



NuCompass
MOBILITY®

5 WAYS

**TO AVOID LUMP-SUM
RELOCATION TRAPS**

FIRST OF ALL, LET'S DEFINE A RELOCATION **LUMP SUM.**

A lump sum is a set amount of money given to an employee or new hire to pay for the costs of moving to a new job location. Lump-sum amounts vary depending on the company, employee level, or a number of other factors.

A LUMP-SUM APPROACH TO EMPLOYEE RELOCATION IS EASY FOR THE EMPLOYER, RIGHT?

Instead of arranging and paying for services, you just give your employee a cash payment and tell them when and where to show up for work.

The employee handles all the arrangements and pays all the bills. Your only administrative task is to cut a check. But ...

WHAT YOU DON'T KNOW ABOUT LUMP SUMS CAN HURT YOU — AND YOUR EMPLOYEE.

In many ways, a lump sum payment is more problematic than the alternative.

Let's look at some of the biggest traps that companies can fall into when they choose a lump-sum approach.

Trap No. 1:

THE INCOME TAX BITE





Nobody likes taxes. Yet, a relocation lump-sum payment is treated like a bonus and is taxable income to the employee. As the employer, you must withhold federal, state, and social security taxes on the total amount paid.



For employees, the tax impact can be a big surprise.

A \$20,000 lump sum can translate to only about \$13,000 after taxes for the employee to spend. That's why many companies "gross up" the lump-sum payment to cover the employee's tax liability — which can add significantly to the employer's cost.

IN THIS EXAMPLE, THE EMPLOYEE MUST BE PAID AROUND \$31,000 IN ORDER TO HAVE \$20,000 TO SPEND ON RELOCATION.

Trap No. 2:

THE COST-CONTROL DILEMMA





IRONICALLY, THE LUMP-SUM APPROACH IS MOST OFTEN JUSTIFIED AS A WAY TO CONTROL COSTS BY LIMITING THE TOTAL AMOUNT SPENT ON THE RELOCATION. HOWEVER, IT'S ACTUALLY NOT VERY SUCCESSFUL IN DOING SO.

Admittedly, relocation can be expensive. The average cost to relocate a homeowner is around \$90,000; for a renter, it's around \$30,000. But individual relocations vary greatly.



ALMOST BY DEFINITION, THE LUMP-SUM AMOUNT PAID TO AN INDIVIDUAL EMPLOYEE IS EITHER MORE THAN THE EMPLOYEE NEEDS TO COMPLETE THE RELOCATION, OR NOT ENOUGH TO COVER ACTUAL COSTS.

In the first instance, the employee pockets the difference.

Many employees like the lump sum for this very reason. **In the latter case,** however, the employee has to pay the additional costs out of their own pocket. Or, more often than not, the employee comes back to ask for more money.



