These allowances remain at the heart of home-based expatriate packages and represent a significant cost for the company.

This session is an opportunity to reflect on the evolution of these allowances and the concepts underpinning them.

Hot topics

- We will discuss what new developments and concepts are emerging on the market.
  - to what extent allowance costs can and should be controlled?
  - Should allowance management go in the direction of simplification or on the contrary seek further customisation to adapt to new types of assignments?
Today’s Agenda

Defining allowances and premiums
- Equalisers: Cost of Living & Housing
- Incentives: Quality of Living (hardship) & Mobility

The evolution of allowances and premiums

Trends in managing allowances and premiums
- Challenges and solutions for managing housing budgets
- Challenges and solutions for managing cost of living fluctuations

Key takeaways
TODAY’S SPEAKERS

Carlos Mestre
Title

Narcisa Chelaru
Senior Associate
Talent
DEFINING ALLOWANCES AND PREMIUMS
In addition to assignment compensation, most organisations typically provide a suite of additional benefits to international assignees or those being deployed internationally.

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• Bonus and other incentive compensation  
• Retirement and deferred compensation |
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• Social Security  
• Housing  
• Housing Norm  
• COLA - Goods and services |
| **3. Incentives** | Benefits provided when necessary to incentivise employees to take the international assignment | • Hardship allowance  
• Danger pay  
• Remote site/Isolation Pay  
• Foreign service (or “Mobility”) Premium  
• R & R – rest and relaxation allowance  
• Completion / repatriation bonus |
| **4. Enablers** | Services and benefits provided to help the employee relocate and focus on their role | • Compliance Services  
• Shipment of household goods  
• Transportation  
• Temporary accommodation  
• Children/Spouse Support  
• Language/cultural training  
• Medical benefits  
• Security/Safety |
TRADITIONAL EXPATRIATE REMUNERATION APPROACH

THE BALANCE SHEET MODEL – MOST PREVALENT APPROACH FOR LONG-TERM INTERNATIONAL ASSIGNMENTS

- Home Country Salary
- Assignment Location Cost
- Assignment Location Costs Paid by Company and Employee
- Home Country Equivalent Purchasing Power plus Financial Incentive

Diagram:
- Income Taxes
- Housing
- Goods & Services
- Reserve
- Premiums
- Income Taxes
- Housing
- Goods & Services
- Reserve
- Home Hypo Tax Deduction
- Housing Supplement or housing paid in full
- Goods & Services Spendable
- Reserve
- COLA
- All actual taxes paid by company
THE COMPOSITION OF BASE PAY
GOODS AND SERVICES SPENDABLE INCOME

Spendable income in the host country

- Income Taxes
- Housing
- Spendable Income (Goods & Services)
- Reserve/Savings

Home Country Salary

Positive Index/COLA

Negative Index/COLA

COLA/Differential

Spendable Income (Goods & Services)

Spendable Income (G&S)
WHAT PHILOSOPHY BEST SUITS YOUR ORGANISATION?
OUR 2 CHOICES IN COMPENSATION APPROACH ASSUME INTERNATIONAL ASSIGNEES...

…spend SIMILARLY regardless of where they come from.

Or…spend DIFFERENTLY depending on their country of origin?

YES
Multinational philosophy

YES
Home-Host philosophy
**THE COMPOSITION OF BASE PAY**

**HOUSING**

Total housing costs in the host country (paid by company, delivered as cash allowance, or differential)

- **Income Taxes**
- **Spendable Income (Goods & Services)**
- **Reserve/Savings**
- **Differential**

**Home Country Salary**

**Higher Housing Costs**

**Lower Housing Costs**
# Typical Allowances and Benefits

In addition to assignment compensation, most organisations typically provide a suite of additional benefits to international assignees or those being deployed internationally.

