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Seven Essential Steps to Making the Right Relocation Pay Decisions

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Once the decision is made to move an employee to another site, not only do transition logistics need management, but a compensation plan must be created. Dunn offers a step-by-step guide to making the correct employee mobility pay decisions.

It is important to keep in mind that employers' compensation plans generally are intended to result in actual base pay and/or variable pay levels that are:

• **Market-competitive—**to attract and retain the best employees;

• **Internally equitable—**to be fair and maintain high morale;

• **Cost-effective—**to assure that compensation costs are optimal (neither too high nor too low);

• **Legally compliant—**to not adversely affect protected class employees, and also to assure that overtime is paid consistent with applicable wage and hour laws; and

• **Motivational—**to link base pay and/or variable cash compensation to solid measures of performance results.

Given the significant costs associated with each employee relocation, it may be tempting to minimize the importance of getting the new salary right. For example, if the move for a homeowner employee will cost $76,600, the 2007 average cost reported by Worldwide ERC® (*www.WorldwideERC.org/Resources/Research/Pages/Facts-and-Statistics.aspx*), adding a salary increase of $5,000 to $10,000 to be spread out during the following year may not seem like a lot of money.

However, this is a short-sighted approach, as any such salary increase will not only be built into base pay costs for the long term, but also may result in internal pay inequities that could lead to employee dissatisfaction because of perceived unfairness, and even legal liabilities. Therefore, it ultimately is just as important to correctly set the new salary for the relocated employee as it is to manage the costs of the move itself.

The Cost-of-living Factor vs. Labor Market Indicators

Often, employees and employers focus on the differences in the cost of living between the existing and new locations. Regarding effective pay decisions, however, it is most important to make sure that the new salary is consistent with the local labor market value for the job.

The cost-of-living indicator most often used is the Consumer Price Index (CPI). This is a location-specific indicator of the prices of consumer goods and services. While it may seem logical to keep an employee whole with respect to his or her spending power in the new location, such thinking can result in pay decisions that are inconsistent with the local labor market, as the two indicators do not always match. The CPI measures consumer costs that are determined by local supply and demand for goods and services. The labor market, on the other hand, is measured in terms of actual wages and salaries paid, which is a function of the supply of, and demand for, employees who are qualified to hold particular jobs. There are many metropolitan areas in the U.S. in which these indicators of inflation are very different.

It also is helpful to keep in mind that keeping an employee "whole" after a move is a highly subjective concept. For example, an employee leaving a very large house in rural Texas may feel that his or her new, much smaller house in the San Francisco Bay Area is a lifestyle downgrade. However, the advantages of living in an area rich in cultural opportunities, major league sports, fine universities, proximity to the ocean, mountains, and wine country, not to mention temperate weather, may more than offset what might otherwise be a relocation disadvantage. The extent to which an employer wishes to compen-

sate employees for relocating under different conditions should be well-defined, clearly communicated, and applied consistently.

Seven Steps to Making Good Decisions

So, how can one best set the new salary (if it does change) for the relocated employee? Following are the easy steps to follow as you decide what base pay to offer your transferring employee:

1. Educate yourself about your company's pay plans. Check with your HR department and ask these questions:

• Are all of the company's jobs evaluated and classified into pay ranges and/or job values? If so, what is the job value or range of the transferring employee's current job and new job?

• Are geographic differentials established for each of the company's different locations? If so, these should be applied to the job values.

• What is the company's policy and practice relative to salary adjustments? Find out what the transferring employee would be paid in the new job if he or she were already there.

2. Assess the current situation with respect to the transferring employee. Determine which of the following situations apply:

• Company is initiating the move for its own business reasons, usually because the transferring employee has skills that are needed there, and/or because the employee is on a career path that requires experience that is best acquired in a role at the new location.

• Employee is initiating the move for personal reasons. If this is the case, the employer is under no obligation to pay any relocation costs, although such costs may be paid to a limited extent.

3. Clarify the organizational situation at the new site. Assuming the company has a structured pay plan, find out the job values (or salary ranges) of the positions that are held by peers, supervisors and subordinates, as applicable. Also, obtain data on the actual salaries being paid to individuals in these positions, along with their performance ratings. If possible, compute the compa-ratios of all such future co-workers.

