top 10 ways your RELOCATION PROGRAM LOST MONEY IN 2019

Written by Roxanne Korostowski CRP, GMS and Paige Holden, GMS

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TABLE of CONTENTS

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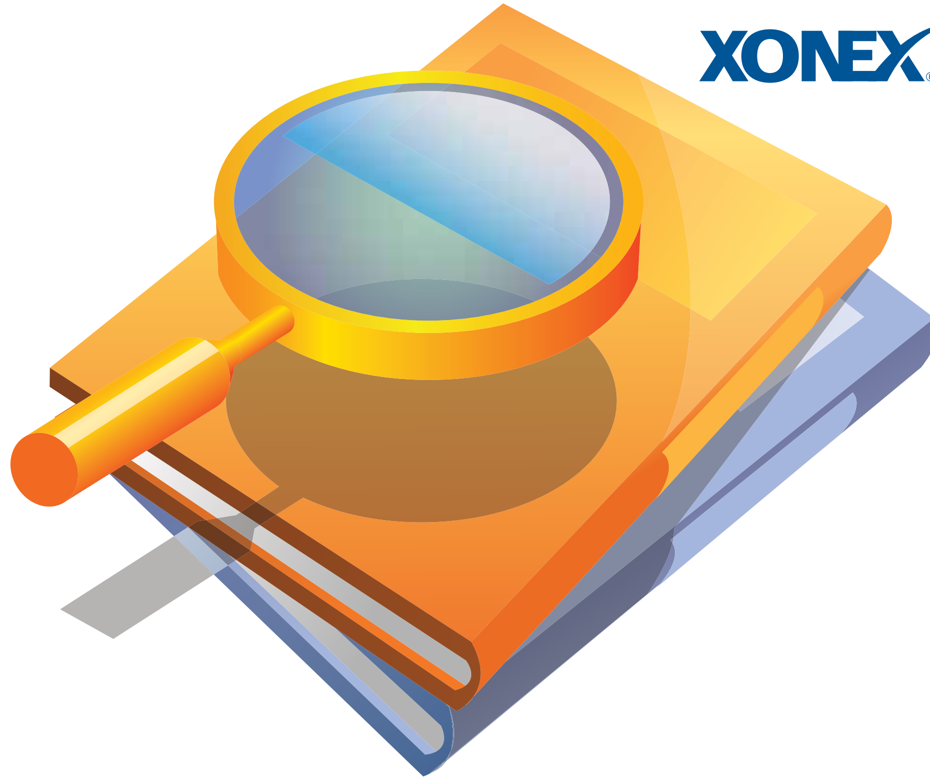

INTRODUCTION

Many of the tax law changes that went into effect in 2018 helped companies save money. However, when it comes to relocation, this is not the case. Some relocation expenses that companies paid on an employee's behalf or reimbursed to an employee, are now taxable income. Most companies will offer tax assistance on these now taxable expenses to help the employee or new hire offset their tax burden. As 2019 comes to an end, now is a good time to look at ways to help offset this additional relocation cost without making major changes to your relocation policy offerings.

Since 2018 had "carryover" relocation expenses that may have fallen under the old tax laws for deductibility, 2019 is a true picture of how gross up expenses have impacted the cost of relocation. Companies recognize that to attract and retain talent they may need to offer competitive relocation assistance.

In this eBook, we are hoping to share with you lower cost solutions to what we have seen as attempts by companies to assist their employees and new hires with their relocation challenges.

1 Combined Benefit Allowances

The issue

To simplify relocation programs, some companies are taking benefits including home finding, temporary living, final move and miscellaneous allowances and lumping them into one large sum, based on estimated costs.

Why you're losing money

Combined benefit allowances are not geared towards the specific needs of any transferee. Thus, if your transferee needs more or less included in their benefit plan, there is no flexibility to find a viable solution. Further, with a strict combined benefit allowance plan, relocation managers do not have the ability to save money on transferees who do not need certain benefits, while redirecting funds to those that who need more. One-size-fits-all programs might be predictable, but they almost always lose money in the end.

The solution

Create flexibility. A defined benefit program coupled with real-world cost estimation and accruals based on specific transferee needs will give relocation managers the opportunity to allocate funds more accurately so that monies don't go to waste. This will allow you to generate cost savings in real time, while giving you the flexibility to direct additional funds to transferees that really need more support.

2 Poor Pre-Planning on Home Finding Trips

The issue

If the home-finding trip is planned before a counseling session, transferees may not think through their needs in the new location in regards to housing, neighborhoods, schools, cost of living, timing of available homes, etc.

