

# MERCER

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MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

## Mercer webcast



July 2010

## Negotiating an expatriate compensation package

### The importance of communication and transparency

Aggi Kiraly, Geneva

Viviane Domon, Geneva

# Today's agenda

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**Managing communication**

**Structure of an expatriate compensation package**

**Total costs and transparency**

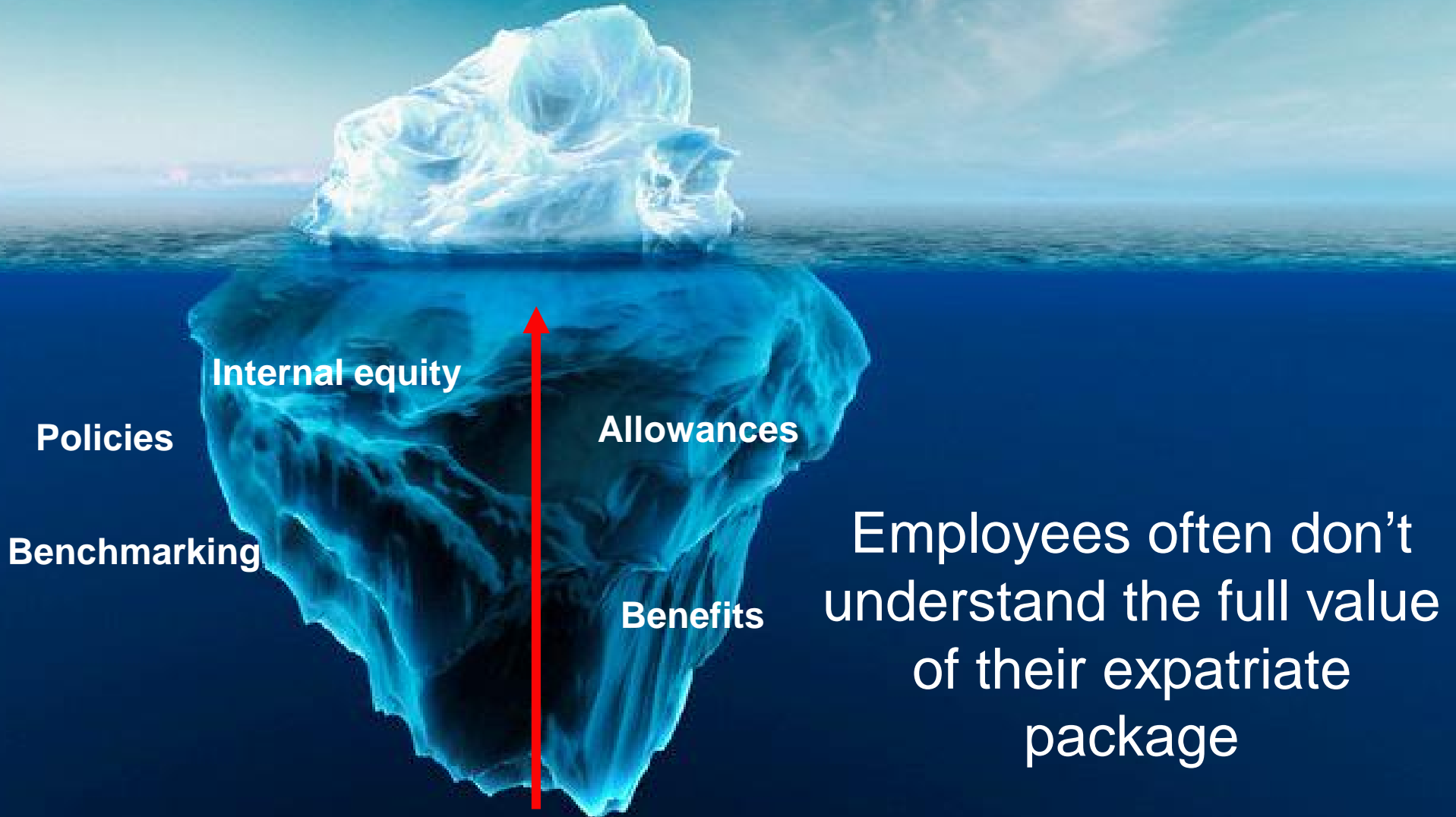
**Expatriate satisfaction surveys**

**Questions and answers**



# Managing communication

# Why is it so important to communicate transparently?



## Internal processes/ Roles and responsibilities



	Home Company	Host Company	Management / HR	Assignee	Corporate IA
Define type of transfer and conditions	I	I	A	I	R
Prepare offer / contract	R	C/I	A	I	C
Work and residence permit	I	R	A	I	I
Salary revision	R	I	I	I	I

R – Responsible, A – Accountable, I – Informed, C - Consulted

# Clearly defined audiences with targeted messages

## People strategy

### All employees

Feel part of an organisation that will help them develop and grow

Opportunities available

Criteria to meet

### Targeted employees

How assignment will help them and the company

Expectation management

Logistics

Repatriation

What will happen next...

