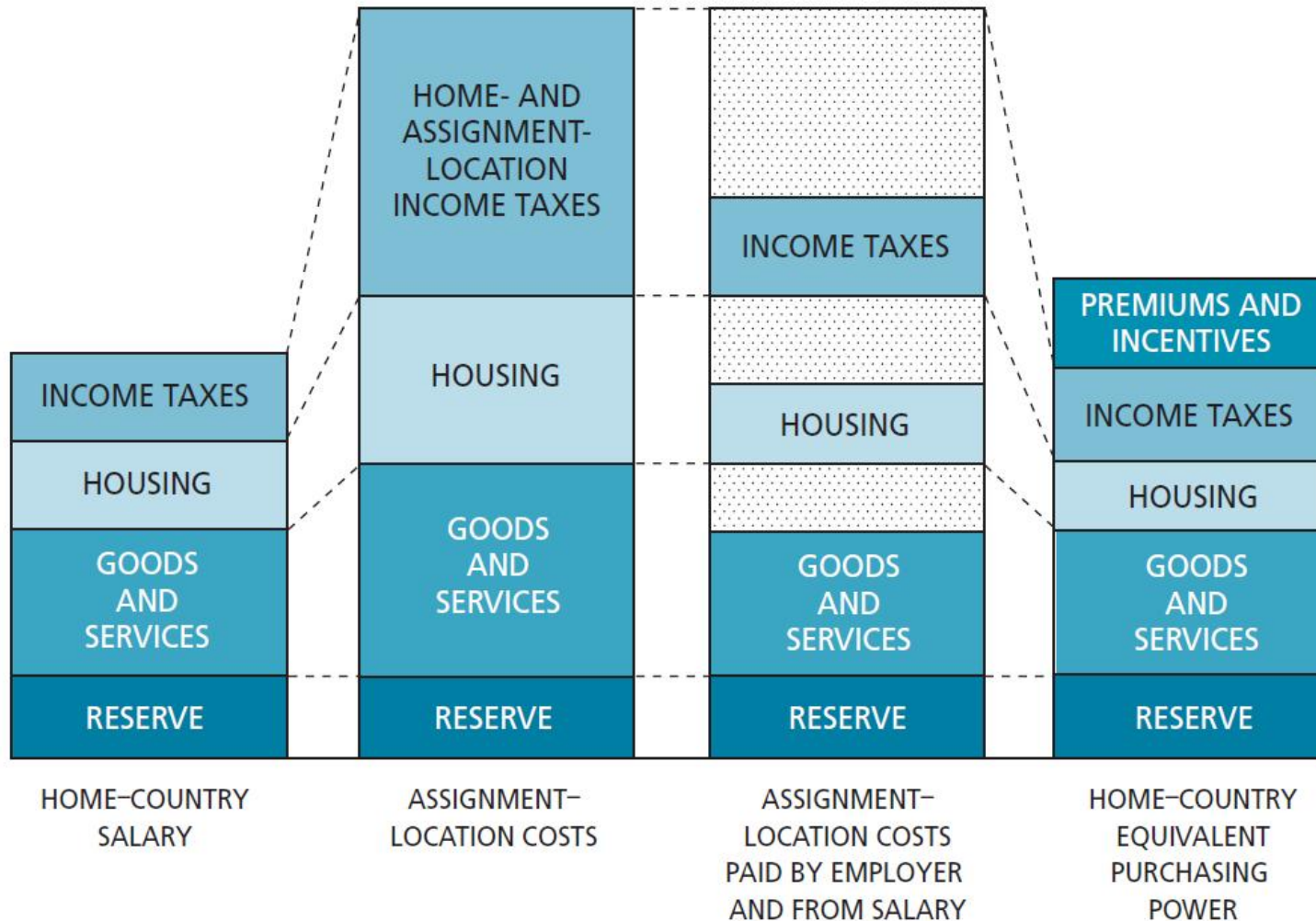
- Gross and net **compensation** varies between countries
- **Purchasing power** varies between countries
- **Exchange rates** change
- **Tax** structures differ
- **Benefits** and social security systems differ
- International **moves disrupt** employees lives
- Some **locations** are unattractive
- **Language** and **culture** differ



