



LUMP SUM ALLOWANCE:

THE EFFICIENT APPROACH TO
HANDLING RELOCATION EXPENSES

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To control costs while keeping their organizations competitive, most companies offer some type of lump sum allowance. This enables them to deliver at least a portion of their relocation program benefits.

The passage of the Tax Cuts and Jobs Act in 2017 removed the tax benefit to collecting receipts for several components of the relocation process. Given these changes, the use of lump sums has never been more appealing.

Organizations have their choice of several lump sum programs. Each type offers specific advantages. For many organizations, a “fixed amount” is the first approach implemented. Often designed and managed by an internal staff, this approach can work initially. However, increased accountability, varied geographic costs and the growing complexity of relocation processes increasingly limit the sustainability of providing fixed amounts. As a result, an increasing number of organizations are switching to a “transferee-specific” lump sum allowance.

With the various approaches and data quality involved in establishing and maintaining lump sum allowances, it helps to know your options before choosing the program that will best support your company’s needs.





RELOCATION EXPENSE PROGRAMS

Organizations often help employees cover the costs of moving to new worksites. Historically some of these relocation-related benefits (e.g., final move and household goods shipment) were non-taxable. The company either paid for the service directly or collected receipts to reimburse the transferee.

Today, these expenses are now taxable to the employee. This change, along with a desire to avoid inequities inherent with traditional reimbursement programs, have led many organizations to shift to the use of lump sum allowances.

OVERVIEW OF LUMP SUM ALLOWANCES

With a lump sum program, employers make a single payment to the employee at the start of the relocation process to cover various expenses. This approach helps organizations control costs and reduce both the administrative and management time needed to process/approve multiple expense reports for an employee's relocation.

Most lump sum allowance programs share these attributes:

- Covered relocation costs are identified prior to move, simplifying the budgeting process and controlling costs
- Employees receive funds up-front, eliminating the need to fund expenses themselves while awaiting reimbursement
- Employees are empowered to use the funds to best suit their circumstances



With a Lump Sum Program,
**EMPLOYERS MAKE
A SINGLE PAYMENT**
to the employee.

IMPORTANT CONSIDERATION

A well-designed lump sum program balances corporate objectives with employee needs. Most lump sum programs are a combination of three or more major considerations.

CONSIDERATION #1: TOTAL VERSUS PARTIAL LUMP SUM

A **total** lump sum program covers all relocation expenses as the only source of financial support. This has been historically popular for college grads, new hires and entry level transferees. A **partial** lump sum program covers only certain components of the move, with the transferee receiving additional benefits directly paid by the organization. For example, home finding trips, temporary living, final move and/or household goods shipment expenses may be paid with a lump sum allowance. On the other hand, home sale, home purchase, or other services that are billed directly to the organization or RMC are not included in the lump sum allowance.

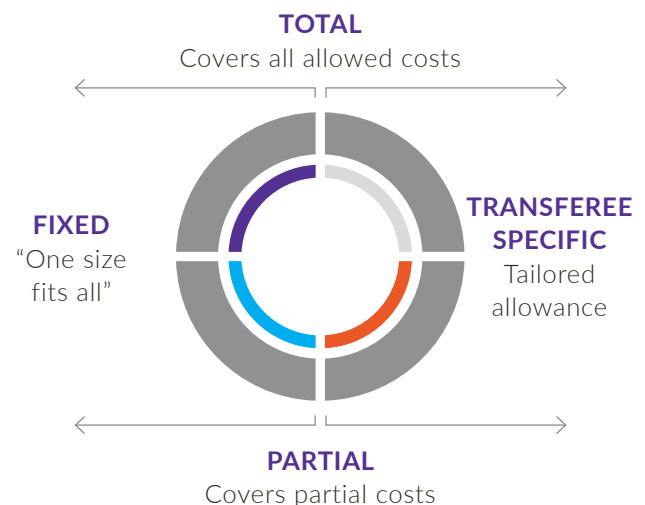


Most Lump
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CONSIDERATION #2: FIXED VERSUS TRANSFEE-SPECIFIC LUMP SUM

A **fixed** lump sum provides the employee with a predetermined amount set by the company that does not vary by transferee. Generally, this approach provides the same amount to all employees, or different fixed amounts for different levels of employees. On the other hand, a **transferee-specific** lump sum program will provide the individual employee with a tailored amount, based on the company's relocation policy and costs specific to that employee. This takes into consideration variables such as geography, family size, salary, homeowner/renter status, etc. Each organization is unique. Understanding the differences between these fundamental approaches will help to identify the right fit.