### Managers

Big picture – release 'their' talent

Business benefits

Expectations to set with employees

What the company will do to support them

### HR

Clear accountability

How they will support individuals in home and host countries

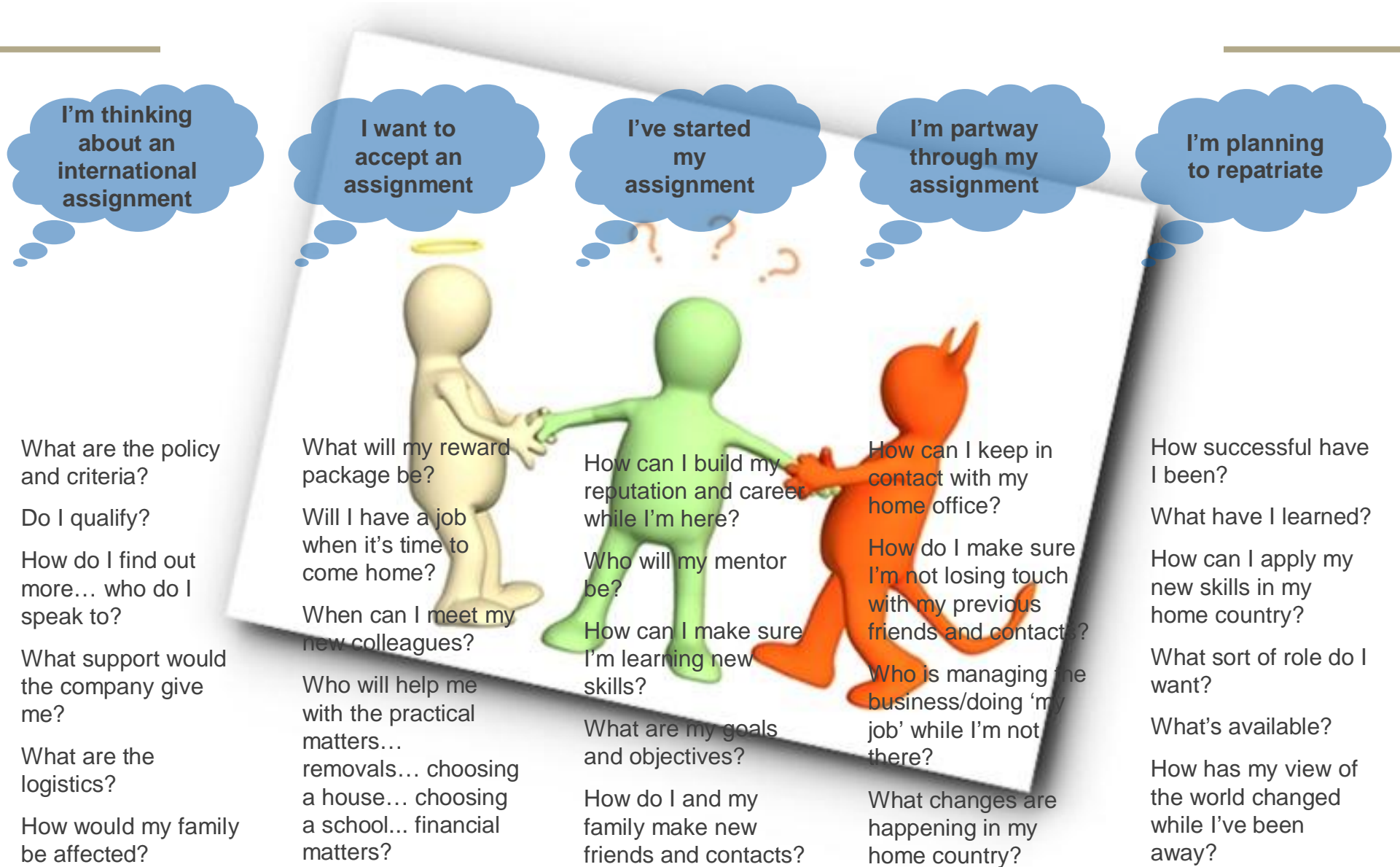
Need to feel confident about acting as a trusted source of information

# Who pays what?

## Example

	Home Country	Host Country	Corporate HR
<b>Before the assignment</b>			
Costs incurred during the selection process	X		
Compensation during probation period, including pension and other compulsory social benefits (company portion)	X		
Income tax, pension and other compulsory social benefits (individual portion)			X
Departure trip / moving costs to Host Country professional city	X		
<b>During the assignment</b>			
Costs incurred in immigration paperwork		X	
Temporary housing, max 1 month		X	
Compensation according to offer		X	
Income tax in Host Country			X
Pension and other compulsory social benefits in Home Country (company portion)	X		
Pension and other compulsory social benefits (individual portion)	(X)		X
Medical insurance (and/or other compulsory social insurance like life insurance) in line with Host Country labor law		X	
Sponsorship trip (including spouse, children) to Home Country professional city for assignment at least 1year	X		
Home trips		X	
<b>After the assignment</b>			
Departure trip / moving cost back to Home Country professional city	X		