Basic Philosophy for Compensating Expatriates from Developing Markets

PHILOSOPHY FOR COMPENSATING MOBILE EMPLOYEES

The 'Home Build Up' or 'Balance Sheet' Approach



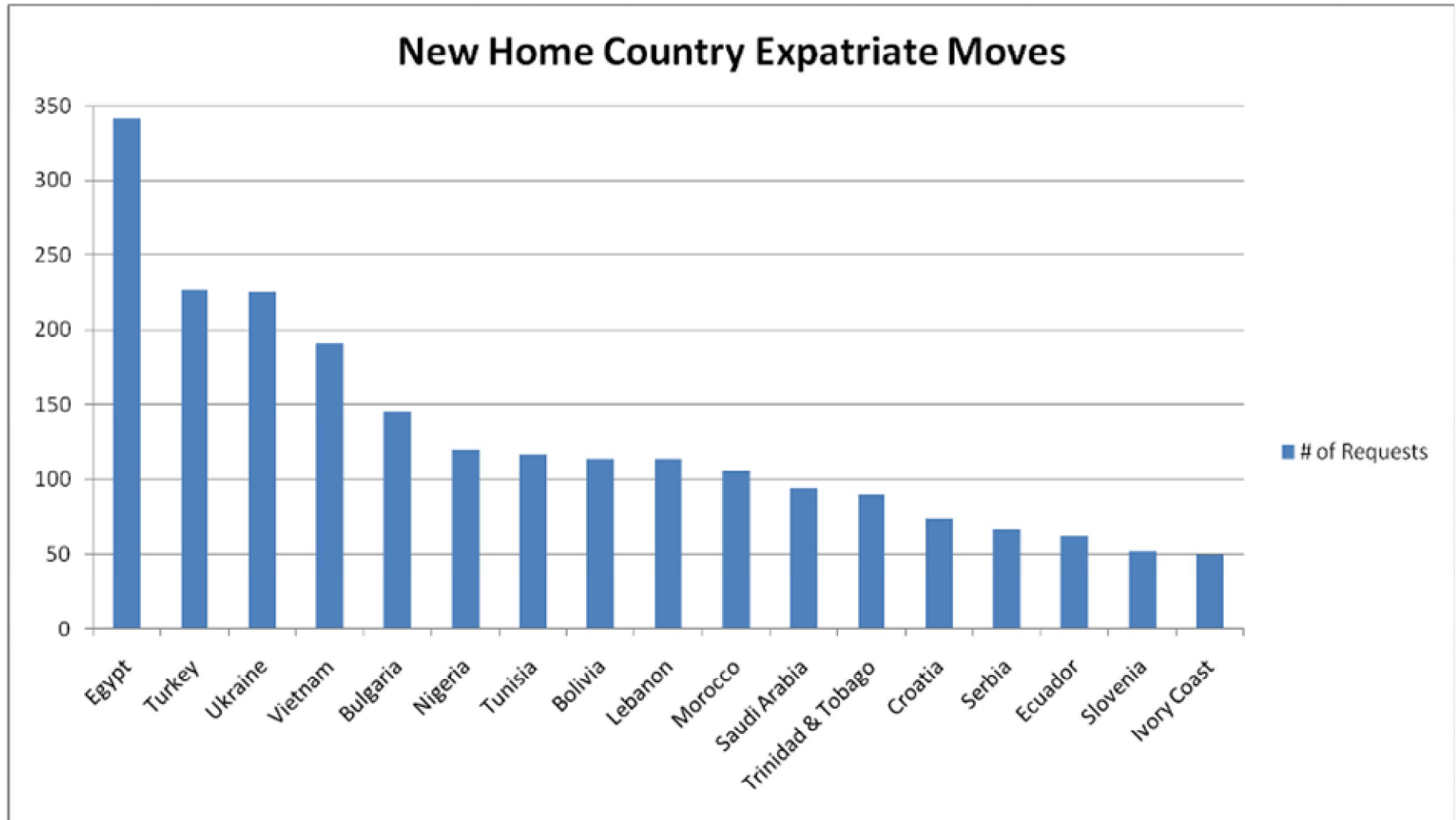
PHILOSOPHY FOR COMPENSATING MOBILE EMPLOYEES

Transfers from less-developed (developing) countries

- Home country **pay structure**
- Moves from Developing Markets (DMs) **to developed countries**
- Moves from one DM **to another**
- **Disparity of base pay** levels between home and assignment location
- Pay disparity **does not equal cost-of-living disparity**
- **Limitations** of conventional pay approaches
- **Repatriation** to a developing country

