

Local Plus - Tips, Tools, and Trends



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LOCAL PLUS – TIPS, TOOLS, AND TRENDS

Companies have always looked for innovative, economical, and administratively less burdensome ways to manage international assignments, and the current international mobility landscape confirms this trend. HR practitioners are considering a myriad of policy options, including the traditional balance sheet, short term and commuter arrangements, net salary packages, and host plus arrangements.

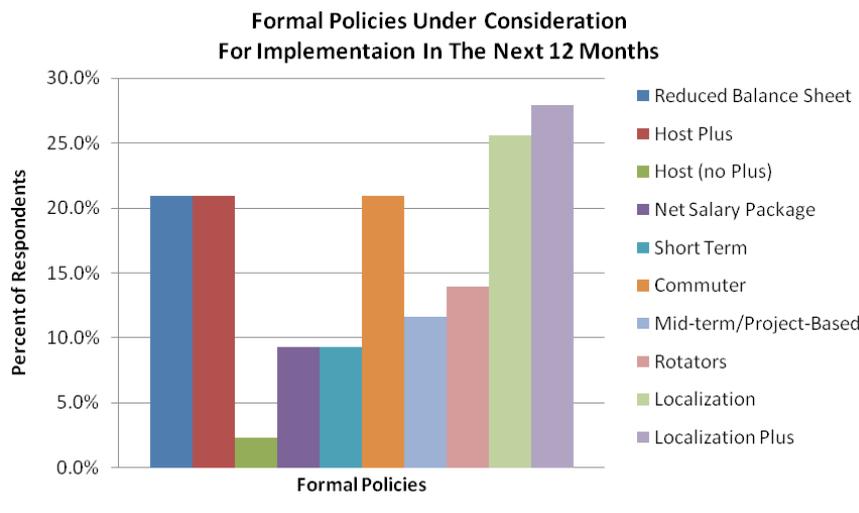
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MARKET TRENDS

Based on AIRINC's 2011 Mobility Outlook Survey, it is clear that companies are utilizing a wide spectrum of policy types. While the majority of respondents reported using traditional policy options such as the balance sheet (84%), short term (74%), and localization (46%), one quarter (25%) currently have a formal host plus policy. Companies with a host plus option report that approximately one third of their assignees are compensated through the policy.

The survey data also confirmed that financial and professional services firms, as noted above, are most likely to use the host plus approach and that they have higher percentages of assignees allocated to host plus policies.

In addition to an industry trend, a regional pattern exists. Companies that are headquartered in Asia-Pacific are more likely to have a formal host plus policy, have more assignees allocated to the host plus policy, and are more likely to consider adopting a host plus policy in the next 12 months. Overall, 21% of respondents indicated that they are considering adopting a host plus policy in the next 12 months.



The host plus package is most commonly used when there is considerable wage, standard of living, and economic affinity between the sending and receiving locations. This explains why financial and professional services firms have successfully implemented local plus pay arrangements; most of their assignees are sent to and from largely developed and similar countries and tend to be high wage earners. However, this pattern also highlights a potential concern regarding host plus packages, in that they may not be an appropriate solution for all scenarios, particularly those with low levels of affinity (e.g., high wage countries to low wage countries or developed countries to less developed countries). Host plus packages are therefore less likely to be used for transfers into low wage, developing, or hardship countries. Additional concerns, such as repatriation challenges, pension benefit portability, payroll schemes, and compliance issues, also need to be given serious consideration before a host plus package is implemented.

LOCAL-PLUS PACKAGE STRUCTURE

The structure of local plus packages can vary by company, but the overall concept is quite similar from one company to another. The basic components include a local base salary or a host-denominated salary (i.e., the rate of pay is based on the local scale) and additional allowances (also known as plus components) that are provided as top-ups or uplifts. Common plus components include assistance related to housing, education, transportation, and home leave, which may be delivered either as cash or as benefits-in-kind. The employee is usually responsible for paying all actual income taxes. While many compensation elements are delivered in host country currency, companies commonly keep assignees, where possible, on the home country pension or social security system, since local plus packages tend to be used for temporary assignments resulting in a return to the home country.

WHY LOCAL-PLUS?

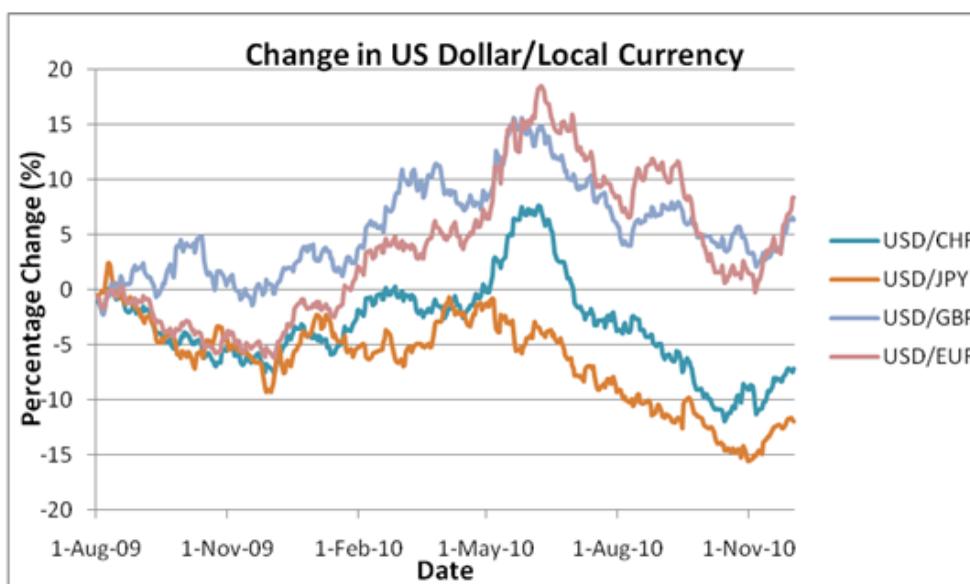
With conventional expatriate compensation packages often costing as much as four times the base salary of an assignee, it is not surprising that companies are looking for alternatives. In some cases, local plus packages may be an effective approach to reducing mobility costs.

