CAPRELO PRESENTS

UNDERSTANDING LUMP SUM RELOCATION PACKAGES

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Inside

Lump sum relocation programs are not restricted to a one-size-fits-all approach. Employers can still tailor their reimbursement level as they see fit. There are, however, some basic tenets that are common to all lump sum relocation packages. Understanding the underlying principles, assumptions and basics of the lump sum philosophy help companies make the best decisions for their organizations.

Primary Types of Lump Sum Programs

There are four primary options for designing lump sum relocation packages. Employers need not be concerned about difficulty in creating any of these packages. In some instances, these relocation packages could be easier to administer than a direct reimbursement of expenses, but do not reduce any tax liability that a full relocation programs might offer.

FLAT (FIXED) LUMP SUM

These packages allocate the same lump sum amount to each transferee, regardless of their status, title or time with the organization, and the employee uses the funds to facilitate their relocation as they see fit.

VARIABLE LUMP SUM

These programs are designed based on company-defined factors. Employers can use whatever benchmarks or bases they choose. Some common benchmarks employers use are logical and definable, such as:

- What are the traditional costs?
- Are they renters or homeowners?
- How many miles to the destination?
- How many family members?
- What is the authority or responsibility level in the company?
- What is the salary level or compensation plan?

ALTERNATIVE (PARTIAL) LUMP SUM

Employers offer transferees a lump sum for a portion of their relocation expenses and reimburse the remainder on a receipt-submission basis or on a direct payment basis. Employers decide which expenses they cover.

MANAGED LUMP SUM

Under this concept, the employer allocates a capped lump sum amount to the employee. The policy will delineate the provisions covered and any individual provision limits and may require the employee to submit receipts for expenses. Additionally, the policy may be enhanced by authorizing the services of a relocation management company (RMC) to assist them in spending their funds wisely.

Flat (fixed) lump sum packages may reduce the administration requirements, but variable and alternative (partial) lump sum still require in-house personnel or the services of an RMC to record and track designated expenses. When using managed lump sum programs, professional third-party relocation management companies can alleviate this time-consuming responsibility and reduce liability for potentially costly errors in execution.

When creating a lump sum program, it's important to remember that all relocation expenses paid on behalf of the employee are considered taxable income with the exception the household goods move, 30 days of storage and final move costs.

Why Choose a Lump Sum Program?

Regardless of the type of lump sum relocation policy, two primary reasons motivate employers to select these programs.

TWO PRIMARY MOTIVATIONS

Cost Control. Flat (fixed) and alternative (partial) lump sum programs can deliver the cost control organizations strive to maintain. Employers may find it easier to manage relocation costs with lump sum packages.

Ease of Administration. The administration of relocation documentation requirements may be more manageable with lump sum relocation programs. A combination of fewer HR or relocation personnel and lump sum programs may allow employers to reduce the level of staff training, education and management to carefully document covered expenses of transferees.

Adopting a partial or variable lump sum payment program brings options, along with more intense administration requirements. Companies should select those features that complement their corporate culture and help reach their strategic goals.

Is a Lump Sum Program Right for You?

Before adopting a lump sum program, it's important to weigh the advantages and disadvantages of these policies. Here are a few factors to consider.

LOST PRODUCTIVITY

Moving can be very stressful. When employees are busy organizing and managing their move – selling their home, arranging for movers, finding a new place to live – their minds are not on their jobs. This could result in lost productivity.

EMPLOYEE SATISFACTION AND LOYALTY

Because of the high level of stress associated with a move, even the smallest thing you do (or don't do) for your relocating employee during this time will have more impact than it would under more routine circumstances. Employees left to manage their relocation on their own, particularly trying to sell their currently home, could result in, not only lost productivity, but also a lower retention rate following the move.

Worldwide ERC Survey Results

The Worldwide ERC® Global Lump-Sum Payment Survey documented results of corporate benchmarking sessions held during the Global Workforce Summit in London and Shanghai to examine the use of lump-sum payments for cross-border moves. Respondents noted their components and decision-making methodology for adopting lump-sum programs.

46 percent of companies use lump sums to pay for cross-border moves. 43 percent do not use lump-sum payments. Approximately 10 percent do not presently use lump-sum payments, but are considering doing so in the next five years. 56 percent of EMEA-based companies, 61 percent of APAC-headquartered organizations and 67 percent of U.S.-based firms use this form of assistance.

Use of flexible spending allowances and lump-sum only polices as the only form of assistance for a move are most commonly for long-term assignees (71 percent) and permanent moves (65 percent). Using lump-sum payments for specific mobility policy components is more commonly used across a variety of assignment types, with 75 percent for long-term assignments, 70 percent for short-term assignments and 58 percent for permanent moves.

More than half of respondents targeted miscellaneous expense allowance considerations as the most common group of costs covered for all assignment types. Cost reduction and ease of administration motivated many companies to choose lump-sum payments.

Other common components intended to be covered by lump-sum payments include temporary living expenses, home finding trip costs, settling-in services, school finding and household goods shipping an final moving expenses. Some of these programs also included home sale expenses at origin and home purchase or rental costs in destination.

Two-thirds of respondents indicated that tiered packages are used for both lump-sum only payments and lump-sum payments for specific items for cross-border moves; however, lump-sum only payments are most commonly tiered by job level (67 percent) and policy-component-specific lump-sum policies are mainly tiered by type of assignment (54 percent). Interestingly, almost all APAC-headquartered companies tier lump-sum payments (both lump-sum only and for specific components), while U.S. and EMEA headquartered firms do so at much lower rates. Approximately two-thirds of EMEA-based organizations tier both lump-sum only and lump-sum payments for specific components. A third of U.S.-headquartered firms tier lump-sum only policies and 59 percent tier policy-component-specific lump-sum policies.

Final Thoughts

Lump sum relocation policies have become more popular for cost and administrative simplicity reasons. These programs can be just as efficient and effective for those employers who outsource relocation management to experienced professional relocation organizations. There are distinct advantages by having a dedicated relocation company manage your transferee program, particularly if an employer has downsized, is committed to operating with a lean internal staff or to serve as a buffer to employee exception requests.

The classic bottom line, achieving company goals and objectives, while offering benefits equal to or better than the competition, remains at the forefront. Those employers that believe lump sum relocation packages contribute to these primary goals should look at and evaluate lump sum relocation program options. Thoughtful consideration to the type of lump-sum package, the appropriate employee levels and options included in your program can deliver valuable results, without hurting a tight corporate budget.

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