PHILOSOPHY FOR COMPENSATING MOBILE EMPLOYEES

Current demand for expatriates



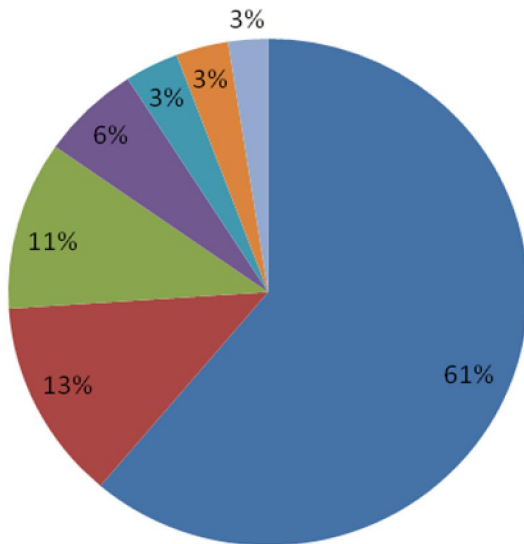
* Figures from internal Mercer data requests

PHILOSOPHY FOR COMPENSATING MOBILE EMPLOYEES

Current pay models: Global vs. developing market

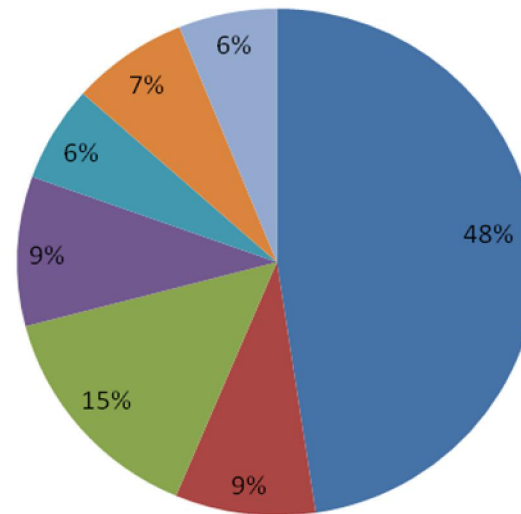
Global Assignment

- Home-Based Balance Sheet
- Headquarters-Based Balance Sheet
- Host-Based Approach
- Home Plus Approach
- Host Plus Approach
- Higher of Home or Host Approach
- Other



From a DM

- Home-Based Balance Sheet
- Headquarters-Based Balance Sheet
- Host-Based Approach
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- Other