# Communication with the international assignee



## Managing communication

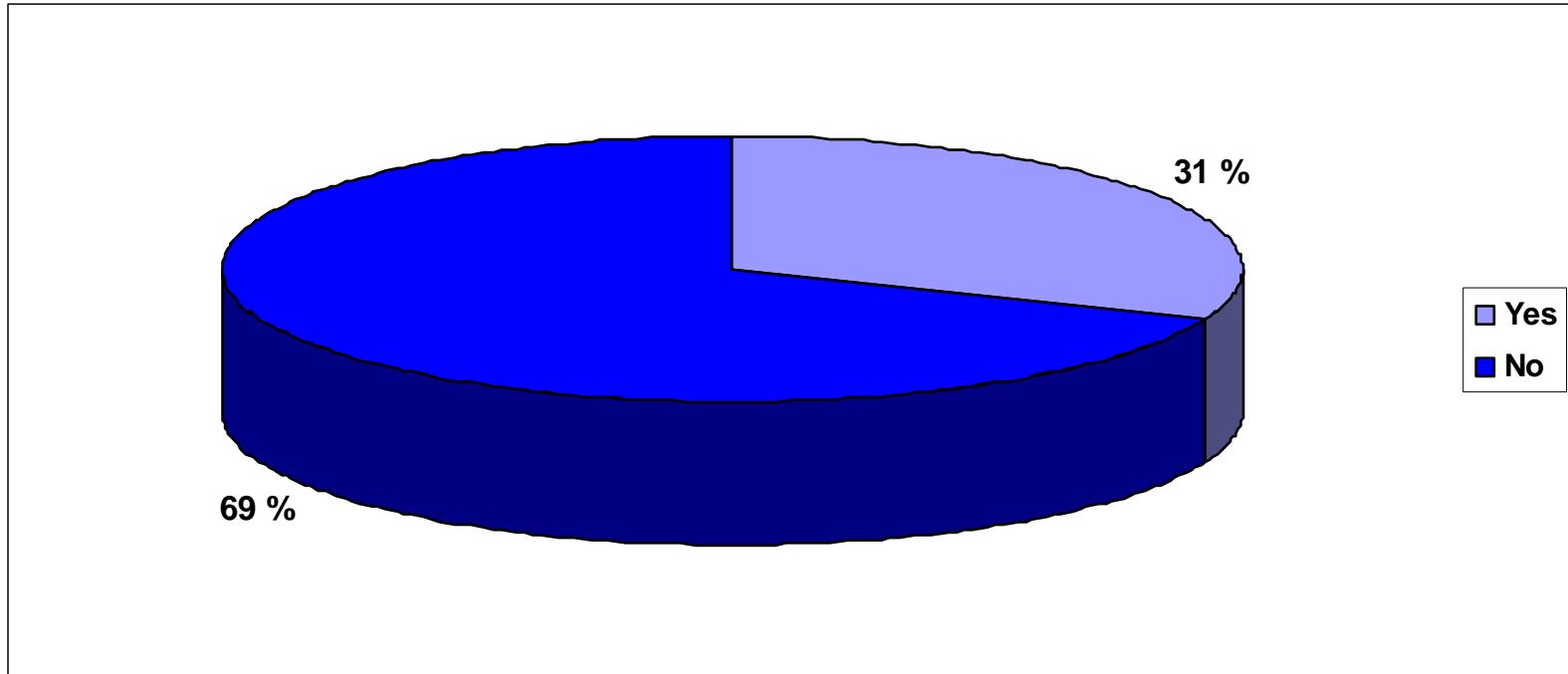
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- Make policy available internally (intranet) and for local HR
- Make it look modern and exciting
- Explain compensation structure with clear purpose for each element of package
- Indicate your position in the market
- Show total assignment costs for the company
- Set up mentoring programs throughout the entire assignment cycle
- Ensure continued communication throughout assignment