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• Language/cultural training  
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• Security/Safety |
LOCATION-SPECIFIC PREMIUMS AND BENEFITS

- Hardship allowance
- Remote-site allowance
  – Additional reward paid to employees residing in isolated areas or camp sites (e.g. mining and oil companies)
- Danger pay
- Foreign Service premium / Mobility Premium
- Pioneer Premium
- Completion Bonus
- Rest and Recreation
QUALITY OF LIVING (HARDSHIP) ALLOWANCE

• Objectives
  – Compensate for harsh conditions
  – Encourage transfers to difficult locations
• On-going payment, which can increase or decrease
• Typically a percentage of salary (0 to 40%)
• Determination based upon
  – Government Data
  – Consultant’s data
  – Internal company evaluations
• Two approaches:
  – Hardship is based on comparison of home and host location
  – Hardship is based only on host location
QUALITY OF LIVING (HARDSHIP) PREMIUMS
TWO APPROACHES – DIFFERENT RECOMMENDED PREMIUMS*

Home-Host approach

Shanghai to Jakarta:
• Hardship: 17.5%

Singapore to Jakarta:
• Hardship: 25%

Sydney to Jakarta:
• Hardship: 27.5%

Host approach

Shanghai to Jakarta:
• Hardship: 25%

Singapore to Jakarta:
• Hardship: 25%

Sydney to Jakarta:
• Hardship: 25%

* As a % of home base salary
FOREIGN SERVICE PREMIUM / MOBILITY PREMIUM

- On-going payment or lump sum payment
- Percentage of salary (e.g., 15 percent), often tax free to expatriate
  - Some variations:
    - Percentages range from 0 to 25%
    - Caps or maximum
- Objectives:
  - Reward international service
  - Compensate for:
    - Disruption of uprooting and saying goodbye to life at home
    - Different living patterns, different work patterns, career risk, separation from family and friends, etc.
  - Encourage staying on assignment, repatriation or completion of objectives
ARE PREMIUMS NECESSARY?

Arguments against premiums:
• Assignment presents opportunity
  – For employee’s personal growth
  – For employee’s career development
• Globalisation
  – Our “shrinking world” makes international activities the rule rather than the exception, lessening the uniqueness of international work experiences

Arguments for paying premiums:
• Career development
  – Is there demonstrated link between international experience and upward mobility in the company?
  – Is nature of assignment career enhancing?
• Talent War
  – Are you able to attract the skills needed internationally?
# Typical Allowances and Benefits

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<table>
<thead>
<tr>
<th><strong>SERVICES AND BENEFITS PROVIDED TO HELP THE EMPLOYEE</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-assignment Preparation</strong></td>
</tr>
<tr>
<td>• Pre-assignment location evaluation</td>
</tr>
<tr>
<td>• Shipment and storage of household goods</td>
</tr>
<tr>
<td>• Home-country housing</td>
</tr>
<tr>
<td>• Temporary living expenses prior to departure</td>
</tr>
<tr>
<td>• Travel expenses</td>
</tr>
<tr>
<td>• Pets</td>
</tr>
<tr>
<td>• Language courses</td>
</tr>
<tr>
<td>• Cross- cultural training</td>
</tr>
<tr>
<td>• Physical evaluation/medical expenses</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
THE EVOLUTION OF ALLOWANCES AND PREMIUMS
POLLING QUESTION 1

What index type do you use for assessing cost of living differences between home and host countries?

A. Mean to mean/International (least expensive)
B. Efficient/EPI (moderate)
C. Convenience/Expatriate (expensive)
### FACTORS AFFECTING IA PACKAGE DESIGN
### EVOLUTION OF EXPATRIATE ALLOWANCES