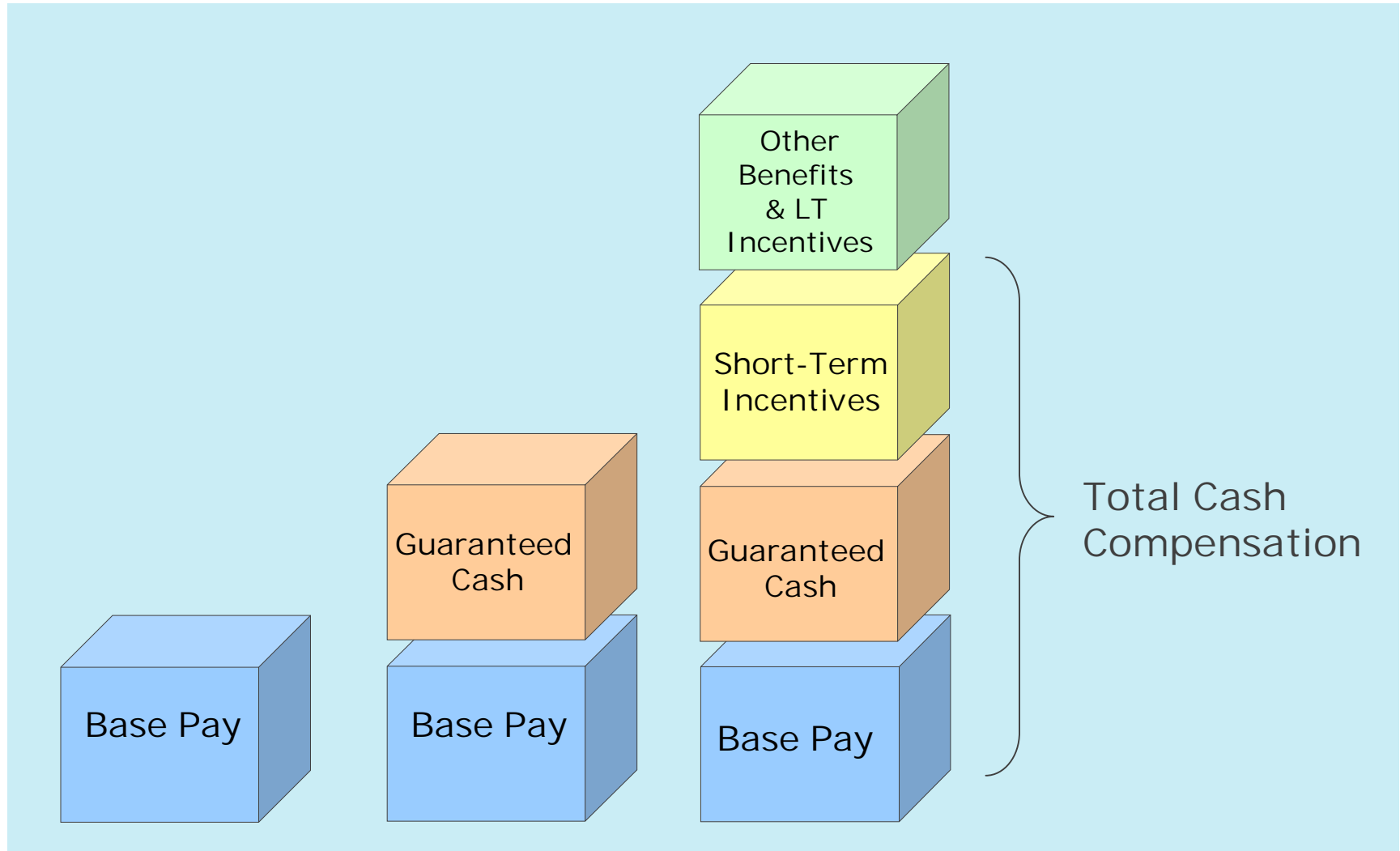
PHILOSOPHY FOR COMPENSATING EXPATRIATES FROM DMs

Key questions

- What are the **job levels** of transferees?
- What is the **nature and length of assignments**?
- What is the economic level of the **home country**?
- What is the economic level of the **assignment country**?
- What are the **cost differences** between the two countries?
- What is the **salary structure** of the home country?
- How well do host peers tolerate **pay disparities**?
- Should a **lower standard of living** carry over on assignment?
- Does a **consistent compensation approach** for all expatriates matter?
- **How many such transfers** are you likely to have?

PHILOSOPHY FOR COMPENSATING EXPATRIATES FROM DMs

Compensation levels



PHILOSOPHY FOR COMPENSATING EXPATRIATES FROM DMs

Elements of compensation

- **Pay delivery practices**
 - Number of months' pay
 - Variable pay
 - Other allowances
- **Statutory requirements**
 - Extra month's bonus
 - Profit sharing
 - Vacation pay
 - Transportation allowances
 - Social security
 - Termination indemnities
- **Local executive perks & benefits**
 - Supplementary Pension Plans
 - Housing Allowance/Loans
 - Representation Allowances
 - Dual Employment Contracts
 - Car & Drivers
- **Executive perquisites**

PHILOSOPHY FOR COMPENSATING EXPATRIATES FROM DMs

What to Include in expatriate compensation calculations?

