GLOBAL MOBILITY: MOVING THE RIGHT PEOPLE TO THE RIGHT PLACE AT THE RIGHT COST

A COLLECTION OF WHITE PAPERS FROM THE 2014 EXPATRIATE MANAGEMENT CONFERENCE
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“Sending the right people, to the right place, for the right cost, and at the right time is more complex than ever. Global Mobility is changing, as companies increasingly look for smarter ways to manage expatriates.”

-OLIVIER MEIER
INTRODUCTION

Successful global mobility programme management constitutes more than ever a skilful balancing act and leads companies to use flexible and innovative solutions.

This white paper compilation reflects the discussions around the latest trends in global mobility by experts from Mercer, its clients, and academia at our 2014 EMEA and North America Expatriate Management Conferences.

Global Mobility is changing, as companies increasingly look for smarter ways to manage expatriates. The long-established dilemma between expatriate and locals – whether the company should send expatriates on expensive packages or have only local employees – has long been replaced by more complex questions. Over the past ten years, many companies have moved from one-size-fits-all policies to more segmented policies designed to meet the requirement of different types of assignments and expatriates.

We are now witnessing the second phase of the segmentation phenomenon: The rise of policy segmentation has led to a greater need for new tools and flexible approaches.

We are not forecasting the demise of the traditional home-based balance sheet approach – an approach that remains the cornerstone of the mobility strategy for many companies. The balance sheet is, however, increasingly cohabiting within mobility policies with new alternatives such as the Local Plus approach.

The concept of “Local Plus” is not new in itself – companies have been looking for a compromise between using pure local approaches (which could hinder mobility) and costly home-based expatriate packages for many years. The definition of Local Plus has sometimes been unclear and the practical implementation of the Local Plus approach has all too often been challenged by local realities. The concept of Local Plus is now gaining maturity. Companies are moving ahead with this type of package and we are seeing a growing appetite for various types of Local Plus solutions. This trend has been accelerated further by the fast rise of employee categories such as locally hired foreigners, localised employees, or even “returnees.” The growth is particularly visible in Asia, where destinations like China, Singapore, and Hong Kong are becoming well-established markets for these categories of mobile employees. The trend is, however, not confined to Asia: companies in the Middle East, Europe, and the Americas (for example, Brazil) are following suit.

Traditional issues such as cost containment have not disappeared and new mobility developments give them a new twist, as the questions about cost shift from finding simple ways to cut cost to more strategic planning and budget allocation between types of assignments as well as better cost and

“The long established dilemma between expatriate and locals - whether the company should send expatriates on expensive packages or have only local employees - has long been replaced by more complex questions.”

-OLIVIER MEIER
exceptions tracking.

Managing expatriate allowances requires smarter approaches. Careful attention should be paid to housing – often a significant cost for the company and a contentious issue to manage. Maintaining expatriate benefits such as pension and healthcare also continue to represent thorny issues for many companies.

Adding to these global mobility policy issues, regional specificities are challenging the adaptability of companies’ policies. The differences in terms of cultural approach are highlighted in the article about mobility practices in Europe and the Middle East.

The article on Africa is reminding us about the opportunities and challenges of a booming continent where growth potential exceeds other regions, including Asia, but where building up and attracting talent can still prove difficult. Latin America also offers a mix of opportunities and challenges for multinational companies as compensation questions linked to growing salary costs as well as inflation and exchange rate fluctuations persist.

China remains at the forefront of many multinational companies’ concerns. We are monitoring how the fundamental shift from low cost manufacturing to high tech and from a low-paying economy to a consumer market with a fast growing middle-class is impacting HR policies for locals and expatriates and is influencing mobility. Pollution issues have recently put the spotlight on the challenges faced by expatriates in Chinese cities and re-opened questions around hardship and the related hardship allowances.

Sending the right people, to the right place, for the right cost, and at the right time is more complex than ever, and we hope this paper helps you achieve this.

Olivier Meier,
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INTRODUCTION

Reducing costs is an imperative for all business, regardless of size. Multinationals, however, have a tightrope to tread: they are increasingly concerned about the expenditure associated with expat programmes, but also need to offer packages that will attract and retain top talent.

This article looks at some of the most prevalent trends in the costs associated with international assignments, and suggests some ways in which spend can be reduced, employee expectation managed, but effectiveness maintained overall.

GENERAL TRENDS

International assignments are becoming ever more complex: not only are they becoming more prevalent and the expatriate population more diverse, but the number of destinations is also on the rise as businesses explore emerging markets. Expanding into these regions commonly means establishing a foothold in hardship destinations, though, and that can be costly. In some cases, employers begin with a blank sheet of paper — where there is no “model” to follow, businesses have to invest time and resources in formulating packages for locations in which they may ultimately be based only briefly.

A spell overseas is now commonly viewed as an important part of top executives’ career trajectory. However, although deploying expats may bring much-needed expertise or knowledge to foreign projects, we may soon reach a tipping point beyond which doing so will no longer be economically feasible. In the five years from
2008 to 2013, the ratio of home pay and expat remuneration jumped from 1.5–4 to 1.5–6 (in some extremely challenging destinations). As prices rocket in some locations — rents in Hong Kong are roughly double those in London, for example, and are also in a very steep upward curve in some of the Middle East locations — businesses are increasingly turning to local+ packages or, indeed, international hires where possible.

In most cases, companies’ attempts to contain costs lag behind the economic cycle: by the time the relevant policies have been drawn up to address a given challenge and are approved, the situation has changed and companies are once again on the back foot. Being nimble is essential, and organisations need a toolkit of lean, concise, and adaptable policies that can offer the flexibility required by a new generation of expat workers.

**COST-SAVING OPTIONS**

**PLANNING**

Thorough planning and careful assessment of assignment type (and assignees) should help multinationals streamline their approach. This doesn’t have to be complicated: using a simple tool such as a decision tree — which allows HR teams to weigh a number of variables, including assignment duration, purpose, status (temporary or permanent), and potential dependants — can be extremely useful and ultimately help determine which candidates would be most suited to the assignment and which are the most appropriate packages for them. All too often multinationals revert to the default position of parachuting in an expensive foreign executive when a high-potential local national could be just as effective — but much less pricey.

**COST PROJECTION AND TRACKING**

All businesses can get more from their budgets by implementing better processes and making their HR teams work “smarter”; getting things right first time is clearly the optimum outcome. That said, no specific tool is currently available to help companies administer their international assignment programmes; most have to manage in a piecemeal way, and this is naturally problematic for those that have expanded globally. Recent research has shown that although just over two-thirds of European and North American companies perform detailed cost projections, a worrying number of multinationals in Asia Pacific (APAC) are still relying on rough calculations only. Conversely, according to the same survey, APAC companies are much more likely to track actual expenditure against forecasts than their European counterparts (62% of respondents versus a meagre 35%).

**REDUCED DURATION OF ASSIGNMENTS**

Assignments are getting usually shorter and in most cases now last a maximum of three years, rather than the traditional five. If assignees are repatriated in a timely fashion at the end of a project, they can be back on the home balance sheet reasonably quickly. In an attempt to move away from standard (and resource-hungry) postings, multinationals have been investigating alternatives. Intraregional assignments, working with third-country nationals, and even commuting are options, but, as noted above local+ assignments are increasingly popular and are expected to increase significantly by 2016.

**SEGMENTING POLICIES**

Segmenting packages can help contain costs while still allowing companies some discretion around their

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offer to those in strategic positions or with in-demand skills. For example, organisations may differentiate between developmental moves (professional level), know-how transfers (manager level), and strategic moves (executive level). The segmentation can be applied on a number of levels: whereas a more senior manager would be offered a base salary in line with the home balance sheet, the PC51 employee would be on a high local salary. Similarly, a more junior employee would not receive assistance with school fees for dependants, but the PC56 and PC62 executives would receive an allowance to facilitate national and international schooling, respectively. In a recent development, localised packages are also being segmented according to business need and seniority of position; this is likely to become more common.

That said there seems to be limited correlation between expatriate retention rates and compensation: even when very competitive packages (upper quartile) are offered, more than 15% of staff leave their employer within two years of returning home; the rate among staff on lower-quartile packages is around 20%. We can conclude that compensation plays a relatively minor role in employees’ decision to move on; the most common push factors are actually dissatisfaction with their current job or family-related issues.

LOCAL+ PACKAGES

Perhaps the biggest potential saving for multinationals with well-established international assignment programmes lies in moving expats off a home balance-sheet package onto a local+ arrangement once they have been in that location for five years. However, the spread of such packages can be enormous — depending on the destination, a local+ package can also be higher than an expat package, as might be seen for top executives from emerging countries like Brazil. For example, if we compare the gross host-country pay for a hypothetical move of a married middle management position from London to Hong Kong, we can assume reductions of up to €80,000.

