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Best Practices for Managing Your Relocation Program

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Expatriate Localization: A significant cost saving opportunity for your global mobility program

With the current downturn in the global economy, many companies are looking for opportunities to reduce the cost of their global mobility programs without compromising their overall global business objectives. One way to make a significant impact on cost is to revisit the often under used program of expatriate localization.

Localization is the process of moving an employee off of an expatriate package and integrating the employee into the host country on local terms of employment.

There are many reasons to localize an expatriate: to reduce cost, minimize perceived inequities between expatriates and local employees, reduce an organization's expatriate population or even oblige the expatriate's personal interest to remain in the host country beyond his/her planned assignment. Expatriate localization is different than a permanent transfer because in a permanent transfer the assignee goes straight onto local terms and conditions. Permanent transfers also reduce the cost of the assignment for the company but have a higher likelihood of failing due to the individual employee and family's lack of preparedness to live and work in another country, including adjustment to the culture, housing, and remoteness from family and friends.

When developing policy and practices for localizations, there are several points to consider:

What Triggers Localization

Localization is usually triggered by a pre-defined limit to assignment length, most commonly two to five years. It is best to proactively address this threshold either in a global assignment policy and/or in the expatriate's letter of assignment. By communicating a localization policy early on in the assignment process, an organization can reduce unplanned or ad-hoc localizations, reduce expatriate demands and negotiations, and reduce the overall "shock" factor to the employee.

Other factors that can trigger localization include: the expatriate expresses a desire to stay in the host country, the company has a need for the expatriate to remain in the area on a longer-term basis, or because the organization is unable to find appropriate employment for the employee upon repatriation.

What Approach to Take

There are a few different approaches to consider when managing localizations. The first and most common approach is a straight localization, which entails immediately eliminating all expatriate benefits, e.g. housing, COLA, home leave, etc., on the effective date of localization. To execute a straight localization, it is important that the organization has a clearly defined localization process, and re-communicates the process and policy to the expatriate as early as possible. Not surprisingly, moving from a full benefit package to no additional assistance can cause great strain on the employee, especially if they have family accompanying them on the assignment.

The second approach is to phase out the expatriate package over a pre-determined length of time. The transition over to a “local” package can take anywhere from six months to two years. For example, many companies continue to pay a reduced housing allowance for six to twelve months after the effective date of localization. Other provisions that tend to be phased out in exceptional cases include education assistance and home leave.

Another approach is the lump sum approach. This involves the expatriate immediately transferring to local employment. A lump sum payment, however, is offered to the employee to alleviate some of the financial strain of localization. The lump can be used to cover education, costs of children, assist with home finding and purchase, or to ship household goods from the home country. A lump sum approach is ideal for organizations that like to remain flexible and give their employees the freedom to decide how they want to utilize the localization assistance.

Admittedly, localizations are easiest to put into effect when the assignee is moving to a country with a higher standard of living, e.g. from Brazil to the United States. It is much more difficult to implement when the assignee is moving to a country with lower pay structures and a lower standard of living.

Examining Compensation Issues

When localizing an expatriate, there are several compensation items that need to be considered.

- Base salary: Should the employee be “re-priced” to the local market pay structure? Should a premium be offered for international experience? Some organizations move the employee to local salary levels. If there is an extreme difference in salary levels (either lower or higher), however, a phase-in approach is often carried out. On the other hand, oftentimes organizations justify paying an expatriate on a higher pay structure because of his/her international experience and business relationships with the home office.

- Retirement benefits: Because retirement plans, social security and pensions do not cross national boundaries, this is often the most difficult item to transition. Often employees have expectations to remain on their home country retirement program, but unfortunately there is no typical solution to bridge the gap between country plans. Some basic alternatives include retaining the employee in a tax-qualified home country plan, simply transferring to the local plan or using an umbrella-funded plan.

- Income taxes: Normally, the expatriate will simply transfer to the local tax system. This is not a problem for most of the world. American workers, however, are put in a difficult situation because they are taxed on a worldwide basis. Many organizations will continue the “tax equalization” process on an as-needed basis to prevent double taxation on American expatriates. Employees of other nationalities do not require such assistance.