## Communication with the international assignee's family



## Do you meet your assignee's spouse/partner before departure?

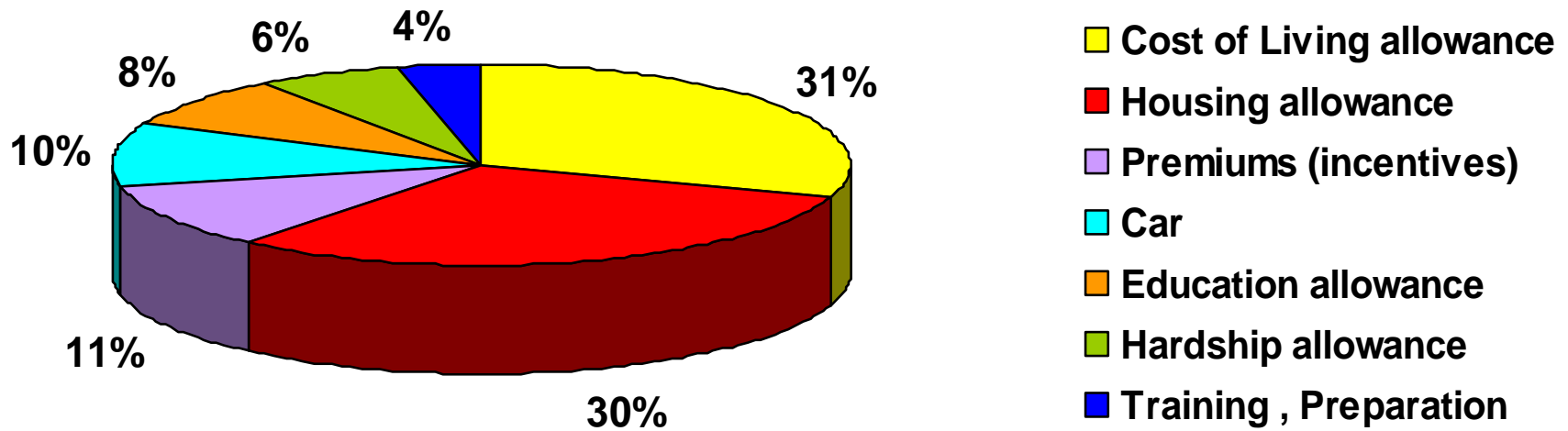


*Mercer's 2009/2010 International Assignment Survey*



# **Structure of an expatriate compensation package**

# What are the most valued elements of your international mobility package from an assignee's perspective?



Source: Webinar Participant survey 2009

## Balance sheet example with glossary

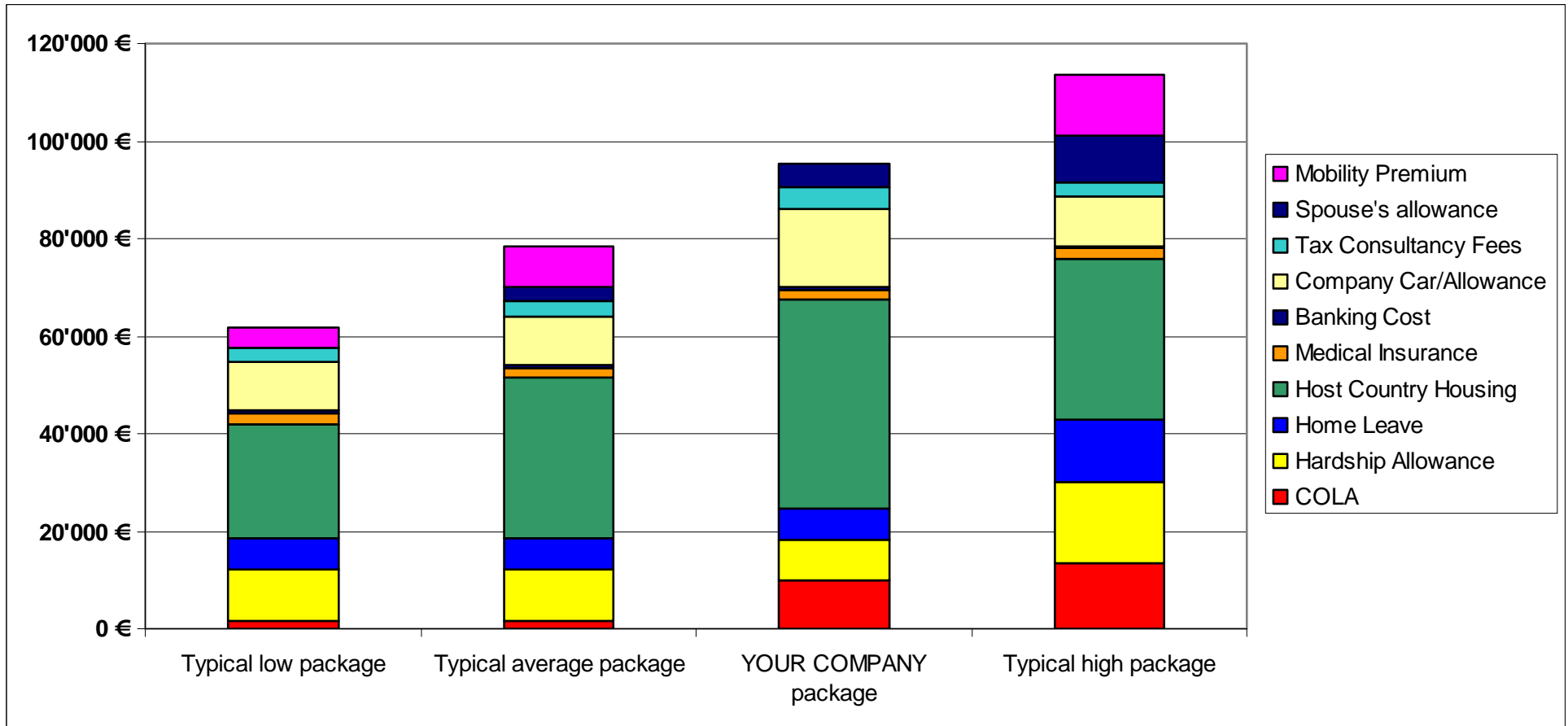
	Home City FRANKFURT (EUR)	Host City SHANGHAI (CNY)
<b>Marital Status: Married with 1 child</b>		
<b>Gross home salary</b> ( <i>Base salary of the assignee usually based on job level and excluding bonus, allowances, differentials or contributions</i> )	<b>100000</b>	
<b>Net home salary</b> ( <i>Gross home country reference salary including family allowances minus social security and tax deductions.</i> )	<b>67373</b>	
<b>Net home salary</b>	<b>67373</b>	<b>629496</b>
<b>COLA</b> - Cost of Living Allowance ( <i>A cash amount provided to compensate for the difference in living costs between the home location and the host location and to enable employees to maintain their purchasing power. It is usually determined by applying a cost-of-living index to the spendable income part of an employee's home country net pay</i> )	936	8750
<b>Housing Allowance</b> ( <i>An amount paid by the company, either to the international assignee or the landlord, to cover all or part of the cost for accommodation in the host country.</i> )	42769	399612
<b>Hardship Premium/Quality of Living Allowance</b> ( <i>A cash payment aimed at providing special compensation and incentive to expatriates who experience a significant deterioration in living conditions in the host country.</i> )	15000	140152
<b>Mobility Premium/Foreign Service Premium</b> ( <i>A cash incentive provided to compensate for the inconvenience of being displaced. It is also referred to as an "incentive premium" or disturbance premium".</i> )	10000	93434
<b>Education Allowance</b> ( <i>An allowance to cover costs of children's education in the host country</i> )	19029	177800
<b>Spouse allowance</b> ( <i>An allowance designed to help spouse/partner with a job search or cross-cultural training</i> )	1500	14015
<b>Settling-in allowance</b> ( <i>An allowance paid on arrival in a new country to cover incidental and out of pocket expenses attributable to the relocation process and installation in the new country</i> )	3000	28030
<b>Net host salary including all allowances</b>	<b>159'607</b>	<b>1'491'289</b>