Also bear in mind that base salary ranges are broad, particularly in emerging markets; in some of the “super sectors” such as oil and gas and energy of sub-Saharan Africa, for example, they can be well over 55% of the total compensation mix.

CAPPING ALLOWANCES

As noted above, housing costs are running rampant in some popular expat locations and employers have been attempting to cap allowances, explaining that they are meant to be a contribution towards accommodation expenses rather a payment of the full amount. Similar moves are gaining traction with regard to health care premiums and education fees, although unsurprisingly there has been some pushback from employees. In order to avoid the early termination of overseas deployments due to employment dissatisfaction, some multinationals have been introducing completion bonuses to reward success; this trend originated in the oil and gas sector but is now becoming more common in consumer goods and pharmaceuticals firms.

EXCEPTION MANAGEMENT

Exception management — that is, addressing assignees’ complaints — is a headache on most assignment programmes and can be extremely time-consuming. In US and European companies, HR departments are usually tasked with authorising exception requests, but among APAC companies, sign-off comes right from the top — CEOs are required to step in. Cost-of-living and housing allowances are among the most contentious issues for employees deployed overseas, but it is interesting to note that family-related issues, such as the number of home-leave trips and dependant education, are among the top three exception requests

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granted by European companies.\textsuperscript{3} The wider message here for employers is that a new generation of workers are now moving into senior positions, and for them, flexibility is key. Rigid or one-size-fits all policies will be increasingly ineffective, so corporate approaches will need to evolve. Younger workers with no family commitments may want to “trade” benefits they don’t need for longer holidays, for example; those with dependants will have child-friendly benefits at the top of their wish list. Being open to your top talent’s requirements will go a long way towards retaining it.

**SUMMARY**

Although each organisation will have its own particular challenges with its global expats, the options above provide a good framework for reducing expenditure without sacrificing performance. In aligning strategy, policy, and process, your organisation should emerge leaner and more effective than ever.

\textsuperscript{3} Mercer, 2012.

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INTRODUCTION

Local Plus packages are becoming ever more prevalent among multinational companies; a recent Mercer study showed that 67% of European businesses have international employees on a Local Plus approach and it is on the rise among US and Asian companies too.¹ A useful hybrid of expat compensation options, it bridges the gap between the expensive home balance sheet approach and local packages.

This article discusses the key characteristics of successful Local Plus policies and some of the challenges inherent in implementing them. It also includes some responses and thoughts from the audience at the forum, who shared their experience of Local Plus.

THE BUSINESS CASE FOR LOCAL PLUS

Local Plus packages are typically offered to international assignees and comprise locally delivered pay and/or benefits in addition to some items that are not usually available to local staff. The option is used most often when localising expats, for permanent transfers, and locally hired foreign nationals, but there is no “one size fits all” model to follow — package components vary by both employer and type of move, and host-country conditions can make it difficult for organisations to apply one policy globally.

KEY DRIVERS

Unsurprisingly, cost reduction is the principal motivation behind most companies’ adoption of the Local Plus approach, as moving expatriate workers off the home balance sheet should theoretically result in savings. In some cases, however, Local Plus packages can result in much higher costs than a traditional home-based approach. For example, in hardship locations, extra or higher allowances will need to be factored in and this can ramp up the overall cost of the package considerably.

Local Plus can improve companies’ market competitiveness, in certain cases and also offers a way of achieving pay equality among peers in multinationals with large expat populations.

Simpler administration is the last of the “big four” drivers: decentralising the management of expat packages can not only be cost-effective but also foster expertise across all bases of operation.

AUDIENCE RESPONSE: ADDITIONAL LOCAL PLUS DRIVERS

- It helps us better navigate remuneration thresholds.
- It provides additional competitive advantage.
- It’s a competitive alternative to a pure local approach.

COMPONENTS OF LOCAL PLUS PACKAGES

BASE SALARY

Definitions of “local” in this context can vary, but there are three main concepts: pure local; inflated local for foreigners, which is common in locations such as China; and local for returnees. This latter category is aimed at employees who may, for example, have studied abroad, and it rewards them for that international experience.

To determine the most appropriate structure for employees, it is important to perform a net-to-gross calculation or “impact statement” that recognises tax differences, purchasing power differentials, and housing cost differences between the home and host locations.

At Mercer, the calculation is done in a number of stages, the first of which is to take the potential assignee’s existing gross home salary and make all relevant deductions in order to establish the net home income. A foreign exchange rate is then applied and the assignment location costs added to achieve an equivalent assignment location gross salary. That figure is compared with current local-market salary information in order to assess which local package (if any) is the best fit. In some cases, individuals will map neatly onto local salary structures, but in others adjustments will be necessary. If the home salary is significantly higher than local levels, employees may have their pay frozen until it falls within the standard salary range; in less extreme cases, the salary may be gradually phased down to local market level.

AUDIENCE RESPONSE: THE IMPACT STATEMENT

Although quite a few audience members do employ impact statements to help formulate Local Plus packages, one of the comments we received was:

2. Ibid.
“Actually, we don’t do an impact study; we leave it up to the host country, basically. They collect remuneration details from the home country, but if they decide to offer a lower salary that’s up to them. And if the assignee is willing to accept that lower salary, that’s fine too.”

THE ‘PLUS’ ALLOWANCES/BENEFITS

Allowances and benefits — in other words, the “plus” components of this option — constitute a helpful middle ground between expats’ home countries and their host location; they remove barriers to mobility and assist assignees when they cannot access (or are not entitled to) specific benefits in their new base. They also play a key role when remuneration would not be competitive without additional allowances (such as in the United Arab Emirates) or where base pay is not attractive.

Again, “plus” components vary widely between companies and locations, but commonly include assistance with items such as tax, housing, relocation services, medical benefits, school fees, and home leave. Housing and education are particularly thorny issues in some locations, particularly in the Gulf where costs for both are rocketing. Companies may decide to offer assistance with both accommodation costs and education fees as part of the Local Plus package as an incentive but tend to stop short of covering the entire cost. For housing, they may offer 75% of the local price, and for schooling a fixed contribution per child in keeping with his or her level or age.

In most cases, one time payments are made to assist with relocation related issues either on departure or repatriation and with immigration in order to facilitate the move and enable assignees to hit the ground running.

AUDIENCE RESPONSE: WOULD YOU INCLUDE A HARDSHIP PREMIUM IN YOUR LOCAL PLUS PACKAGE?

1. Yes: 7%.
2. No, never: 79%.
3. It depends: 14%.

In some cases, one-time payments are made to assist with relocation-related issues either on departure or repatriation — such as language and cultural training or finding temporary accommodation — in order to facilitate the move and enable assignees to hit the ground running.

AUDIENCE RESPONSE: ADDITIONAL ‘PLUS’ COMPONENTS

• Immigration services.
• Repatriation assistance.
• Settling-in allowance.

Eventually, of course, companies will want to withdraw the “plus” components and transition assignees onto a true local package. Housing and education allowances are gradually reduced over time and eventually employees are expected to bear all expenses themselves. That is the theory, at least, but in reality the exact level of phasing out is very much contingent on location. In China, for example, international school fees are in the region of $25,000 per year per child, and as language barriers are likely to play a role for some time,

3. Ibid.
support may still be offered beyond the phase-out cutoff point.

AUDIENCE RESPONSE: A RECENT REAL-LIFE SCENARIO

As part of a group discussion, one audience member shared details of how her company deals with Local Plus moves:

“In general, we move assignees — usually local hires or expats about to be localised — on to a full local salary and add ‘pluses’ if the assignee could not move directly onto a pure local package, such as housing assistance, a lump-sum cost of living payment, as well as medical and home-leave allowances. These are usually phased out after three years.”

There is some scope for flexibility, however, as a recent move from Taiwan to China demonstrated. “The assignee could not be moved directly onto a full local package as she was a member of an old pension scheme. As she was nearing retirement age, cutting all ties with the home country and moving her off that scheme would have resulted in her being penalised financially, so we let the original arrangement continue.”

DESIGNING A LOCAL PLUS POLICY

Although each company will have its own goals and drivers to consider when formulating a Local Plus policy, there are a number of helpful ground rules to bear in mind:

• Successful Local Plus policies are consistent globally but retain some local flexibility. They are also as local as possible — the “plus” components should be limited.

