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THE HOME-BASED APPROACH REVISITED
Introducing Flexibility in the Balance Sheet

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What we will cover today

- Home-based balance sheet approach
  - Principles & Application
- The practical case
  - Home-based balance sheet flexibility
- Balance sheet in emerging countries
  - How to handle extreme incomes

Countries: Brazil, China, Germany, Russia, India
THE HOME-BASED BALANCE SHEET APPROACH:
Principles and Application
The home-based approach
The principle of the balance sheet

- Home income
  - Taxes and social contributions

Home reference salary

Housing
- Home spendable income
- Savings

Net home salary

Expatriate premiums
- Housing allowance
- COLA

Gross up

Expatriate premiums
- Housing allowance
- COLA

Home spendable income
- Savings

Net host salary
One approach, many applications … and different results from a same starting point

Home-based approach can lead to very different results depending on policies for COLA, housing, and expat premiums and allowances (data in EUR):
One approach, many applications … and different starting points
Annual Total Guaranteed Cash – Worldwide Comparison (EUR)
Growing diversity of mobility types

- **By duration:** Short-term, long-term with limited duration, undefined duration, permanent, rotational
- **By purpose:** Developmental, strategic, self initiated, experts
- **Unconventional:** Commuters, virtual
- **By expat type:** HQ assignees, third-country nationals, intra-regional transfers, locally hired foreigners, international local hires, returnees, global nomads/career expats

⇒ **Challenges current mobility practices and compensation policies**
⇒ Map your types of assignments
  - Look at international and Local (Plus) approaches, AND
  - Re-visit the home balance sheet approach
From home-based to local remuneration approaches

Global Nomads/Career Expats  Localised Expatriates

Commuters

Short-term Assignments

Rotational  Intra-regional assignments

Long-term Assignments  Locally Hired Foreigners

Returnees  Permanent Transfers

Home Salary

Home Salary Build-Up  HQ Base  Net Salary  International Scale  Hybrid/Expat “Light”  Local Plus  Local Salary

$  tax  tax  tax

x  x  $
Remuneration approach (example: Europe)
Do you use different remuneration approaches?

Driven by length:
- Long-term: 92%
- Short-term: 80%
- Localised assignees: 45%
- Permanent transfers: 38%
- Extended business trips: 24%

Driven by type:
- Local Hires: 53%
- Developmental: 49%
- Strategic: 32%
- Projects: 29%
- Commuters: 26%
- Global nomads: 21%
- Intra-regional: 20%
- By business unit: 5%
Remuneration approach
Which approach do you typically use for **long-term** assignments?

<table>
<thead>
<tr>
<th>Approach</th>
<th>Europe</th>
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<tbody>
<tr>
<td>Home-based balance-sheet approach</td>
<td>64%</td>
</tr>
<tr>
<td>Other</td>
<td>36%</td>
</tr>
<tr>
<td>Home “plus”</td>
<td>9%</td>
</tr>
<tr>
<td>Host-based</td>
<td>7%</td>
</tr>
<tr>
<td>Hybrid</td>
<td>6%</td>
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<tr>
<td>HQ-based balance-sheet</td>
<td>3%</td>
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<tr>
<td>Int’l compensation structure</td>
<td>3%</td>
</tr>
<tr>
<td>Host “plus”</td>
<td>2%</td>
</tr>
<tr>
<td>Higher of home- or host-based</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
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</tbody>
</table>
The case for (and against) the home-based balance sheet approach

Advantages

✓ Simple to communicate
✓ Consistent internationally
✓ Benefits based on employment history protected
✓ Facilitates repatriation or reassignment

Disadvantages

✗ Assignees not always encouraged to adapt to and understand local circumstances
✗ Expatriate compensation packages may be inconsistent with host local levels
✗ Harder to administer once employee on site
THE PRACTICAL CASE:
How to introduce flexibility in the home-based balance sheet
Introducing flexibility in the balance sheet
What you can already do

Cost-of-living
Two approaches with several index types for various assignment types

Housing
Three grades
Applying housing norm deduction (housing differential)

Premiums
Host-only hardship vs home-host or differential hardship
Eliminate/limit mobility premiums
Consider Mercer’s **Multinational** approach
Assumes all assignees spend similarly, regardless of nationality

### Three index options:

#### Mean-to Mean
- Multiple sequential assignments
- Intra-regional assignments
- Permanent assignments
- Lowest differentials

#### Efficient
- Recognizes that employees in home countries are more efficient shoppers than when on assignment
- Mid-level differentials

#### Convenience
- For assignees who have little opportunity to become efficient shoppers due to work schedule, other commitments
- Highest differentials
Consider Mercer’s **Home-Host** approach
Assumes assignees spend differently, depending on their home habits

**Three index options:**

**Efficient Purchaser**
- Intra-regional transfers (familiarity with local market – similar brands)
- Assignments to industrialized locations where quick adaptation possible
- Multiple assignments in established location

**High-Income Purchaser**
- Limits excessive differentials for highly paid assignees from low-cost home countries
- Home vs. host difference reduced