The decision between a fixed or transferee-specific allowance may be the most significant decision in the selection process. More detailed examinations of these two approaches are provided on pages 6 and 7.



CONSIDERATION #3: DATA ACCURACY

Lump sum allowances are based on cost data for the various relocation expenses intended to be covered by the lump sum. What if that data is incomplete, out of date or does not reflect geographical differences? Then cost control, employee satisfaction and fairness may be jeopardized. Examining the source and quality of the data used is an essential step in designing an effective lump sum program, as shown in the following examples:



Example - Airfare

Whether an employee is flying to their destination for a home finding trip or as part of their final move, a majority of employees utilize airfare during their relocation. Of all the travel-related cost components, airfare has the most price volatility based upon when an employee books a ticket. Prices can change quickly and are subject to seasonality.

The average cost for a 14-day advance economy flight from Chicago O'Hare to San Francisco in September is \$340. In March, the same flight would be \$427, an \$87 difference or 25%. If airfare is not updated regularly, the allowance is likely to be too high or too low.



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Example - Lodging

Many employees utilize hotels at some point during the relocation process. Lodging rates vary widely, and these differences will have a material impact on cost control. This can also impact the employee's perception of fairness and satisfaction.

The average daily lodging rate for a business class hotel in Colorado Springs is \$177. The same class of room in Boston downtown/airport area is \$276, a \$99 difference, over 50%, per day. If specific location data is not used, the allowance is likely to be too high or too low.





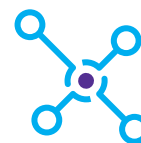
THE KEY DECISION

The overview above helps frame discussions regarding employee relocation assistance. However, the choice between a fixed amount and a transferee-specific program will likely have the single greatest impact on the outcome and ongoing support of organizational goals. With that in mind, additional important details on each approach are provided to help organizational leaders make well-informed decisions.

FIXED LUMP SUM PROGRAMS

Fixed lump sum programs provide the employee an amount pre-determined by the company. Organizations selecting this approach have an array of options for determining the fixed amounts. In most instances, these amounts are determined using one or several of the following considerations:

- ➔ Manager discretion
- ➔ Historical averages
- ➔ Budgeted amounts divided by the anticipated number of relocations
- ➔ Multiple fixed amounts: a grid is created providing a range of fixed amounts based on factors such as homeowner or renter status, job level, distance and family size. Simplicity is a feature of the fixed amount lump sum program. However, simplicity comes at a cost such as:
 - Employees are unable to budget how to spend their lump sum allowance effectively, since the amount is fixed and not the result of calculating individual expenses.
 - Limited differentiation in the flat amount increases the likelihood that amounts will not be sufficient for some employees while others will receive a windfall.
 - Lump sum amounts need to be updated frequently to ensure they will cover the intended program costs. This is especially important given the unpredictability of components such as airfare and temporary housing costs. Fixed allowances are difficult to update over time, since the process for creating the fixed allowance is typically not repeatable or sustainable going forward.



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TRANSFEEE-SPECIFIC LUMP SUM PROGRAMS:

Transferee-specific lump sum programs provide the employee with an amount based on two factors:

1. The organization's relocation policies
2. Costs specific to the employee's actual relocation.

Tailored to an organization's specific requirements, a transferee-specific lump sum program integrates:

COMPREHENSIVE POLICIES

Comprehensive policies establish needed parameters around any lump sum program. Properly structured and consistently enforced, relocation policies enable cost control while ensuring adequate financial assistance. Relocation policies should establish parameters addressing all relevant issues, for example:



Airfare

- Coach or first class
- Restricted or unrestricted



Lodging

- Deluxe, first class or economy
- Low, average or high



Meals

- Breakfast, lunch or dinner
- Low, average or high



Car Rental

- Compact, intermediate or full size



Other Expenses

- Miscellaneous expenses, childcare, mileage reimbursement, etc.