• Before investing time and money in developing a policy, consider your company’s background, history, and key stakeholders’ expectations: Local Plus is not appropriate for every business.

• Clearly define your pay philosophy and ensure that all relevant people have bought into it.

• Focus on how and why the policy will be rolled out; effective co-ordination between head office or home HR teams and local offices is absolutely essential.

• Communicate the policy positively to a variety of audiences. For HR and line managers, emphasise its vital role in transitioning employees to a more sustainable local package in the long term; for assignees, careful explanation of how these packages are formulated, and what they really mean for families’ standard of living, should go some way to assuaging doubts and concerns. In both cases, actively tackling erroneous perceptions of Local Plus as a “cut-price” option should improve takeup.

• Manage exceptions and local application rigorously, especially if the policy includes a degree of flexibility. Annual reviews and the guidance of a steering committee will be helpful.

Despite the many positive benefits of a Local Plus approach, there are a number of common pitfalls associated with it. Principal — and most expensive — among these hazards is that employees may see the package offered to them as a jumping-off point for negotiation. If discussions drag on, base salaries could well become overinflated in order to close a deal or the number of exceptions rises regarding the “plus” components. In both cases, the knock-on effect will be increased cost to the business — the precise opposite of what your organisation was hoping to achieve.
AUDIENCE RESPONSE: WHAT BEST DESCRIBES YOUR LOCAL PLUS POLICY DESIGN?

1. Global principles (core elements) + local flexibility (add-on elements): 54%.

2. An “as local as possible” policy, with limited “plus”: 31%.

3. A buyout policy with temporary “plus” elements: 9%.

4. One globally consistent policy: 6%.

Although one coherent global policy is the ideal, the requirements of individual host countries may prevent that. This may be particularly common in new destinations for your business in emerging markets, so a degree of flexibility within the main policy framework will be vital.

Finally, relative home/host parity could prove to be a stumbling block for multinationals operating in location combinations where there are wide disparities between home and local net income. For example, although assignees moving from the UK to Hong Kong should find that salaries are pretty much in alignment, the local salary for those transferring from the US to the Philippines will need to be increased significantly if employees are to avoid a precipitous drop in net income. By contrast, although there may be no shortage of candidates for a move from India to Switzerland, there are likely to be repatriation difficulties when these assignees face the prospect of losing the high salary they have been enjoying during their assignment.

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INTRODUCTION

Global mobility is evolving constantly, and however robust your business’s policies, employees always bring new challenges to the table — particularly during times of economic uncertainty.

This article discusses ways to proactively manage the expatriate allowances that are typically of most concern to international assignees, and highlights the importance of effective and timely communication.

SMART EXPATRIATE ALLOWANCES MANAGEMENT

Assignee compensation packages are intended to provide expatriate workers with the same purchasing power in their host location that they enjoy in their home location, with no loss or gain. Various options are available — the home balance-sheet is the most common, but Local Plus has been gaining in popularity in recent times — and a number of economic indicators are used to work out the most appropriate package. These include the cost of living (in order to measure employees’ purchasing power), inflation, exchange rates, hardship premiums, housing budget, and other benefits (such as education costs for dependants).

COST-OF-LIVING ALLOWANCE

The cost-of-living allowance (COLA) is perhaps the issue most likely to have expats knocking on your door as it has the most direct impact on their daily lives in their host location.
It is, however, a relatively complex issue and can be affected by myriad elements.

Currency fluctuations can have a massive impact on COLAs, as recent events in Venezuela illustrate. In many ways, Venezuela is a perfect expat storm: its economy is volatile (it has the highest annual inflation rate in the world); it has three currency-exchange markets (official, ancillary, and black market), on one of which the Bolivar was depreciated by a staggering 88% in March 2014; and it relies heavily on foreign goods and regularly experiences shortages as a result of strict government price controls. Prices are going up, driving up the cost of living, and crime is also on the rise, leading to increases in hardship premiums.

Unsurprisingly, international assignees in Venezuela have been extremely concerned. However, employers can do a lot to proactively reassure them (and colleagues in similar locations), particularly if they are being paid on a home balance-sheet package. For example, by subscribing to news alerts and monitoring economic indicators, you should be in a position to alert them to potential problems before they occur, and prepare for some likely questions.

Also be ready to explain that there is a difference between the official inflation rate (CPI) in their host location and that used by your company, which will be geared to the consumption patterns of expat workers. (In more stable economies, these two rates are typically in alignment, but in more volatile markets there could be wide disparities.) Local inflation increases in the host country will usually have much more of an impact on local employees than on international assignees, in fact, and clarifying the situation at home — and what it means for employees financially — should assuage their immediate concerns.

**COL INDEX EVOLUTION**

It is also important to explain how cost-of-living indexes evolve in response to two main variables — currency and price movements — in both home and host location in order to maintain assignees’ purchasing power. As these two elements fluctuate, so the COL index increases or decreases in line.

In times of turbulence, and particularly when prices rise in the host country, it is essential that you step in to assure expat staff that action and revision will occur to secure their normal level of consumption locally, usually in the form of an increase to host spendable income. If you are able to alert staff to such events in good time so that they are not blindsided by worrying reports in the local news, so much the better.

**HARDSHIP PREMIUM**

Multinationals have a responsibility to assist employees deployed to challenging locations. One such hotspot is Ukraine, where there has been ongoing civil unrest since November 2013. In the capital city, Kiev, the rating for political and social environment has decreased, indicating a worsening situation. Although employees will understandably require reassurance regarding their safety or assistance with certain practical issues, there may not necessarily be an immediate need to amend the financial component of the hardship premium.

In Egypt, too, political upheaval and violence on the streets have been the order of the day for some time, but in terms of supporting staff in that location, money may again not be the most important issue (even though there has been a small increase in hardship premiums, from 20% to 25%). For example, the Egypt Pulse Survey Report of September 2013 revealed that a third of respondents had taken steps to evacuate international assignees and their dependants, predominantly to their home countries. Other special measures were also deployed, such as email alerts regarding country-specific security risks (64% of respondents); enabling
remote working from home within in Egypt (59%); and access to a 24-hour emergency hotline (44%).

HOUSING BUDGET

Housing costs are on an upward trend in many popular expat destinations but are rocketing in parts of the Gulf. In Dubai, for example, the average monthly rent for a three-bedroom apartment has increased by more than AED 2,000 in just over 18 months (between March 2012 and September 2013) as a result of rising demand and limited availability.\(^1\) Prices also shot up in Brazil in the run-up to the World Cup and are likely to remain high as the countdown to the 2016 Olympic Games in Rio de Janeiro begins.

In both locations, landlords may well seek to make short-term gains and squeeze rents, placing businesses in an awkward position: although they will be keen for their assignees to be housed comfortably, budgets cannot be increased indefinitely. In some cases, companies have asked expats to move rather than cover exorbitant price rises. Many businesses are framing assistance as a contribution towards housing costs and no longer foot the whole bill.

OTHER BENEFITS

In order to control costs, a number of other benefits are being scrutinised more closely. International schools are often the most appropriate educational option for assignees’ children due to language or cultural barriers, but they are extremely expensive and in some locations places are limited. As a result, more and more companies are exploring the option of local schools (depending on location), or of providing a subsidy that covers a portion of the annual fee rather than the entire amount. Similar moves have been made with regard to home leave, another hot topic. During high season, businesses may make a contribution to ticket costs only.

Looking at the bigger picture, however, there is a generational shift among assignees. Among the younger expats, flexibility — particularly around family issues – is just as important as financial compensation. In order to get a better fix on how their staff value and perceive benefits, and how policies may need to evolve in the long term, more businesses are running expat satisfaction surveys.

As multinationals seek to establish themselves in new locations, segmentation of benefits is becoming more common. The potential “menu” of benefits is vast, but in 2013 Mercer conducted some research that examined the range of options available to assignees on Local Plus contracts.\(^2\) Results revealed that assistance with tax issues (in order to guarantee compliance with host-country legislation) was common among all respondents but most prevalent among European respondents (80%). Host housing support ranked highest among US and Asia Pacific organisations (74% and 77% of respondents, respectively). Medical costs are on the rise globally; 71% of European companies and 64% of Asian companies surveyed are providing financial assistance with premiums, but less than half of US respondents were stepping into this particular gap.

As popular as Local Plus is, this type of package can have unintended knock-on effects, particularly in emerging markets if “plus” components are not phased out on time — in fact, in China, they have become embedded in the salary and changed compensation structure. As a result of recent cost-cutting drives, however, multinationals are tightening up in this regard and assignees typically forego “pluses” after 18 months to two years in their host country.