**Expatriate**
- Assignments to “greenfield” locations
- Assignments to locations where adaptation takes time
- Provides comfortable differential to maintain home expenditure, store, brand preferences
Various housing levels
Example: Shanghai (in CNY and GBP)

<table>
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<tr>
<th>Table 1: Good accommodations in areas popular with both locals and some int’l assignees</th>
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<td><strong>Furnished</strong> 3 bedrooms, 200 sqm</td>
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<td>Name of areas for houses</td>
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Applying Housing Norm:
Norm-to-Rent
Rent-to-Rent
Norm-to-Norm
Compensating for hardship
Three cities, two approaches, different recommended premiums*

Home-Host approach

Chicago to Bogotá:
- Index: 69
- Hardship: 20%

Caracas to Bogotá:
- Index: 125 (> 100)
- Hardship: 0%

Host approach

Chicago to Bogotá:
- Bogotá Location Evaluation score: 266
- Hardship: 20%

Caracas to Bogotá:
- Bogotá Location Evaluation score: 266
- Hardship: 20%

* As a % of base salary
Revisit your policy on premiums
Where and when are the incentives most relevant and useful?

Expatriates’ expectations
Financial Incentive to compensate negative aspects

- Separation from community, friends, business associates
- Burden of adjusting to a new culture and environment
- LOSS OF SPOUSE INCOME?
Other expatriate allowances to re-visit

- Education allowance
- Moving allowance
- Relocation / settling-in allowance
- Car allowance / benefit based on host country policy
Remuneration by segment/type of assignment
Frankfurt to Shanghai, IPE 55, Married + 2 children
Annual Total Guaranteed Cash (EUR)

- Global Nomad
- High (Bus Critical)
- Medium (Key Expertise)
- Low (Devel)
- Opportunistic (Host)
- Local (Host)

- Int'l pension (10% gross)
- Spouse support
- Settling-in
- Education
- Mobility premium
- QOLA
- Housing
- COLA
- Net income

Graph showing the remuneration breakdown for different segments and types of assignments.
Three dimensions to introducing meaningful segmentation into the balance sheet approach (and your other policies)

- **Business-Critical**
- **Developmental**
- **MOBILITY DRIVER**
  - Intra-regional
  - Inter-regional

- **ASSIGNMENT LENGTH**
  - Short-term
  - Long-term
  - Permanent

- **GEOGRAPHY**
BALANCE SHEET IN EMERGING COUNTRIES: How to handle extreme incomes
Underlying assumption of balance sheet approach:
Market basket is representative of what assignees would buy with their spendable income.
Limits of the COL index approach for emerging country outbounds

Annual guaranteed cash (USD)

**Home income extremely low:** Even a generous policy may result in insufficient compensation at host

**Home income (and standard of living) extremely high:** Even a lean policy may result in excessive cost at host

Source: Total Remuneration Surveys
Limits of the COL index approach for emerging country outbounds
Are the spendable and market basket assumptions still representative?

Home income extremely low: Even a generous policy may result in insufficient compensation at host

- Consume local products from local market and stores (bargain)
- Items purchased are very specific to local consumption and may not be found at host, or at a premium
- May buy second hand or share ownership of bigger items
- May live with large family in family home (no housing cost) with multiple incomes

Home income (and standard of living) extremely high: Even a lean policy may result in excessive cost at host

- Consume luxury items and brands from high-end international stores
- May have easy access to multiple means of private transportation, and travel internationally to shop
- May have full-time household staff
- May provide for and live with large family and own multiple properties, all luxuriously furnished and fitted (shipment!)
Case 1: Low-income assignee from low-cost home city to high-cost host city
Solution 1: Apply an International Spendable Income (ISI)

Experienced project manager
Married +1 child – Bangalore to Frankfurt

Local to Local

Annual Euros
1 INR = EUR 0.0139
International School
COL Efficient: 171
No QOL allowance
Case 1: Low-income assignee from low-cost location to high-cost location

Solution 2: Equalize to the peer spendable
Case 2: High-income assignees from low-cost countries

- **Solution 1: Explore leaner COL index options**
  - Use a strict average price comparison

- **Solution 2: Apply a cap**
  - **Single salary cap**: single salary amount applied globally, in reference currency (for example, HQ currency) regardless of home country, through straight conversion
  - **HQ outbound cap** as high-water mark
  - **Job-level cap**: based on a selected high job grade salary structure

- **Other considerations:**
  - Are nominees the right candidates for the assignment?
  - Will their assignments lead to the increases in revenue needed to make their assignments profitable?
Conclusion

• Diversity of mobility
  – Emerging to developed countries, by position level
  – Length
  – Assignment purpose: developmental vs. expert vs. strategic
  – Intra- vs. inter-regional
  – “Lost” link with home country

的风险需要灵活性和创意在补偿方法论

• The home-based approach
  – Is transparent
  – Promotes mobility and facilitates repatriation
  – Facilitates long-term benefits protection
  – Offers many ways of introducing flexibility

Explore all the solutions the home-based balance sheet can offer for your mobility purposes before abandoning it …