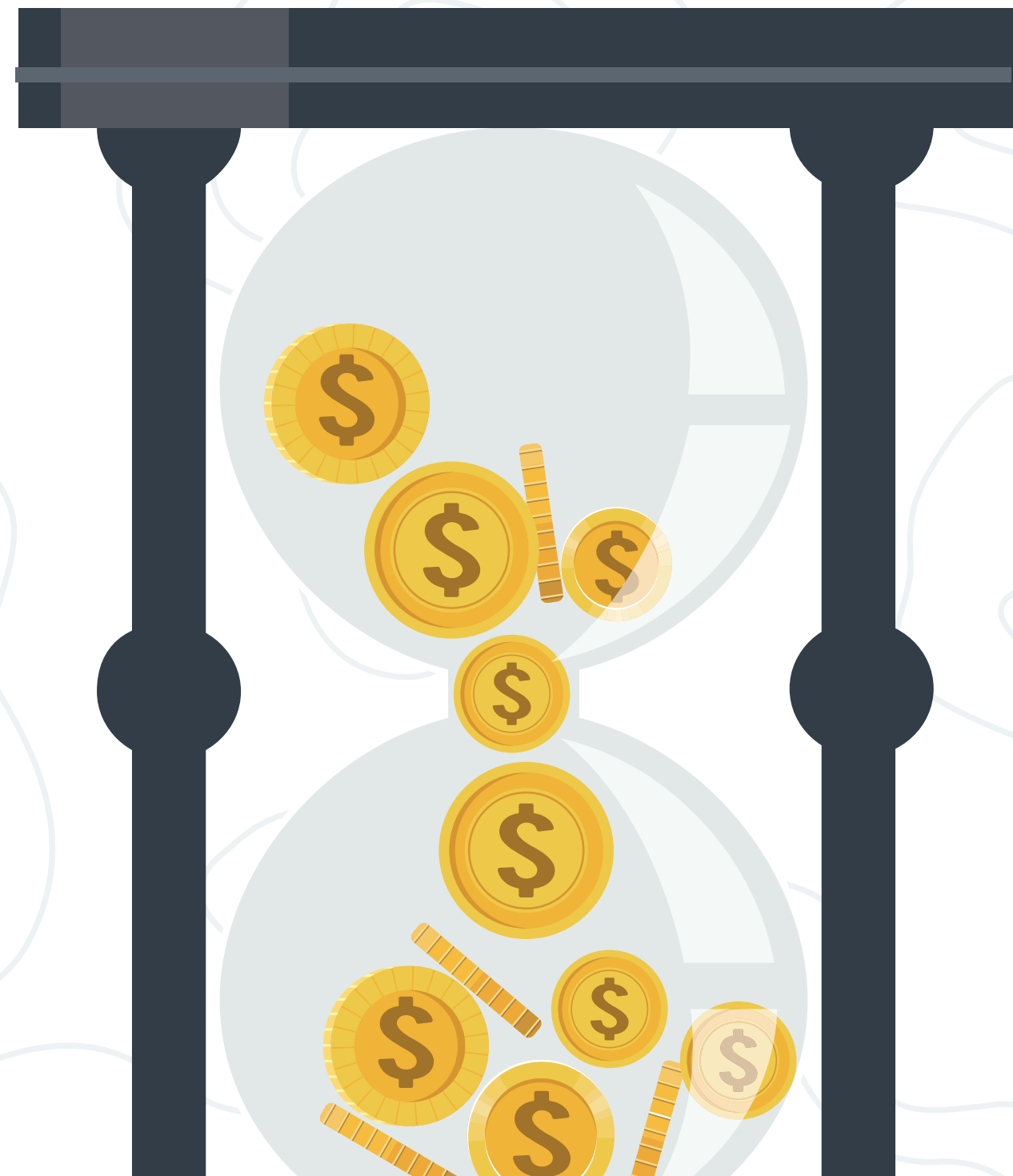
OUR EXPERIENCE INDICATES THAT IT IS VERY DIFFICULT FOR MOST COMPANIES TO SAY “NO” TO A VALUABLE EMPLOYEE WHEN THEY ASK FOR MORE MONEY IN THE MIDDLE OF A MOVE.

As a result, with a lump-sum approach, you can be guaranteed one of three bad outcomes for the corporate employer:

- ▶ Wastes corporate funds by paying too much
- ▶ Ends up paying much more than the initial payment when the employee asks for more money
- ▶ Has a very disappointed employee who had to pay the costs not covered by the lump sum

Trap No. 3:

THE DO-IT-YOURSELF CONUNDRUM





WE ALL KNOW THAT DIY WORKS FOR SOME ACTIVITIES, BUT NOT FOR OTHERS.

It is especially risky when the activity is not something we do very often. One may frequently do his own carpentry, but when it comes to a welding project, he decides that it is best handled by a professional.

RELOCATION IS A COMPLEX ACTIVITY THAT HAS MANY MOVING PARTS.