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KEY TAKE-AWAYS

Monitor and revise allowances in volatile economies regularly (ideally every six months) paying particular attention to changes to inflation and exchange rates.

Look at allowances and benefits individually but also in the context of the whole compensation package; communicate proactively and avoid focusing purely on cash. It is important to remind employees of the less visible elements that you are paying for or contributing towards.

Measure perception. Satisfaction surveys are a win–win in that they enable expats to vent their views and companies to gauge how well they are meeting employees’ needs. It is vital, however, that expectations are managed — assignees should be clear that the survey is part of an ongoing process and that policies will not change overnight as a result of their input.

Segment policies where appropriate.

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INTRODUCTION

Expatriate housing is a hot-button issue for multinational companies: subjective, contentious, and highly visible, it can be a make-or-break factor in overseas assignments.

MNCs often consider inputs from multiple sources when it comes to housing decisions, including the global mobility team, relocation vendors, local management, HR and, of course, assignees and their families. Each of these sources can have their own distinct view of what is “appropriate”. This challenging area is also expensive: after base salary and taxes, housing is the largest piece of the expatriate package, and is often three or more times a larger expense than the COLA.

This article discusses three key areas within most MNCs’ housing policies—home country housing issues; establishing host country housing guidelines; and the ever-controversial issue of managing exceptions—drawing on Mercer data to describe current practices and offer suggestions on how to better manage costs and still provide safe, secure and appropriate housing.

HOME COUNTRY HOUSING ISSUES

Over the past decade, corporations have been shifting away from applying a home country housing norm. If assignees are on a home balance sheet approach, it is common for the employer to pay for accommodation in the host country while deducting an employee contribution, or “housing norm,” to cover part of that expense. This is especially prevalent for expatriates from the United States. In the 1990s, only about 10% of US multinationals provided “free housing”. By 2012, almost a third of US companies were providing “free housing”. By contrast, the practice of providing “free housing” has always been significantly more prevalent...
among European multinationals, where more than half do not apply a housing norm.¹ As companies have shifted policies towards providing free housing, they have also reduced the amount of support they provide around home housing (e.g. property management fees, storage costs, etc.). One dramatic example is on the provision of loss-on-sale programs. Fifteen years ago, a significant majority of US companies had loss-on-sale provisions in their policies. Today, only 22% of US companies provide this benefit.

ESTABLISHING HOUSING GUIDELINES

The subjective nature of determining “appropriate” housing, and its high visibility—make housing a significant challenge. Moreover, the gap between expatriate expectations and the actual housing practices of local nationals can raise the hackles of local peers.

Every MNC needs to have housing guidelines in place that are appropriate for its expat employee population, and that fit within its corporate philosophy. In general, housing varies by both job level and family size. For example, one common approach is to provide an extra bedroom for each family member, and to increase the quality of the unit as job level increases: For example, managers with a family size of three would qualify for an inexpensive three-bedroom apartment; directors with the same size family would be housed in a moderate three-bedroom apartment, while vice presidents would be found an expensive three-bedroom lodging. However, this approach can often lead to budgets where senior expatriates without children end up with housing budgets that are lower than those of junior expatriates with large families. On the other pole, there are a minority of companies that base housing solely on job level, and give the same budget to all managers regardless of whether they are single or have a brood of six. Whether either of these approaches work best for your company, or there is a solution that lies between these poles, is a function of your company’s overall philosophy. What is most critical is that you apply that philosophy consistently on a global basis.

It is also vital to set and manage expats’ expectations. As they prepare for their assignment, they are likely to research their host location online, and may well develop an idea of “appropriate” housing. To head this problem off at the pass, some businesses are now flagging up the housing budget in their initial offer letters to expats.

Housing for short-term assignees should also follow guidelines. Unsurprisingly, employees on short-term assignment overseas are provided with comfortable housing as near as possible to their place of work so that they can hit the ground running; 46% of companies responding to Mercer’s 2013 Alternative International Assignments Policies and Practices Survey provided serviced apartments, and 30% furnished ones. These “turnkey” dwellings do come at a premium, though, and in some locations availability issues add further cost pressures. As ever, focusing on the business need for the assignment should help mobility teams work out how much latitude they need to build in around this issue—if results are needed quickly, for example, taking on the expense of accommodating the assignee in a downtown location close to the office could be a price worth paying, and there could well be scope for savings in terms of reduced cost of living and/or transportation allowances.

Unlike long-term deployment, the vast majority of short-term assignments (91%) are unaccompanied and a large proportion of companies (46%) do not allow accompanied short-term assignments at all, as a cost-savings measure. Leasing smaller dwellings provides some scope for cost savings in such cases, but is often partially offset by companies paying for more frequent trips home. 54% of respondents who allowed a spouse and/or family to join short-term assignees under certain circumstances were willing to provide larger accom-

modation. One Mercer client has found a way to offer flexibility at no extra cost to the business by setting a budget for what a one-bedroom apartment in a given location would cost and offering that to assignees as a contribution toward a larger dwelling; the assignees themselves must foot the rest of the bill.

MANAGING EXCEPTIONS

74% of respondents to Mercer’s 2012 Worldwide Survey of International Assignment Policies and Practices cited host housing allowances as the issue for which most exception requests were received, a headache for mobility teams around the world.

While employees on international assignment are often senior and critical talent, accommodating their housing requests will result in bloated budgets and a wildly inconsistent policy. In our experience, there is a definite correlation between the number of housing exception requests granted and the level of approval required within an organization. While there will always be cases in which very specific reasons require that exception requests be investigated, by generally making the approval level as high as possible—even CEO-level if needed—the level of exceptions granted is likely to fall dramatically. Few people, especially those with a keen eye on future career prospects, will be eager to attract senior management’s attention for this reason.

Expatriate housing will always be an emotional issue. On their initial house hunting trips, expatriates and their spouses will want to see the type of housing that has been approved by colleagues on expatriate assignment at the same location. Providing local management with clear guidelines and adequate information on appropriate rental housing at the assignment location is a critical responsibility of the global mobility department, to ensure expatriates are provided safe, secure and appropriate housing whilst avoiding renting the Taj Mahal.

2 Mercer’s 2013 Alternative International Assignments Policies and Practices Survey

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INTRODUCTION

Benefits are a crucial part of the overall compensation package for employees on international assignment. Getting them right can make a very positive contribution to an overseas deployment, but balancing employee expectation with rising costs is proving a challenge for many organizations.

This article looks at three of the most pressing benefits-related issues for expatriate workers, highlighting a number of trends that are currently impacting many multinationals.

INTERNATIONAL MEDICAL PLANS

Medical plans are a hot-button issue for both multinationals and their expat workforce. Employees on international assignments in countries with very different or inferior medical care to their home locations need access to good-quality health and medical benefits. As premiums soar across various locations, however, organizations have no choice but to carefully scrutinize and potentially revise existing policies and practices. In doing so, they face four key challenges.

First is benefit design. This issue is always complex for expat programs, where the population is typically spread over several continents and many countries, each of which has fundamentally different structures in social security systems, healthcare sectors, and insurance markets.

Mercer has found that three-quarters of its client base have just one medical plan that is supposed to cover all bases. Multinationals are, however, increasingly recognizing that more than one expat medical plan
design or provider is needed to effectively deliver benefits to employees operating across different regions and countries with varied medical environments and infrastructures. A far more comprehensive and specialized plan may be needed for employees operating in the Arabian Gulf region, for example, where very limited social provisions exist for non-nationals and private insurance is essential for practically all levels of medical care, compared to that required in countries such as the United Kingdom, where the widely accessible National Health Service provides emergency and core coverage for all residents.

In many parts of the world – including the Middle East, a popular expat destination – compliance issues are on the increase. National health budgets are under pressure and, as a result, governments are tightening access to healthcare for foreign workers. (Across the Arabian Gulf, minimum medical requirements are being linked to the issuing of visas; in short, foreign employees will not be able to enter certain countries without the appropriate level of healthcare coverage.) It is crucial that international businesses keep on top of these issues – checking that carriers are appropriately licensed and that their networks are of a good standard in the specific countries concerned – in order to avoid fines or other reputational damage.

While employers will always aim to improve employees’ satisfaction, they face an uphill task given the subjective nature of it and the complexities inherent in dealing with a high-touch expat population. The reality is that many international assignees have become used to a gold-standard level of medical benefits (certainly in comparison to colleagues on local contracts), and often interpret attempts to introduce some kind of control over access to care, in order to both cut costs and make sure that patients are seen by the right doctor, as “poor service.” Employers will need to partner with providers and play a role in helping to manage employee expectations if they are to achieve a successful transition to more moderate plan provisions or exercise greater control over network access in the longer term.

