

Strategic AdvisorSM



Volume 11 • Number 110 • May 2015

Be a Good Host: Using Host Based Assignment Policies

Despite sustained pressure to reduce costs and limit international assignments, temporary long term assignments continue to be the most common type of assignment. While the traditional balance sheet (or home country based) long term assignment policy still dominates, surveys indicate that companies are beginning to experiment with alternative policy types, such as the use of host country based assignment policies. Host country based assignment policies have begun to emerge as a potentially more cost effective alternative to the traditional home country balance sheet approach.

This article will examine the key characteristics of a host country based long term assignment policy (host based policy), the principal differences when compared to a home country based balance sheet approach (home based policy), and the trends associated with its use. In addition, the article will also cover when and when not to use a host based policy, where a host policy works best, as well as an overview of challenges associated with it.

What is a Host Based Policy?

A host based policy is a temporary long term international assignment policy type. It is not a localization, a "local-plus" or a one-way transfer policy but is, in fact, an alternative type of long term temporary international assignment policy. It can be used in addition to a traditional balance sheet (home based) assignment policy, but should not be considered as a replacement for a home based policy.

For purposes of this article, a host based assignment is one in which the legal employment relationship remains with the home country; however, the compensation terms and conditions are consistent with that of the host location. There are also no housing or cost of living allowances provided, and assignment completion incentives/bonuses such as international service premiums are not typically included in a host based policy. While tax consultation and filing assistance are often provided, tax equalization benefits generally are not.

How Does a Host Based Policy Differ From a Traditional Home Based Policy?

While there is no single definition of either a home based or a host



based long term international assignment policy, the chart at the end of the article outlines the key differences which typically exist between the two policies.

How is a Host Based Policy Similar to a Home Based Policy?

While the chart outlines the primary differences between a host and a home based policy, there are also a number of similarities between the two policy types.

Employment Relationship Remains with Home Country

A key similarity between the two policy types is that under both policies the employment relationship remains with the home country. This is because the intent of the assignment is temporary with the assumption that the employee will return to the home country upon assignment completion. Thus, the immigration process will be the same for employees under both policy types. This is also significant in ensuring that the employment relationship remains with the home country for purposes of inclusion in the home country social insurance programs and company-provided retirement plans.

Relocation Support Services are Typically Included

Many of the assignment-related benefits which are typically included in a home based policy are also components of a host based policy. For example, standard destination support services such as a pre-decision ("look see") trip, orientation tour, house hunting, school search and settling-in services are also usually included in both types of policies. In addition, relocation-related services such as the shipment of household goods, a miscellaneous relocation allowance, and reimbursement for temporary living and final move expenses are routinely covered. Lastly, an annual home leave trip and emergency leave are frequently included in both policy types.



Compliance Remains Top of Mind

Another area in which the policies are similar is the equally strong emphasis on ensuring compliance. Both policy types typically include company-provided immigration support services, as well as tax preparation and consultation assistance. Both a home and a host based policy will generally include tax preparation services in both the home and host countries throughout the duration of

the assignment. However, for a host based policy, the actual tax obligations in both the home and host countries are the assignee's responsibility. This helps to ensure tax reporting and filing compliance for the company, while the liability for the actual tax payments remains with the assignee.

Reason for Assignment Does Not Affect Policy Type

The type of long term policy selected by the company does not generally differ based upon the reason for the assignment. So, whether the purpose of the assignment is to bring in senior leadership to manage a business expansion or to provide a junior-level employee an international development opportunity, each policy may be equally appropriate for these situations. For companies that have both policy types, the decision to have a long term temporary assignment is generally made first. Then the second decision becomes which long term policy (home or host based) makes the most sense based on the home/host country combination.

Are Host Based Policies Less Expensive Than Home Based Policies?

In general, a host based policy will be less expensive than a home based policy. This is due primarily to the fact that traditional assignment allowances and children's education benefits are not included in the policy and, as a result, the corresponding tax impact is minimized. With a host based policy, the company will typically provide tax assistance for the relocation-related benefits through a gross-up calculation. However, personal income tax at both the home and host countries remains the assignee's obligation, and this also contributes to the cost effective nature of host based policies.

In many cases, the base salary on a host based policy will actually be higher than the currency equivalent home based salary. However, because allowances such as housing and cost-of-living are not included, the overall cost of the assignment is generally less expensive.

When are Host Based Policies Most Effective?

Even though using a host based policy could be less expensive, there are a number of factors to consider in terms of making sure it is also the most effective overall choice.

Home and Host Countries Are Economically Equivalent

In general, host based policies work well when the home and host countries are fairly economically equivalent with similar wage plans

and compensation structures. Examples would include the UK, the U.S., Japan, Germany, Belgium, Hong Kong and Singapore. Host based policies are well suited for an evolving trend in which pay for top positions in emerging markets such as Russia, Brazil and China are reaching, and in some situations even exceeding, the pay levels for comparable positions in developed economies. As pay becomes flatter around the world, particularly at the Executive and Senior level positions, the use of host based policies will become more feasible.