<table>
<thead>
<tr>
<th>The Early Days</th>
<th>Time of Consensus</th>
<th>Currently</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual deals</td>
<td>The value of uniformity</td>
<td>Variation</td>
</tr>
<tr>
<td>Lack of consistency</td>
<td>Systematic approach</td>
<td>• Assignment types/lengths</td>
</tr>
<tr>
<td>Overgenerous packages</td>
<td>Reduce individual bargaining</td>
<td>• Nationalities of expats</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Pay models</td>
</tr>
<tr>
<td>Lump sums</td>
<td>Measure costs better</td>
<td>Multiple policies/tiers</td>
</tr>
<tr>
<td>Lack of planning for duration and purpose of assignments</td>
<td>Make assignments 2 to 5 years</td>
<td>Tolerance for pay differences</td>
</tr>
<tr>
<td>Headquarters centric</td>
<td>Provide a philosophy (no unintended win or loss)</td>
<td>Cost awareness/reduction</td>
</tr>
<tr>
<td>Lack of clear principles underlying the purpose of the selected pay approach</td>
<td>Separate incentives from cost equalisers</td>
<td>Strategic planning/alignment with talent management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>End result = The Balance Sheet</td>
</tr>
</tbody>
</table>
POLLING QUESTION 2

What if the cost of living is lower in the assignment location (application of negative index)?

A. We never apply a negative cost-of-living index; assignee receives windfall
B. We apply negative index
C. We make a deduction from other assignment related allowances
D. Other
Polling Question 3

How do you calculate the hardship premium?

A. All assignees in the same host location receive the same percentage of base salary

B. Premiums % depend on a comparison between home and host location (index or matrix approach)

C. All assignees in the same host location receive the same flat amount, independently from the salary

D. Other
POLLING QUESTION 4

• If you pay an incentive premium, do you limit this with a cap?
  A. Yes
  B. No
What is your policy concerning housing for typical long-term assignees?

A. Housing allowance/benefit with required employee contribution (housing norm deduction)

B. Free housing – no contribution is required from the assignee (free housing)

C. Housing benefit varies according to whether a long-term assignee rents or owns his/her residence in the home country

D. Do not provide housing allowance/benefit to any of our long-term assignees

E. Other
## Allowances Philosophy ~ Market Practice 2000 vs. 2010

<table>
<thead>
<tr>
<th>ASSIGNMENT ALLOWANCES</th>
<th>WORLDWIDE</th>
<th></th>
<th>EUROPE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>2010</td>
<td>2000</td>
<td>2010</td>
</tr>
<tr>
<td>Cost of Living Allowance (COLA)</td>
<td>95%</td>
<td>88%</td>
<td>93%</td>
<td>81%</td>
</tr>
<tr>
<td>Negative COL windfall</td>
<td>52%</td>
<td>52%</td>
<td>44%</td>
<td>53%</td>
</tr>
<tr>
<td>Hardship Allowance</td>
<td>78%</td>
<td>87%</td>
<td>85%</td>
<td>89%</td>
</tr>
<tr>
<td>Variation by nationality * (same % to all nationalities)</td>
<td>-</td>
<td>45%</td>
<td>-</td>
<td>38%</td>
</tr>
<tr>
<td>Incentives</td>
<td>73%</td>
<td>63%</td>
<td>75%</td>
<td>63%</td>
</tr>
<tr>
<td>Caps</td>
<td>28%</td>
<td>23%</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Host Housing Allowances (no home housing deduction)</td>
<td>28%</td>
<td>43%</td>
<td>50%</td>
<td>55%</td>
</tr>
</tbody>
</table>

* No statistics available for 2000; In 2004: 47% of worldwide and 43% of European companies respectively paid the same % to all nationalities

Source: Global Mobility Trends: How Policy Shifts with the times
TRENDS IN MANAGING ALLOWANCES AND PREMIUMS
### TRENDS IN MANAGING ALLOWANCES AND PREMIUMS

<table>
<thead>
<tr>
<th>Segmented policies</th>
<th>Local Plus and Expat Lite</th>
<th>Flexible pay options</th>
</tr>
</thead>
<tbody>
<tr>
<td>- By assignment type&lt;br&gt;- By business unit&lt;br&gt;- Regional</td>
<td>- In certain locations&lt;br&gt;- For certain assignment types&lt;br&gt;- For cost optimisation reasons</td>
<td>- Employee choice&lt;br&gt;- Management discretion&lt;br&gt;- Lump sums</td>
</tr>
</tbody>
</table>
## CONTINUUM OF OVERSEAS ASSIGNMENT CATEGORIES
### TYPICAL MARKET PRACTICES BY TYPE