A considerable opportunity for cost management exists in the area of network reviews and control. In many emerging markets, certain medical providers have attractive brand names that draw the majority of expat utilization at a premium price. In countries where the medical infrastructure has seen rapid modernization in recent years, there may be opportunities to utilize other very good quality providers at lower cost; excluding certain brand name hospitals or clinics from the network available to employees has allowed medical costs to be reduced by a third or more in some cases. Employers will obviously have to tread lightly as they try to streamline processes, however: expat workers often have an emotional attachment to benefits and to certain brands in healthcare provision, and trying to wean them off too briskly could contribute to assignment failure. A strong communication strategy is therefore essential in helping achieve successful change.

Perhaps most challenging is that employers face the difficult task of reconciling efforts to support employee health and motivation with double-digit cost increases in some locations, especially in emerging markets. Moreover, businesses have to be fit for the future: while they need existing international assignments to be successful, they also have to build a sustainable program for the future. Many multinationals are caught on the horns of this dilemma, as results of the Mercer Benefits Survey for Expatriates and Internationally Mobile Employees demonstrate: 65% cite employee engagement and satisfaction as a key priority, but 55% are also concerned about cost control. Evidently, finding a solution that enables them to reduce premiums without harming expats’ perceived level of service is top of their agenda.

Some initial steps have been made. For example, roughly half of total claims expenses can be ascribed to primary care (such as consultations and diagnostic tests). Implementing deductibles and cost-sharing, either
through co-payments or co-insurance, will have a tangible positive effect on overall cost. We have also seen some employers take on considerable cost liabilities when moving employees or their dependents who turn out to have un-insurable pre-existing conditions that would have been covered under existing insurance in the home country. Prescreening, which allows companies to gain a fuller picture of the total liability that may be incurred by sending a particular individual or family on a long-term assignment, is on the rise as a result.

Another area that may provide room for maneuver without impacting employees is working with carriers to understand exactly how they are formulating their premium increases. For example, medical inflation is currently far higher than general inflation – in the UK, for example, it is 8–10% v. 2.7%; in Malaysia, an astonishing 10–15% v. 2.4% – but the higher number is often used as the basis for carriers to increase both their medical insurance premium and plan administration fees. Negotiating with them in order to apply lower general inflation increases to plan administration fees is likely to result in significant savings.

INTERNATIONAL PENSION PLANS

Pensions are another thorny issue for an expat workforce, and again, experience shows that a one-size-fits-all method is less than ideal. Having employees on assignment across multiple locations means dealing with a plethora of different national regulations regarding minimum requirements, taxation, and social security. A flexible model is clearly the best option, and to that end organizations are working through myriad options regarding location and length of stay in order to create the best and most consistent plans for their employees.

Mobility is still increasing generally, but the demographic of the mobile population is changing considerably: taken together, the numbers of long-term expats (those abroad for more than three years) and global nomads (those on constant overseas assignments) have doubled in just four years and now account for 50% international assignees.1 Unsurprisingly, the home countries benefits approach has come under increasing pressure, even though it remains popular due to ease of administration, assignees’ understandable attachment to their home base, and their perception that the “correct” level of pension is the one they can receive at home.

In most cases, multinationals’ approach to pension management is driven by assignment length. Home country programs are preferred for shorter stays, but if employees are likely to be abroad for more than five years, they will usually be moved onto a host country program. Both have their disadvantages: on the one hand, the home country option tends to be expensive; on the other, employees rarely retire to their host country and it can be extremely difficult to shift the pension funds internationally when they relocate to their ultimate retirement destination. In response, a third option, the international plan, is beginning to gain traction. In the last five years the main providers of these plans have been investing significantly in their offshore investment platforms and administration systems as well as introducing sophisticated online member communications to allow employees to access best-in-class investment funds from anywhere in the world.

Particularly appropriate for global nomads (or local nationals in regions where provision is otherwise poor or non-existent), these plans are also an increasingly popular vehicle for delivering retirement benefits in locations such as the Middle East and Africa where there are few or no local providers. International plans are

flexible from a design standpoint and can be established as savings plans, allowing withdrawals for key life events; they can also be provided to global nomads on an ongoing basis as they move between countries. The plans are usually based off-shore in locations such as the Isle of Man, Bermuda, and the Cayman Islands. Each has its own set of requirements and regulations and most have an intergovernmental agreement in place with the United States, which can be important for tax and reporting requirements where US multinationals or US taxpayers are involved. International plans typically operate on a defined contribution basis, with the average employer contribution being roughly 8.5%, and final payments are usually in the form of a lump sum.

The main drawback to international plans, however, is the lack of tax deductibility associated with contributions, as they are not tax-approved in the host location of the expatriate. This tax impact on expats is the reason why employer contribution levels are typically higher for these plans than for many local host country plans. But for an increasing number of multinationals, this potential cost is secondary to the need to deliver an effective and high-quality retirement service to an increasingly important section of their workforce. Twelve percent of the respondents to Mercer’s survey offer an offshore retirement plan to expatriates, and, in our experience, the use of these plans is an increasing trend. 2

There are a number of considerations that need to be taken into account in determining the right approach to retirement benefit provision to expatriates, including the home and host country benefit regulations and requirements and any tax or social security treaties between the countries. The international plan is a valuable tool in a number of cases, however, and we see the companies most successful at managing expat benefits adopt process maps to guide the benefits manager to the right approach for each expatriate. Following the process provides consistency to employees, yet being open to using a home, host or international approach facilitates the flexibility necessary to cover the multiple factors that need to be taken into account in each case.

FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA)

Multinationals commonly have to comply with a raft of complex international laws and regulations, and FATCA is one of the most recent and has global implications. Designed to provide the United States Internal Revenue Service (IRS) with information about US taxpayers’ foreign investments, under its terms financial institutions based outside the United States must report to the IRS on their American customers or risk significant financial penalties – namely a 30% withholding tax on US-sourced income.

From a benefits perspective, the definition of “foreign finance institutions” includes non-US pension and incentives programs and organizations should ensure that their carriers and any third-party providers are FATCA-ready/compliant.

The Act does allow for many exemptions – relating to Intergovernmental Agreements, exempt non-US savings accounts and exempt beneficial owners – but supporting data and/or documentation will be required to justify them. Your company’s benefits advisers and global tax advisor should contribute to, and monitor, the general process being followed.

CONCLUSION

In many respects, expat benefit programs are in a perfect storm. Their members tend to be well-remunerated senior employees and their dependents (often the most frequent utilizers of benefits); costs are rocketing, particularly in emerging markets; and multinationals need to be competitive enough with their offer to retain existing staff but savvy enough about cost to attract the next generation of talent. Juggling these aspects successfully is no mean feat, but by being flexible, exploring emerging solutions, and communicating effectively with employees, multinationals should be in a better position to offer benefits that meet the needs of all parties.

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SPOTLIGHT ON AFRICA

Carl van Heerden, Mercer

INTRODUCTION

Diverse, ambitious, and replete with natural resources, Africa is an investment magnet for many of the world’s biggest businesses. After many tumultuous decades, the continent has been on a significant and positive economic “journey” in recent times; indeed since 2001, its GDP growth has consistently outpaced that of the rest of the world.1

However, there are challenges ahead for multinationals that wish to develop their operations in Africa effectively and tap into the talent available in the local workforce. Political instability and unrest are still common in some locations, and although infrastructure is improving, it remains work in progress.

In order to offer businesses important insight into economic trends across sub-Saharan Africa (SSA), Mercer conducts a number of surveys that focus on remuneration trends.2 Respondent numbers have been increasing steadily and, as of 2013, data were gathered from more than 1,100 participants across 35 countries. This article presents some key findings from the research and also discusses country-specific hot topics.

COST- AND QUALITY-OF-LIVING DIFFERENTIALS

Cost of living and quality of living varies dramatically across SSA, and there is little correlation between the two: as of September 2013, Angola was the most expensive country in the region, at more than 30 points above the baseline (New York), and yet more than 50 points below the baseline for quality of living. Similarly, N’Djamena in Chad was the most challenging host location on the continent (70 points below the baseline) but extremely expensive nonetheless (more than 25 points above the baseline). Windhoek in Namibia, how-

1. International Monetary Fund. World Economic Outlook Database, October 2013.
ever, could well be a popular expat location: not only was it one of the less expensive cities in the survey (30 points below the baseline), but it also offers a relatively comfortable standard of living.

