DON'T THROW MONEY AT RELOCATION!

It's a bad idea.

Today, many companies give an employee a cash payment to cover the costs of relocating to a new job location.

The assumption is that the employee — even a new hire — will use the money effectively to pay for shipping their belongings, buying or renting a home, personal transportation, and other services needed to complete their move. And they will get to the new job location on time, happy, and ready to go to work. Really? *What could possibly go wrong?*

Cash payments for relocation have always been an option. But in recent years, they appear to have become more popular. However, in our experience, with very few exceptions, *a cash payment for relocation is a bad idea.*

Under almost any circumstances, the cash payment approach is more expensive and less effective than the alternative. Furthermore, given current tax laws and the availability of new technology, it does not make good business sense for companies to "throw money at relocation." There is a better way.

In this paper, we will explain what we mean by a "cash payment"; review the reasons why cash payments are popular; examine the problems with the cash payment approach; and present a more cost-effective alternative that employers can easily implement.

WHAT IS, AND WHAT ISN'T, A CASH PAYMENT?

There are two basic ways that an employer can help an employee with relocation:

1. **A services approach, whereby the employer arranges for necessary services and pays for them directly**

2. **A cash payment approach, whereby the employer gives the employee money and the employee has to arrange, and pay for, services on their own**

There can be variations. Some employers will pay directly for one service, such as a household goods shipment, and then give the employee cash to cover other services. This option has fewer problems than the all-cash approach, but it still meets the criteria for "throwing money at relocation."

There are two types of cash payments that are excluded from this definition. The first is the "small lump sum." Amounts under $5,000 are realistically not sufficient to cover the costs of almost any relocation. A small lump sum will help defray some of the costs that the employee will incur, but not all of them. In such cases, the employee ends up paying most of the costs of their own relocation.

Also excluded from this definition are payments called "miscellaneous allowances." These are cash payments associated with a services approach and are intended to cover incidental expenses not paid by the employer.

WHY ARE CASH PAYMENTS POPULAR?

There are three main reasons.

FIRST

Cash payments are easy to administer. There is no question that writing one check for each relocation is an easy way to administer a relocation program. And if the employee doesn't come back and ask for more money, it's also an easy way to control costs. For many companies, setting up and administering a services program is seen as too complicated, or too expensive.

SECOND

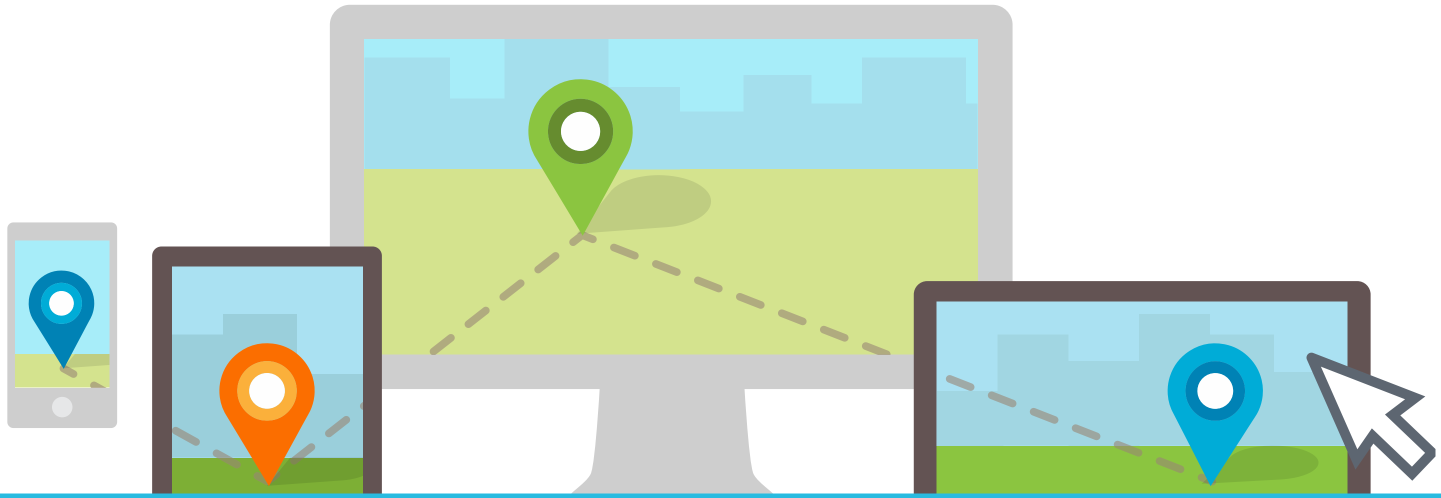
A services approach can be expensive and hard to predict. Traditionally, larger corporations use relocation policies to manage employee relocation. The policy defines the specific services that the employer will pay for in order to help the employee complete the relocation.

To implement such policies, companies usually contract with a relocation management company (RMC) or with specific suppliers to provide services. The employer pays the costs directly and the employee and their family receive the services they need to get to the new location, on time, and ready to go to work.

On average, the services approach costs **about $30,000 to relocate a renter and nearly $100,000 for a homeowner.** But costs can vary significantly from these numbers based the personal circumstances of the employee, such as family size and destination.

THIRD

Employees want to do it themselves. In today's world, where using the internet and mobile apps is commonplace, we've all become much more self-reliant. We don't need a travel agent to make travel arrangements or a bank teller to move money from one account to another. We can all do it ourselves, online.