<table>
<thead>
<tr>
<th></th>
<th>Business Trip</th>
<th>Short Term International Assignment</th>
<th>Rotational Assignment</th>
<th>Long Term International Assignment</th>
<th>Permanently Mobile / Global Nomads</th>
<th>Permanent / Indefinite Relocation</th>
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<tr>
<td><strong>Length</strong></td>
<td>&lt; 1 or 2 months</td>
<td>3 – 12 months</td>
<td>Weeks on-site followed by days or weeks off, with cycle repeating until end of assignment.</td>
<td>Typically 2 – 5 years (average = 3 years)</td>
<td>Spend career on successive international assignments</td>
<td>Permanent or Indefinite</td>
</tr>
<tr>
<td><strong>Family Status</strong></td>
<td>Unaccompanied</td>
<td>Unaccompanied</td>
<td>Unaccompanied</td>
<td>Accompanied for non-extreme hardship locations</td>
<td>Accompanied for non-extreme hardship locations</td>
<td>Accompanied</td>
</tr>
<tr>
<td><strong>Typical Salary Basis</strong></td>
<td>Home Country</td>
<td>Home Country</td>
<td>Home Country – also paid while on off cycle</td>
<td>Home Country or HQ Country</td>
<td>International Pay Level</td>
<td>Host Country</td>
</tr>
<tr>
<td><strong>Cost-of-Living</strong></td>
<td>Meals and incidentals per diem</td>
<td>Short Term Assignment Allowance / Per Diem</td>
<td>Not provided if meals provided on-site</td>
<td>Cost of Living Allowance (COLA)</td>
<td>Cost of Living Allowance (COLA)</td>
<td>None</td>
</tr>
<tr>
<td><strong>Assignment Incentives</strong></td>
<td>None</td>
<td>Practice is mixed between providing and not providing</td>
<td>Majority pay mobility and hardship premiums. Slight majority pay mobility premium while on off cycle, Slight majority pay hardship only when on-site.</td>
<td>Mobility Premium = 10-15% Hardship = 0-50%</td>
<td>Mobility Premium = 10-15% Hardship = 0-50%</td>
<td>None</td>
</tr>
<tr>
<td><strong>Housing</strong></td>
<td>Hotel</td>
<td>Fully furnished “serviced” apartment with cooking facilities</td>
<td>Company accommodations</td>
<td>House or Apartment</td>
<td>House or Apartment</td>
<td>No or partial housing assistance, often with a phase out over time</td>
</tr>
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</table>
## Continuum of Overseas Assignment Categories

### Typical Market Practices by Type (Continued)

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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Annual Leave (Vacation) Entitlement</strong></td>
<td>Home Country</td>
<td>Home Country</td>
<td>Not provided. Time off replaces annual leave</td>
<td>Home Country</td>
<td>Standard amount (often based on HQ)</td>
<td>Host Country</td>
</tr>
<tr>
<td><strong>Home Leave Trip</strong></td>
<td>None</td>
<td>Once every 3 months, if assignment &gt; 6 months</td>
<td>Return home for each off work period in the rotational cycle</td>
<td>Annual – more frequent if unaccompanied</td>
<td>Annual – more frequent if unaccompanied</td>
<td>None</td>
</tr>
<tr>
<td><strong>Dependent Children’s Education</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Pay expenses for mandatory fees at International School</td>
<td>Pay expenses for mandatory fees at International School</td>
<td>Not typically provided</td>
</tr>
<tr>
<td><strong>Medical Benefits</strong></td>
<td>Home Country</td>
<td>Home Country</td>
<td>Home Country or International Plan</td>
<td>International Plan</td>
<td>International Plan</td>
<td>Host Country</td>
</tr>
<tr>
<td><strong>Pension Benefits</strong></td>
<td>Home Country</td>
<td>Home Country</td>
<td>Home Country</td>
<td>Home Country</td>
<td>International Plan</td>
<td>Host Country if possible, cash contribution in lieu if not possible</td>
</tr>
<tr>
<td><strong>Income Taxes</strong></td>
<td>--------------</td>
<td>Tax Equalisation</td>
<td>Tax Equalisation</td>
<td>Tax Equalisation</td>
<td>Tax Equalised to hypothetical home, or provided net remuneration</td>
<td>Employee responsible for all taxes</td>
</tr>
</tbody>
</table>

