

Localization



The Issue

While expatriates traditionally return to their home country or move on to a new destination at the end of their assignment, an assignment can sometimes turn into a permanent position in the host country.

In these cases, the company will shift the employee from their assignment package to local pay, terms, conditions and benefits. This is called “localizing” and there are several options for making it happen, depending on the company’s (and the employee’s) goals.



The Mobility Impact

The dominant localization challenges faced by companies range from quality-of-life issues to adequate medical care to tax and pension programs. Furthermore, with so many companies handling provisions on a case-by-case basis, consistency and compliance are ongoing hurdles.

The following are just some of the areas that should be considered when considering localization:

- The cost of transferring an employee vs. hiring locally
- The employee’s long-term opportunities (at home and in the new location)
- The employee’s skill set and interests.
- The local pay rate for the job vs. the employee’s current pay
- Visa/immigration requirements, if any
- Needs of employee's family
- Whether the employee can commit long-term to the new location
- The impact of the move on the employee's tax situation
- The impact on the employee's participation and eligibility in benefit programs
- Social benefits (i.e., EU regulations, Social Security totalization, eligibility for state pensions, etc.)

Localization

Many factors will impact the structure and timing of a localization package, such as the destination location, the nature of the assignment itself, family circumstances, the position of the employee, and whether the decision to localize was employee- or company-initiated.

But most generally, companies approach localization by **removing the employee's assignment benefits immediately** or **phasing out allowances/benefits over time** (typically after 2 or 3 years, with a scale back starting from 100% of the allowance amount in Year 3, and decreasing to 66% in Year 4, 33% in Year 5, and no allowance by Year 6).

It's worth noting that most companies carrying out an immediate localization may provide the employee with a one-time payment.



Our Recommendations

Local Plus

Local Plus is a great strategy if the assignment's intent is more permanent (suggesting that localization is part of the endgame). In a Local Plus program, the assignment **starts** with a local salary and benefits, plus allowances to gradually ease the adjustment to the new location.

This allowance will typically help cover benefits such as housing, education assistance, home leave, or spousal assistance. The "Plus" component is offered for a fixed period, then may be gradually phased out. In our experience, a Local Plus package tends to work well when the two locations are comparable, and the standard of living is similar. This is why they are frequently offered for assignments – or as a recruitment tool – within the APAC region.

Expatriate-Lite

Gaining popularity as a cost-containment solution, many companies are exploring "Expatriate-Lite" models, which work by trimming traditional expatriate benefits, but remaining on a home-based model. For employees on an expatriate-lite package, the intent is to integrate them into the local (host-country) market structure for the duration of their assignment.



Localization

Expat-Lite is an easy-to-administer, low-cost relocation solution, but employers beware, they're not suitable for everyone. Due to the "lite" support in terms of benefits and allowances, this strategy would be risky (and the support may be insufficient) for a high-earning executive or a family with unique needs. For this reason, companies tend to provide Expat-Lite packages to employees on developmental assignments (generally younger, single talent), often with the intent to localize the employee after 2-3 years as an assignee.

Ultimately, the approach needs to reflect the organization's culture and specific assignment objectives. Still, all companies would be wise to keep the following in mind when developing a Localization or Local Plus policy:

- Overcome resistance to relocation due to family issues by ensuring your policy is generous enough and provides the necessary services to support a successful localization.

- Ensure immigration and visa requirements are in place to support localization.
- Consider the impact on pension and other benefits and ensure they are comparable while easing the administrative burden associated with reporting.
- Evaluate the cost-of-living differences between home/host and consider how long the assignee has been or will be on assignment.
- Offer tax counseling and preparation services for at least the transition and post-transition years.
- Consider providing educational allowances on a phased-out basis if the host location does not offer comparable public schooling.
- Use lump sums (conservatively and wisely) to increase policy flexibility and empower assignees to cover additional expenses without administrative burden, but carefully evaluate the tax ramifications.



Localization



Localization Benefits

Below is a sample comparison of approaches to Localization and immediate Local Plus options.

Sample Policy Benefits	Localization	Local Plus
Cultural Training	No (provided at inception of assignment)	Yes (provided at inception of assignment)
Language Training	No (provided at inception of assignment)	Yes (provided at inception of assignment)
Home Leave	Yes - Transition year	No
Dependent Schooling	Transitioned - 3 year declining amount	Case by case; if yes 3 year maximum
Housing Allowance	Yes until lease ends	No
Utilities	Transition year only	No
Home Country Housing	Assistance consistent with local norm	Assistance consistent with local norm
Settling-in Allowance	Ceases after initial assignment	At inception only
Tax Services	Yes, two years	Yes, two years
Lump Sum	Yes, if final relocation needed	Yes
Transportation Allowance	Only if assignee is eligible in home location	Only if assignee is eligible in home location
Furniture Retail	Ceases on localization	No
Appliance Allowance	Ceases on localization	No
R&R	Ceases on localization	No
Spouse/Partner Assistance	Ceases on localization	Case by case
Household Goods Transportation	Yes - out of storage with limits	Yes - out of storage with limits

Localization



The Bottom Line

While localization typically entails gradually reducing expatriate benefits over time, some companies may not eliminate benefits entirely or immediately. There is a lack of benchmark data on the amount of “transition” payments for Local Plus programs, which leads many companies to develop a *commonsense* approach based on circumstances (i.e., cost of living differences, educational options, family demographics, etc.)

Statutory benefit programs, vesting requirements, and other host country issues may impact individual benefits and program structure. Therefore, even formal Localization policies and/or Local Plus programs need to reflect local norms and regulations for both the home and host location.

Weichert Workforce Mobility has prepared this information from the most current data available. However, the client is advised to consult with their own tax and legal counsel with regard to any interpretation of IRS regulations or subsequent changes in policy.



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