Evolving from a Lump Sum Program

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Because employee mobility programs come in all shapes and sizes, relocation benefits within an employee mobility program can be structured in many different ways. The most common ways companies offer support to relocating employees are (1) paying for specific services, (2) reimbursing specific expenses, and (3) providing cash allowances. When the only support offered to a relocating employee is a cash allowance, that payment is typically referred to as a lump sum.

Lump sums are frequently paid to interns, college graduates, and entry level hires. They are also common among non-management employees – often categorized as professionals, technical employees, individual contributors, supervisors, and non-exempt employees. For some companies, employees receiving only a lump sum can extend to managers and even senior leadership. Companies employ lump sum payments in a variety of degrees for many different reasons.

We often find that growing companies with lump-sum-only relocation programs are looking to enhance their offerings with managed services and expenses. This type of transition encompasses many possibilities, and the process may be simple or it may be complicated. In this document, we will outline considerations that should be made when transitioning from a lump-sum-only program to one with managed services and expenses.

Lump Sums – The Good and the Bad

Lump sums have appeal – and for good reasons.

- Lump sums are easy to administer. It doesn't get much easier than issuing a one-time payment. Lump sum payments involve a quick bank transfer, and the employees can then spend the money as they wish.

- Lump sums are easy to budget. With lump sums, the cost of the employee mobility program can be determined with simple math. Paying only lump sums helps support forecasting and predictability of mobility expenses.

- Lump sums offer flexibility. Arguably, a lump sum's defining characteristic is its flexibility. The recipient has the power to decide how the money is spent.

Lump sums can also have consequences and less-than-desirable attributes.

- *Lump sums provide little-to-no professional support*. With lump sum payments, there is often no professional counseling and guidance provided. While great strides have been made in the employee mobility industry to provide web-based tools to supplement lump sums, there is often a lack of professional counseling and human support available to the employee.

- *Lump sums create the potential for unwise spending.* Due mostly to lack of professional support, lack of relocation experience, and time constraints, lump sum recipients may not make the best use of their funds. For example, few lump sum recipients are interested in paying for destination services. Some employees receiving lump sums have been known to spend portions of the funds on impulse purchases, car payments, vacations, and even plastic surgeries.

- *Lump sums result in little to no meaningful data.* Lump sum payment programs result in minimal feedback for companies that want to determine the effectiveness of their employee mobility programs. There is little to no analysis of how the money is spent (even with custom-issued debit cards) and little to no information about the relocating employee's experience.

Transitioning to Managed Services and Expenses

When evolving from lump sum only payments to managed services and expenses, there are several factors to consider. Companies making the transition are often looking to build a meaningful program but are unsure of their options. The following information is meant to be a guide to identify the factors to consider and to provide key steps in the transition.

Relocating Population

Understanding the total cost of the lump sum program may have more significance for some companies than others, but it's always a great start. It's important to identify the basic facts about the relocation population, including types of employees, volume, and costs. This is a key starting point in determining if groups of employees that have been receiving similar lump sum amounts should be provided with a similar level of managed services and expenses. Company culture often drives these types of decisions, as does cost tolerance.

Everyone from interns to CEOs receives relocation support. Understanding any baseline services/support that will be offered to all employees and additional services/support that may be offered to some (but not all) employees are important initial steps that can impact decision-making further into the process.

What are the baseline services? They are the most often highly benchmarked types of benefits such as travel expenses, household goods shipping, and temporary accommodations. There are also many other benefits to include, but each company has its own tolerance for making such great change or taking on additional costs.

With lump sums, the allowances that have been paid are often below the average cost of a managed relocation. Companies should be practical about the goals and objectives of moving away from lump sum only programs to managed services and any impact on cost this change may bring.

Questions to answer regarding the relocating population:

Who have we been moving/who will we be moving?

What employees have been grouped together/who should be grouped together going forward?

What services/expenses do we feel are important to offer?

Will there be employees eligible for certain services/expenses that will not be offered to other employees?

Are we prepared to spend more on services/expenses than lump sums?

Competitiveness

More than ever before, the amount of support and a company's approach to offering it is a reflection of the company's culture and their posture toward costs, administration, and overall experience as they relate to talent mobility; however, it is still important to be aware of how competitive the employee mobility program is.

Few companies have the exact same relocation policy tiers and benefits. There are many options in how to structure managed relocations. Companies must determine if they want to be best-in-class, offering a more generous package than others; *best practice*, offering packages relatively in line with others; or *below market*, offering a less generous package than most.

Questions to answer regarding the competitiveness of the program:

What are our average costs/what is our budget going forward?

How competitive do we want to be?

Do we want to be best-in-class, best-practice, or below market?

How is our mobility program going to support our talent strategy?

Policy Strategy

The most common policy strategy in employee mobility is the use of tiered relocation policies. This simply means that there is more than one relocation package based on some defined criteria. Tiers are most often defined by the type of the employee (e.g., professional, manager, director, executive), salary or grade level, homeowner or renter status, exempt or non-exempt, etc. There are many ways that policies are tiered based on a company's goals and strategy.

In addition to tiering policies, it must also be determined if the tiers are considered standard or flexible. Standard policies are static, the benefits included don't change. All the employees eligible for that tier receive the same package. If an employee does not need a particular expense, there are no substitutions, or additions. Flexible policies, on the other hand, involve customizing benefits for employees and creating different packages for different reasons.

The jump from the relatively simple administrative process of paying lump sums to the potentially more complicated administrative process of a flexible program may be a larger hurdle than desired. Such a radical change may have unintended consequences for those touching employee mobility, including talent acquisition, hiring managers, human resources, and compensation professionals. It's important to consider the changes that each of these groups may endure in order to be prepared.