# Balance sheet example

Marital Status: Married with 1 child		Home City FRANKFURT (EUR)	Host City SHANGHAI (CNY)
1	Gross home country reference salary	100000	
	- Hypothetical social security	11485	
	- Hypothetical personal income tax	23350	
	- Other Deductions	0	
	+ Family Allowances	2208	
2	Net home country pay (based on February 2010 tax data)	67373	
	Breakdown of net home country pay (Index Related)		
		<u>% of Net</u>	
	- Housing	18.738	12624
	- Savings and other expenses	34.931	23534
	- Spendable income	46.331	31215
	Total Net	100	
Host Location Compensation Build-Up			
3	Net home country pay (same as item 2 above)	67373	629496
4	Cost of Living Allowance (COLA)	936	8750
5	Housing allowance	42769	399612
6	Equalized net host country pay	111078	1037858
7	Expatriation premiums		
	- Quality of Living allowance based on 15% of Gross	15000	140152
	- Mobility premium based on 10% of Gross	10000	93434
8	Equalized net host country pay including expatriation premiums	136078	1271444
9	Other allowances		
	- Education allowance	19029	177800
	- Spouse allowance	1500	14015
	- Settling-In allowance	3000	28030
10	Equalized net host country pay including other allowances	159607	1491289
11	Equalized net host country pay excluding home family allowance	157399	1470648

# Competitive position in the market

Frankfurt – Shanghai, married without children, annual base salary € 83.400



## Hints about package elements where you can show some flexibility

- Housing
- Education
- Home leaves
- Cross-cultural training
- Family benefits and spouse support



# The temptation of simplicity: a lump-sum allowance

## When/who/how?

- **Simplicity**
- **Easier to communicate**
- **Less negotiations (or at least negotiation on one item only)**
- **Favoured for simple assignment patterns and small companies**



- **Equalisation concept lost / the lump-sum is just a bonus**
- **Purpose unclear and not linked to actual expatriate challenges**
- **One-size fits all hard to apply to multiple very different situation**



# **Total costs and transparency**

# Total assignment cost summary

## Family size: married with 2 children

In EUR	Year 1	Year 2	Year 3
Base salary	95,000	97,850	100,785
House hunting trip (2A)	10,000	0	0
Final travel to host country	20,000	0	20,000
Temporary living	2,500	0	2,500
Relocation Allowance - Net	14,250	0	9,500
Mobility premium - net	9,500	9,785	10,078
Hardship allowance - net	11,875	12,231	12,598
G&S differential	13,200	13,200	13,200
Housing & Utilities	65,000	65,000	65,000
Car allowance	11,760	11,760	11,760
Home Leave/Emergency Leave	20,000	20,000	20,000
R&R	6,200	6,200	6,200
Spouse allowance	2,000	2,000	2,000
Schooling	50,000	50,000	50,000
Medical Coverage	10,500	10,500	10,500
Move	15,000	0	15,000
Storage costs	5,000	5,000	5,000
Tax assistance	1,400	1,200	1,200
Destination services	4,000	0	2,000
Visa and work permit	500	500	500
Medical check and vaccinations	1,000	0	0
Cultural training	6,000	2,000	0
Language lessons	3,000	3,000	3,000
Est. Tax adder	100,000	100,000	100,000
<b>Total costs in €</b>	<b>477,685</b>	<b>410,226</b>	<b>460,821</b>

\*Assumptions: merit increase 3%

# Total assignment cost

## ExpatMonitor Home

### Favorites

**Tasks**

- Add Assignment
- Add Policy Settings

**Searches**

No favorites selected.

**Reports**

No favorites selected.

### Welcome To ExpatMonitor

## Expatriate Compensation Management made easy!

Perform multiple expatriate calculation reviews...  
Ensure policy compliance  
Find out about your expatriate compensation costs

*... Use ExpatMonitor!*

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News & Updates: [March 2008 Cost of Living & Expatriate Accommodation Overview](#)

### Resources

**Useful Links**

- News & Updates

Use the following links to access one of the following Mercer online resources.

- iMercer +
- Global HRMonitor -



# Expatriate satisfaction surveys

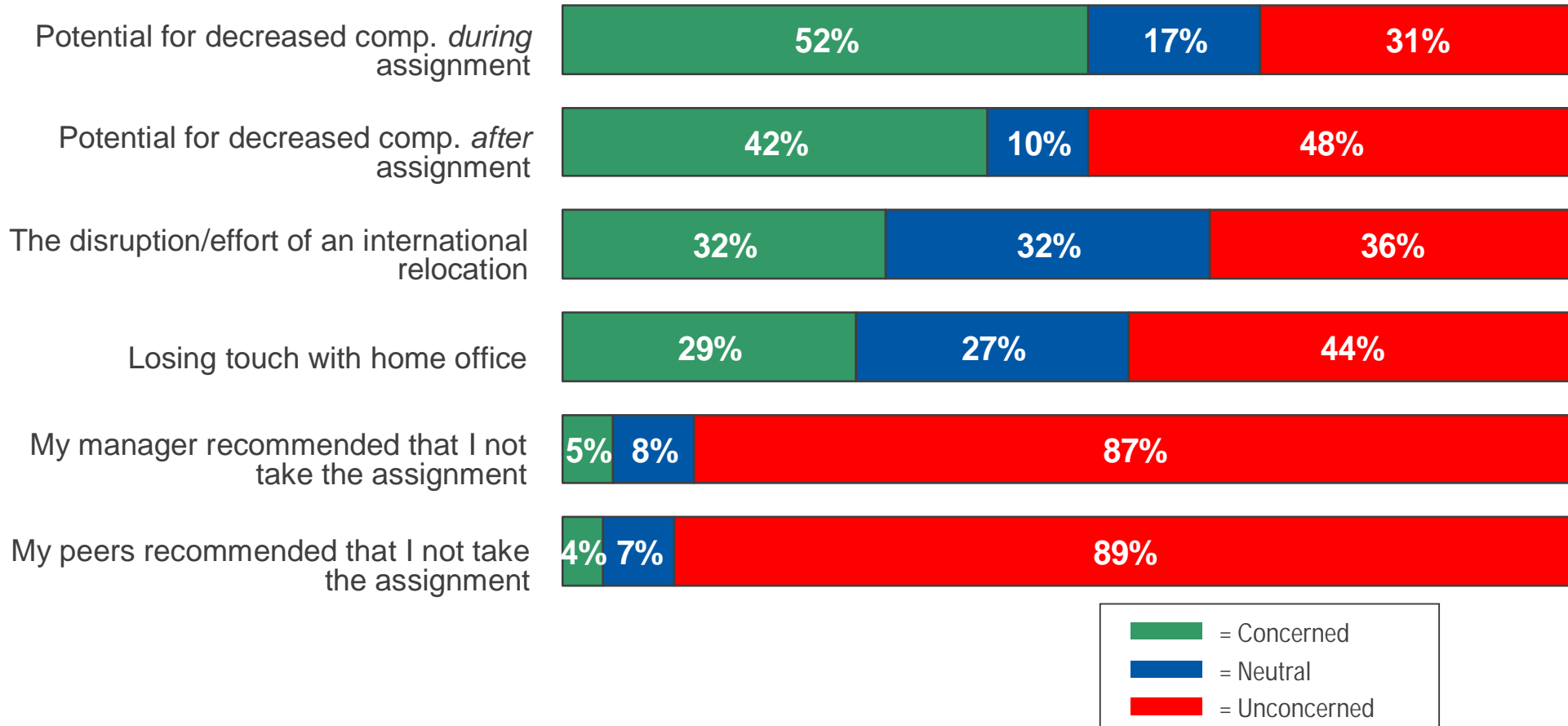
## Importance of an expatriate satisfaction survey

