Agenda
What we’ll cover today

- How are companies using Local Plus, including locally hired foreigners, permanent transfers, and temporary transfers of existing employees?
- For which locations is Local Plus most commonly used?
- How and why do Local Plus packages vary by host location?
- What are the best practices and watch outs of this approach?
- Questions

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Mercer’s 2014 Local Plus Policies and Practices Surveys

Locations surveyed:
- Australia
- Brazil
- Hong Kong
- Mexico
- Singapore
- Switzerland
- United Kingdom
- United States

236 Companies participated

The surveys cover Local Plus policies and practices for:

- One-way international transfers
- Locally hired foreigners
- Localized expatriates
- Internationally hired foreigners
- International assignees of a limited long-term duration

Participation remains open: imercer.com/localplus
Section 1

Local Plus, a growing trend: definition and market evidence

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A Local Plus remuneration or compensation approach is defined as an approach whereby:

- Companies pay their foreign employees according to the local salary structure...
- ...Plus additional compensation elements (such as transportation, housing, dependents' education, etc.) not typically provided to local nationals because of the expatriate's home-country ties, unique status, and other factors.
- Relocation and/or immigration assistance provided on top of the local salary are considered as “Plus”.

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Local Plus
How companies are paying their expats

- Most common way today: **Balance Sheet approach** = *home salary + allowances* (employees on *limited-duration* international assignments are paid using the home-based approach, enabling similar standard of at host location)

- Rapidly growing trend: **Local Plus approach** = *local salary + benefits not provided to local national employees*

Q: Are you using Local Plus as an alternative to traditional expatriate packages?

- 35%: Yes, for certain types of assignments (e.g., trainees, developmental)
- 19%: Yes, but only for intra-regional assignments
- 14%: Yes, a general trend for our int'l assignments
- 16%: No, but we are seriously thinking about this option
- 7%: No
- 9%: Other

Local Plus
Popular Local Plus host locations

USA 39%
UK 26%
Switzerland 10%
China 38%
Hong Kong 18%
Singapore 32%
Australia 12%

Local Plus: Asia-Pacific

Do you offer local plus terms and conditions to foreign employees?

Source: Mercer 2014 Local Plus Surveys

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### Key drivers

<table>
<thead>
<tr>
<th></th>
<th>Americas</th>
<th>Europe</th>
<th>Asia-Pacific</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost reduction</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Market competitiveness</td>
<td></td>
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<td>Pay philosophy</td>
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<tr>
<td>Simpler administration</td>
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<tr>
<td>Leverage lower host taxes</td>
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<tr>
<td>Decentralise expat management</td>
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</tr>
</tbody>
</table>

*Source: Mercer 2013 Alternative International Assignments Policies and Practices Survey*
Section 2

Local Plus package components overview

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Base Salary
How to determine it?

Which type of local?
- Pure local
- Inflated local for foreigners
- Local for returnees

Net-to-Gross
- Tax difference
- Purchasing power difference
- Housing costs difference

© Mercer
## Compensation Approach

How do you establish the base salary for a foreigner on a Local Plus approach? Examples: Hong Kong & Singapore

<table>
<thead>
<tr>
<th></th>
<th>One-way International Transfer</th>
<th>Internationally hired foreigners</th>
<th>Locally hired foreigners</th>
<th>Localized expatriates</th>
<th>Int’l assignee on a limited duration long-term assignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>SG</td>
<td>N=35</td>
<td>SG</td>
<td>N=37</td>
<td>N=23</td>
<td>SG</td>
</tr>
<tr>
<td>HK</td>
<td>N=17</td>
<td>HK</td>
<td>N=17</td>
<td>N=16</td>
<td>HK</td>
</tr>
<tr>
<td>Based on local pay structure without adjustment</td>
<td>51%</td>
<td>1%</td>
<td>13%</td>
<td>7%</td>
<td>41%</td>
</tr>
<tr>
<td>Based on local pay structure with adjustments</td>
<td>20%</td>
<td>41%</td>
<td>30%</td>
<td>41%</td>
<td>26%</td>
</tr>
<tr>
<td>Home salary converted in host currency</td>
<td>9%</td>
<td>6%</td>
<td>5%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Case by case</td>
<td>20%</td>
<td>6%</td>
<td>19%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>It varies</td>
<td>--</td>
<td>--</td>
<td>3%</td>
<td>--</td>
<td>6%</td>
</tr>
</tbody>
</table>