---

**Note:** The information provided is a general overview and may vary based on specific conditions and agreements.
TRENDS IN MANAGING ALLOWANCES AND PREMIUMS
EXPAT LITE BEST PRACTICES

Establish criteria
- Early career
- Developmental vs. business need
- Position/level – typically manager or below

Identify benefits that will be eliminated or reduced
- Analysis of intent of benefit
- Cost analysis to capture cost savings

Compensation philosophy
- Modified Balance Sheet
- Local Plus
**TRENDS IN MANAGING ALLOWANCES AND PREMIUMS**

**EXPAT LITE EXAMPLES**

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<th>Company B</th>
</tr>
</thead>
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<td><strong>Expat</strong></td>
<td><strong>Expat Lite</strong></td>
<td><strong>Expat</strong></td>
</tr>
<tr>
<td>Home country salary</td>
<td>Home country salary</td>
<td>Home country salary</td>
</tr>
<tr>
<td>Expatriate Index COLA</td>
<td>Efficient Index COLA</td>
<td>COLA</td>
</tr>
<tr>
<td>Pre-departure trip (7)</td>
<td>Pre-departure trip (4)</td>
<td>Pre departure trip</td>
</tr>
<tr>
<td>Cultural/language trng</td>
<td>None</td>
<td>Cultural/language trng</td>
</tr>
<tr>
<td>Host country housing</td>
<td>Modified allowance</td>
<td>Host country allowance</td>
</tr>
<tr>
<td>Business class</td>
<td>Economy class</td>
<td>Tax equalisation</td>
</tr>
<tr>
<td>Home sale assistance</td>
<td>None</td>
<td>HHG storage</td>
</tr>
<tr>
<td>Home leave</td>
<td>Home leave</td>
<td>Home leave</td>
</tr>
<tr>
<td>Relocation allowance</td>
<td>Reduced allowance</td>
<td>Relocation allowance</td>
</tr>
<tr>
<td>Spousal allowance</td>
<td>No spousal allowance</td>
<td>Pet shipment</td>
</tr>
</tbody>
</table>
Identification of core elements vs. flex elements

- Analysis of intent of benefit
- Cost analysis to capture cost savings

Discretion responsibility

- Management
  - Education on intent of benefit
- Employee
- Both

Policy matrix
# TRENDS IN MANAGING ALLOWANCES AND PREMIUMS FLEX/CAFETERIA PLANS

<table>
<thead>
<tr>
<th>Policy</th>
<th>Core/Flex Elements</th>
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<tbody>
<tr>
<td>Compensation</td>
<td>Home country compensation guideline</td>
</tr>
<tr>
<td>Benefits</td>
<td>Home country compensation guideline</td>
</tr>
<tr>
<td>Work Authorisation</td>
<td>Temporary visas/work permits only; no permanent visas/work permits</td>
</tr>
<tr>
<td>Healthcare</td>
<td>International Plan</td>
</tr>
<tr>
<td>Home Auto loss on sale</td>
<td>Optional</td>
</tr>
<tr>
<td>Cost-of-Living Allowance</td>
<td>Low, Medium or High</td>
</tr>
<tr>
<td>Tax Equalisation</td>
<td>Optional</td>
</tr>
<tr>
<td>Tax Preparation</td>
<td>Core</td>
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<td>Host Housing</td>
<td>Low, Medium or High</td>
</tr>
<tr>
<td>Dependent Education</td>
<td>Core</td>
</tr>
<tr>
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<td>Optional – Economy Class</td>
</tr>
<tr>
<td>Emergency Leave</td>
<td>Core</td>
</tr>
<tr>
<td>Host Country Transportation</td>
<td>Optional</td>
</tr>
<tr>
<td>Cultural Orientation</td>
<td>Optional/On-line</td>
</tr>
</tbody>
</table>

Legend:
- **Core**
- **Optional**
INTRODUCING FLEXIBILITY IN MANAGING ALLOWANCES
WHAT YOU CAN ALREADY DO

COST OF LIVING

- Spendable income
- Two approaches with several index types for various assignment types
- Lower indices?
- Negative indices?
- Capping the allowance?