Why you're losing money

Without clear criteria for what is needed at destination and when, it's impossible for Realtors, leasing agents, and other relocation services providers to plan an effective home-finding trip. For example, if the transferee only wants to live in the city, but the Realtor plans the trip around the suburbs, there will be a huge disconnect on the ground which will lead to wasted time, added frustration and the possibility of a second trip. Or, if the transferee needs to sell before they purchase, homes available now may not be available when their home sells. This can result in a request for an additional home finding trip closer to when the transferee is ready to purchase.

The solution

Transferees should have a good counseling session prior to the home-finding trip. During this session, they should be encouraged to discuss their needs at both origin and destination, including housing requirements, school preferences and family needs. Transferees who are planning on purchasing a home at destination should have a discussion with their Realtor regarding average days on market, as well as a reputable lender about how much house they can afford, including monthly payments and the down deposit, to determine whether their origin home needs to sell before they can purchase. All transferees, including home owners and renters, should also discuss community and neighborhood preferences, budget, location and any special needs with a Realtor in advance of the trip so that they only look at homes that are viable prospects.

3 Too Much Temporary Living in the Policy

The issue

The true intent of temporary living is to provide a comfortable housing alternative if the transferee needs to be in destination prior to permanently relocating and not be financially burdened with dual housing expenses.   By providing housing, the employee can get right to work at the new location, before a permanent housing situation is finalized. Some companies offer as many as 120 days in temporary living in an attempt to accommodate slower markets. We also see companies try to be overly accommodating by providing temporary living for the family and/or not requiring that a financial responsibility needs to exist in origin – ie a mortgage or lease payment.

Why you're losing money

As the temporary living time frame has expanded, some transferees have opted to maximize their benefit, regardless of their personal situation, and have purposely delayed the move into the new home. There are a lot of reasons why transferees are taking advantage of the extended benefit including home renovations, school timing, delaying payments and waiting out the housing market.

The solution

The optimal time frame for temporary living is 60-90 days for a homeowner. This should be written into the relocation policy, along with clear parameters as to whom and when temporary living is offered. The 60 – 90 days represents the total escrow period between the contract agreed to at origin and when the new home can be settled at destination. Schedules permitting, the transferee should be given enough time and incentive to aggressively market their home prior to moving. While the origin home is being marketed, the destination housing options can be narrowed. Then, when the origin home goes under agreement, the transferee can focus their time and attention at destination.

That said, there are some transferees who will genuinely need additional temporary living support, especially when the transferee is needed immediately at destination. This is one situation where exceptions on a case-by-case basis are acceptable, and possibly more strategic, than a blanket mandate.

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4 Jumping the Gun

The issue

More often than not, a transferee will find out about the relocation before HR has it on their radar. Naturally, the transferee's first instinct will be to round up as much information as possible about the destination, as soon as possible. They will take it upon themselves to reach out to Realtors and start to make their own arrangements for a visit.

Why you're losing money

When a transferee starts to make arrangements prior to speaking with HR and the third party relocation company, they miss out on valuable counsel, strategic partnerships and the subsequent benefits and discounts that are available to them.

The solution

HR managers must insert themselves in the process early on. It should be corporate policy that department heads and business leaders loop in HR prior to discussing the relocation with the employee. This will ensure that HR is available at the right time to discuss the potential move in more detail and to ensure transferees understand the relocation policy and have appropriate counsel moving forward.

HR managers must insert themselves in the process early on.

5 Inconsistent Exceptions

The issue

Companies with many different cost centers, a decentralized structure, and/or a non-strict adherence to the relocation policy are more likely to be inconsistent in granting exceptions.

Why you're losing money

Exceptions can swell the total relocation costs, set bad precedents for the future and undermine any chance for cost predictability or containment. Regardless of papers signed, or the fine print in the policy, transferees will talk to one another. Granting an exception to one employee opens the door to granting the same exception to many. Further, in some cases, there are better solutions to problems than an exception that will add to the bottom line cost of the program.

The solution

Have a centralized gate keeper(s) who closely monitors exception requests and work with your relocation provider to implement a tracking process. Before granting an exception, talk with your relocation provider about alternative solutions to see if there is a better way to address the problem. If you decide to move forward with the exception, document the rationale behind your decision so that you can refer to it when a similar issue arises. Finally, always review your relocation policies on a regular basis to ensure that they are current and address market conditions.

