

Managed Cap Programs



The Issue

Providing a relocating employee with a lump sum might seem like the best way to give them the flexibility they want while keeping their relocation within budget. But approach with caution: lump sum programs can lead to some unintended challenges. The employee may not make the best decisions in spending that lump sum – particularly if they are focused on cost alone -- and this can ultimately impact their experience.

Budget-conscious choices can lead to costly missteps -- for the employee and your company!



The Mobility Impact

Many organizations now consider a managed cap program a viable alternative to the traditional lump sum program. This approach balances the employee's needs and the organization's goals with a cost-effective cap, while supporting the employee's experience with qualified relocation guidance. The benefit is cost containment without sacrificing employee satisfaction or duty of care obligations.

The managed cap policy features a set relocation budget with approved benefits identified for the employee. Within the managed cap program's parameters, the employee's mobility provider will coordinate services up to the monetary cap determined by the organization. The mobility provider manages approved services and bills for each service accordingly, ensuring that expenses stay within the pre-defined limit.

Managed lump sums for early career employees are popular in Canada due to CRA taxability guidelines, which state nearly all expenses are considered non-taxable. In contrast, in the U.S. the Tax Cut and Jobs Act has made all relocation expenses subject to gross up, making the tracking and calculation of expenses cumbersome and complicated for employees, especially for lower amounts.

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To simplify administration and ensure a positive employee experience, it is recommended to exclude gross up from the managed cap amount.



Our Recommendations

Now that you know what a managed cap is, how can you determine if this type of program is a good fit for your company? Start by looking at several factors, including company culture, talent availability, competitive position, employee experience, and the budgeted amount. Next, consider whether your mobility goals align with what is achievable through a managed cap program:

- Budgeting simplicity for the company
- Budgeting simplicity for the employee

- Transparency into costs
- Duty of care
- Access to company-preferred providers and discounts
- Direct access to customized resources for home finding, destination services, temporary living, etc.
- Greater control of service delivery
- Ability to monitor employee satisfaction throughout the move; provide additional assistance as needed
- Ability to access data to evaluate a successful move



By the Numbers

13%

Of companies surveyed offer a managed cap/budget in which employees can request services of their choosing.

AIRINC Mobility Outlook Survey 2023



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Client Impact

To determine if a managed cap is right for your relocation program, it is important to understand and weigh the advantages vs. disadvantages:

Disadvantages

- A variable maximum for each employee might invite negotiations
- Obtaining the necessary data requires added time and expense
- Less flexibility than a typical lump sum
- More administration required

Advantages

- Full transparency into costs
- Individualized projection of the cost of benefits
- Employee receives full benefit and resources
- Employee doesn't have to spend valuable time to identify resources
- Employee benefits from company-preferred providers and discounts
- Fewer escalations and exceptions



The Bottom Line

Once you've implemented a managed cap program, plan to re-assess your program after six months. Ask for candid feedback about the employee experience from those who received the managed cap. Solicit input from managers, too. Were the initial estimates accurate? Is the method of calculating the capped amount meeting employee expectations? Effective guidance from your relocation provider on how to use the capped amount will help ensure a positive and successful experience for your mobile talent.



HOT TIP: Evaluate your managed cap amounts on a regular basis to allow for inflation.

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.

References:

Weichert Policy Database
AIRINC Mobility Outlook Survey 2023

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