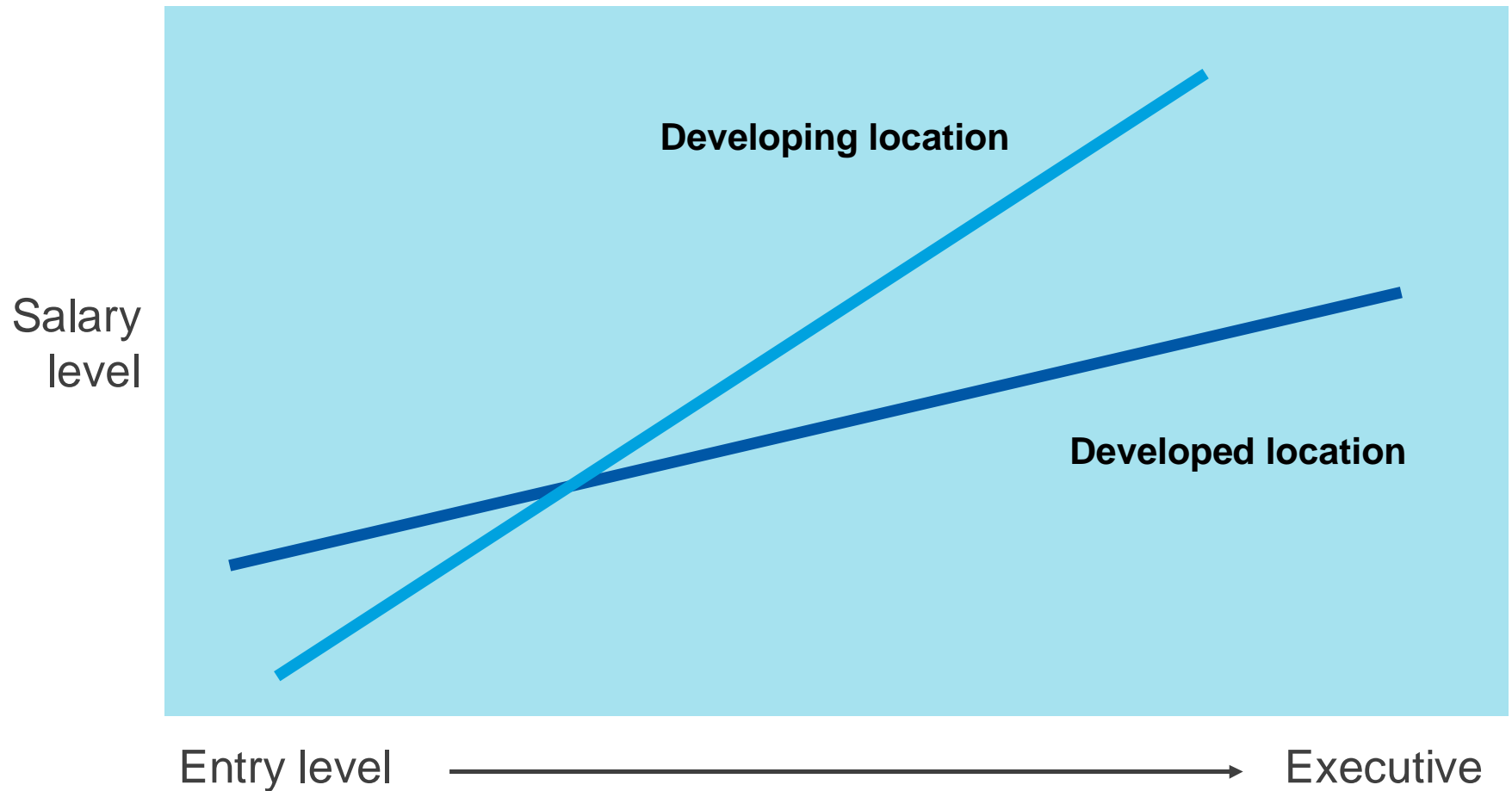
- What additional **local national compensation elements** will assignees receive on assignment?
- What elements are **guaranteed**?
- Would the assignee base his/her **spending at home** on the provision of these elements?
- Are these compensation elements **taxable** in either the home or host location?



Challenges in Compensating Assignees from Developing Markets

CHALLENGES IN COMPENSATING ASSIGNEES FROM DMs

Income disparities among employee levels



CHALLENGES IN COMPENSATING ASSIGNEES FROM DMs

Market salaries / GM salary as multiple of Secretary

Job Title	Country				
	China	India	Mexico	Switzerland	USA
Head of Organization	CNY 1,084,487	INR 7,744,085	MXN 4,966,256	CHF 375,836	USD 378,000
Head of Finance & Accounting	CNY 869,548	INR 5,284,391	MXN 2,424,949	CHF 335,740	USD 309,700
HR Manager	CNY 355,252	INR 1,399,200	MXN 746,173	CHF 198,652	USD 99,500
Accountant	CNY 80,688	INR 448,038	MXN 250,056	CHF 91,000	USD 54,000
Secretary	CNY 70,850	INR 370,941	MXN 161,990	CHF 90,315	USD 36,800
Head of Org. salary times greater than Secretary	15	21	31	4	10