**TOTAL CASH COMPARISONS**

In SSA, total cash typically comprises basic salary along with other guaranteed payments, such as housing and transport allowances; 13th to 16th cheques in some locations; and non-guaranteed earnings in the form of bonuses.

Among local workers, the salary spread is extremely diverse. For example, among entry-level clerical staff, Angola ranks highest with total cash levels of more than $25,000 per annum, whereas Madagascar brings up the rear at less than $5,000 per annum. Angola retains that poll position as we move through the more senior roles, and top-level managers based in that country can expect compensation levels well in excess of $450,000. In Ethiopia, though, managers at the same grade could expect to earn less than $50,000 — a dramatic difference.

When multinationals send employees on assignment, they have a number of expat pay methodologies at their disposal. Local Plus is one such option, and, indeed, it is becoming increasingly popular in some locations. It can, however, be complex to calculate as so much depends on the type of assignee, the duration of his or her project, and the home location. The home balance-sheet approach, however, is the tried-and-trusted payment option to which most multinationals resort.

Further to the above, “regional assignments”, whereby employees move between countries on the continent, are becoming more prevalent. These assignments are typically non-accompanied — that is, spouse and dependants remain in the home location — and are often known as the “expat lite” option — the basic balance-sheet remuneration model is used but benefits are reduced.

**HOT TOPICS**

Although SSA offers a variety of opportunities for foreign businesses, a number of legislative changes have impacted multinationals operating there.

In Angola, for example, all companies are now legally obliged to process payments via local banks and in the local currency, the kwanza. All local nationals must be paid in kwanza, as must expats with permanent residency or those married to local nationals. (Mercer spot polls conducted in July 2013 and February 2014, respectively, revealed that companies’ responses to the legislation remain patchy.) Zambia has taken a similar route: since May 2012, the quoting and pricing of goods and services must be done in the local currency, the kwacha, as must the local portion of employees’ salaries. The kwacha was rebased in January 2013 following a lengthy period of high inflation, but has since stabilised against the US dollar.

The economies of Kenya, Tanzania, Uganda, Rwanda, and Burundi will all be boosted by the forthcoming East African Cross-Border Payment System (EAPS). Much like the eurozone, the money and capital markets of EAPS member countries will be integrated and it is hoped that a single currency will be in place by 2024. In addition, restrictions on the flow of labour will be lifted — welcome news for the energy companies active in this part of the continent.

Indeed, a number of massive infrastructure projects in the energy sector will have a transformative effect on
the region. Mozambique, for example, is home to both the largest coal deposit in the world (in the Tete Province) — by 2025, it will produce one-quarter of the world’s coking coal — and significant gas exploration activities. In Tanzania, two enormous power plants (one gas, one geothermal) are under construction, while the Ugandan government is working with a number of companies, including Total Oil and the China National Offshore Oil Corporation to develop oil and gas reserves for commercial production. In all cases, the positive aspects of tapping into Africa’s enormous natural bounty are balanced by the likelihood of a skills shortage: drillers, engineers, and geophysicists are already in short supply, and that situation is likely to worsen.

LOCALISATION

Availability of skills is closely linked to perhaps the most pressing challenge for multinationals operating on the continent: localisation. The most untapped resource in Africa is its human capital; workers are keen to learn and eager to develop. Where there are high proportions of expats in the workforce, Africans often do not get the opportunities they need. To address this issue, many African governments are now actively reducing the number of foreign workers in their countries by introducing quotas. Those expats already posted are likely to find it increasingly difficult to have their visas or work permits extended, a move that effectively forces multinationals into localisation.

Although each country has its own stipulations — in Angola, for example, locals must comprise at least 70% of a company’s workforce, whereas in Ghana, expats may not exceed 10% of the workforce for the first three years of a company’s operations or 6% thereafter — the growing trend has a number of implications for international businesses. The most serious consequence is a lack of essential expertise — as much as individual governments may wish to augment the number of local nationals in the working population, often the high-level knowledge needed to fulfil technical roles is simply not available yet.

This point was illustrated by a poll Mercer conducted at a recent African mining forum, asking participants whether the skills required to implement nationalisation plans or targets were readily available in-country. Although respondents felt that there would be little problem in hiring workers for lower-level positions, such as administrative roles, only 12% of attendees felt that they would be able to find specialists with engineering and maintenance skills. Geologists and metallurgists were also in short supply, and just 14% of respondents were confident they could find the requisite managers locally. Improved training and education will no doubt begin to open up the future African talent “pipeline” in the years ahead, but in the short term multinationals will need to carefully balance compliance with legislative requirements with meeting pressing deadlines and long-planned corporate goals.


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GLOBAL MOBILITY: SPOTLIGHT ON CHINA

Olivier Meier, Mercer

INTRODUCTION

This article discusses current HR and remuneration challenges in China, paying particular attention to the relationship between local and expat workers, and the various categories in between. It also examines the impact for expatriates of a troubling and very visible issue: pollution.

SETTING THE SCENE: CHINA IN 2014

Although comparatively immune to the financial crisis that affected so many Western countries in recent years, the Chinese economy has been slowing down since 2010 and GDP is forecast to be 7% in 2014. However, it is undergoing a more fundamental transformation as it shifts from low-cost manufacturing to high-tech, and moves from being a purely export-driven manufacturer to a fast-growing consumer market.

These larger economic changes will have implications for HR in terms of how they will affect salary increase trends and turnover rates. Apart from a dip in 2009, salary rises have been in the region of 8%-9% in recent years and estimates put them at 8.1% in 2013.1 When compared with the prevailing inflation rate of around 3%, it becomes clear why China has grown so quickly: consumers’ purchasing power is increasing steadily. At the same time, voluntary staff turnover is extremely high among local nationals — at over 13% for 2012, the rate is comparable to other developing Asian countries but roughly three times the European level and more than twice that of the US. Growing purchasing power and a wealth of career opportunities have also led to higher employee expectations and talent retention issues.

The battle for talent is intense all over the world, but in China it has three principal combatants:

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1. State-owned enterprises (SOEs): these well-established companies offer a secure, traditional career path as well as comprehensive benefits. SOEs have attempted to expand globally in recent times, but success has been mixed; while some corporations have thrived, others have struggled to adapt to an international working culture and are often let down by underdeveloped HR provision.

2. Privately owned enterprises (POEs): with an entrepreneurial approach and aggressive, flexible salary structures, POEs are nimble and attract the best employees across industries.

3. Foreign multinational corporations (MNCs): operating on a global platform, these businesses offer a diverse and inclusive working culture as well as training and development opportunities. However, MNCs sometimes struggle to adapt to the fast-paced pay and promotion culture in China, and local workers often fear of hitting a “bamboo ceiling”, with expats likely to land plum roles ahead of them.

Despite increasingly feverish corporate searches for the best and brightest, Chinese businesses are facing a talent paradox, in which availability and employability clash. Despite a massive increase in the number of students graduating from Chinese universities over the last 15 years, almost half of the seven million people who entered the job market in 2013 were expected to have difficulties finding work because they lacked the key skills needed by employers. An ageing workforce adds another layer of complexity and, by 2020, significant talent shortages on both vocational and educational levels are expected.2

**AN EVOLUTION IN THE MOBILE WORKFORCE**

The composition of China’s mobile workforce is changing. Although expats remain a significant part of the contingent of non-local workers in China, the numbers of locally hired foreigners (LHFs) and returnees is on the rise.3 That trend is likely to speed up in the medium term as businesses seek to increase local expertise but also run a leaner operation — expats are typically on expensive home balance-sheet packages, but local remuneration approaches or Local Plus options, if operated correctly, are often more cost-effective.

**LOCAL WORKERS**

China is no longer a low-cost location and it faces increasingly stiff competition from its neighbours for both market share and as an attractive destination for “offshoring”. A number of Mercer Total Remuneration Surveys conducted during 2013 showed that salaries for lower level jobs in China are moderate and roughly on a par with those in other developing Asia countries. For more specialist roles, however, salaries increase across the board in China, making it more costly than several other developing markets in Asia. Remuneration is particularly attractive at senior management level and beyond, when it reaches or even exceeds the salary levels common in more mature economies such the US or Europe.

Pay progression in China is much more rapid than in Western countries. Local employees expect their salaries to increase considerably every time they take up a new position. And, as employees change jobs so frequently, they could enjoy such pay rises 15 to 18 times over the course of their careers, compared with just four or five times in Europe and the US. Consequently, foreign companies must develop salary structures flexible enough to cope with these types of careers and pay trends if they want to retain local talent. Competitive benefit packages can be helpful in this regard, particularly if they complement state schemes (pension), are visible, and thus confer status (company cars or smartphones), or assist the family (school fees). But, in gen-

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eral, packages are no substitute for the vertical career progression and salary increases Chinese staff demand.

