Capped Costs

February 2017

pulse survey

Capped Costs

Employee mobility budgets are in the forefront more than ever before. Decisions about what types of policy provisions to offer and to whom they are offered are often determined by cost.

There are many factors to consider when developing and managing employee mobility policies, such as recruiting efforts, the ability to secure needed talent, how satisfied transferred employees are with relocation offers, and the overall management and administration of a mobility program. But, the cost of employee mobility – the actual dollars spent to move employees – tends to be the most visible indicator of how well a program is working.

Due to the great amount of attention paid to costs and the need to control them, many organizations have mobility policies with built-in limits to control expenses, such as limiting the number of days for home finding trips, temporary living, or storage in transit. Other organizations choose to place stricter limits in their relocation policies beyond those examples by placing an overall dollar limit on individual provisions or the entire relocation.

Aires' December 2016 *Pulse Survey – Lump Sums* highlighted the growing presence of paying cash to employees to cover their relocation expenses. The concept of paying a lump sum is in stark contrast to that of capping costs and managing the funds for the employee.

This newest *Pulse survey – Capped Costs* highlights the trends associated with employers choosing to place a dollar value limit on total relocations or on individual provisions to balance cost containment with valuable support to relocating employees.

What is a Capped Cost Move?

Simply put, a capped cost move is when some or all of the relocation support available to an employee is limited by a specific dollar value. Capped cost policies may also be described as a managed lump sum, implying that cash is not provided to an employee to spend as they wish, but rather kept in a reserve and managed on the employee's behalf.

The survey features two different approaches employers take to cap costs.

There are **two main approaches to capping costs** featured in this survey report:

Overall Capped Cost – a budgeted reserve of funds available to cover various relocation expenses.

Example: The total cost of a relocation may be limited to $10,000. The relocating employee can receive a combination of reimbursements or paid services up to that total amount.

Individual Provision Caps – a set dollar amount that can be used to pay for specific expense.

Example: Temporary Housing will be covered up to $4,000. This means that the employee can either submit for up to $4,000 in reimbursement for temporary accommodations or a relocation management company can arrange for accommodations and bill the employer up to $4,000.

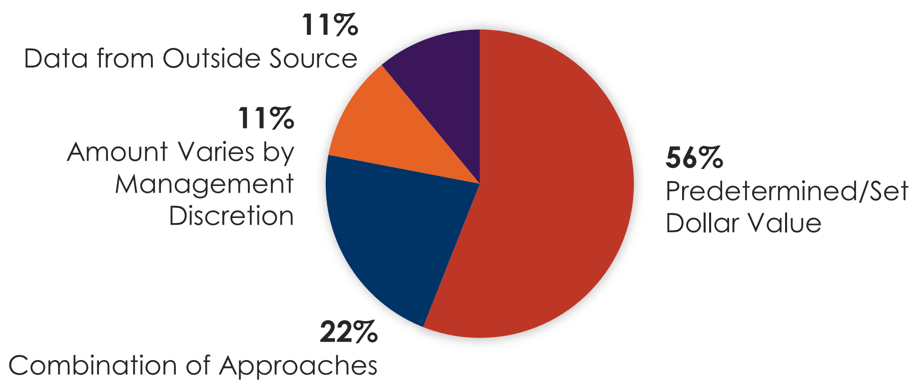
Overall Capped Costs

The phrase *capped cost* implies that funds are held until expenses are incurred, and those expenses may be reimbursed to an employee or paid to a service provider on their behalf. In a capped cost program, an employee may determine what expenses are permissible and what expenses are not. The survey finds that of the 51 participating organizations, only 11 of them employ a capped cost model that applies to overall relocation expenses, and several of those only impose caps on specific types of employees.

22% Impose an overall cap on domestic relocations; all confirm capped costs are not the same for all employees

A majority of companies placing caps on overall relocation spend are most often using predetermined dollar amounts. The amounts would often be communicated through standardized policy documentation. The survey finds that dollar amounts vary greatly among the respondents. Some respondents note that there are no specific guidelines used and values are determined by management discretion, while others are using data from an outside source or their RMC (such as a cost estimate) to determine the capped budget.