- Based on a calculation to protect/equalize/compare with employee’s previous (i.e., home or hiring country) net pay
- Based on a higher local compensation percentile than locals would get

*Source: Mercer 2014 Local Plus Surveys*
## Prevalence Provision of “Plus” Elements
### Summary of benefits

<table>
<thead>
<tr>
<th>Plus Elements</th>
<th>Australia</th>
<th>Hong Kong</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td></td>
<td></td>
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<tr>
<td>Utilities</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Dependents’ education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Medical benefit</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Pension plan</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>COLA/Goods and Services</td>
<td></td>
<td></td>
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<tr>
<td>Mobility premium</td>
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<tr>
<td>Hardship premium</td>
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<td></td>
<td></td>
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<tr>
<td>Immigration assistance</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Tax and social security assistance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home leave support</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Relocation assistance</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>All-Inclusive allowance</td>
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<tr>
<td>Language training</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Source: Mercer 2014 Local Plus Surveys
Prevalence Provision of “Plus” Elements
Focus on select elements

Ongoing payments
(with phase-out option)

One-time payments

- Housing
- Dependents’ education
- Relocation assistance
- Immigration assistance
- Transportation
- Medical benefit
- Tax and social security assistance

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Do you include a housing benefit with Local Plus packages for foreign employees?

- **No, housing benefit is not provided**
  - Australia (N=17): 47%
  - Hong Kong (N=26): 12%
  - Singapore (N=56): 13%

- **Case by case**
  - Australia (N=17): 86%
  - Hong Kong (N=26): 13%
  - Singapore (N=56): 27%

- **It depends on position level**
  - Australia (N=17): 18%
  - Hong Kong (N=26): 25%
  - Singapore (N=56): 38%

- **It depends on assignment type**
  - Australia (N=17): 18%
  - Hong Kong (N=26): 29%
  - Singapore (N=56): 12%

- **Yes, same for all**
  - Australia (N=17): 24%
  - Hong Kong (N=26): 27%
  - Singapore (N=56): 21%

Prevalent practices:
- More than half provide a housing benefit
- Typically housing is provided as cash allowance
- While some employers’ allowances are lower than a full expat package, some don’t differentiate
- Position levels is used as a differentiator (rather than family size)
- In the majority of cases, the employee bears the tax

Source: Mercer 2014 Local Plus Surveys
Dependents’ Education
Summary

Do you include a dependents’ education benefit in your Local Plus packages for foreign employees?

- No, we do not cover dependent education
  - Australia (N=17)
  - Hong Kong (N=26)
  - Singapore (N=56)

- It depends on assignment type
  - 12% (Australia)
  - 23% (Hong Kong)
  - 18% (Singapore)

- It depends on position level
  - 9% (Australia)
  - 35% (Hong Kong)

- Case by case
  - 25% (Australia)
  - 29% (Hong Kong)

- Yes, same for all
  - 18% (Australia)
  - 15% (Hong Kong)
  - 13% (Singapore)

Prevalent practices:
- In SG, majority provide it as a benefit-in-kind; in HK as a separate cash allowance
- Reduced benefit compared to a full expatriate (exception HK, where typically follows full expatriate practice)
- Covers kindergarten, primary, and secondary school
- Majority limited to tuition and registration fees
- No limit on number of children
Do you include a transportation benefit with Local Plus packages for foreign employees?

- **No, we do not cover transportation**
  - Australia (N=17): 53%
  - Hong Kong (N=26): 50%
  - Singapore (N=56): 50%

- **Case by case**
  - Australia (N=17): 1%
  - Hong Kong (N=26): 2%
  - Singapore (N=56): 27%

- **It depends on position level**
  - Australia (N=17): 12%
  - Hong Kong (N=26): 27%
  - Singapore (N=56): 34%

- **It depends on assignment type**
  - Australia (N=17): 12%
  - Hong Kong (N=26): 4%

- **Yes, same for all**
  - Australia (N=17): 12%
  - Hong Kong (N=26): 5%

**Prevalent practices:**
- Half do not provide the benefit
- Most provide separate cash allowance
- Driven by business need and position level, similar to ‘locals’.

Source: Mercer 2014 Local Plus Surveys
Do you include any contribution toward a medical benefit with Local Plus packages for foreign employees?