MNCs must also consider the impact of these issues on outbound Chinese expatriates. At the lower position levels, Chinese expats that are relocated to high-paying countries might be at a considerable disadvantage in comparison to their host-country peers in terms of purchasing power, and employers may need to supplement the income of these junior workers. The picture looks much brighter for Chinese assignees on traditional home-based expatriate packages by managerial level, however, when their host-spendable figure (comprised of spendable income plus cost-of-living allowance) increases considerably and can sometimes exceed what local nationals are earning even in relatively high-paying countries. For their employers, though, the costs can be very high, which a situation increasingly typical in many emerging markets. Depending on their job levels, Chinese expatriates can either be a low-cost resource or very costly to relocate, a scenario that is prompting companies to explore different types of mobility remuneration approaches.

RETURNES AND LOCALLY HIRED FOREIGNERS

Given that Western workers can find it challenging to integrate into local Chinese culture — particularly given the language barrier — returnees and locally hired foreigners tick many boxes for recruiters.

Returnees are particularly popular, but are diverse as a group: most have been educated at Western universities but not all will have extensive work experience. They are likely to have expectations regarding pay, but only those with significant expertise will receive a premium (the average pay for these workers is only slightly higher than that of locals, in fact).

Pay approaches for returnees and LHFs share some characteristics. Half of returnees are on local policies with local salary and benefits, whereas 23% are employed on variations of Local Plus.\(^4\) Although recent research shows that the ad hoc approaches to pay are common for LHFs, and that a local policy is sometimes viewed as a viable option (23%), variations of Local Plus are commonly deployed. In these cases, “premium” benefits, such as assistance with education and housing costs, may form part of the package,\(^5\) but employers need to establish a clear logic for the “plus” components and apply that logic consistently in keeping with the principal aim of facilitating relocation.

‘TRADITIONAL’ EXPATS

Despite the rise of the returnees and LHFs, “traditional” expats still play an important role in China — they are still commonly used for setting up new operations (particularly in the less expensive “tier 2” locations outside Beijing and Shanghai) and skills transfers — but the business case for deploying them needs to be watertight. The end goals of their assignments also need to be defined carefully: if, for example, their role will ultimately be localised, appropriate training and transition must be built in for their successors.

A majority of expats are paid on a home balance-sheet approach,\(^6\) but packages vary widely. The provision of a comprehensive set of allowances and benefits is still prevalent, — particularly for issues such as housing, school fees, and home leave — but hardship premiums are decreasing due to improvements in local living standards. That said, improvements in quality of living are being challenged by the worrying — and unavoidable — impact of pollution in Chinese cities. Pollution has been a hot-button issue over recent years and shows no signs of abating — in fact, its geographic spread has increased. Local and expat workers are increasingly concerned about worsening air quality and in some cases, mobility is being affected: a recent Mercer Pulse Survey revealed that 16% of assignees are reluctant to complete their deployment and 41% have

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5. Mercer Expat and LHF survey, 2013; multiple/ad hoc approaches not reported
requested support. Half of employers surveyed were yet to actively respond to pollution challenges and 30% were assessing the situation, but 20% were taking steps to assuage employee concern. More than 60% of these companies were providing additional practical benefits and services, such as air purifiers or filters at home, work, or school; face masks; and additional holiday leave in less polluted areas. One third of these businesses were modifying existing incentives or considering making additional cash payments, but when compared with personal health and the safety of their families, money is not the silver bullet for assignees in this scenario. Employers must provide practical support, information, and proactive communication if expats are to finish their deployment in China successfully.

INTRODUCTION

While many of the world’s leading companies are increasingly implementing global HR and mobility policies, there are still many points of difference between remuneration philosophies and structures internationally, even though cost optimization is common. This article offers a concise overview of typical – and emerging – approaches to international assignment management across Europe and the Middle East.

PAY PHILOSOPHIES AND STRUCTURES ACROSS EUROPE

While European companies share a good deal, there are differences in culture, reward philosophy, and salary structure across the region, even within the European Union on local compensation structures:

1. In the target-oriented Anglo-Saxon countries, pay is transparent, and salary curves rise steeply from a very low base for more junior positions.

2. Germanic countries take a structured and egalitarian approach to compensation. In terms of salary, there is an extremely flat “curve;” Junior employees are paid relatively well, but senior executives typically earn less than their counterparts across the region. Allowances follow a similar pattern and are often capped, or a flat rate is offered regardless of position class.

3. Pay transparency is not top priority in Latin countries such as Spain or Italy and salaries are on very steep curve; CEOs are particularly well-remunerated. Although globalization has begun to change corporate culture within these countries, most organizations based here have a vertical structure.

4. The Eastern European Slavic countries, many of which were under the influence of the Soviet Union, are
the most recent entrants to the EU. Keen to use the US as a model for their pay structure and philosophy, they are now on a steep compensation model.

EUROPEAN ECONOMIC INDICATORS: GDP, SALARY INCREASES, AND INFLATION

The EU still has not exited the turbulence of the recent global financial downturn, and Greece's economy is still in a particularly parlous state. With the exception of Switzerland and Sweden, salary increases in the region are expected to be around 3%, which is higher than the GDP growth in 2014. Inflation is floating around 2% and we have witnessed deflation in Switzerland and Italy. The exact opposite is the case in Turkey and Egypt, however, where aggressive salary increases are being matched by soaring inflation, which is eroding the increases substantially.

The European Central Bank, which sets the monetary policy for the 18 members of the Eurozone, has been walking an economic tightrope in recent years in its attempts to navigate a path between competing interests across the monetary union. For example, Germany and the Nordic countries have been eager to keep the euro strong, so that debts can be reduced more quickly; the Latin countries, on the other hand, have advocated a US-style approach that keeps the euro weak but which supports their attempts to export.

The ECB's attempts to encourage the introduction of labor market reforms and a rethinking of social security costs in several countries have had limited success so far. More effective were its efforts to assuage the Euro Crisis by buying state bonds in struggling economies such as Portugal and Ireland, which have now been pulled back from the brink.

THE MIDDLE EAST

With their attractive combination of high salaries and extremely low taxation, countries in the Middle East have long been a magnet for expats. Away from the Gulf States, however, increasing volatility and political instability are of major concern.

From a compensation perspective, the salary curve in the region is traditionally steep, but employees must make their own social security provisions. Expat remuneration trends have had a huge impact, to the extent that benefits-in-kind – such as housing and education allowances – are now commonly also offered to local employees. There are some very stark differences in approach, however, particularly in the pay mix at the most senior levels: In the UAE, for example, fixed salary accounts for over 80% of CEOs’ total packages; Short-term incentives make up 15% and long-term incentives are negligible at 3%. In the US, for comparison, salary makes up just 25% of packages: STIs are comparable at 30%, while LTIs account for an enormous 50%.

GENERAL TRENDS IN EUROPE

ASSIGNMENT POLICIES

The number of expats is increasing, but we find a growing complexity due to stronger segmentation. More
assignees are being deployed overseas across a widening pool of potential destinations, many of which are hardship locations. This is forcing companies to differentiate more among different types of assignments – long-term, short-term, commuters, trainees, permanent transfers and so on are used more frequently.

Assignment patterns and objectives are changing, as respondents to our 2012 Worldwide Survey of International Assignment Policies and Practices (WIAPP) demonstrated. Knowledge transfers are particularly high on the agenda for European companies, as are talent-development assignments and deployments designed to deliver much-needed technical expertise to host locations. While traditional long-term assignments still have an important role to play, the number of short-term deployments has rocketed. Commuting is particularly popular in Europe, facilitated by free movement of EU citizens between member states; Assignees can travel easily between neighboring countries such as the Netherlands and Germany, for example, and work wherever needed without having to relocate themselves and their families. The huge potential cost savings are, unsurprisingly, enormously attractive for employers, just as the flexibility appeals to employees.

The expat population is also undergoing a demographic shift: 53% of European respondents to the WIAPP survey reported an increase in younger assignees. And while the home balance sheet approach remains a popular option, these younger people are often employed on local or Local Plus packages, which are also gaining traction.

While multinationals are becoming more open to varied assignment types, they need to become more nimble policy-wise; mobility policies are now being revised more frequently than ever but still often lag behind economic cycles, forcing businesses to play catch-up.