Methods for Capped Cost Amount



All survey respondents utilizing a total capped cost approach offer different amounts to employees rather than the same amount for all. Values reported by the respondents range from $1,500 up to $100,000.

Many respondents to the survey referenced specific positions and their applicable caps. All respondents noted various values and positions with many offering ranges. To provide complete transparency to the data, various positions are listed below with the low and high ranges as well as calculated averages. Several respondents did not provide values reconfirming that all capped cost amounts are discretionary.

Capped Costs by Employee Type

Entry Level
$2,000 to $20,000
Average $11,000*
*Excludes one response of "one month salary"

Sales/Field Employee
$2,000 to $25,000
Average $7,640

Store/Branch Manager
$10,000 to $30,000
Average $20,000

Supervisor/ Management
$25,000 to $80,000
Average $60,000

Director/Executive
$75,000 to $100,000
Average $85,000

Renter
$5,000 to $10,000
Average $7,500

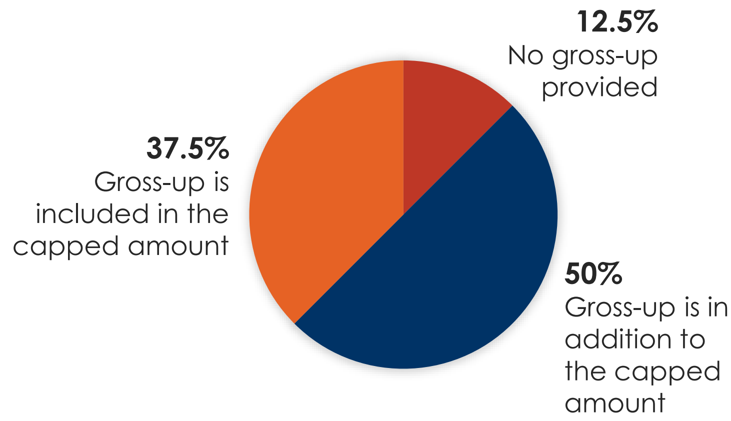
Homeowner
$25,000 to $35,000
Average $30,000

There are clear differences in how gross-up is handled in capped cost programs.

A small portion of respondents do not gross-up taxable relocation expenses, while most do gross-up. Half of the survey respondents confirm grossing-up taxable expenses in addition to the capped cost amount, while some note gross-up is included in the total capped cost amount.

Capped cost programs that include gross-up in the total allotted funds often require additional counseling for the relocating employee to understand the actual amount available to them to cover relocation expenses.

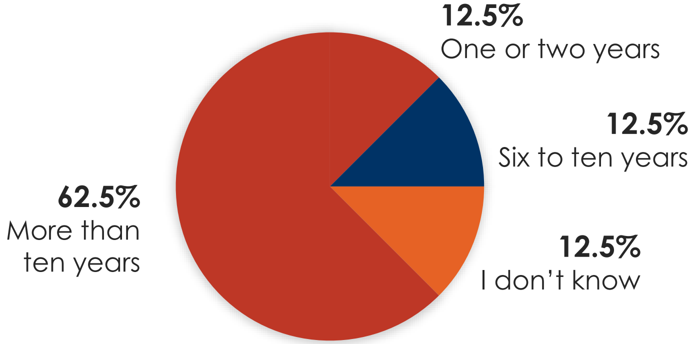
Gross-Up Within a Capped Cost Program



There are also clear differences in how long survey respondents have been setting capped costs in their mobility programs. Some have just recently started imposing capped costs, while most report having capped costs for more than ten years.