A compa-ratio is actual salary as a percentage of job value (range midpoint). This will tell you if there is a correlation between base pay and performance. For example, if the top performers have compa-ratios in the range of 105 to 120 percent, while the lower rated employees have compa-ratios in the range of 80 to 95 percent, this will verify that salary administration at that location is based on performance, not just tenure.

In general, new employees who are expected to have a learning curve as they assume new responsibilities are paid between 85 and 95 percent of the job value.

4. Determine what the transferring employee would "ideally" be earning at the new location if he or she were not relocating. This is a simple matter of computing an "ideal" salary as a percentage of job value, using the following scenario: if this is a lateral transfer to the same job as previously held, the employee already may be a fully competent or higher employee; if it is a new job, and a promotion, the employee is likely to require more development.

5. Compute the salary adjustment. This often is a very challenging part of the process. Obviously, clear communication at all levels is essential.

First, subtract the employee's existing salary from his or her "ideal" salary at the new location. If a positive number, this results in the salary adjustment amount.

If the number is negative, it means that the employee is currently paid more than what he or she should be for the new job. Although it generally is difficult to reduce an employee's base salary in this (or any) circumstance, it may be necessary to do so for reasons of internal equity. Judgment should be used in making this

'IDEAL' SALARY AS PERCENTAGE OF JOB VALUE	PERFORMANCE AND/OR COMPETENCY LEVEL
113 – 120 percent	Top performer, exceptionally skilled, ready to be promoted
106 – 112 percent	Excellent performer, fully skilled
96 – 105 percent	Fully competent performer
86 – 95 percent	Not yet fully competent; employee requires more development
85 percent and below	Poor performer, not likely to succeed at job

determination. If the amount is small, it probably is not worth the pain. If the reduction amount is significant, care must be taken to explain the decision carefully and to point out the potentially offsetting benefits of the move from a career advancement standpoint, as well as with respect to the one-time only cash payments and/or allowances that are likely to result in a higher standard of living.

Alternatively, the decision may be made to freeze the individual's salary until such time as labor market inflation or job evaluations may indicate that a higher salary is appropriate.

6. Establish compensation policies specific to relocations. If policies and guidelines are clear and consistently followed, the need for case-by-case judgment calls can be minimized. Amounts and guidelines need to be set for some or all of the following:

- reimbursement and/or direct payment of costs associated with the relocation itself, including moving, travel expenses, spouse visits, and the like;
- reimbursement and/or direct payment of costs associated with homesale and purchase, including brokerage fees, new loan costs, staging, and so forth;
- special, time-limited allowances and/or lump sum payments to offset such extraordinary costs as differences in dependents' tuition, association or club memberships, household help, decorating and/or furnishing the new house, short-term income replacement and/or job-hunting expenses for the employee's spouse, or other expenses that would not have been incurred except for the fact of the move; and
- a relocation incentive.

7. Determine whether a relocation incentive payment should be made. The purpose of any such payment is to motivate the employee to accept the relocation without building in an ongoing salary cost, and without distorting the pre-established "ideal" salary for the job. It obviously would not apply to any employee-requested relocations about which the employer is indifferent.

Whether such payments should be made will depend to a large extent on the degree to which the employer wants the transfer to occur. If the employee is reluctant to move, and the financial incentives such as a base pay increase, if made, are not valued by the employee, it may make sense to offer a one-time only payment as a "relocation incentive." Analogous to what is commonly referred to as a "hiring bonus," but would be intended to motivate an existing employee to take a new assignment.

From an employee relations standpoint, one always should consider how successful any relocation is likely to be if the employee is unhappy about the move and is doing it only to receive the relocation incentive. A subsequent termination would prove costly in many ways. A better alternative might be to offer a "retention bonus" after a specified period of time on the new job, contingent on satisfactory performance.

The relocation incentive amount can vary widely depending on the situation. It can be as much as 10 to 100 percent of the annual salary. Care should be taken to assure that any variation in such payments does not result in illegal pay discrimination. ■

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