

Ask the Consultant: When Does a Lump-Sum Approach Work Best?

Perri Ma

Employers often provide a lump sum to international assignees to cover certain expenses or act as an incentive to accept and/or complete an assignment. (See Chart below.) Common practice for a lump sum includes defining it as a fixed amount, in terms that vary by income, as a minimum amount (e.g., one month's salary of at least USD5,000), and/or with a maximum (e.g., one month's salary up to USD10,000). The most usual purposes for a lump-sum payment are:

- When the family's new foreign home is not available upon arrival, employers must consider how much they are willing to reasonably reimburse for temporary living arrangements. Under these circumstances, one lump sum may cover incidental expenses (passports, visas, health certificates, gratuities, ground transportation) and another may be used for daily living costs for typically up to four weeks in the home country (before departure). This practice may also be necessary in the home country upon repatriation.
- A spousal allowance can help with education, licensing, job search, résumé preparation, and so forth.
- Companies typically provide periodic home leave to the assignee and family to the designated point of origin. Although many employers do not pay living and hotel expenses during home leave, they often continue to pay the differential to cover expenses. One option is to pay a cash sum, without mandating that home leave be spent in the home country. The policy may allow travel to alternative sites as long as the total cost does not exceed travel to the designated point of origin.
- It is common to cover incidental costs associated with moving out of the primary residence and settling into the new foreign home through a relocation allowance.
- An effective alternative to the ongoing traditional foreign

service premium is a mobility premium, commonly paid at the beginning and end of a successful assignment (or for accepting another assignment). An important factor is structuring the balance between acceptance and completion premiums. For example, if the intent is to deliver one month's salary for each year of assignment, then a three-year assignee could receive two months' salary as an acceptance premium and another month at completion; or one and one-half months for each premium. Some employers "sweeten" the acceptance portion to attract suitable candidates or provide an incentive to remain until completion.

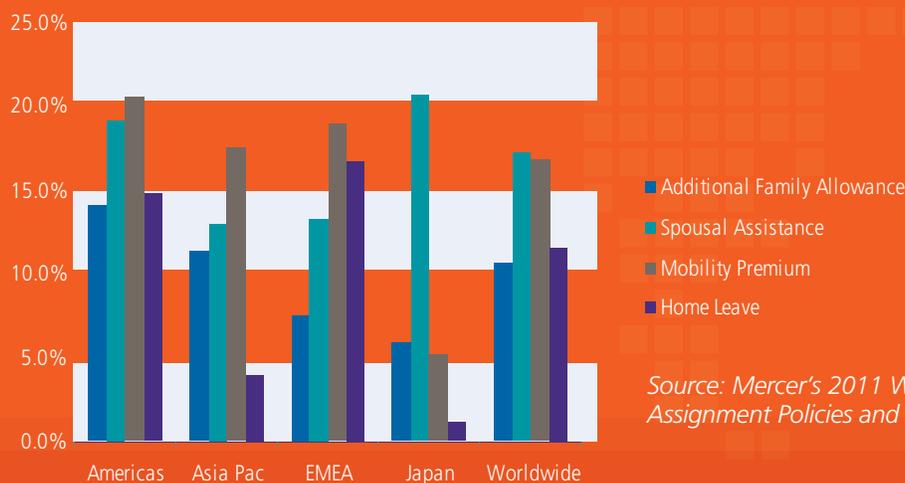
Balancing the Pros and Cons

Lump sums are best used in traditional and simple assignment patterns. They offer several advantages for the company: simpler administration, easy explanation to assignees, and fewer requests for exceptions to individual policies. They eliminate the need to process a large volume of receipts, while giving the employee personal responsibility over minor expenses associated with an international move.

That said, there is a downside. When assignees receive a lump sum, they may lose sight of what the pay package represents. Consequently, they view the lump sum as an extra bonus. Open and clear communication as to what the amount covers can go a long way to avoid miscommunication and disappointment.

Perri Ma, an Analyst for Mercer, is based in San Francisco.

Typical Types of Lump Sum Payment



Source: Mercer's 2011 Worldwide Survey of International Assignment Policies and Practices