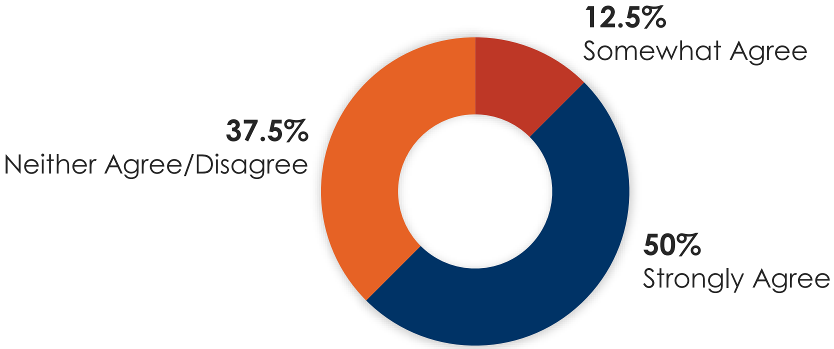
All of the survey respondents offering capped cost programs confirm they do not have plans to make changes to existing practices.

How Long Respondents Have Been Using Capped Costs

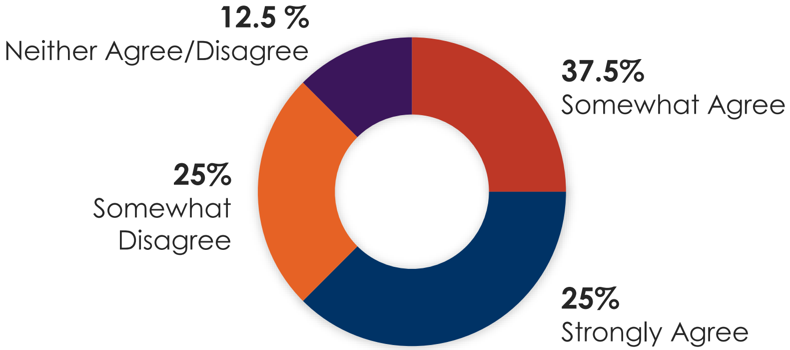


When discussing capped cost programs, it's also important to acknowledge how well they are working for those that utilize them. The survey polled respondents on several perceptions associated with capped costs. Overall, perception of capping relocations is favorable from employers' perspectives, but, as with any approach, there can be benefits and challenges. Capping costs may appear to be an easy solution to limit expenses, but the administrative requirements in order to manage expenses to the capped amount increase. The survey respondents report being generally satisfied with how well the capped cost programs are supporting their recruiting and employee mobility efforts.

Relocation caps support us in securing the talent we need

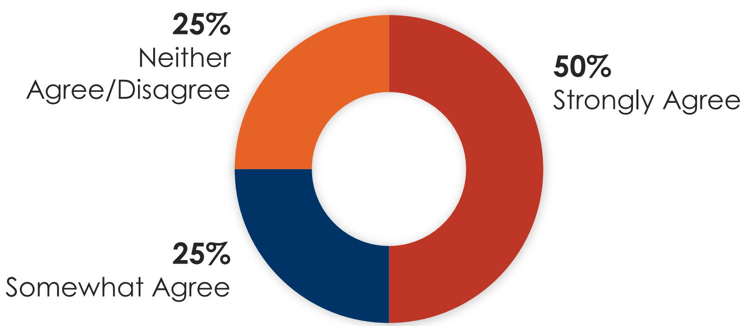


Employees are satisfied with the caps placed on their relocations

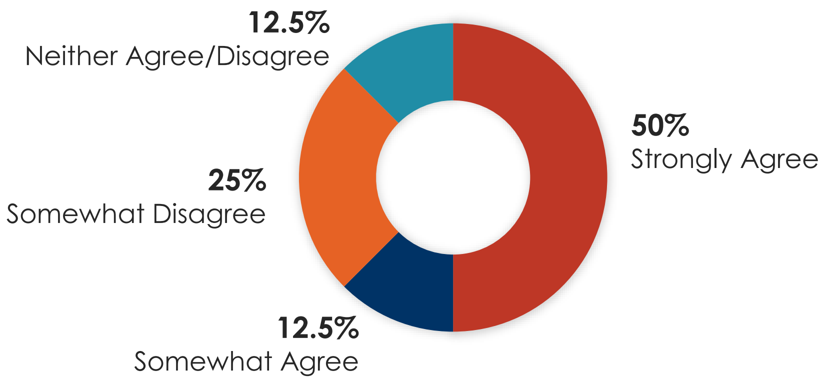


Feedback from respondents illustrates that relocating employees are pleased with the amount of flexibility provided by the caps; however, managing caps can be more time consuming.