**COST-OF-LIVING ALLOWANCE**

Despite some challenging times, the euro has withstood the economic tribulations of recent years relatively well: indeed it has outstripped all other currencies. This has an important consequence for EU expats in that companies should theoretically reduce the spendable income in host locations to match negative COL indexes. While very few US companies would go down this route, and are thus content for assignees to enjoy a windfall, European companies have fewer qualms, according to WIAPP data: 34% of European respondents applied a negative COL index, and the trend is particularly prevalent among German and Scandinavian firms. This approach guarantees a more equitable comparison among locations and allows moving people from different locations in a consistent way.

**EXPATRIATE HOUSING**

There is also a disparity in US and European attitudes to, and policies on, expat housing issues. Only a quarter of European WIAPP survey respondents applied a housing norm (compared to 35% in the US), while half provided free housing to long-term assignees in their host location; The accommodation is, however, less luxurious. Assistance with home sales is virtually unheard of outside North America: just 7% of European companies surveyed provided support in this regard, as opposed to 36% of US firms.¹

¹ 2012 Worldwide Survey of International Assignment Policies and Practices
Purchasing power is what really matters when considering remuneration data. When comparing annual total cash internationally, it is fascinating to see how purchasing power changes across regions. For example, at the para-professional level (Mercer’s International Position Evaluation level PC 45), Germany outstripped the UK, US, and UAE and ranked top for gross pay, which was in excess of €40,000 (roughly US$50,000). Gross pay was lowest in India, at well under €10,000. ²

By IPE level PC65, however, the emerging economies were packing more of a punch: China was in pole position, with gross pay of over €400,000, followed by Brazil, while Germany had fallen well behind – taxation levels of roughly 50% having taken their toll – and, in fact, Indian executives were earning slightly more net than their German counterparts on a purchasing power comparison.³

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² Mercer’s Total Remuneration Surveys, Cost of Living Survey
³ Ibid.
COST-SAVING MEASURES AMONG EUROPEAN COMPANIES

Effective global mobility programs yield myriad positive results, but costs have been rising inexorably. While there are some aspects of mobility that it would be unwise to skimp on – compliance issues, for example, or security requirements in volatile hardship destinations – European companies are exploring cost-savings opportunities in other areas. First and foremost is a careful assessment of whether dispatching an expat overseas is genuinely necessary; Other options, such as employing locally hired foreigners, could work just as well.

Assignment length is being reduced widely (to a maximum of three years), and the number of perpetual expats (‘global nomads’) has gone down. The savings made via these shorter stints, and by encouraging options such as commuting, could be diverted into funding vital strategic developmental moves.

As noted above, remuneration approaches are now being segmented more often; not all assignees need to be on a five-star home balance sheet package when local or Local Plus approaches could be used, especially for assignments in Asia, where higher salaries mean that it is generally easier to localize staff at certain position classes.

Moreover, huge savings can be generated by tighter administration. For example, localization bears fruit – financially speaking – only once the assignee’s allowances are finally withdrawn in full, after an agreed period. Often, however, such cases have not been monitored rigorously enough, and the allowances paid for longer than necessary. More careful tracking of actual international assignment program costs against budgeted spends should be at the top of all companies’ to-do lists in general, although according to the WIAPP survey, just 44% of European companies are focused on this. By analyzing these figures often and closely, mobility teams should be able to spot potential savings and identify areas of overspending more effectively.

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Home to some of the world’s biggest emerging economies, Latin America is an increasingly popular destination for expatriate workers. The region is not without its challenges, however, and fiscal turbulence is rife. This article offers a concise overview of political and economic trends across key markets in Latin America – and related impacts for mobility programs – with a particular focus on recent developments in Argentina and Venezuela.

While Latin America ostensibly offers foreign multinationals a wealth of development opportunities, some of its countries are much more stable potential host locations for expats than others. For example, Peru – now second only to Chile in terms of copper production in global league tables – enjoys both strong foreign investment and full employment, while Mexico’s economy is on a relatively sure footing and interest rates are low. Colombia is stable economically also, but matching employment supply and demand has proved problematic: Joblessness rates remain high in the face of talent shortages.

Having bounced back from the devastation of the 2010 earthquake, Chile too has reported zero unemployment but is in the throes of a worrying energy crisis, and there remain serious concerns about future supplies. Brazil, the world’s seventh biggest economy by nominal GDP, is experiencing a high level of internal consumption vs GDP growth.

In terms of regional salary structure, the pay line in Latin America is typically extremely steep: remuneration is very poor for those in low-status jobs, but can be exceptionally competitive at certain management levels, as data gathered in Mercer’s 2013 Total Remuneration Surveys demonstrates. For example, when comparing
annual total cash at organization-head level across the Americas, perhaps unsurprisingly the US takes poll position with pay of US$1.6m. Canada is a distant second at c. $800,000 but following close behind are Brazil and Chile at c. $600K and Argentina at over $400K. TRS analysis also shows that in each of these three countries, salaries for this position level had increased over the previous twelve months (ie, from 2012–13). By contrast, remuneration for employees at this level was well under $200,000 in countries such as El Salvador and the Dominican Republic.

When we look at total cash for a senior sales manager, however, Chile is well ahead of both Canada and the US, offering compensation of c. US$240K. Again, TRS data indicates that pay in Chile, Brazil, Argentina, and Uruguay has been on an upward trend between 2012 and 2013 for this position. At the other end of the spectrum, Nicaraguan managers were earning just over $50,000.
The picture is relatively mixed, then, but the ongoing turmoil in Argentina and Venezuela is arguably providing most food for thought for multinationals and their mobility teams at present.

**ARGENTINA**

**INFLATION**

Inflation is running riot in Argentina: Despite government insistence that it only rose as height as 17%, in reality it is at least twice that, and some estimates have put it as high as 45–50% for 2014. Although salary rises in recent times have been aggressive, at 30% they are not keeping pace with inflation and thus real income is now falling; price freezes have been introduced for some food items, but household budgets are being stretched.

The devaluation of the Argentine peso is also a cause of extreme concern: Between May 2013 and May 2014, the official exchange rate with the dollar fell from 5:1 to 8:1 (the unofficial “blue dollar” rate was 13–14:1), and such fluctuations have a definite impact on expatriate workers. If we take the hypothetical example of an employee relocating from New York to Buenos Aires on a salary of $100,000 and with a family size of four, in the twelve-month window noted above, the sample differential plummeted 62%, from c. $US12,500 to c. US$4,800. The host spendable income, however, went up by 32% – from roughly 280,000 pesos to over 369,800 – thereby capturing inflation increases and allowing our expat family to buy necessary goods and services in the host location.

Assignees moving in the opposite direction are experiencing the converse, as you would expect. Due to the huge drop in value of the peso, across the same timeframe, the sample index differential for outbound expatriates moving from Buenos Aires to New York on a salary of 500,000 pesos and with a family size of four went up 40% (from 245,000 pesos to 345,000). Host spendable income fell 22% (from c. US$95,000 to c. US$74,000).

Keeping abreast of changes to COLA indexes is vital for mobility teams operating in this region, and in order to do that effectively, Mercer is surveying high inflation destinations more frequently.

**CURRENCY RESTRICTIONS**

Currency restrictions have also been exacerbating the already challenging operating climate in Argentina, although the situation has eased somewhat since January 2014. There are, however, still limits on the amount of funds that can be taken out of the country; as a result, multinationals are paying assignees the minimum amount possible in pesos in order for them to able to purchase goods and services locally. The balance is then paid offshore on the home country payroll.

**VENEZUELA**

Despite Venezuela’s wealth of natural resources – particularly natural gas and petroleum – its economy has been in a perilous state of late. In February 2013, for example, its currency, the bolivar, was devalued 50% overnight but has since been pegged to the dollar. A complex system of several official exchange rates aims to curb the black market.

The rampant inflation endemic across Latin America has certainly made its presence felt in this country, where it is thought to be currently running at 60% annually; Along with shortages in essential products, it was one
of the main drivers of the civil unrest seen during the early part of 2014. In order to help workers cope with falling purchasing power, the minimum wage was increased by 43% in Spring 2014 and there may be a further rise by the end of the year.

It will come as no surprise to learn that such fiscal chaos has had an impact on in-bound expatriates. US-based employees moving to Caracas on a salary of $100,000, with a family size of four saw their COLAs rise a staggering 280% between March 2013 and May 2014, from c. $15,000 to well over $50,000. Over the same timeframe, host spendable income has gone from 400,000 bolívares to more than 650,000, a 67% increase.

Latin America remains an attractive destination for expatriates and a hot-spot for intra-regional mobility. However, employers need to be careful to address certain areas of economic volatility in determining and updating compensation packages for mobile employees.

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