** Data from Mercer's 2010 Total Remuneration Survey*

CHALLENGES IN COMPENSATING ASSIGNEES FROM DMs

Example: India - Two key remuneration structures in India today

Traditional Cash & Benefits Structure

- Prevalent in mature industries
- Key element is Fixed/Guaranteed Cash
- % of FCC is allocated to Basic Salary, remainder to various allowances
- Difference between sum of various FCC amounts and market reference pay is allocated to Special Allowance

Cost to Company (CTC)/Flexible Remuneration Approach

- Increasing trend
- Total CTC is established, then actual elements are based on employee choice
- Tax advantages built around perquisites are being reduced or eliminated, thus contributing to move towards this approach
- Desire to simplify traditional approach

Both approaches are seeing an increase in the use of performance-based variable compensation as an additional component.

CHALLENGES IN COMPENSATING ASSIGNEES FROM DMs

Example: Remuneration elements in India

Guaranteed Compensation

- Basic Salary
- Books and Periodicals Allowance
- Children's Education Allowance
- Conveyance (Transport) or Car Allowance
- Driver's Salary (if EE's driver not on payroll of company)
- Fixed Bonus (1-2 month's basic salary)
- House Rental Allowance (if not provided company housing)
- Leave Travel Allowance (for travel within India for EE and family)
- Medical Allowance (to cover outpatient medical expenses)
- Special Allowance (diff between sum of fixed cash and target pay)

Variable Compensation

- Performance-Based Bonus (10-30% of total fixed cash)

Perquisites

- Car (for senior and executive management)
- Car Loan
- Club Membership (for executive management)
- Company Housing (for senior and executive management)
- Hard Furnishings Scheme
- Housing Loan
- Personal Loan (housing, car, furniture, consumer durables, PCs, etc.)
- Telephones/Cell Phones (for middle and senior management)

Benefits

- Gratuity (15 days' wages per year of service, payable on termination).
- Hospitalization (typically covers dependents, including parents).
- Provident Fund (12% of basic salary contribution by both ER and EE)
- Superannuation (Pension) (typically ER contribution is 10-15% of basic salary)