To get moved, how does your employee:

- ▶ Hire a reputable moving company that won't damage their belongings?
- ▶ Sell their house quickly at a competitive price?
- ▶ Locate temporary housing in a good neighborhood?
- ▶ Find reliable information about the new location?
- ▶ Decide where to live permanently in an unfamiliar community?
- ▶ Complete all these activities by the start date of the new job?

AND THIS IS JUST THE SHORT LIST.



It's true that your employees can answer many of these questions through online searches or co-worker referrals. But how long will it take? How much time and energy will they have to invest? And what happens if they make a mistake or two along the way?

THE CONSEQUENCES OF A DIY RELOCATION CAN BE COSTLY: AN UNPRODUCTIVE EMPLOYEE, A FAILED MOVE – OR WORSE, A RESIGNATION.

Trap No. 4:

THE NEGATIVE EMPLOYEE EXPERIENCE





The idea of pocketing some of the lump-sum money is appealing to many employees. To save money, they may decide to rent a self-haul truck and do their own packing, or sell their home without the help of a realtor. They might even sleep on a friend's couch for a few weeks.

BUT, IT'S NOT A GREAT RELOCATION EXPERIENCE.



Relocation is one of the more stressful events your employee will ever experience, especially if a spouse and family are involved. Trying to figure out how to complete all of the steps in a move, on schedule, while meeting employment expectations is complicated, time-consuming, and disruptive.

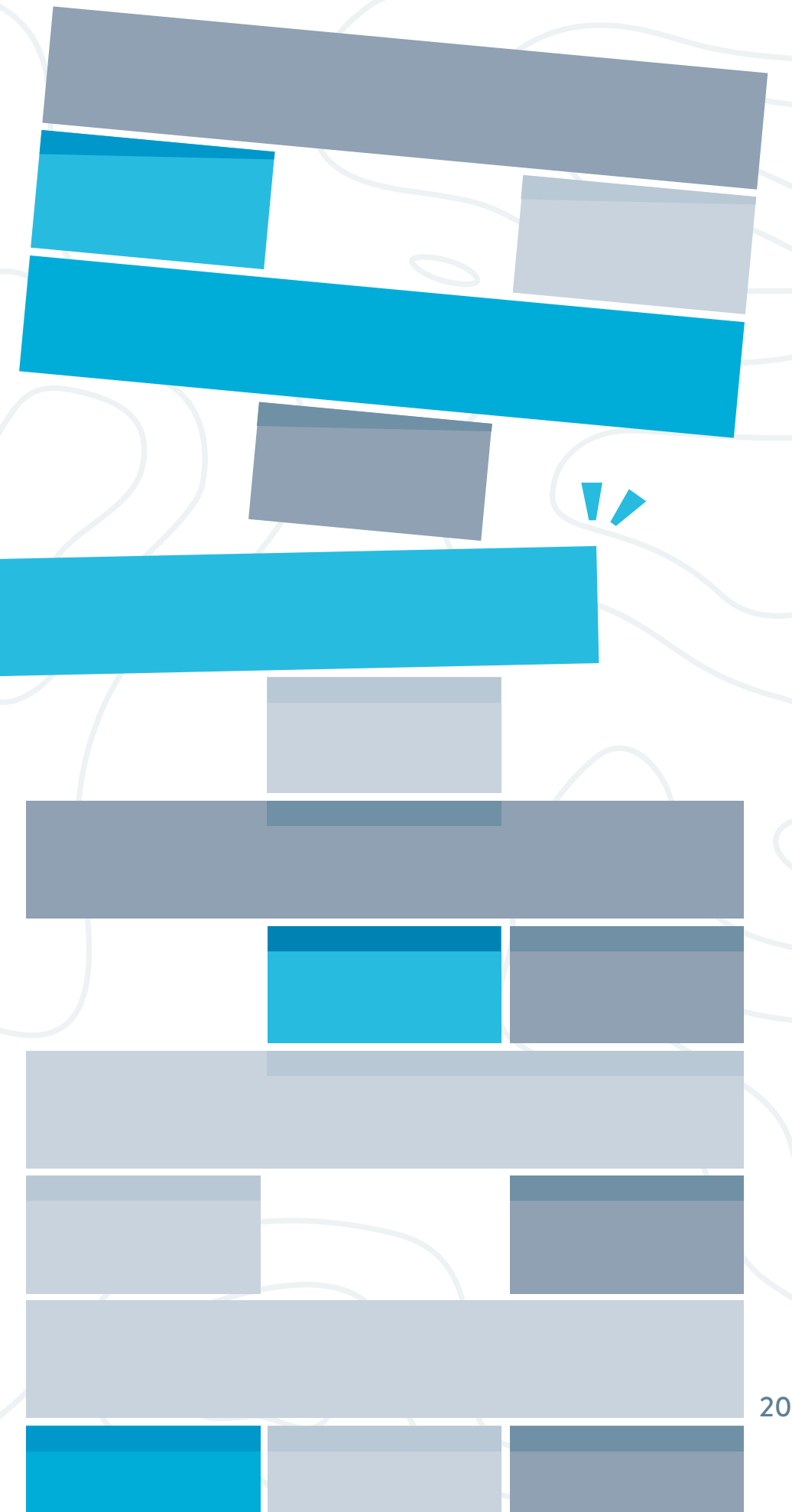
When you ask employers to state the purpose of a relocation, they respond: *to get to the employee to a new location on schedule, in a good mental state, and ready to do their job.*