There are two factors that can contribute to the reduced cost of a local plus package; both vary depending upon a company's specific policy. The first is tax-related. When using a traditional expatriate package, many companies implement a tax-equalized approach, in which the employee is responsible for the tax he or she would have paid in the home location on base compensation (withheld by the employer as hypothetical tax), while the employer pays all actual taxes on company source income assessed in both home and host locations. As previously mentioned, in a local plus scenario the employee pays all actual taxes. The employer may deliver the plus components grossed-up for tax to ensure that the employee receives the appropriate net value of the plus components (the extent to which allowances are covered via gross-up varies from policy to policy).

The second factor that contributes to the lower cost of local plus packages is that most companies provide fewer allowances than are typically included in a traditional long-term approach (e.g., COLA is omitted). Furthermore, the allowances that are provided tend to be lower than in traditional packages.

For these reasons, a local plus package should in theory always be a lower-cost alternative. In practice, whether a local plus package costs less than a traditional long-term package depends on the home/host combination and the specifics of the benefits arrangements.

Though cost implications are likely to be the driving factor for utilizing local plus arrangements, the benefits of delivering a package primarily in host currency are not to be overlooked. For example, consider the movement of the US Dollar over the past 16 months. It has fluctuated significantly against many of the other major currencies, with changes reaching into the double digits in some cases.



Source: www.oanda.com

In addition to being denominated almost solely in host currency, allowances or plus components are not designed to protect the home country standard of living, so they are generally not updated on a regular basis for exchange rate change or for variables such as home and host inflation. Exchange rate exposure at the host location for international assignees is thus reduced, in turn reducing feedback and complaints to HR departments. However, assignees on host plus arrangements should be counseled that exchange rate changes may affect the amount of local currency required to support home country currency expenditures or savings.

HOW TO CALCULATE A LOCAL-PLUS PACKAGE

Although the reasons why companies contemplate local plus packages may differ, these pay systems are being considered and implemented increasingly often. Unlike the balance sheet methodology, however, the local plus approach is supported by few tools intended to assist HR practitioners. At many companies, HR or local business managers perform “back of the envelope” calculations or negotiate agreements with individual assignees, practices that can lead to inconsistent pay arrangements or unexpected costs.

In order to bridge the gap between market demand and technology, AIRINC has developed a Local Plus Calculator (LPC). It is intended to help clients systematize this type of approach and establish consistency and transparency in relation to the packages companies create. To accomplish these objectives, the LPC provides

fast, accurate, and detailed results.

Building a local plus package involves decisions on what plus components will be delivered, and these can vary significantly by company. AIRINC's Local Plus Calculator handles this variability by providing common plus components, which are pre-populated with AIRINC data, and allowing the user to override this data. Users are also able to input an unlimited number of additional items. For each plus component, the user can specify the payment delivery type (i.e., cash gross, cash net, direct bill, or reimbursed). The tool has built-in tax logic to assess the taxability of an element based on how it is paid to the assignee, and it has the flexibility to allow the user to specify whether any given element is to be grossed-up or not. In addition, the program's tax logic is sophisticated enough to calculate the tax implications of keeping an assignee on his or her home country social security system, or of including or excluding U.S. residual tax liability.

Once a package has been customized for a company's policy and any variations for a particular assignee have been added, the Local Plus Calculator displays its results in two ways: (1) it establishes the total cash to be delivered to the assignee, including tax gross-up on the plus components; and (2) it indicates the total value of the entire local plus package, including both plus components delivered as cash and those provided as benefits-in-kind.

SUMMARY

As one respondent to AIRINC's 2011 Mobility Outlook Questionnaire surmised, there will be an "increased focus on the enhancement of mobility related communication with the intent to increase employee understanding of their assignment provisions, reduce exceptions, reduce administration and reduce costs while maintaining highly competitive programs." While it is impossible to determine how the trend toward using local plus packages will progress, it is evident that companies will continue to think about ways to simplify and consolidate international mobility packages in addition to reducing overall costs. Although there are important factors to be considered before a local plus package is implemented, and it may not be a viable solution for all scenarios, local plus packages can be successfully implemented in the right context. Once a company has chosen the local plus approach to paying assignees, it is critical to have the necessary tools, both for constructing packages and for communicating about them to expatriates. Having the right resources helps ensure a globally consistent and efficient process for administering such a program.