Where HR Means Business.

Complimentary Guide

Relocation Costs Can Be Controlled With Lump-Sum Allowances

It begins routinely enough. Your organization is moving or has transferred an employee to an office in another city. You have gone over the list of things to consider but now there are some special considerations. You are unexpectedly faced with a variety of requests from a relocating employee for exceptions to your relocation policy or special considerations the employee wants you to make. Is there a solution? An increasing number of companies are considering a lump-sum arrangement to cover relocation.

This form of relocation allowance has several advantages for the organization. It simplifies the process, saving time and effort by removing the need to discuss exceptions and negotiate special situations. It reduces administrative expense and makes budgeting for relocations much easier.

Disadvantages of a lump-sum relocation allowance include:

- The employer must monitor the amount of the lump sum regularly. The employee may fall short of cash because no research was done or the lump sum amount was not updated.
- Income taxes for high-level employees need to be factored in or lump-sum payments have the potential to shrink by half. Individual state income taxes as well as deductible/excluded moving costs need to be analyzed.
- The methodology needs to be further calculated if employees perceive lump-sum relocation allowances are inequitable—that some are receiving too much and others are receiving too little. Keep in mind, however, that you can't possibly cover every expense and every individual situation. You may want to include in your policy an opportunity for review—an employee who feels sufficient expenses were not covered has an option to submit all receipts and a written summary of the entire move for review.

If you decide a lump sum is the best option the next step is to put the dollars figures on the elements of the lump-sum amount.

- Examine your existing policy.
- Analyze the demographics of your population and corporate culture.
- Determine how many days of temporary living costs are reasonable.
- Establish the normal number of house hunting trips.
- Analyze your history of relocation payments. What expenses has the company paid for in prior years?

Lump-sum allowances are typically paid up-front to relocating employees and cover all or a significant portion of relocation expense. If the actual costs are less than the lump sum, the relocating employee keeps any amount that is left over. This provides an incentive for efficient and frugal relocation management on the part of the employee to keep costs to a minimum. On the flipside, if the relocating employee spends more than the lump sum, the employee bears the extra cost. This concept offers flexibility and accommodates unusual situations. All the issues that may have been exceptions or special requests in the past are eliminated because the relocating employee chooses how to spend the lump sum provided by the employer.

- Adjust calculations so that your end result is less than you have historically spent.
- Include a payback clause in your relocation agreement that sets out what the employee must repay if he does not stay with the organization at the new location for a specified period of time.
- Set clear expectations and clearly communicate the new policy to employees.
- Have answers ready for the inevitable requests for exception.
- Secure a strong commitment from senior management.

A growing number of companies are looking for ways to tweak their relocation policies as they respond to the changing recruitment market as well as look for potential savings. Every organization must determine what fits within their organization and whether this concept will work for them. A successful lump-sum relocation policy balances the need for employee satisfaction while holding down expenses.

The most common expenses covered in a lump-sum relocation arrangement include:

- Temporary living expenses.
- House hunting visits.
- Transfer of household goods.

Expenses not usually covered in lump-sum relocation might include loss protection on the sale of an employee's home, cost of living differences, employment assistance for a spouse, and home-purchase expense.

MRA's HR Hotline can help you!

866-HR-Hotline | 866.474.6854

InfoNow@mranet.org

mranet.org/24-7/hr-hotline

As one of the largest nonprofit employer associations in the nation, MRA:

Serves 4,000 employers
covering one million employees worldwide.

Holds more than
2,000 Training
events annually.

200 HR experts
with more than 2,000 years of collective knowledge, experience and expertise.

Offers more than
1,000 HR Guides
templates, toolkits, and more.

HR SERVICES

LEARNING & ORGANIZATION DEVELOPMENT

TALENT MANAGEMENT

TOTAL REWARDS

MRA is Your TotalHR® Resource.

MRA helps you create powerful teams and a safe, successful workplace with talent, tools, and training.

MRA
Where HR Means Business.

Wisconsin | Minnesota | Illinois | Iowa

www.mranet.org 800.488.4845