Experience has shown that many companies transitioning from lump sum only to managed services/expenses favor a three- or four-tiered approach with baseline benefits, keeping an element of the lump sum. Below is one example of what a new three-tier package includes.

Sample 1 includes a moderate transition into the managed services realm. A lump sum is provided for the employee to spend on basic expenses, and consideration is included for shipping their belongings and selling their home – two of the most stressful parts of relocating. This hybrid approach is touted for balancing support and simplicity. The driving factors for this change were a focus on household goods shipping support and the desire to create a more competitive and cost-effective executive program.

Sample 1	Tier 1	Tier 2	Tier 3
Allowance	$7,500	$10,000	$15,000
Household Goods Shipment	Up to 10K lbs.	Up to 20K lbs.	✓
Auto Shipment		1	2
Storage in Transit		30 days	60 days
Home Sale			BVO

Sample 2 includes four tiers and more robust packages for mid- to higher-level employees than Sample 1. This amount of change is less common. The driving factors for this change were the need to create a more competitive mobility program to attract talent and the desire to provide a more enhanced experience, with great reliance on data.

Sample 2	Tier 1	Tier 2	Tier 3	Tier 4
Allowance	$10,000	$7,500	$7,500	$10,000
Household Goods Shipment		✓	✓	✓
Temporary Accommodation		30 days	30 days	60 days
Final Travel		✓	✓	✓
Rental Assistance		1 day	1 day	2 days
Home Sale			$15K	$25K
Lease Cancellation			2 mo.	2 mo.
Home Finding Trip			3d/2n	5d/4n
Auto Shipment			1	2
Storage in Transit			30 days	60 days
Home Purchase			$5K	$10K

These are only two samples of many, but they are both indicative of best practices.

Questions to answer regarding policy strategy:

Who will oversee/manage the new mobility program (person or group)?

How flexible do we want/need to be?

Are we bound to any specific cost constraints or mandates?

How many tiers make sense?

<u>Making the Transition</u>

During this change, it's important to have a practical mindset about the total cost of the employee mobility program. As previously noted, lump sums are lauded for their low-cost and predictability. Most managed programs offering tiered services and expenses do not lend themselves to the same low-cost and predictable outcomes. Paying for a shipment of household goods now means that employees moving longer distances with more belongings will cost the company more than those moving shorter distances with fewer belongings. It is necessary to be aware of how these changes will be received.

It's important to make sure there is a solid infrastructure in place to support the transition process. Having clearly written supporting documentation and properly communicating the new approach can be critical to the success of the program.

Questions to answer regarding making the transition:

Who needs to review data as it's available and updated?

Are we on target for what was expected?

Are there changes we'd like to see?

What exceptions are we experiencing?

How is the mobility program better/worse today than before?

Awareness

The last steps of the process when transitioning from a lump sum to managed services/expenses are to educate and support everyone involved and continue to monitor the results. From recruiters discussing potential relocation packages with candidates to Payroll staff overseeing data on expenses and gross-up reporting, everyone needs to be aware of the new policies and how their roles are impacted.

Recorded trainings are helpful to start and can be posted for future reference. A comprehensive slide deck covering the changes, roles, and impacts often captures the necessary information. Keeping the mobility program information and documentation in a central resource location benefits everyone when questions arise.

Do not underestimate the time it will take for the transition and training. Once the policy tiers and their components are finalized, at least two to four weeks should be allowed for training and communication. It is also important to consider the time needed to update systems and standard operating procedures.

Questions to answer regarding awareness:

Who is directly and indirectly involved with employee mobility and needs to understand the changes?

When is the best time to roll out the new mobility program?

How long do we anticipate training and roll out to take?

Ongoing Review

Once the new program is rolled out, there will be a lot of data to analyze that never existed before, including average travel costs, average shipment weights and costs, and much more depending on the components of the new policy tiers. Collected data is critical to monitor the new program and determine if any tweaks or modifications are needed in the future.

No one expects that a new program created to replace lump sums will be set in stone. There may need to be adjustments at some point to meet financial goals, boost recruiting efforts, and address a recurring exception trend.

Realization of the successes and/or shortcomings of the new approach won't appear overnight. It may take months for any illuminating data or trends to emerge. Be aware of the data that is available and use it as an advantage to help drive any future decisions.

Questions to answer regarding ongoing review:

Do we have the supporting documentation and processes to support our new strategy?

Are we prepared for employee mobility costs to increase?

What kinds of exceptions might we face/will we consider?

Why This Is Important

The need to balance the cost, overall experience, and administration of a mobility program impacts the level of support offered to employees. There are various degrees of support that companies may choose to offer.

Transitioning from a lump sum only approach to payment of actual expenses on the employee's behalf can be simple in some cases and a challenging process in others. There are various aspects that must be considered in such a transition. It is important to begin with a good foundation of data, have clear goals and objectives, understand who is involved, have a practical view of what the new mobility program can and will look like, and continue to monitor the program.

About Aires

In operation since 1981, Aires is an industry leading, technologically advanced global mobility company. Headquartered in Pittsburgh, PA, Aires has offices across the U.S., as well as offices and legal entities in London, Hong Kong, Singapore, China, Malaysia, and India. Aires' worldwide offices and global partner network extend to 176 countries, ensuring broad coverage for clients. Aires' comprehensive suite of internally built technology tools include MobilityXchange®, featuring application programming interfaces (APIs) for tax, immigration, HRIS, and service partner systems. It also includes MobilityX®, custom web portals for both employers and relocating employees offering accessibility to all key data to view, track, manage, and complete mobility tasks and details. Additionally, relocating employees can conveniently access MobilityX® through their mobile devices.


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