The Home Housing Norm—
To Deduct or Not to Deduct

Geoffrey W. Latta

As part of their international compensation program – in line with the balance sheet approach – many employers include a provision to deduct the imputed cost of home-country housing while the employee is on assignment. The home-country housing norm is that portion of an employee's base salary customarily paid for housing and utilities.

According to ORC's 2008 Worldwide Survey of International Assignment Policies and Practices, many companies – 71 percent based in the Americas, 54 percent in Europe, and 39 percent in Asia-Pacific – use the home-country housing norm tables developed by ORC Worldwide and other consultants. Rather than using a fixed percentage of pay, these tables provide a more accurate reflection of the cost at different income levels and family sizes, showing a declining percentage of pay spent on housing as income increases. ORC derives a home-country housing norm from an analysis of expenditure on home ownership, rental costs, and all utilities (except telephone).

When the employee's housing cost is higher at the assignment location than at home, companies usually make up the difference. Following ORC’s balance sheet concept, an employer has two methods to implement this equalization concept:

1. Deduction of a housing norm that represents the assignee’s home-country housing costs. The company then pays all approved foreign housing costs.
2. Payment of a differential (rather than deducting a representative amount). Here, the employer pays the assignee the amount that foreign housing costs exceed the calculated housing norm.

As this discussion will illustrate, there are arguments for and against applying an equalization approach to housing costs. It is important to remember that a decision to waive the deduction does not necessarily depart from the spirit of the balance sheet approach. There are certain situations in which one approach may make more sense than another.

The Purpose of the Housing Norm

The underlying balance sheet philosophy is to ensure that an expatriate's costs are kept broadly in line with expenditures that would have been incurred had the assignee remained in the home country. In this context, the intent of the housing norm is to reflect the costs that an employee would previously have had to incur out of home-country salary for housing but no longer faces when away on assignment.

How then can an employer determine what, in fact, actually happens to an expatriate's home costs? Clearly, there are savings:

- For the employee who rented an apartment or house in the home country and did not renew the rental while on foreign assignment
- When employees sell their homes before leaving on assignment

When the employee retains and rents an owned property while abroad, one can assume that rental income either offsets or possibly exceeds any continuing home cost. Only if employees choose to keep their home without renting it – if, perhaps, they cannot rent it due to family members remaining at home or a poor rental market – will they have continuing home costs with no offsetting income. When renting is not practical or possible, if the home housing costs continue at the same level as when the employee resided in the home country, the balance sheet philosophy argues that a norm is not justified. (See Chart 1, “Employer Policy Regarding Housing Norms.”)

Housing Norm Trends in the Americas

With regards to the use of housing norms, ORC’s 2008 survey provided an interesting contrast to the 1996 edition of the study. Findings indicate that the practice of deducting the home housing norm in companies headquartered in the Americas has been evolving:

- 33 percent of 2008 participants based in the Americas do not deduct a norm compared with 13 percent in 1996.
- 46 percent in 2008 (vs. 63 percent in 1996) pay the total cost for foreign housing and deduct a norm, while 11 percent in 2008 (vs. 23 percent in 1996) pay a differential.

As outlined above, the differential approach is also based on an equalization philosophy. Because both the differential and the norm deduction approach have the same purpose, in practice, 57 percent apply equalization (compared with 86 percent in 1996).

As evidenced by the ORC survey results, more and more employers based in the Americas are reconsidering the use of the home housing norm.

Housing Norm Trends in Europe and Asia-Pacific

Although U.S. practice has changed over the course of 12 years, European practice has not changed much. The numbers have slightly moved, but the practice of deducting the home-country housing norm is still less common for European multinationals than for U.S. firms. According to ORC’s 2008 survey:

- 31 percent of multinational participants based in the Europe/Middle East/Africa region pay for housing and deduct a norm, with 14 percent providing a differential (in 1996, 42 percent of European participants either deducted a norm or paid a differential).
- Half (49 percent) do not deduct a norm, compared with 57 percent in 1996.

The main reason that more European employers waive a norm in comparison with companies based in the Americas is that a number of European countries (e.g., the UK) place legal restrictions on landlords, making it less attractive to rent their property. In addition, renting may be culturally less acceptable. On a practical level, Europeans who accept assignments elsewhere in Europe may have an opportunity to return home more frequently than Americans assigned abroad, so proximity to their own countries may act as an inducement to retain their property for trips home.

Participants in Asia-Pacific are even less likely to deduct a housing norm, as evidenced by the following results, whereby employers:
### Chart 1 Employer Policy Regarding Housing Norms

How does your company address the following circumstances in relation to the home housing offset?

#### The Americas

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Employer waives norm</th>
<th>Employer reduces norm</th>
<th>No change in policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expatriate chooses not to rent</td>
<td>31%</td>
<td>9%</td>
<td>48%</td>
</tr>
<tr>
<td>Expatriate allows family to remain in house</td>
<td>36</td>
<td>8</td>
<td>42</td>
</tr>
<tr>
<td>Expatriate unable to rent home</td>
<td>39</td>
<td>10</td>
<td>38</td>
</tr>
<tr>
<td>Expatriate rents house for less than typical expenses</td>
<td>3</td>
<td>31</td>
<td>49</td>
</tr>
</tbody>
</table>

#### Europe-Middle East-Africa

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Employer waives norm</th>
<th>Employer reduces norm</th>
<th>No change in policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expatriate chooses not to rent</td>
<td>12%</td>
<td>10%</td>
<td>68%</td>
</tr>
<tr>
<td>Expatriate allows family to remain in house</td>
<td>26</td>
<td>14</td>
<td>51</td>
</tr>
<tr>
<td>Expatriate unable to rent home</td>
<td>20</td>
<td>12</td>
<td>54</td>
</tr>
<tr>
<td>Expatriate rents house for less than typical expenses</td>
<td>2</td>
<td>18</td>
<td>64</td>
</tr>
</tbody>
</table>

