CoPilot™

by NuCompass

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 on their own to pay for the transportation and 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 and 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 alternatives. Furthermore, given current tax laws and the availability of new technology, it doesn't make business sense to continue to "throw money at relocation."

IN THIS PAPER, WE WILL:

- Describe what we mean by a "cash payment"
- Review the reasons why cash payments are popular
- Examine the problems created by the cash payment approach
- Present a more cost-effective alternative that employers can easily implement

WHAT IS A CASH PAYMENT?

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

1. Arrange for services and pay for them
2. Provide the employee with cash and let the employee arrange services on their own

In this paper, we refer to the latter as "throwing money at relocation."

There are variations. Some employers will pay directly for one service, such as household goods, and then give the employee cash to cover all other services. This variation 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 can be excluded from this definition. The first is the "small lump sum." Amounts under $3,000 are not intended to cover the costs of relocation. A small lump sum is, in effect, a "bonus" to help defray some of the costs of getting to the new job. In this instance, the employee is willing to pay for their own relocation because they want the job.

Also excluded are "miscellaneous allowances." These are cash payments associated with a service approach where the employer is directly paying for major services, but there are unanticipated or incidental expenses that are not covered. The miscellaneous allowance is used to help the employee pay those expenses.

WHY ARE CASH PAYMENTS POPULAR?

A services-based relocation can be expensive. 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 complete the relocation.

To implement the policies, companies contract with a relocation management company (RMC) or specific service suppliers to provide the 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.

But a services-based relocation can be expensive — typically $30,000 for a renter and nearly $100,000 for a homeowner. Further, the hiring managers, who ultimately pay the bills, have little to say about the final cost, which is often much more than anticipated.

By definition, policies are designed to cover a wide range of employee circumstances. Costs are difficult to predict and control because they vary greatly depending on the specific circumstances of the employee, such as family size, homeownership, and destination.

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 funds from one account to another. We can all do it conveniently online.

So it's not surprising that today's employees want to relocate themselves.

They think, "Just give me the money and I'll take care of it." Unfortunately, an important motivation here is to pocket the savings as extra compensation. The employee may benefit financially, but they may not get to the new location on time and ready to work.

Costs are easy to administer and control. 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 limit the total spend. For many companies, setting up and administering a services-based relocation program is just too much trouble and not worth the effort or cost.

WHAT ARE THE PROBLEMS WITH CASH PAYMENTS?

The cash payment approach has at least four problems:

1	2	3	4
Payments are taxable	No financial accountability	Lost tax savings	Risk of employee disengagement

Payments to employees under any circumstances are considered income and subject to payroll tax regulations. Employers have a choice to either withhold payroll taxes or to "gross up" the amount when making such payments.

Each of these has problems. After taxes, a $20,000 lump sum becomes about $13,000 that the employee actually has to spend on relocation. Will it be enough? If you want the employee to have $20,000 to spend, you will have to gross up the payment by adding another $11,000. The employee is paid $31,000 and then has about $20,000 to spend after taxes.

There is no financial accountability when using the cash payment approach. Employees relocate at the request of their employer. The employee is spending company money to accomplish a company goal. Writing a check to the employee — without any accounting for how the money is spent — is not consistent with good business practice.

Under current tax law, certain relocation expenditures are "excludable" from taxable income (i.e., moving household goods). If the employer pays these expenses directly, they are not reported as income to the employee. Taking advantage of such tax treatment will save 50 to 75 percent of the amount that would otherwise be paid for gross-up. **That is a significant amount of money.**

Relocation is very stressful due to having to deal with multiple life-changing events at the same time. Trying to figure out how to complete all of the steps in a relocation, especially if a family is involved, is complicated, time-consuming, and disruptive.

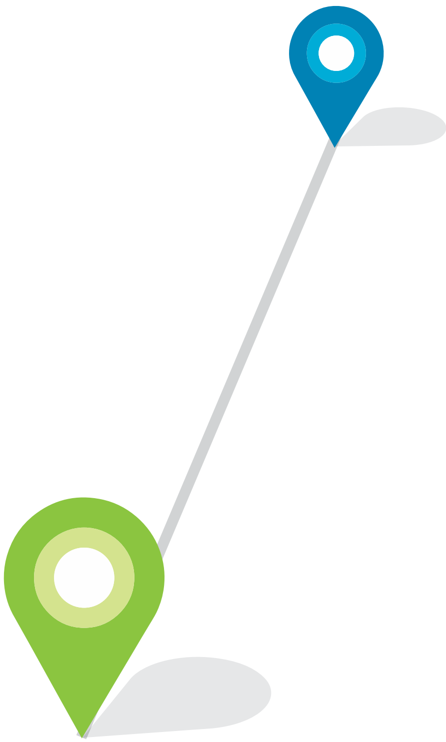
By only providing a cash payment, an employer is rolling the dice that the employee will get settled successfully in a new community and arrive at the new job in one piece, on time and ready to work. That's a lot to ask. A bad relocation can send the wrong message to a new employee, which can affect engagement at the new job. Worst of all, it could lead to an early resignation.

IS THERE A BETTER WAY?

Yes. Today, using new cloud technology, it's possible to have the best of both worlds: a service-based 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 relocations.

It enables an employer to authorize a service-based move by simply establishing a total budget, similar to a cash payment. An important distinction is that the funds available to the employee remain under the control of the employer until they are spent.



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

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 company funds within the budget limits. Payments are made through CoPilot and reported to the employer as they occur. The employer receives payroll-compliant reports and benefits from the tax savings associated with paying for the services.

In short, CoPilot provides an employer with all of the advantages of a service-based program while giving employees the flexibility and control they desire 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/copilot.**

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