- **No, we do not cover medical benefit**
  - Australia (N=17) 18%
  - Hong Kong (N=26) 23%
  - Singapore (N=56) 14%

- **Case by case**
  - Australia (N=17) 6%
  - Hong Kong (N=26) 4%
  - Singapore (N=56) 5%

- **It depends on position level**
  - Australia (N=17) 6%
  - Hong Kong (N=26) 4%
  - Singapore (N=56) 2%

- **It depends on assignment type**
  - Australia (N=17) 29%
  - Hong Kong (N=26) 12%
  - Singapore (N=56) 11%

- **Yes, same for all**
  - Australia (N=17) 41%
  - Hong Kong (N=26) 58%
  - Singapore (N=56) 70%

Prevalent practice:
Majority provide same level of benefit as to locals

Source: Mercer 2014 Local Plus Surveys
## Prevalence Provision of “Plus” Elements
### Managing transition to pure local status

<table>
<thead>
<tr>
<th>Component</th>
<th>How is it different from full expats?</th>
<th>Phase-out schedule</th>
<th>Fixed schedule</th>
</tr>
</thead>
</table>
|           | • Practices vary. Decrease of 10-70% of the housing budget vs full expatriate provision  
            • Full allowance for the first 6-12 months only  
            • ‘Less expensive’ category of housing  
            • Individual negotiation, case by case | • Typically phases out over time  
Examples of phase-out:  
• 3 years: 100%, 50%, 25%  
• 5 years: 1-3 yrs 100%, 4th -60%, 5th – 30% and 6th yr – 0%  
• Over 3 years, reduce by 33%  
• Over 5 years, by 20% | Examples of fixed / defined period of time:  
• 2 years  
• 3 years  
• 5 years  
• Some can be subject to extension  
Subject to criticality of the role  
Examples of fixed / defined period of time:  
• Case by case  
• 2-3 years  
• Maximum of 5 years  
• Until the child has finished education |
|           | • Practices vary between matching full expatriate benefit and a decreased benefit  
            • In HK, majority follow the full expatriate entitlement | • Mixed practices – phase-out over time OR paid as ongoing benefit  
Examples of phase-out:  
• 3 years: 100%, 50%, 25% |  

Source: Mercer 2014 Local Plus Surveys
## Prevalence Provision of “Plus” Elements
### Managing transition to pure local status

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</thead>
<tbody>
<tr>
<td></td>
<td>• Follows same terms as for local employees, which is typically based on business need and seniority level.</td>
<td>• Entitlements reviewed periodically</td>
<td>• Not applicable</td>
</tr>
<tr>
<td></td>
<td>• Typical practice follows same terms as for local employees</td>
<td>• Not typical practice to phase out the medical benefit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Those who provide a different benefit, provide an international health plan</td>
<td>• However, policies are reviewed from time to time and adjusted accordingly</td>
<td>• Less prevalent practice to reduce based on fixed schedule, applicable in case of providing enhanced or international health plan</td>
</tr>
</tbody>
</table>
Case Study: Singapore to Shanghai, China
Mid-level Manager (IPE 55*), couple + 1 child

International Position Evaluation. Source: Mercer Total Remuneration Survey
Section 3
Implementing Local Plus policies
Designing a Local Plus Policy: Food for Thought
Relative home/host parity – may need to proceed with caution

CAUTION: Local salary will need to be adjusted upwards significantly

Relative parity

CAUTION: Expect repatriation difficulties

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Designing a Local Plus Policy
How far do you want to go?

Mix of approaches: Balance Sheet / Local Plus
Segmentation by type of assignment

Addressing specific issues;
Taking advantage of local circumstances

Local Plus: on a case by case basis
Local Plus for specific categories
Local Plus used for most assignees
Local Plus only approach used
Local Plus: by exception only

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Designing a Local Plus Policy
Considerations

- One global consistent policy
- Global principles and local flexibility
- Understanding the economic impact of a Local Plus policy
- Buy-out with temporary “plus” elements
- As local as possible – limited “plus” elements
- Policy inclusions: Authorisation, cost analysis, compensation approach, benefits, visa/work permits, health insurance, tax, financial planning, etc.
- Need for a decision tree for business leaders
- What other documentation is required?
Mobility and Survey Resources on iMercer.com

- Comprehensive mobility resources: [imercer.com/mobility](http://imercer.com/mobility)
- Mercer’s location-specific Local Plus Surveys: [imercer.com/localplus](http://imercer.com/localplus)
- Localized Compensation: [imercer.com/localize](http://imercer.com/localize)
- Mercer’s Total Remuneration Surveys: [imercer.com/trs](http://imercer.com/trs)
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