HOUSING

- Three grades
- Housing differentials / contribution to housing
- Full housing costs but capped at lower level (restriction in terms accommodation)
- Link with hardship and pay for full housing cost only in difficult locations
- Consider basing allowances on local housing cost when possible
# Cost of Living Allowance

## Choices and Impact

<table>
<thead>
<tr>
<th></th>
<th>Mean to Mean</th>
<th>Efficient</th>
<th>Convenience</th>
<th>Mean to Mean</th>
<th>Efficient</th>
<th>Convenience</th>
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</thead>
<tbody>
<tr>
<td>COL Index</td>
<td>129</td>
<td>141</td>
<td>154</td>
<td>129</td>
<td>141</td>
<td>154</td>
</tr>
<tr>
<td>Spendable income</td>
<td>33,532</td>
<td>33,532</td>
<td>33,532</td>
<td>45,656</td>
<td>45,656</td>
<td>45,656</td>
</tr>
<tr>
<td>Cost of living allowance</td>
<td>9,724</td>
<td>13,748</td>
<td>18,107</td>
<td>13,240</td>
<td>18,719</td>
<td>24,654</td>
</tr>
</tbody>
</table>

*From Frankfurt to Singapore 9/2014, amounts above in EUR. Source: Mercer*
HOUSING BUDGETS
THE ROLE OF JOB LEVEL/FAMILY SIZE

- Are there any patterns to exceptions (certain locations, job levels, family sizes)?
- What problems is the business reporting?
  - Costs too high for more junior transfers or for entire population?
  - Difficulties getting senior strategic transferees to accept assignments?
- How many job levels/family sizes?
- Do you want housing to be driven more by job level or by family size?
  - Does having junior families getting larger budgets than executives without children create issues?
**HOUSING BUDGETS**
**FAMILY SIZE VS. BEDROOMS**
**WHAT FITS BEST FOR YOUR ORGANISATION?**

<table>
<thead>
<tr>
<th></th>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>POLICY 1:</strong></td>
<td>Easy to communicate, housing based on need</td>
<td>Can result in:</td>
</tr>
<tr>
<td>Allow one BR per</td>
<td></td>
<td>• senior execs with small families getting less than</td>
</tr>
<tr>
<td>family member</td>
<td></td>
<td>junior expats with larger ones; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• budget disparities between families</td>
</tr>
<tr>
<td><strong>POLICY 2:</strong></td>
<td>Easy to communicate, housing equitable by job level</td>
<td>May provide too much housing for singles and too little for large</td>
</tr>
<tr>
<td>Ignore family size; rely on job level</td>
<td></td>
<td>families</td>
</tr>
<tr>
<td><strong>POLICY 3:</strong></td>
<td>Balances needs for housing (larger units to larger families) with</td>
<td>Harder to communicate</td>
</tr>
<tr>
<td>Blended approach, family size + job level</td>
<td>equity by job level (more-senior expats get larger units)</td>
<td></td>
</tr>
</tbody>
</table>

In each case, neighborhood quality/expense can vary with job level.
HOUSING BUDGETS
FIXED VERSUS VARIABLE STANDARDS
WHAT FITS BEST FOR YOUR ORGANISATION?

Example:

- Fixed: A mid-level family of 4: 4BR home in a Moderate Neighborhood
- Variable: 4BR apartment in London, but a 4BR home in Helsinki

Do fixed standards make sense globally?