Social Security Totalization Treaties Exist

Host based policies also work best when the home and host countries have a social security totalization agreement in place. This allows for the payment of just the home country social security contributions while excluding host country contributions. Without such an agreement, the assignee would be responsible for social insurance in both the home and host countries, which could be expensive for the assignees and may be a barrier to accepting an assignment.

Employee-initiated Assignments

In addition, host based policies often are viable solutions for employee-initiated or volunteer assignments. More and more employees are either requesting the opportunity for international experience or are asking for long term international assignments, perhaps due to the need for workplace flexibility or to accompany a spouse who has been offered an international assignment. In these types of situations, a host based policy may work well due to the host based compensation philosophy and the lack of assignment allowances.

Friction with Local Employees over International Assignee Compensation

The housing and cost of living allowances, as well as the assignment incentives and hardship allowances, which are often contained in home based policies, are sometimes perceived by local employees as being unfair compensation. Host based policies may work well for companies who are experiencing friction from local employees who believe that their international assignment "peers" are on richer compensation terms. Using host based policies may help eliminate any such friction and can help companies better meet their collaboration and team goals at the local level.

Assignee Complaints about Allowances

Finally, housing and cost of living allowances can generate frequent complaints from the assignees themselves. And, in addition to being costly, these types of allowances can be challenging to communicate to assignees and to administer. These complaints are instantly eliminated with a host based policy as there are no allowances. In addition, there are no currency fluctuation issues as salary is paid in host country currency and is also reflective of the host country cost of living and economic conditions.

When are Host Based Policies Least Effective?

Although there are situations when host based policies can be very effective, there are also some instances where host based policies are not a good option.

Home & Host Countries with Significantly Different Economies

Host based policies do not work well in situations where the home and host countries are of very different economic status. Examples would include India and the U.S., China and the UK, Vietnam and Singapore, etc. It would be very difficult to use a host based policy when the assignment involves an employee whose home country is a high wage country (such as the U.S.) working in a low wage country (such as China). The assignment would result in a significant financial loss for the employee, and it would be very difficult to find an employee who would be willing to accept the assignment without substantial financial support from the company.

Conversely, companies may not want to use host based policies when bringing employees from low wage countries, such as India, into high wage countries, such as the UK. While the assignment would be highly desirable from the employee's perspective, it may be very difficult to transition the employee back to local employment terms and conditions when the assignment ends. For this reason, even though the host based policy may work from a financial perspective, companies may desire to keep employees on a home based policy in these situations.

Worldwide Income Tax Sourcing Rules

In addition, if the income sourcing tax philosophy of the home and host countries are not similar, a host based policy will be less effective. It will be difficult to use a host based policy for countries which impose worldwide taxation requirements because of the tax obligation in both the home and host countries. Even if a tax treaty exists between countries, it may be prohibitively expensive for assignees to be responsible for both home and host country taxes without company support. The U.S. is an example of this type of tax philosophy. For this reason, it may be difficult to use a host based policy for U.S. nationals. One solution would be to alter the host based policy to cover home country tax obligations while requiring that assignees pay host based obligations.

Challenges of Using Host Based Policies

There are also a number of challenges associated with using host based policies. Aside from the obvious challenges associated with managing both a host based policy along with a home based policy, which are very different policy types, communicating these two policies to both the business and the assignees can be challenging. Additional challenges include managing split payroll, ensuring the proper policy administration, calculating host compensation and benefits management.

Culture and Policy Communication

Because the home and host based assignment terms and conditions are so different, communicating the appropriate use of, and the differences between, the two policies to the business as well as to the assignees can be a real challenge. In addition, managing the perception of fairness, particularly in situations where assignees are working in the same host location but are on different long term policies, may be challenging and, in some cases, inconsistent with company culture.



Payroll Coordination and Administration

One of the key challenges is the administration of a true split payroll arrangement. In order to keep the employee in the home country retirement program while allowing participation in the host country benefit plans, often a split payroll arrangement must be used. Managing two live payrolls and ensuring that the payrolls are coordinated and in sync will add a layer of administrative complexity and be an ongoing communication challenge. A shadow payroll approach may be feasible in situations where a social security agreement exists between the home and host countries and employee contributions are not required for benefit participation. Ideally, a global payroll arrangement exists which reduces the split payroll administration challenges.

Administration and Supplier Management

Because the policy terms and procedures are so different between the two types of long term assignment policies, administering them can be a real challenge, not only for the Global Mobility departments but also for the service providers who have to learn the policy differences and adapt to the procedural differences between the two. This is especially true for the international tax provider and the relocation management company who will have to administer two very different long term policies for the same company and ensure that they are clear which policy is applicable to each of the assignees.