- Housing: It is recommended that organizations remain flexible regarding host country housing because many factors come in to play when deciding how to handle housing for the expatriate. In many locations throughout the world, expatriate housing is vastly different than local standards and expectations. In some cases, it may be unreasonable to expect an expatriate to move into a local neighborhood or local style housing, e.g. Mumbai, Beijing, Jakarta, etc. Therefore, if the expatriate is moved to the local salary structure, a housing allowance may be needed to subsidize continued living in expatriate style housing. Other issues that arise with housing are tax issues, family matters, property ownership laws, home search assistance and moving costs.

- Goods and Services (G&S) differential/assignment incentives: In locations where assignees receive a G&S differential, the common practice is to immediately stop the allowance. Other options include a phase-out or lump-sum buyout, although it is rare for companies to continue to pay a G&S allowance beyond the effective localization date. Other assignment incentives such as mobility premiums, hardship allowances, etc. are also normally stopped upon conversion to local status.

- Education for dependent children: After housing, this item is the most commonly subsidized cost after an expatriate is localized, especially if the local schools are inadequate based on international standards or if the host country language is an issue. To alleviate the problem, organizations should consider continuing education coverage, or pay a percentage of the education costs for one to two years.

- Health care: Health care standards and costs vary greatly in different parts of the world and is a priority issue for most employees and their families. Normally, localizing employees will simply transfer into the local health care system, but concerns will arise if the health coverage in the new location is of a lower standard than in the home location. This will be a costly change for an employee coming into the United States, where typically health care is more expensive. Because of their time spent in the host country, a localized employee will most likely be aware of the issues, and therefore be in a position to make appropriate decisions.

Finally, and most importantly, the visa and work permit requirements should be thoroughly investigated. Issues in this area could be a show stopper. Localization may subject the employee and the company to various employment laws and regulations that apply to employees hired by local companies. It is important to speak with a local employment counsel to understand the legal effects and ramifications of localization, including subjecting the company to stringent employment laws in some European countries.

Permanent Transfers as an Alternative Solution

As mentioned earlier, permanent transfers are an alternative to localization. Permanent transfers differ in that the employee receives local, host country compensation and benefits immediately when relocating to another country, and do not benefit from the “cushion” of an expatriate package. In comparison to an expatriate package this option can provide a company with greater cost savings; however, permanent transfers run a higher risk of failure. For example, permanent transfer decisions can be driven by the short-term goals of business leaders, such as reducing cost, without consideration of a long-term strategy. In addition, employees can also be “dazzled” by the new location and job opportunity and blinded to the downsides of acclimation and benefit issues which have been discussed previously.

Factors That Contribute to Permanent Transfer Success:

- When the employee is single, as hidden family issues are not a factor
- The career opportunities are more favorable in the host location than the home location
- Salaries and/or standard of living are higher in the host location
- The employee is returning to their original “home” country
- Where tax, healthcare or pensions are not an issue
- When a local plus package is provided to the employee. A local plus package provides the employee with some expatriate benefits for a period of time which helps to bridge the gap between his or her home and the new location. A local plus package could include the retention of home benefits such as health care and pension, and temporary subsidy of housing and education.

A flexible policy is important in order to achieve a successful permanent transfer: what may work for an employee moving from the U.K. to the United States may not work for an employee moving from Brazil to Germany. Many companies are developing these flexible policies to assist business needs, reduce cost, and ensure successful transfers and localizations. Localizing expatriates or the permanent transfer of employees is a complicated process. By having a strategic plan in place, as well as defined policies, companies can anticipate potential localization and permanent transfer issues and make the process as efficient as possible.

If you are currently using a localization policy, take a step back and assess whether your strategy and practices make sense. If you would like more information on creating an effective localization policy please contact Julian Yates, vice president, global client services, SIRVA Relocation, 630.570.3387, julian.yates@sirva.com.

Julian Yates is the vice president of global client services for SIRVA Relocation, based in Westmont, Illinois. Under this title he manages both the client services team for the Americas and SIRVA Relocation's global consulting practice. Julian provides strategic leadership to our global services delivery team and leads a team of subject-matter experts to deliver best practice policy analysis, benchmarking and policy development. In addition, he provides consulting support to clients in various areas of global mobility, leads thought-leadership projects such as the production and review of global surveys and studies, and participates in industry conferences. Julian has over 25 years of global mobility and human resources experience having held assignments in the United States, Europe and Asia, both in a client and service provider role. A U.S. citizen, Julian originally hails from the United Kingdom and has traveled extensively on business to most regions of the world.