**UNFORTUNATELY, THE STRESSES AND
BEHAVIORS CAUSED BY A LUMP-SUM APPROACH
ACTUALLY MAKE IT HARDER TO ACCOMPLISH
THIS GOAL.**

Trap No. 5:

THE ACCOUNTABILITY REALITY





EMPLOYEES RELOCATE AT THE REQUEST OF THEIR EMPLOYER.

So, in effect, the employee is spending *company money* to accomplish a *company goal*.



Writing a check to the employee without having any way to account for how the money is spent does not make good business sense. Doesn't your company require an itemized expense report for an employee's business trip? Why wouldn't the same company want an accounting for the cash payment used for a relocation?

IN SHORT, LUMP SUMS MAY SEEM LIKE A GOOD SOLUTION. BUT IN THE END, THEY CAN BE MORE COSTLY, MORE COMPLEX, AND RISKIER THAN THE ALTERNATIVE.



SO, WHAT IS THE ALTERNATIVE?

The alternative to a lump sum is a *services* approach, whereby the employer arranges for the services to complete an employee relocation and pays for them on behalf of the employee. In the past, a services approach was more complex and difficult to manage than a lump-sum program.

But this is no longer the case. It is now possible to have the best of both worlds! The solution is called **CoPilot™**, a cloud-based relocation management platform.

COPILOT IS DESIGNED FOR COMPANIES THAT WANT THE ADVANTAGES OF A LUMP SUM, WITHOUT ALL THE DISADVANTAGES.

CoPilot gives you a **powerful set of tools** to easily authorize a move by simply establishing a total budget, similar to a lump sum. Funds available to the employee remain in the employer's account until the money is spent on approved activities.

Your relocating employee has access to a personalized CoPilot portal that is mobile and available on any device. The portal guides the employee to:

- ✓ Manage their own move, within the established budget
- ✓ Use vetted suppliers for a quality relocation experience
- ✓ Control their relocation on their own schedule

AND WHEN THEY NEED HELP, WE'LL BE HERE WITH A HELP CENTER, LIVE CHAT, OR A RELOCATION CONSULTANT.

Most important, payments for services are made through CoPilot and are reported to the employer as they occur. Finally, both the employer and employee receive payroll- and tax-compliant reporting.



LEARN MORE ABOUT HOW COPILOT CAN
HELP YOUR ORGANIZATION AVOID
LUMP-SUM TRAPS FOR GOOD.

Visit us at nucompass.com.