- What if homes/townhomes come at a significant premium (HK, Manhattan, Singapore, Tokyo)?
- Should expatriates adapt in part to host norms?
- Are all “moderate” neighborhoods the same?
- “Moderate” is a relative term within a city; for example, in London, St. John’s Woods is moderate relative to Knightsbridge, but it is still objectively a high-end neighborhood

• May lead to a reduction in costs
  • by using “moderate” or “inexpensive” in more expensive locations
  – Conversely, in some hardship locations, it may be better to use only the “expensive” and “moderate” neighborhoods.
## HOUSING BUDGETS
WHAT FITS BEST FOR YOUR ORGANISATION?

<table>
<thead>
<tr>
<th></th>
<th>SINGLE</th>
<th></th>
<th>FAMILY OF 4</th>
<th></th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>JR</td>
<td>SR</td>
<td>JR</td>
<td>SR</td>
<td></td>
</tr>
<tr>
<td><strong>POLICY 1:</strong></td>
<td>Allow one BR per family member</td>
<td>1BR A LE</td>
<td>1BR A E</td>
<td>4BR A LE</td>
<td>4BR A E</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2,100</td>
<td>3,900</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>POLICY 2:</strong></td>
<td>Ignore family size; rely on job level</td>
<td>2BR A LE</td>
<td>3BR A E</td>
<td>2BR A LE</td>
<td>3BR A E</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2,900</td>
<td>7,200</td>
<td>2,900</td>
</tr>
<tr>
<td><strong>POLICY 3:</strong></td>
<td>Blended approach, family size + job level</td>
<td>1BR A LE</td>
<td>2BR A E</td>
<td>3BR A LE</td>
<td>4BR A E</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2,100</td>
<td>5,400</td>
<td>3,900</td>
</tr>
</tbody>
</table>

BR = Bedrooms    A = Apartment    LE = Less Expensive    E = Expensive
Cost of Living Fluctuations

• Salaries in the following situations are subject to strong fluctuations:
  • European Union Expats to and from Switzerland
  • Expats to and from Russia & Ukraine
  • Expats to and from Argentina

• Consequences depend on the pay delivery:
  • Home paid
  • Host paid
  • Split salary
Pulse Survey North Africa
(73 companies)

- 58% did not take any action
- Evacuation to the Expats’ home country
- 59% asked employees to work remotely
- 52% reduced expat allowances after evacuation
SPECIAL SITUATION: UKRAINE

- Few companies increase hardship premiums in temporary hardship situations
- “Ad hoc” allowances paid
- Risk/Danger pay in majority paid by American companies but not by European
- Actions focused on facilitating evacuation, support for expats and families
- What about locals?
- Case-by-case solutions
Air Pollution China
Pulse Survey 2014 Among 162 Companies

- 40% say that pollution did not have an impact on willingness to stay, but support has been requested

- 94% have not changed their practice for sending new assignees to China

- Shanghai is the top concern, followed by Beijing

- Only 20% have taken special measures
  - Additional benefits and services (64% filters)
  - Increased hardship premium
  - Rest and Recreation leave, additional vacation days
Recent exchange rate movements (EUR 1 = USD)
Recent exchange rate movements (EUR 1 = ARS)
COST OF LIVING FLUCTUATIONS

ARGENTINA SITUATION

• High currency fluctuations and High inflation!
• FX declines by 50% to the EUR on September 2013 vs September 2014.
• Annual inflation in Expat Cost of Living + 39.37% (Sept 2014 survey)
• Impacts for locals:
  • Companies increase local salaries by 30% in 2014
• Impact Argentinian expats outbound:
  • Constant compensation reviews if paid in pesos
  • 100% payment in host currency?
Recent exchange rate movements (EUR 1 = RUB)
COST OF LIVING FLUCTUATIONS
RUSSIA SITUATION

• The Russian Rouble’s value remains weak
• FX declines by more than 50% to the EUR
• Economic sanctions and the declining price of oil are having an impact
  • Prices have increased especially imported goods.
• Intermediary survey released in February 2015.
• Impacts for locals:
  • Resistance of multinationals companies to stick to the Rouble despite requests and rumours
• Impacts for expats:
  • Strong, unpredictable currency and inflation fluctuations need either constant adjustment or a payment in home currency
## Cost of Living/Goods and Services Impact
### London – Moscow