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- Easily identifies the expatriate challenges within a company
- Allows adaption and adjustment to a company policy
- Includes the expatriates in the policy improvement process
- Adds visibility to the changes of values in workforce/demographics
- Provides positive feedback should also be communicated back to the expatriates

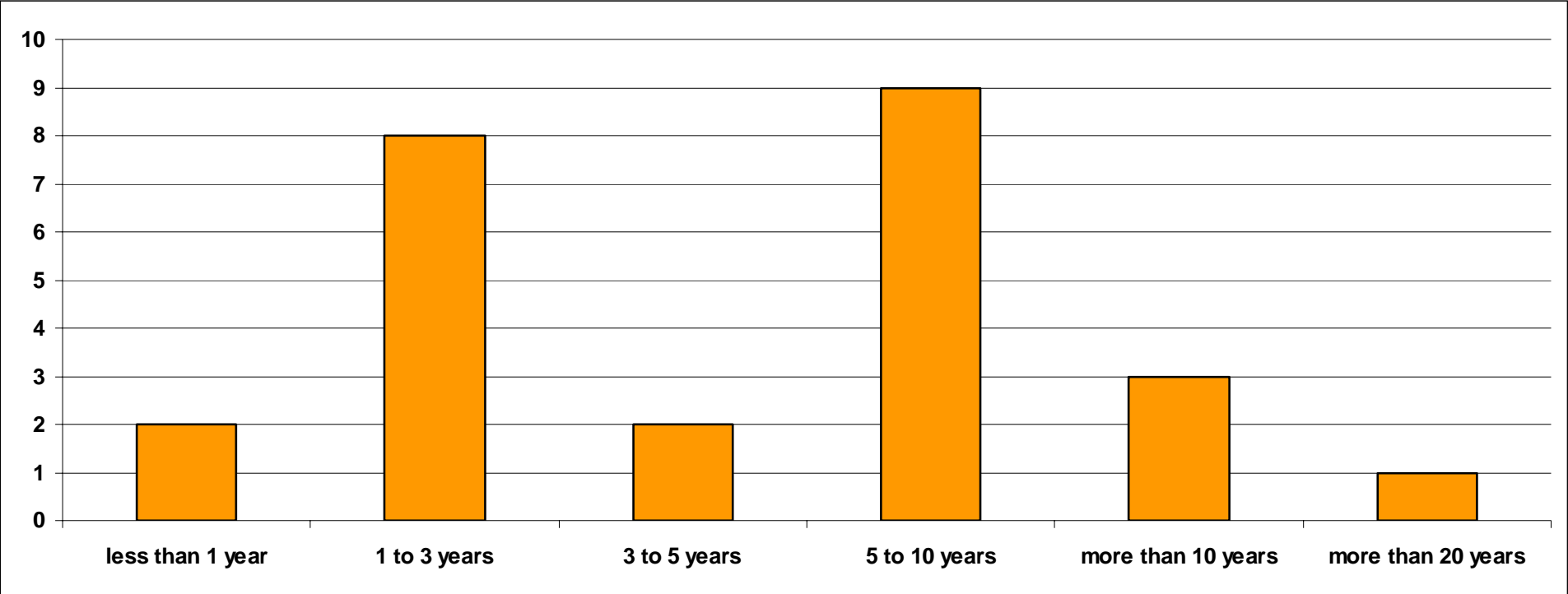
# Example of an expatriate satisfaction survey

Were you concerned about each of these factors when accepting your assignment?