Employees are satisfied with the flexibility provided by the caps



Setting caps allows us to spend less compared to fully managed services and/or reimbursement of expenses



Individual Provision Caps

More than a third of survey respondents impose caps on specific provisions found within a policy, not the entire policy.

41% Place dollar value caps on individual policy provisions, but not on entire relocations; three-quarters confirm that all employees are subject to caps on individual provisions but those caps may vary

Imposing a cap on specific relocation services or expenses allows employers to provide valuable support while limiting their overall exposure to costs. In general, placing a limit or establishing an authorized parameter for relocation benefits is considered to be best practice and recommended. Quite often, these established parameters are differentiated between policy tiers. Common benefits that are often subject to authorized parameters include the number of days authorized for a home finding trip, temporary living, rental car, storage in transit, number of return trips home, and number of months for lease cancellation. Please note that while this study only examined programs with specific dollar value caps, almost all employer policies have some sort of limit in place for one or more policy provisions.

The respondents in the survey identified the individual provisions that are subject to caps within their policies. The caps are illustrated by expense category to the right.

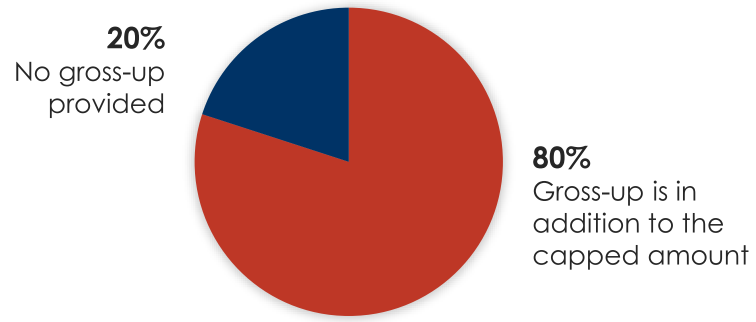
One-fifth of respondents placing caps on individual provisions note that they may consider making changes, yet most were not able to quantify what those changes may be.

One aspect of individual policy provision caps that differ from overall relocation caps is found in their tax treatment. As noted earlier in the survey (page 5) 37.5% of companies capping overall relocation costs included gross-up in the cap amount and 50% provided gross-up in addition to the cap. When employers cap individual policy provision, they are more likely to gross-up in addition to the cap, with 80% of employers reporting this practice.

Individual Policy Provision Caps

Expense Category	Common Caps Employed by Survey Respondents
Miscellaneous Expense Allowance	$5,000, $7,500, $10,000
Temporary Living	$3,500, $4,000, $5,000, $6,000, $7,500 $12,000
Household Goods	18,000 lbs., 25,000 lbs., 30,000 lbs. $5,000, $12,500, $15,000, $25,000 $1,500 or $2,500 for crating/third party services
Home Purchase Expenses	2% of purchase price $5,000, $7,500, $10,000

Gross-Up Within a Capped Cost Program



Capped Cost Considerations

Whether paying out cash lump sums or managing relocations to a set cap, employers have more options and considerations than ever before for designing their mobility programs.

All employers are encouraged to review their mobility programs for cost efficiencies, but in doing so, should also consider other factors such as talent demands and the costs to secure needed talent and gaining a better understanding of industry practices to determine if relocation packages are competitive with peer organizations.

It is also important for employers to look internally to their own mobility and talent agendas to understand how well their currently policies are working for them. High exception request and approval rates may mean that current caps are not practical, low success rates of securing candidates may mean the policy is not competitive, extensive time to administer the policy may mean that operational efficiencies could be improved.