Calculating Host Compensation



Compensation is different in every country. Countries have different philosophies on total compensation and on the mix between base pay (i.e. fixed guaranteed pay) and variable pay (i.e. non-guaranteed pay). It is important to educate the business on the appropriate way to calculate host based compensation. When determining the employee's salary for a host based policy, there is a tendency to take the home country compensation

and simply apply the host country exchange rate. However, this is not accurate. Global Mobility or HR/Global Compensation should be engaged in order to calculate the appropriate salary based on local compensation terms and conditions in a manner similar to as though the employee were being hired locally.

It is also important to develop a process for tracking a "notional salary" and applying home country equivalent merit increases to ensure that when assignees return home, they have not missed merit increase opportunities. For retirement benefit purposes, it is important to update the notional salary throughout the assignment to ensure that retirement contributions are made which reflect the salary increases received while on assignment.

Benefits

In addition to cash compensation, healthcare and retirement benefits may be very different from one country to the next. In some countries, such as Germany and France, a large portion of the healthcare benefits are provided through government funded social insurance programs. In other countries, such as the United States and Brazil, many of the benefits are provided by the employer. It is important to confirm whether the assignee is able to participate in the host country benefit programs. If not, then an alternative arrangement, such as the use of a Global Medical Plan, may be required to ensure that the assignee and family have adequate medical coverage. In addition, it is very important to educate the assignee about the benefits available in the host country as well as how to use the healthcare system there as countries can have very different healthcare delivery systems and models.

Summary

As companies continue to experience cost pressures, particularly with respect to long term international assignments, they are beginning to experiment with different types of policies. The trend data indicates that while the home based traditional balance sheet approach is still by far the most prevalent policy type, companies are beginning to explore alternatives including host based policies.

There are many situations where a host based policy may work quite well. These include situations where the home and host countries are economically equivalent and where social security totalization treaties exist. However, there are some situations in which a host based policy may not be the solution. These include situations where the assignments involve bringing employees from low wage countries to high wage countries. Also, for those countries with worldwide income sourcing rules, such as the U.S., a policy which does not include tax equalization may not be feasible.

A host based policy also comes with administrative and communication challenges such as calculating the host country compensation, as well as maintaining and tracking a home country notional salary. Ensuring that the host country benefit programs will be available to assignees and are clearly explained is another challenge.

While host based policies may not be appropriate for all situations, they are emerging as a possible alternative for some companies. While they do have some administrative challenges, it is worthwhile exploring if and how this policy type might work as part of global mobility program. If move patterns and home/host country combinations merit, adding a host based policy as an alternative assignment policy can offer companies additional options and added flexibility, and possibly cost savings.

Policy Provisions	Home Based Assignment (Traditional Balance Sheet Approach)	Host Based Assignment
Compensation	Home country compensation terms and guidelines	Host country compensation terms and guidelines
Benefits	Remain with home country <ul style="list-style-type: none">• Medical benefits could convert to a Global Medical Plan	Based on host country <ul style="list-style-type: none">• An exception is retirement benefits remain with home country
Vacation Entitlement	Home country policy	Host country policy
Allowances	Housing, Cost of Living, and Hardship Allowances	None
Assignment Completion Incentive/Bonus	Yes	None
Tax Benefits	Tax liability equalized to home country	Assignee responsible for all actual taxes in both home and host
Children's Education Assistance	Yes	Sometimes (<i>especially if language differences exist</i>)



Lisa Burkard

This article was authored by Lisa Burkard, Managing Director, Spectrum Group Consulting Services, LLC for Brookfield Global Relocation Services. For questions regarding this article, or assistance in any other services provided by the Brookfield GRS Consulting Services department, please contact Jill Taylor at strategicadvisor@brookfieldgrs.com or 1-630-972-2280.

Brookfield Global Relocation Services (Brookfield GRS) is the leading full-service outsourcing partner for end-to-end employee relocation, assignment management, and mobility consulting services for organizations worldwide.

We believe our integrity, transparency, flexibility, and commitment to our clients, and each other, enable us to deliver a cost effective Premier Service[®] experience to everyone we serve. Our employees operate from regional offices in Asia, Europe, and the Americas to support the success of our clients and their relocating employees around the world. We have the local knowledge and worldwide presence to develop and implement global employee relocation solutions.

Brookfield Global Relocation Services, LLC, and Brookfield Relocation, Inc., are indirect subsidiaries of Brookfield Asset Management, Inc., focused on property, power, infrastructure assets, and real estate. With Brookfield's broad reaching strength behind us, we offer a business-to-business service unmatched in the industry.
www.brookfieldgrs.com