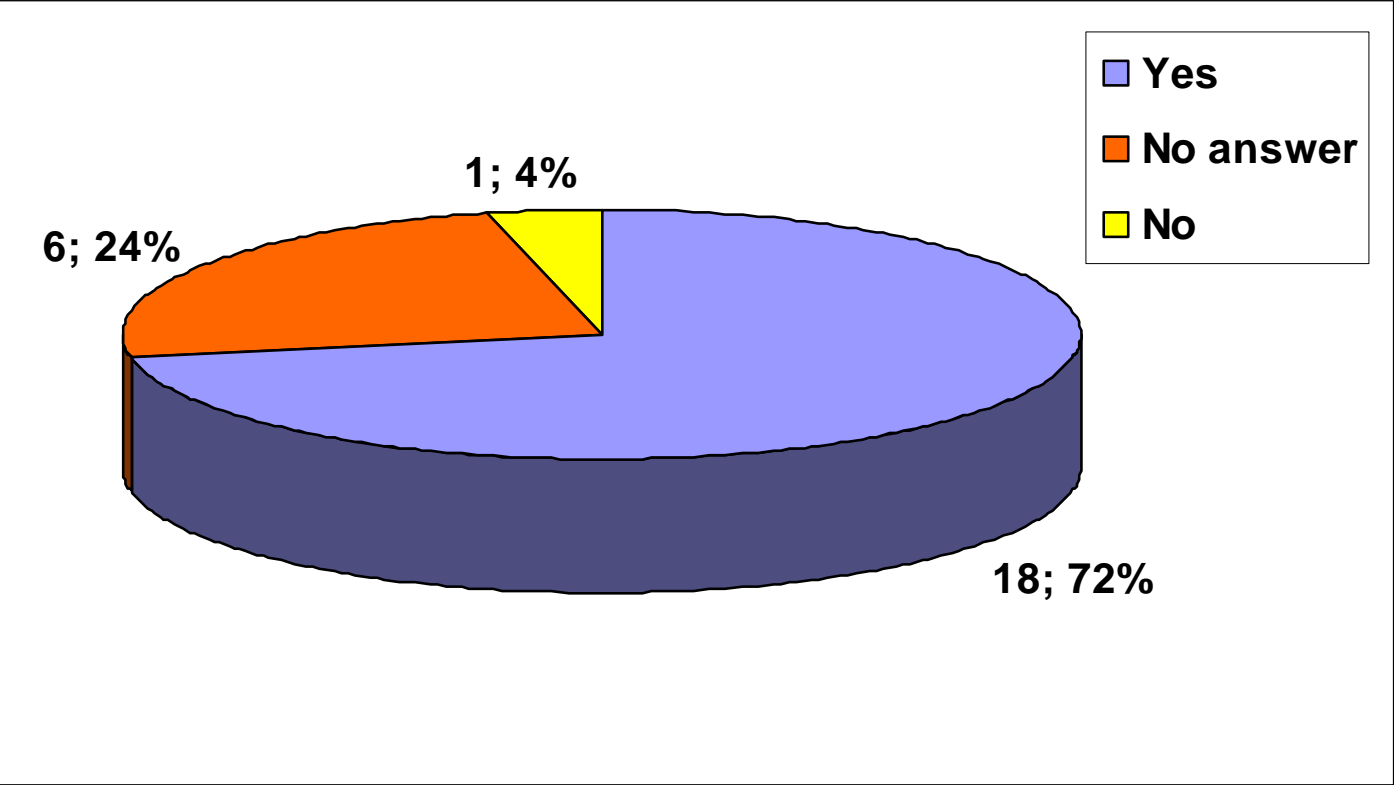
# Example of an expatriate satisfaction survey

## How long is/was your most recent expatriate assignment or stay abroad?



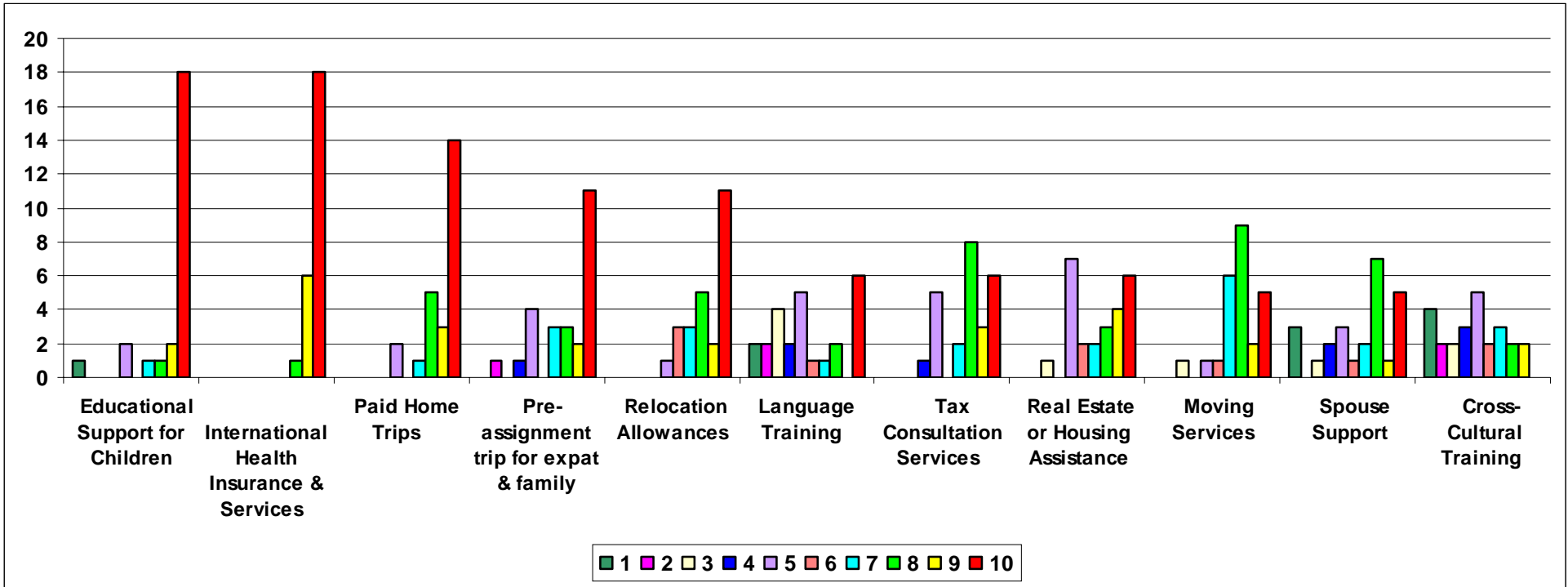
# Example of an expatriate satisfaction survey