<table>
<thead>
<tr>
<th>Exchange Rate Date</th>
<th>Annual Base Salary (GBP)</th>
<th>Goods &amp; Services Spendable Income (GBP)</th>
<th>COL Index Mean to Mean</th>
<th>Exchange Rate 1 GBP = RUB?</th>
<th>Exchange Rate variation (%)</th>
<th>Cost of Living Adjustment (GBP)</th>
<th>Spendable income + Cost of Living Adjustment (RUB)</th>
<th>Variation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2014</td>
<td>50,000</td>
<td>30,000</td>
<td>104</td>
<td>60.366808</td>
<td></td>
<td>1,200</td>
<td>1,883,444</td>
<td></td>
</tr>
<tr>
<td>April 2015</td>
<td>50,000</td>
<td>30,000</td>
<td>71</td>
<td>90.364182</td>
<td>49.7%</td>
<td>(8,700)</td>
<td>1,924,757</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

Consequences depend on the package payment:

- Home paid
- Host paid
- Split salary
In high currency fluctuations economy, expatriates tend to start to question their COLA’s and overseas purchasing power. It is important to communicate with your expatriates even more.

It is possible that the expatriates are not actually spending the whole host part of the salary in the host location; they are saving more than expected and are sending more money back home.

Consequently when the currency devalues strongly such as the Argentinean Pesos, the Brazilian Real, Russian Rouble and Euro, the expatriates are losing on the additional saving opportunity of the salary.

Therefore the discussion about the COL index evolution with your expatriates may not be a true concern about their COLA’s but in reality a concern about their additional savings opportunity.
KEY TAKEAWAYS & THOUGHTS FOR THE FUTURE
TALENT MOBILITY DRIVEN ALLOWANCES

MAKE TOMORROW, TODAY
INTERNATIONAL COMPENSATION APPROACHES
LOOKING AHEAD

Cost concerns and complexity is driving a need for flexibility and governance

- Understand cost – where is the money going?
- Evaluate all possible options and alternatives, including Third Country Nationals
- Plan the assignment to minimise tax exposure
- Keep track of critical dates
- Risk Management
- Manage and track policy exceptions
- Minimise the risk of premature repatriations – select the right assignee

Did you know…?

Cost could be reduced substantially by paying attention to the following factors:

- Timing and duration of the assignment
- Tax-efficient delivery
- Managing exceptions
- Selection
- Benchmarking
- Policy Segmentation
- Allowances with a purpose
- Avoiding fines, penalties
KEY TAKEAWAYS AND THOUGHTS FOR THE FUTURE
COST OF LIVING ALLOWANCES AND HOUSING

KEY TAKEAWAYS

- Allowance segmentation by assignment type/purpose
- More frequent allowance updates, facilitated by monitoring the evolution with consistent FX and inflation mechanisms
- Rather than having pay, benefits and various cultural trainings as isolated boxes, bring the different elements together and define overarching principles

THOUGHTS FOR THE FUTURE

- Awareness of the local challenges and compensation issues before constructing the total package
- Consider different ways of paying allowances to reduce administrative burden and allow employee flexibility
- Housing costs should be controllable and not a barrier to mobility
KEY TAKEAWAYS AND THOUGHTS FOR THE FUTURE
MOBILITY INCENTIVES

KEY TAKEAWAYS

- Is such an allowance necessary across the full population?
- Will employees move without a bonus?
- Shouldn’t we identify the opportunity and potential advancement?
- Market-focused use only
- Quality-of-living and hardship needs remain

THOUGHTS FOR THE FUTURE

- Organisations will continue to source talent globally
- Ongoing need to validate mobility program philosophy
- Establish an “Annual Mobility Audit” of sourcing and receiving countries compared to the international assignment positions
- Validate with key clients and employees
- Broader compensation issues cannot be addressed by a Mobility Program