So it's not surprising that many of today's employees want to relocate themselves. But employers need to ask: Is do-it-yourself relocation a good idea? Will the employee use company money for relocation or for a new TV? Will a DIY relocation get the employee to the new location, on time, and ready to go to work?

WHAT ARE THE PROBLEMS WITH CASH PAYMENTS?

The cash payment approach has at least three major problems:

1. Payments are taxable
2. No financial accountability
3. Risk of employee disengagement

Cash payments are taxable: Payments to employees for their relocation are considered income and subject to payroll tax regulations. When making such payments, employers have a choice: withhold payroll taxes from the amount paid or "gross up" the amount paid to cover the tax liability.

Each of these has problems. After taxes, a $20,000 lump sum becomes about $13,000 that the employee has to spend on relocation. The actual amount depends on the individual's tax rate. Will the net amount be enough to complete the move?

If an employer wants an employee to have $20,000 to spend, it will have to gross up the payment by adding another $11,000. Again, the actual amount depends on the employee's tax rates. In this case, the employee is paid $31,000 in order to have $20,000 to spend after taxes are withheld.

There is no financial accountability. Employees relocate at the request of their employer. 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 is, frankly, not good business practice. Why would any employer want an itemized expense report for a business trip and not want any accounting for a cash payment for a relocation?

There is serious risk of employee disengagement. 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 do their own carpentry but outsource a welding project to a professional. Relocation requires that many complex activities be completed and coordinated by multiple parties, in an unfamiliar location, within a specified time frame. This is a tall order for someone not experienced with the process and without knowledge of the new location.

A relocation can be very stressful because the employee must deal with multiple life-changing events at the same time. Trying to figure out how to complete all of the steps in a relocation while meeting employment expectations, especially if a family is involved, is complicated, time-consuming, disruptive — and very stressful.

By only providing a cash payment and asking the employee to do all the work, an employer is rolling the dice. Will the employee get settled successfully in a new community and arrive at the new job in one piece, on time, and ready to work? A bad relocation can adversely affect employee performance. It can also send the wrong message to the employee, which can affect engagement at the new job. Worst of all, it could lead to an early resignation.

IS THERE A BETTER WAY?

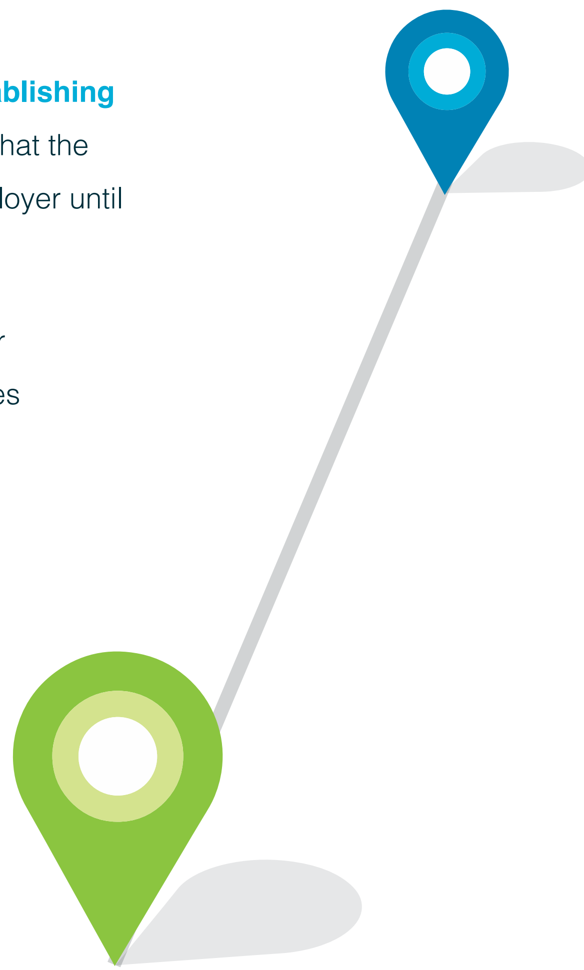
Absolutely, there is a better way! Today, using cloud technology, it's possible to have the best of both worlds: a services approach to relocation that has all of the advantages of a cash payment. **The solution is called CoPilot™.**

CoPilot is a technology and services platform for managing employee relocations.

It enables an employer to easily authorize a move by simply establishing a total budget, similar to a cash payment. An important feature is that the funds available to the employee remain under the control of the employer until the money is spent on approved activities.

Employees access a personalized CoPilot portal to self-manage their move. It is mobile and available 24/7 on any device. The portal guides the employee through each step in the process. Support is provided through a help center, live chat, or a relocation consultant.

Most important, for the employer's piece of mind, the CoPilot portal provides direct access to preapproved and vetted service suppliers. When selecting and paying for a service, the employee is able to allocate funds within the budget limits. Payments are made through CoPilot and reported to the employer as they occur. And finally, both the employer and employee receive payroll- and tax-compliant reporting.



In short, CoPilot provides employers with all of the advantages of a services-based program while empowering employees to manage their own moves.

With CoPilot, an employer can be 100 percent confident that the employee is spending company money on actions and services that will get them to the new location ready to go to work.

To learn more, visit **www.nucompass.com.**