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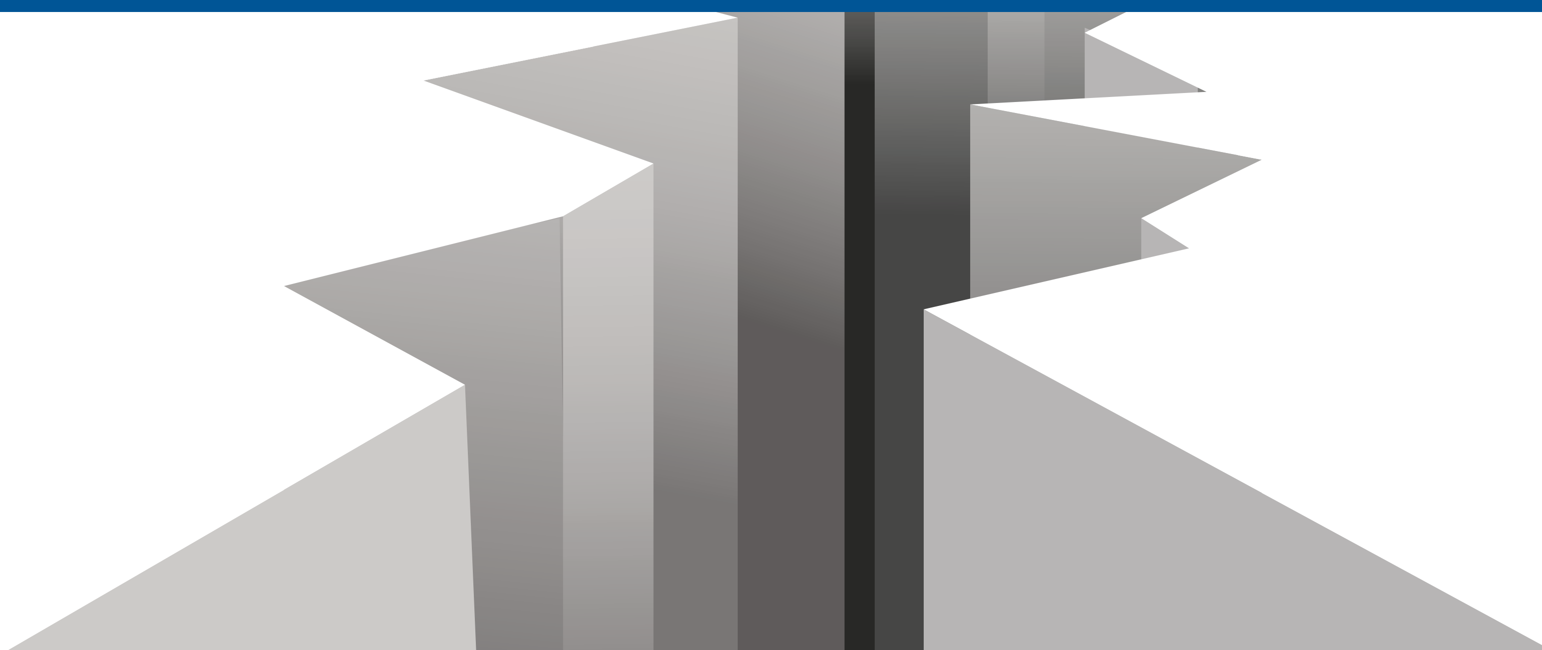
6 Household Goods Moving is Taxable



The issue

Tax law changes have made the household goods move, first 30 days of storage, automobile shipping and final move travel and lodging expenses a taxable relocation benefit.

Why you're losing money

Historically, these critical elements of the relocation process were not taxable benefits and could be treated as a business expense. Now that these benefits are considered taxable income to the employee, companies will gross up the expense in order to protect the employee. This adds another layer of cost to an already expensive benefit.

The solution

Companies will need to be creative in order to reduce household goods moving expenses. For smaller moves, consider using containers and/or self-move options. Also, professional organizers and donation programs can help the transferee discard excess items, thus reducing the shipment cost.

Further, SIT should only be used when needed. If a transferee wants to stage their home for sale, suggest they put some items in self-storage nearby and offer to pick up the goods when the movers complete the move. If they want to leave the origin home and not return, suggest having them save one return trip during temp living or offer this as an approved exception. Most well-rounded policies offer this and it is much more cost effective to cover the flight than to store the goods with the mover. A side benefit is that by not storing goods, this reduces the amount of handling which thus leads to less claims, which leads to a better relocation experience.

For global moves, air shipments are a high cost item. We suggest limiting them to 500 lbs. Sea shipments are less, so shipping the bulk of the goods by water is more cost effective.

Last, but not least, ensure that your relocation management company is extending to you the deepest discount available.

7 No Pre-decision Assessment

What happens if the transferee has a home underwater that cannot be sold?

The issue

A pre-decision assessment is a structured discussion with the transferee about the pros and cons of the relocation including concerns about home equity, financial constraints, family considerations, special needs timing and anything else that can impact the success of the transfer. Even though this is a critical step, many companies don't have a pre-decision process in place.