#### Asia-Pacific

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Employer waives norm</th>
<th>Employer reduces norm</th>
<th>No change in policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expatriate chooses not to rent</td>
<td>25%</td>
<td>6%</td>
<td>38%</td>
</tr>
<tr>
<td>Expatriate allows family to remain in house</td>
<td>38</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td>Expatriate unable to rent home</td>
<td>31</td>
<td>0</td>
<td>31</td>
</tr>
<tr>
<td>Expatriate rents house for less than typical expenses</td>
<td>0</td>
<td>13</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: ORC’s 2008 Worldwide Survey of International Assignment Policies and Practices
The Home Housing Norm—
To Deduct or Not to Deduct (continued)

- Pay for housing and deduct a norm – 20 percent in 2008 (49 percent in 1996)
- Pay a differential – 8 percent in 2008 (10 percent in 1996)
- Waive the norm – 65 percent in 2008 (39 percent in 1996)

A likely reason for this practice is that, in many Asian cultures, households include extended families that encompass multiple generations. Therefore, if an employee goes on an international assignment, there are likely to be relatives remaining in the home.

Practical Matters: Equity and Privacy

Part of the reason for the increase in companies not deducting a housing norm arises from concerns about the process that many companies follow in allowing certain individuals to be exempt from paying the norm. Waiver of the housing norm can create employee equity issues. If employees say that they cannot rent their homes, the company has to decide either to trust or verify the statement. Companies that allow waivers risk creating resentment between assignees who had the deduction waived and those who did not—especially if there is any suspicion that assignees whose norm was waived did not keep their property vacant, or worse, may have quietly rented it.

The company might then have to decide whether (and how much) to delve into personal circumstances. This issue is analogous to the debate on whether to permit an employee to have a reduced housing deduction if prior actual costs are lower than the norm. Some employers permit it, but it involves a detailed examination of the expatriate’s costs. Others companies feel this policy is inappropriate.

In theory, since all norms are averages, one can argue that a company should not take into account costs for housing that fall below the norm; in the goods and services area, some employees clearly have higher home-country spendable incomes than average. Should the company give them a higher spendable income and differential on assignment? If the answer is no, why then allow it for housing?

In addition, employees who claim lower costs may not fully understand all the elements (e.g., household repairs, insurance) that contribute to home costs. However, some companies feel that in the face of clear proof of lower cost, it would be unfair to apply the full norm, although not doing so creates additional administrative work.

Practical Matters: Administration and Associated Expenses

Another issue is administration. Some companies that deduct a housing norm assist the expatriate in either selling or renting the home property. Administrative costs here for the company can be considerable. According to ORC’s 2008 survey, participants worldwide reported the following:

- One third provides some assistance with the sale of a home-country residence.
- 8 percent manage the property rental.
- 28 percent pay property management fees
- 4 percent pay the rent if the house is vacant.
- 11 percent pay all or some of the maintenance costs.

In light of the additional expenses, one argument for abandoning the deduction is that, in return, the company can legitimately say it will play no part in any decision (or resulting expense) an employee makes about home-country housing. Several companies have estimated that the resulting savings may offset up to 50 percent of the additional cost to the company of not taking a deduction.

The only note of skepticism here is the degree to which the company can really stand back from having any involvement in home housing. It can be argued that employees who have to spend their own time making rental or selling decisions are less likely to concentrate on the assignment—and, may still blame the company if the decisions they take do not work. Many companies will have to change their corporate culture if employees are to be convinced that the company is going to adopt a hands-off approach.

Practical Matters: Host Housing

Although the issue of the housing norm is analytically distinct from the decision about the level of host housing cost, in practice, the two decisions cannot be seen in isolation. From the perspective of total company cost, the assignment housing policy has the most impact. One company may appear generous because it does not deduct a norm; but, in turn, it may be more restrictive with host allowances. Another company may deduct a norm but allow the employee to live in up-market expatriate ghettos. In cities like Hong Kong or London, for example, the range of acceptable host housing allowances is much wider than the spread between deducting and not deducting a norm. (Chart 2, “What Determines Host-Housing Assistance,” illustrates the primary underlying factors in an employer’s decisions regarding housing policy.)
Policy Review: A Key Periodic Step

So what does it all mean? For any move away from the norm to be worth considering, a company has to evaluate its own situation. The following questions might offer some guidance in that evaluation:

- How much will it cost?
- In return for abandoning the deduction, can we really extricate ourselves from a role in relation to home-country housing?
- Do we have a significant number of employees with continuing home-housing costs?
- Do we have a significant number of assignees for whom we waived the norm?

If the answers to the last three questions are affirmative and the additional cost to the company is acceptable, it may be worth considering the option of waiving the norm. If not, there seems little reason to abandon the deduction. A review of housing policy is probably a periodic necessity, however, as it may reveal other areas of necessary change in terms of reducing the company’s administrative work and increasing cost savings.

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Chart 2 What Determines Host-Housing Assistance

What is the most important factor in determining the amount and type of host-country housing assistance?

<table>
<thead>
<tr>
<th>Assignment length</th>
<th>Asia-Pacific</th>
<th>Europe-Middle East-Africa</th>
<th>The Americas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job level</td>
<td>6%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Base salary</td>
<td>26</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>Family size</td>
<td>2</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Quality/size available to host-country peers</td>
<td>48</td>
<td>49</td>
<td>40</td>
</tr>
<tr>
<td>Type or quality of housing provided</td>
<td>3</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: ORC’s 2008 Worldwide Survey of International Assignment Policies and Practices