



PorchLight

NATIONAL RENTAL & DESTINATION SERVICES



Relocation Policy Review

Lump Sum Policy Comparisons: *The Pros & Cons*

Relocation policies come in all shapes and sizes. Consequently, this can create challenges and confusion for those writing and overseeing the policy as well as for the end recipient, meaning either the existing employee or new hire who is being relocated (the transferee). There are many facets to consider on both sides. The employer needs to consider the costs to be incurred by both the transferee and then the costs that the company wishes to incur, including not only the relocation benefits to be paid to the transferee, but also the administrative costs and tax implications.

Certainly, not all policies are created equal. Companies that relocate high level executives to college graduates will likely have a different policy or benefit offering for each position or tier of job grades. Transferees need to consider the costs of the relocation and to what extent the company has offered to cover those costs, in whole or in part, and the tax implications of those benefits.

These company policies and the method for covering expenses can also differ. There can be direct reimbursement – which is payment to the transferee after submission of allowable expenses and appropriate backup documentation. These expenses might be reimbursed in full, or there may be a cap (up to maximum amount) applied.

There can be a supplier direct bill – which provides payment directly to the supplier for the allowable services and expenses such as travel, temporary housing or household goods moving. Or, the company may have a combination of these policies, or a simpler, lump sum policy.

Additionally, regardless of policy type, relocation benefits paid to a transferee are taxable income and must be accounted for accordingly. This means that the payment received by the transferee will have taxes withheld or the payment has been grossed-up, meaning that the transferee receives an amount that is net of taxes. Companies will need to decide which method they will use. Moreover, there are certain relocation benefits that can be excluded from income and are not considered taxable.

The purpose of this Relocation Policy Review is to look at lump sum policies, their general definitions and some pros and cons to consider.

1. Lump Sum Only

A lump sum only policy provides the transferee with a one-time lump sum payment to compensate for all relocation costs. The word “all” is key. This means relocation expenses such as household goods shipment, home sale, home purchase expenses, home finding, lease cancellation, area tours, temporary living, trips back and forth and final move. A lump sum only policy is generally intended to help offset these relocation costs and not to necessarily cover all of them.

The transferee is expected to manage their relocation process and to pay all expenses that are not covered by this lump sum payment. However, in the event that relocation costs are less than the lump sum, the transferee retains any unused portion of that lump sum payment.

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Pros:

- Can be financially and market-place competitive at any level.
- Flexibility to evaluate/negotiate the lump sum on a case-by-case basis if more feasible.
- Budgeting for relocation costs is upfront, easier and costs are known and contained.
- Minimal administrative time and cost for the company.
- Exception requests are generally not an option.
- Tax withholding or gross up is easy to calculate and administer.
- Simple for both company and transferee - no expense reimbursements.
- Company has minimal involvement.
- Transferee retains control over expenses as well as retains any unspent portion.

Cons:

- One lump sum policy may not fit all depending on individual needs (homeowner versus renter) so tiers are needed.
- May not be market competitive for attracting needed talent, especially mid to upper level management.
- Challenges to determine the lump sum amount can vary by new hire or existing employee, status as homeowner or renter, job level, percentage of salary, etc.
- May result in transferee unhappiness as they are on their own to manage their relocation and there is a lack of company support.
- Transferees may not choose the best service providers which may cost them time and money.
- Transferee manages all aspects of the relocation, which can negatively impact job productivity / performance.
- Transferee is responsible for understanding tax impact, deductibility of moving expenses and retaining appropriate receipts.
- Companies may experience challenges with failed relocations.
- If lump sum is not tax grossed-up, the transferee may experience confusion and disappointment concerning the amount received versus the amount expected.

2. Lump Sum Plus

This approach usually has these two components:

(1) A one time, up-front payment issued by the company to the transferee.

(2) A direct payment by the employer to one or more service providers (also known as a direct bill) for certain relocation expenses. This is most commonly to the household goods moving supplier for shipment of household goods and storage. The expenses paid or covered to this supplier are predicated upon company policy stating what will and will not be covered. Auto shipment may also be included in this category of covered expenses.