Why you're losing money

Companies that do not offer pre-decision counseling are setting themselves up for additional costs and considerations that they will face down the road. For example, what happens if the transferee has a home underwater that cannot be sold? Or the family that cannot sustain itself without two incomes for any period of time? Or a child has special needs and needs to be near certain facilities? If these issues are not discussed upfront, neither the transferee, nor the relocation manager will have a good grasp on the magnitude of the move and its potential for success. There is nothing more expensive in relocation than a failed attempt.

The solution

Work with your relocation partner to provide a pre-decision assessment that will identify any stumbling blocks and assess the viability of each move. Knowing the full scope of your transferee's needs will help you gain a true understanding of the costs involved. Additionally, If the relocation is not a good fit for the employee, recommend an alternative or pull the plug BEFORE you move forward with the transfer.

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8 One Size Fits All Home Sale Program Parameters

The issue

Housing markets fluctuate substantially around the country – and not just in expense. While defining the homes that are eligible for your Home Sale Program – whether it be a BVO or a GBO program - is important, the parameters should be set logically based on customary market trends so as not to eliminate homes from the BVO program needlessly. For example, demand for a 5-acre home in Northern New Jersey may be very limited, whereas a similar home in rural Pennsylvania may be highly coveted.

Why you're losing money

Every reimbursement for the closing costs on a home that is sold that does not go through a third-party sale is a taxable benefit. When you add the gross up cost to the costs for closing, the numbers skyrocket. Barring homes from the buyout program based on arbitrary parameters will drive cost needlessly.

The solution

Work with a relocation provider that will aggressively explore the market for properties in question so that you can make logical, well-researched decisions on home sale program parameters. If a 5-acre lot is common in an area, the home will sell in a normal amount of marketing time. In this case, policies should read that excessive acreage for the location is not eligible, without identifying a specific acreage.

Another area where we see limitations are around the cost of the home. A $750,000 home in Westchester, NY, for example, may be common and saleable in a normal amount of marketing time. Before arbitrarily removing such a home from the program due to cost parameters, ask your provider to research the market and make a logical recommendation.

9 Rental Booby Traps

The issue

Cancelling the lease too early and/or covering the security deposit in the new home drive cost.

Why you're losing money

Lease break assistance can easily climb into the thousands if there are no parameters on the number of months covered. Security deposits are refundable, so covering a transferee's security deposit is akin to giving them an additional allowance. Not only is this an unnecessary expense for the company, but it also minimizes the transferee's responsibility for the treatment of the home.

The solution

Limit lease break assistance to two months - or find ways to keep the transferee in origin until the lease ends so this fee is not incurred. As a matter of policy, do not cover security deposits on new home rental. The deposit is refundable if the property is returned in good condition according to the lease. Additionally, renters will get the security deposit back from their previous lease that they can use to off-set this expense.

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10 Unreasonable Relocation Periods

The issue

From time to time, we see companies offer an extended period of time to complete or even to decide on whether or not to relocation.

Why you're losing money

Understanding that deciding to relocate is a difficult decision and one that should involve the entire household, companies try to be understanding and helpful with this decision. Therefore, they may offer some very expensive alternatives to try and assist the sought-after new hire or high potential employee. This assistance usually comes in the form of delaying the expiration of relocation benefits for well over a year, having the employee stay in temp living in destination with frequent return home trips for an overly extensive period of time, turning a permanent relocation into a long term assignment, or allowing the employee to take an extended period of time to decide whether or not they will relocate. What do all of these options have in common? A lot of additional cost with no guarantee that the employee or new hire will remain your employee once the additional benefits have expired. Keep in mind, that if the new hire or employee is having difficulty accepting a relocation, their resume is actively on the market seeking other more local opportunities.

The solution

Find out the root cause as to why a transferee or new hire cannot commit to the new location right away. If there are family concerns as to whether they will be happy in the new location, your relocation management company or local Recruiter can put the transferee or new hire with the right Realtor or Destination Agent who understands the challenges or a relocation and knows how to build excitement around the new location. If the concerns are financial, perhaps there are relocation benefits, financial incentives or compensation elements that can be offered to help offset some of the additional financial burden. There may be concerns that as a company you cannot resolve. In those cases it is best to know sooner rather than later and accept that this employee or new hire and this location may never be a good fit.

Remember the original goal: to make a strategic hire for a job in a specific location.

CONCLUSION

Did you find yourself nodding along to any of the chapters in this book? If so, be sure to schedule a meeting with your relocation partner to discuss next steps moving forward. It's hard to say exactly what 2020 is going to look like, especially from a regulatory and economic perspective, but we believe that technology, flexibility and open lines of communication are going to be three major themes for the New Year. Finally, no matter what happens in 2020, always make sure your policies are current to market trends and true to your corporate culture, as well as your recruitment and retention strategies.