TRANSFEEE-SPECIFIC REPORTS

After policies are established, customized lump sum reports are calculated for each individual transferee. These reports use policy parameters, precise pre- and post-move locations and family size including the composition of adults and children. Lump sum allowances are calculated using current costs and consistently applied, proven methodologies to ensure accuracy and fairness over time.

Organizations should also consider the best method for sharing pertinent information about the lump sum calculation with employees.

Choices include:

1. Costs rolled up to one total amount
2. Costs rolled up to subtotals (e.g., home finding, temporary living, etc.)
3. Clearly identified individual cost components (e.g., airfare, hotels, etc.)



When properly structured and consistently enforced, **RELOCATION POLICIES ENABLE COST CONTROL.**



EXPERT ASSISTANCE

Transferee-specific lump sum allowance programs tend to deliver an attractive return on investments through cost controls and employee satisfaction. However, this requires specialized expertise. Organizations using transferee-specific lump sums typically turn to third-party specialists for assistance.

When examining potential service providers, business leaders may wish to pay special attention to several key points, which will identify the quality of service that can be expected:

PROGRAM DESIGN ASSISTANCE AND ONGOING SUPPORT

The service provider's relocation experts should work closely with the organization to design and set up the lump sum program that best fits the organization's goals and should offer ongoing support. Initial assistance should include:

- ➔ Review current programs and costs
- ➔ Analyze goals and needs
- ➔ Develop initial lump sum parameters
- ➔ Generate sample lump sum allowances
 - Review parameters and modify
- ➔ as necessary
 - Finalize parameters and assist in developing communication materials

POLICY ASSISTANCE

Determine what level of assistance is provided to establish clear and enforceable policies. Once established, effective policies ensure consistency across multiple offices, departments and divisions. This is particularly beneficial to highly decentralized organizations.



The service provider's
RELOCATION EXPERTS
SHOULD WORK CLOSELY
with the organization.

MANAGEMENT REPORTING

Management reports are typically included in the provider's scope of services. To aid companies in making strategic decisions, management reports examine the impact of policies and parameters, while also detailing cost components. As a company's circumstances and philosophies change, their policies and resulting allowances can reflect those changes accurately and defensibly.

DATA QUALITY

When interviewing service providers, special attention should be given to the source and quality of the cost data used to calculate lump sums for each employee. Cost control and employee satisfaction may be negatively impacted if the cost data is not geographically accurate, current, or defensible.

A successful and well-designed lump sum allowance program will not only eliminate the burden of expense report reconciliation, but provide a consistent, accurate and fair program that clearly communicates the cost components. This allows administrators to focus on value-added services and employees to more quickly become productive at the new location.



SUMMARY

Most organizations today rely on some form of a lump sum for certain relocation benefits. This allows them to control costs while maintaining competitive positions for attracting and retaining talent. With the passage of the Tax Cuts and Jobs Act, this number has grown. When instituting a lump sum allowance program, the key decision is to determine the right approach – a fixed amount program versus a transferee-specific program.

For many organizations, a fixed amount program is the first approach implemented. The program is likely to be designed and managed by the organization's staff. This approach appears simple at the outset. However, the increased accountability, varied geographic costs and growing complexity of relocation processes increasingly limit the sustainability of fixed amount programs. As a result, an increasing number of organizations are switching to a transferee-specific program.

Policy-driven and established with the help of industry experts, a transferee-specific lump sum program offers several distinct advantages, including:

- ➔ Cost control through better policy adherence and fewer exceptions
- ➔ Reduced administrative burden (now more than ever since final move expenses and household goods shipments are taxable)
- ➔ Flexibility for each employee to use funds specific to their needs
- ➔ Equity and fairness across all employees



A transferee-specific lump sum program offers
SEVERAL DISTINCT ADVANTAGES.



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