Solutions

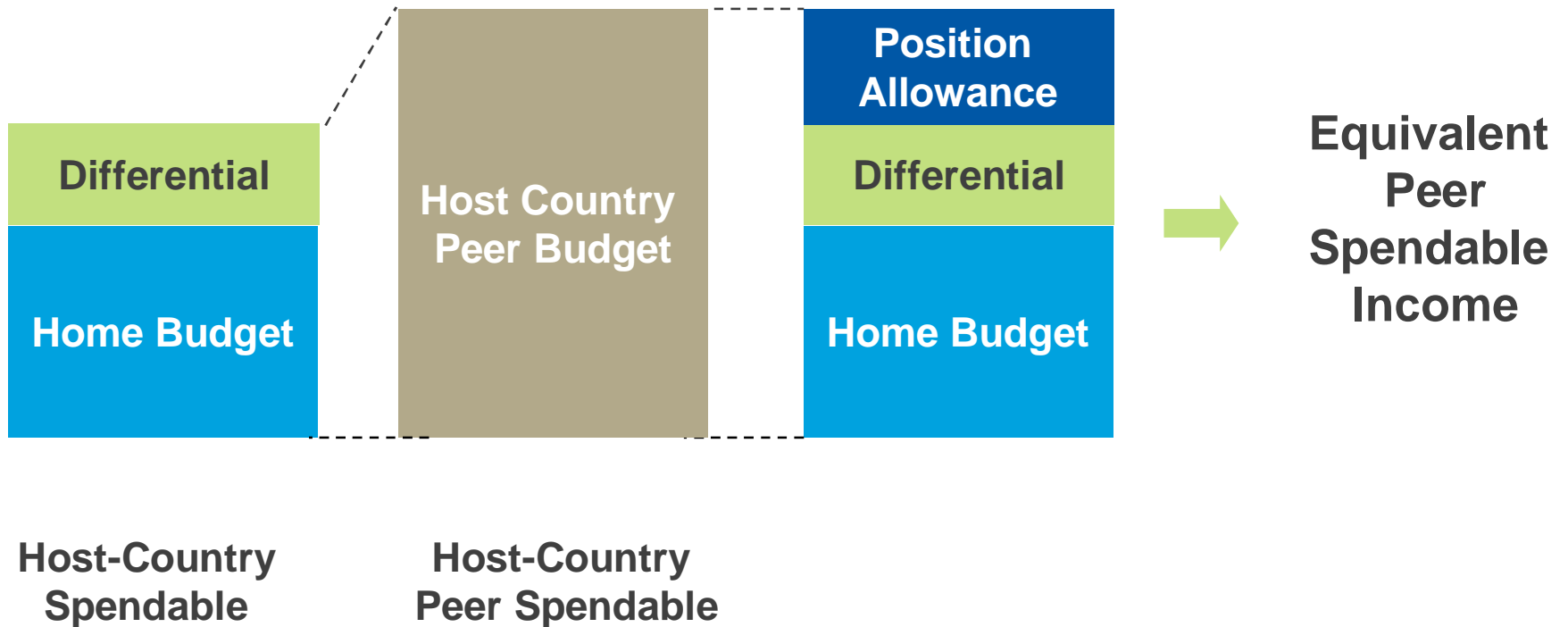
SOLUTIONS

Local salary + Expatriate allowances/benefits

- Assignee is provided a **local salary plus benefits**.
- Local or host salary could be a great financial solution and **incentive** for the employee.
- Expatriate allowances (e.g. housing provisions, mobility or foreign services premiums) may be overly **generous**.
- Such an approach could become a **barrier to future mobility** and repatriation.

SOLUTIONS

Differential + Position allowance



Mercer Position Allowance Analysis

Thailand to Johannesburg, South Africa

Family Size: 1

Index - Expatriate Standard

FX = 0.2382 ZAR : 1 THB

	Thailand Package THB	ZAR	Equivalent S. Africa Position ZAR
Base Salary	1,200,000		513,000
Home Country Spendable	320,603		208,358
Differential (COLA)	266,020		
Host Spendable <i>(Spendable + COLA)</i>	586,623	139,734	
Position Allowance <i>(Difference between S. Africa Spendable and Host spendable)</i>		68,624	

The host spendable and the position allowance should be delivered in host country currency.

The position allowance ensures that the assignee will have the same purchasing power as an equivalent host country position. The allowance is the difference between the host country equivalent spendable income and the host spendable (in host currency).

SOLUTIONS

International spendable income calculator

- Used for lower-paid employees from DMs
- Substitutes a spendable income number based remuneration in the host (or HQ) location
- Then calculates GSD/ COLA based on that spendable income figure
- Results in an Assignment Spendable Income in line with peers in the host location

International Spendable Income (ISI) Calculator

Input Details


Latest year available data Previous year available data

Base Country: INDIA

Base City: PUNE

Select Reference country(ies) for ISI: From choice of countries below


<input type="checkbox"/> AUSTRALIA	<input type="checkbox"/> BELGIUM	<input type="checkbox"/> Check All
<input type="checkbox"/> CANADA	<input type="checkbox"/> DENMARK	
<input type="checkbox"/> FINLAND	<input checked="" type="checkbox"/> FRANCE	
<input checked="" type="checkbox"/> GERMANY	<input type="checkbox"/> IRELAND	
<input type="checkbox"/> JAPAN	<input type="checkbox"/> NETHERLANDS	
<input type="checkbox"/> NORWAY	<input type="checkbox"/> SINGAPORE	
<input type="checkbox"/> SWEDEN	<input checked="" type="checkbox"/> SWITZERLAND	
<input type="checkbox"/> UNITED KINGDOM	<input type="checkbox"/> UNITED STATES	

Average European countries spendable income levels 

The following options allow you to select how you want to display the results

Marital Status: Married with no children


Display results in base country currency

Display Full Table: By Gross Income By IPE Level 

Or

Enter an IPE Level

Or

Enter Annual Salary Details 

SOLUTIONS

International spendable income calculator

- **Step 1:** Find equivalent salaries for positions in the host and calculate spendable income for those positions
- **Step 2:** Index that spendable income to the home country based on the M/M index and then apply the FX rate to find spendable income in home currency
- **Step 3:** Apply the index to reverse the calculation and find the host spendable income