As to the household goods provider used, the company will typically pre-arrange one or more moving companies to provide this service with a direct bill process in place. For entry-level transferees e.g. college grads, the company has likely secured an agreement with a truck rental firm or a small shipment provider.

For larger moves, the company will generally secure a direct bill agreement with two full service movers and typically both will provide an estimate for each move.

Lump Sum Plus is a “step-up” in cost coverage and relocation support services in the area that all transferees have expenses—moving household goods. This change makes slight shifts to the pros and cons outlined in the Lump Sum Only policy in the following areas:

Pros:

- Higher transferee satisfaction with convenience of company endorsed household goods moving service providers and direct payment.
- Still, the relocation process is managed by the transferee and the company retains ease of administration.
- Direct company payment of household goods excludes this relocation benefit from being taxable income to the transferee.

Cons:

- To manage company expenses, it is best practice to determine and publish a household goods moving policy as to what will and will not be covered.
- More exception requests could result due to household expenses that are not covered.
- Transferee may still feel there is a lack of support on other areas of the relocation process.

“ Higher transferee satisfaction with convenience of company endorsed household goods moving service providers and direct payment.

3. Lump Sum Provisions within a Traditional Policy Tier

In this scenario, the company has in place a traditional relocation assistance policy that outlines provisions for each relocation expenditure such as household goods, home sale and home buy expenses, and trips back and forth. These expenses might be managed under a direct reimbursement process or through direct payment to a relocation service provider, or a combination. All costs in this traditional model are variable. For the rest of the relocation expense areas such as temporary housing, trips back and forth, home finding trips and miscellaneous expenses, the company provides a lump sum payment. The method and calculations a company applies to determine the lump sum for these expenses will vary.

“ Policy approach is time-tested and used by many.”

For each area that is covered by the lump sum, the transferee becomes responsible to manage their service experience and expenditures that best suit their needs.

Pros:

- Administration of certain expense reimbursement is reduced for both company and transferee.
- Costs are capped for the company.
- Transferee is in control of coordinating, making decisions and managing these expenses and retains any unused amount.
- Exceptions to policy in these lump sum areas are eliminated.
- Other elements of the policy including any relocation support services provided, can stay in place.
- This policy approach is time-tested and used by many.

Cons:

These primarily occur only when a company shifts from a traditional policy of fully covering expenses incurred to the lump sum payment approach.

- A shift in philosophy that requires management buy-in.
- Method for determining lump sum must be researched and decisions made.
- Change management is required for administrative processes and procedures, including rewriting and communication of new policy and expense accounting.
- Transferees, especially existing employees who moved under prior policy, may resist taking ownership of cost management and not be happy.

Policy Rationale

There are many approaches to a relocation policy. The lump sum approach is just one of them, and it too has variations as we have outlined. As you consider the type of relocation lump sum policy, if any, that is best for you and your transferees, we recommend that all of these areas be considered:

- Company culture – paternalistic or cost management responsibility is shared.
- Types of transferees – existing employees or new hires; entry level or all levels; renters or homeowners.
- Competitive landscape – recruiting challenges when relocation is required.
- Cost – affordability, budgeting.
- Lump sum methodology – amount of payment versus actual cost.
- Administration – internal structure, resources, flexibility, ease.
- A fair and unbiased approach – The policy should be balanced to support all transferee levels, job grades, families, singles, homeowners, renters, etc. as equitably as possible.

Relocation Support Services for Lump Sum Policies

Within this discussion of lump sum policies, we only referenced household goods moving. Relocation support services can accompany any type of relocation policy. Again, in this area, there are numerous considerations and options that are available, and, some are specifically designed to accompany lump sum policies. Please be on the look-out for our upcoming discussions on this topic.

Summary

Lump sum policies are certainly not new. They are considered to be a viable and market-competitive relocation policy and therefore growing. Lump sum only policies are a typical industry practice and highly effective for entry-level new hires such as a university recruitment program or for one to three year, experienced professionals coming into an entry-level management trainee position. Lump sum policies are also common for small to mid-cap companies that have infrequent relocations, want flexibility and do not want to “get involved” with any aspect of managing the relocation process.

As with any company policy – whether it be a new one or revamping of an existing one, your current situation, needs and objectives, require evaluation and discretion to determine what is a best fit for both the company and the transferee.

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