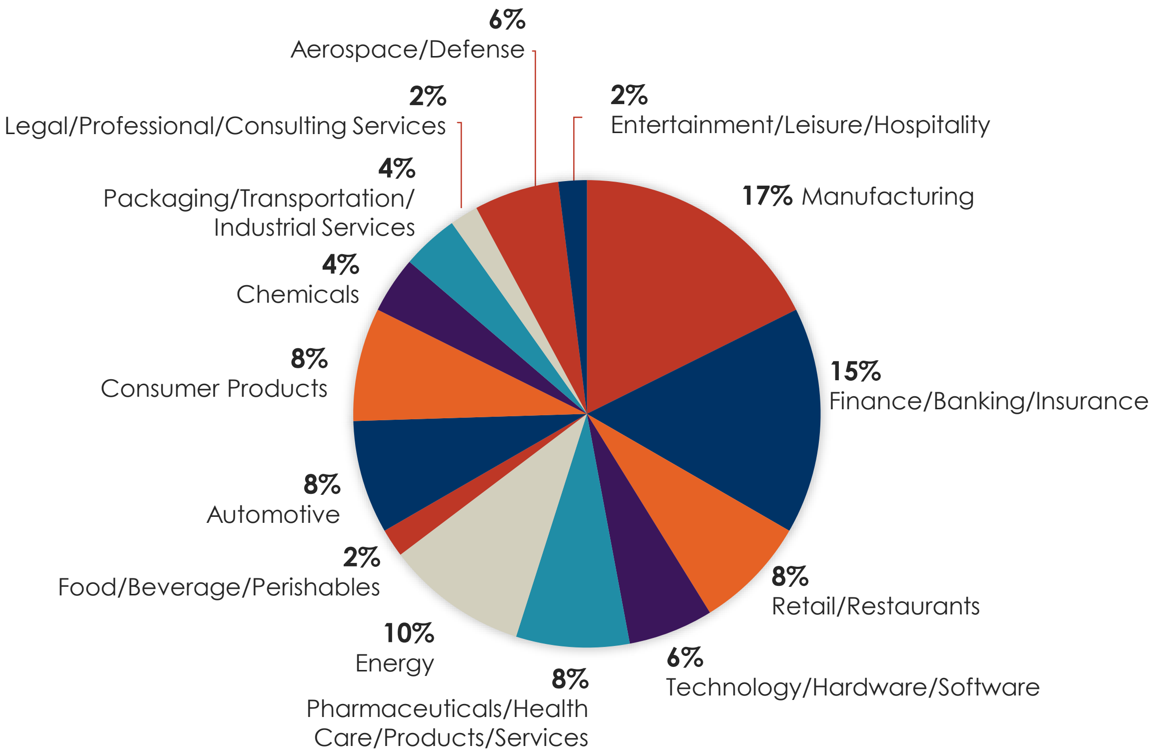
Capped costs (and Lump Sums) may appear to be a simple answer to a complicated process. Aires recommends a full understanding of an organization's culture, business needs, objectives, and intentions before determining if a capped cost model (and value of those capped costs) is the right fit.

To discuss further, please contact your Aires representative.

Survey Participants

A total of 51 companies participated in the Aires *Pulse Survey – Capped Costs* focusing on employee mobility in the U.S. There are no distinct correlations found in the survey results between capped costs offered in any particular industry or compared to the total number of employees in an organization and annual relocation volume.

Participant Profile



Size of Organization

Volume	Percentage
100,001+	19%
50,001-100,000	12%
20,001-50,000	21%
5,001-20,000	25%
1,001-5,000	19%
Under 1,000	4%

Number of Homeowners per Year

Volume	Percentage
Over 1,000	10%
500-999	10%
250-499	18%
150-249	12%
75-149	21%
50-74	14%
25-49	2%
Under 25	13%

Survey Conducted By

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