A. Home Balance Sheet Approach					
Gross Base Salary	Indian Spendable Income	COLA using COL Index Mumbai to Paris (144)*	Adjusted Indian Spendable Income	Adjusted Indian Spendable Income	French Spendable Income
INR	INR	INR	INR	EUR	EUR
709'557	378'527	166'552	545'079	8'590	22'581

B. Modified Balance Sheet Approach using ISI option					
Gross Base Salary	International Spendable Income (ISI) amount at a Mumbai cost level	COLA using COL Index Mumbai to Paris (144)*	Adjusted International Spendable Income	Adjusted International Spendable Income	French Spendable Income
INR	INR	INR	INR	EUR	EUR
709'557	1'301'102	572'485	1'873'587	29'526	22'581

*Based on March 2010 Survey, Mean to Mean Cost of Living index

Here, the adjusted International Spendable Income is slightly higher than the French Spendable Income because the calculated International Spendable Income amount is based on the Average Spendable Income of France, Germany, and the United States. For the given income level and family size, the German and American Spendable Income is slightly higher than the French Spendable Income.

SOLUTIONS

COLA continuum



SOLUTIONS

High-income pricing index (HIPI)

High-Income Pricing Index (HIPI):

- Created to recognize higher-income expatriates
- Assumes a modified purchasing pattern from locals
- Combination of local national and lower-end expatriate prices
- Maintains home weighting pattern like the EPI and expatriate index
- May be particularly appropriate to compensate middle- and high-wage earners from countries with where pay is more disparate by organizational level. This broad range of compensation often creates a wide range of spending patterns.
- May also be applied across assignee population regardless of nationality, depending on company need and policy.

SOLUTIONS

China to Zurich, Switzerland: High-Income Pricing Index (HIPI)

Example: Professional / Management

Peer Salary: CHF 110,000

Salary: CNY 150,000

FS: 3

Index Type	FX	Index	Spendable	Differential (CNY)	Total Host Spendable (CNY)	Total Host Spendable (CHF)	Peer Spendable (CHF)	Delta (CHF)
Local Nat'l to EPI	0.1403	349.3409	68,585	171,010	239,595	33,615	51,200	17,585
HIPI to EPI	0.1403	220.1654	68,585	82,415	151,000	21,185	51,200	30,015
International	0.1403	157.4943	68,585	39,432	108,017	15,155	51,200	36,045

Example: Heads of Function / Chief Executive

Peer Salary: CHF 275,000

Salary: CNY 990,000

FS: 3

Index Type	FX	Index	Spendable	Differential (CNY)	Total Host Spendable (CNY)	Total Host Spendable (CHF)	Peer Spendable (CHF)	Delta (CHF)
Local Nat'l to EPI	0.1403	349.3409	329,082	820,536	1,149,618	161,291	102,383	(58,908)
HIPI to EPI	0.1403	220.1654	329,082	395,443	724,525	101,651	102,383	732
International	0.1403	157.4943	329,082	189,203	518,285	72,715	102,383	29,668



Managing Future Talent Compensation

MANAGING FUTURE TALENT COMPENSATION

Sample watch list

Home Country Alert

- Argentina
- Brazil
- Chile
- China
- Colombia
- Costa Rica
- India
- Malaysia
- Philippines
- Russia
- South Africa
- Thailand
- Venezuela

What is the assignee's salary?

- Is it high or low?
- If too low, the COL may not be enough to bring the individual up to peer level.
- If the salary is too high, the COL may overcompensate (e.g. establish an index threshold)

What is the salary of an equivalent *host country* peer?

- By comparing the assignee's total host spendable (G&S differential or COL plus home spendable) with a local peer spendable income, we can estimate where the full budget puts the expat.
- If the total host spendable is obviously much higher than the local peer spendable, an alternative COL is probably the best option (e.g. HIPI or International).
- If it is much lower, we may need to add in a Position Allowance or International Spendable to make up the difference.

MANAGING FUTURE TALENT COMPENSATION

Organizations will continue to source talent globally

- Ongoing need to **validate mobility program** philosophy
- **Educate mobility staff** on pay challenges from countries with disparate compensation levels
- Review / cost model transfers from new countries
- Partner with your Mercer mobility consultant
- Establish a “Watch List” of problematic countries

QUESTIONS AND CONTACTS



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