## Did your family accompany you on the assignment?



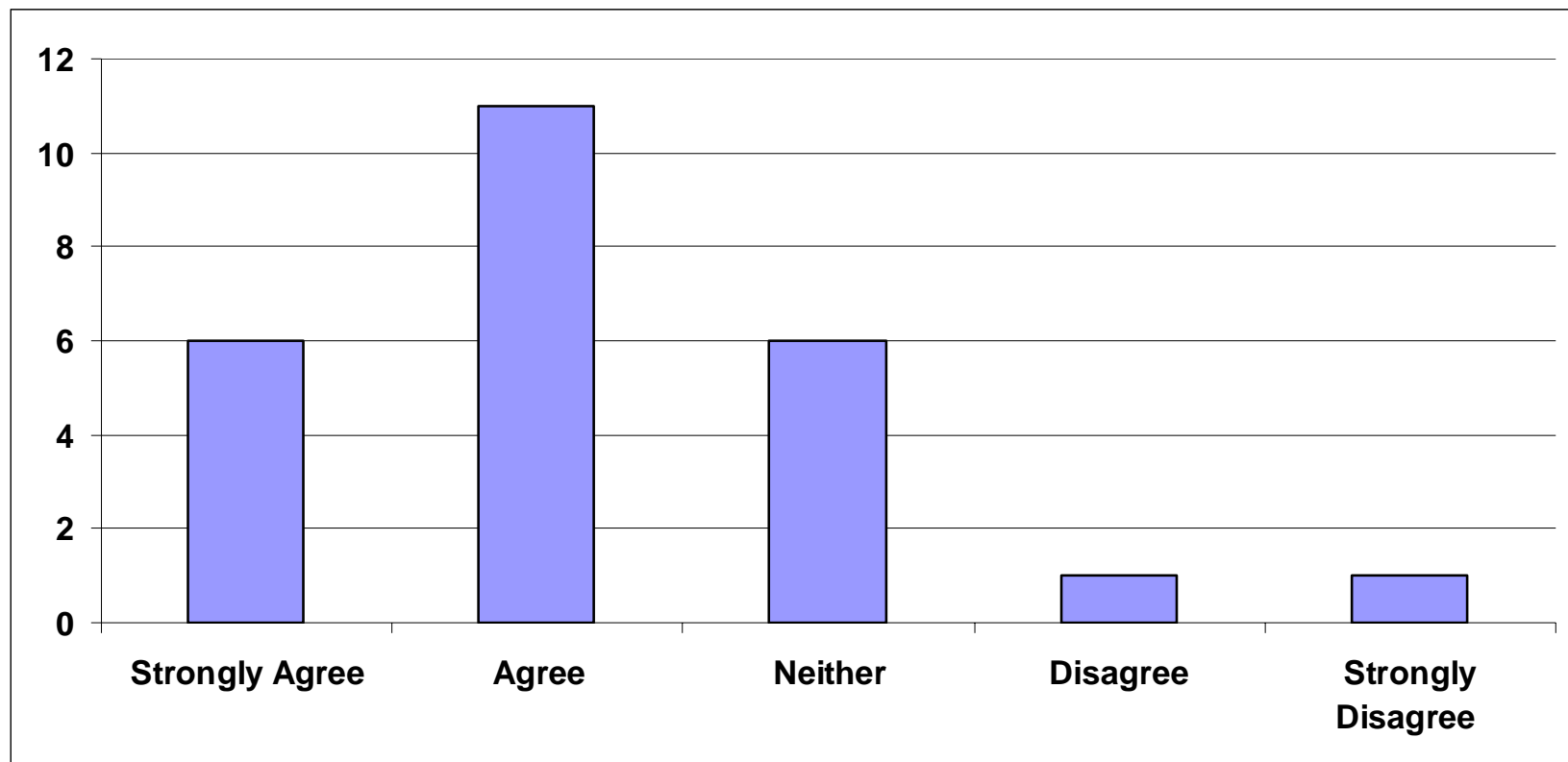
# Example of an expatriate satisfaction survey

Please rate the importance you place on the following services that could be offered as part of an expatriate package:  
(from “1 - Not Important” to “10 - Very Important”)



## Example of an expatriate satisfaction survey

Overall, I am better off on my expatriate package than I would be on my home country compensation package:



# Conclusion

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- Managing communication
- Structure of an expatriate compensation package
- Total costs and transparency
- Expatriate satisfaction survey

# Questions and Contacts

Aggi Kiraly

**Geneva**

+41 22 869 3120

[Aggi.kiraly@mercer.com](mailto:Aggi.kiraly@mercer.com)

Viviane MacLeod-Domon

**Geneva**

+41 22 869 3071

[Viviane.domon@mercer.com](mailto:Viviane.domon@mercer.com)



**Expatriate management  
training courses**

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**EMEA Expatriate management – fundamentals  
September 27 - 28**

**EMEA Expatriate management - advanced  
September 29**

**Event Location: Paris**

<http://www.imercer.com/content/expat-management-training.aspx>

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