

New Hire Relocation

Trends and Options

Standard relocation policy - the basics

A standard relocation policy covers the cost of the physical move from the old location to the new location. Most employers who offer relocation benefits to new hires offer the following benefits:

- **House-hunting trips.** Organizations typically cover two house-hunting trips, up to four days in duration each, with spouse included. This includes the travel costs, meals and transportation during the time the new hire and spouse are visiting the new community and seeking a new home. Young children are usually not encouraged to join the house-hunting trip and their expenses are typically not paid. In lieu of this, employers frequently offer babysitting reimbursement to care for the children at home.
- **Moving and storage of household goods.** Most employers pay the packing, moving and unpacking costs of reasonable household goods. Included in this fee is the insurance coverage offered by the moving company to insure the household goods during transit. Typically, employers also pay 30 to 60 days of storage for the new hire's household goods if required before the new home is ready. It is standard to omit reimbursement of moving and storage costs for household items such as playground equipment, building materials, fine antiques, boats, horses and other unusual items or items of high value which are difficult to relocate. However, many employers do include moving of one personal automobile on the moving van if the new hire chooses to relocate it by moving van rather than driving it to the new location.
- **En route expenses.** New employers typically pay for the expenses of a family en route to the new location. This includes reimbursement for travel, meals and lodging for the family on their way to the new community.
- **Interim living.** The new employer typically covers three to six months of interim living for the new employee. This is especially true if the employee

is having difficulty selling a house, or if the employer needs the new executive to begin work at the new location promptly and there is not time to relocate the family in the interim. This includes lodging and sometimes meals for the new executive, usually in an extended stay hotel or corporate apartment.

Embellishments - the "extras"

In addition to the provisions of a standard moving policy, many executives require additional relocation assistance to make a move possible. These embellishments on the standard relocation policy are typically made on an exception basis and reflect the individual's needs, market realities and special circumstances. The embellishments can make or break a hiring decision, especially in the case where the executive is moving from a low-cost of living area to a high-cost of living location, and/or where the relocating executive is attempting to sell a house in a declining or difficult real estate market. The following embellishments have proven helpful in such circumstances:

- **Realtor's fees and closing costs.** Many organizations choose to reimburse the new hire for out-of-pocket costs incurred in selling the house. These can include marketing costs such as ads, realtor's fees, inspections and other costs which the seller normally incurs when closing. Closing costs, points and realtor's fees (typically 6 percent of the sale price of the home) are fast becoming standard in executive relocation packages and provide a cost-effective alternative to more expensive third-party services.
- **Home sale assistance.** A limited number of employers offer home sale assistance through a third-party broker. Commercial brokers provide home sale assistance to new hires. In this case, the company pays an intermediary, third-party firm to purchase the candidate's home for its appraised value as determined by several independent professional appraisers. The third-party firm then places the home on the market. The candidate is

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immediately free and clear of the old home and is able to buy a new home, relocate the family and assume his or her new position with the employer. The third-party firm assumes the responsibility for marketing the home, selling and closing the deal and providing the employer with detailed progress reports in the interim. These services typically are very professional and efficient. However, they can be costly and are usually reserved for senior executives.

- **Relocation assistance or job-seeking assistance for spouse.**

In today's economy, maintaining the spouse's income level can be an important consideration for a new hire who is considering relocation. Many corporations are offering a spouse job-seeking assistance through a qualified outplacement agency that can assist the spouse with his or her transition to the new location. The outplacement firm typically charges a one-time fee and provides counseling, résumé writing and job-seeking consultation to the trailing spouse. This can be a very valuable relocation benefit for the relocating family and it is often available at a fairly low cost to the employer. In addition to the economic value of this benefit, the new hire is usually very impressed by the employer's empathy and caring attitude toward his or her family. It is important, however, that the new employer avoid making a commitment of re-employment for the spouse. The employer must be careful to differentiate between offering job-seeking assistance and guaranteeing spouse employment.

- **Destination assistance.**

Many relocation companies and larger realtors offer area counseling and home finding assistance programs. These highly personalized programs are available for a small flat fee or an hourly charge. The relocation agent establishes contact with the prospective candidate prior to the final interview trip. They discuss the candidate's housing needs, family considerations and financial concerns. The agent sends the candidate brochures

on the area, school system scores, mortgage types and rates, cost of living comparisons and other helpful information. The agent is available for a customized area tour, including a general community overview and tours of homes in the candidate's price range. Although the candidate will not purchase a new home on this trip, he or she will conclude the trip with a thorough understanding of the new community and the local housing market. These destination services can be invaluable in making candidates and their families feel comfortable with the new location and can overcome the stress of relocating to a community with a higher cost of living.

- **Mortgage assistance.**

A mortgage assistance program is typically offered by a relocation firm and assists prospective employees in pre-qualifying for a loan or in qualifying for a special rate mortgage. This service fast-tracks the application, qualification, and closing procedures and provides an expedited mortgage process. Professional counseling on the variety of mortgage types available in the local community allows prospective employees to make informed decisions about affordable home ownership in the new location. To ensure that prospective employees get the rate they want when they are ready to buy, the services offer a variety of rate-lock, float and rate protection options. Pre-qualification and rate protection means that in a seller's market prospective employees will have a better chance of being the selected buyer because their financing is already guaranteed.

- **Employer-owned housing.**

In the case of an extremely expensive real estate market and/or a market where executive housing is very scarce (such as very a small town or resort community), the employer may choose to purchase a home for the use of the relocating executive. In this case, the employer purchases the property, usually close to the place of employment, which is owned by the employer and is available for the use of the executive and his or her

family. The employer maintains ownership of the residence and the executive lives there during his or her employment, typically rent-free. The cash-equivalent of this benefit must be estimated and declared as income to the executive.

- **Housing allowance.** In very high cost of real estate markets, employers may opt to give newly-hired executives an ongoing housing allowance to offset the increased cost of living from the prior to new location. This generally runs from \$1,500 to \$5,000 per month and is usually limited in term to the first one to three years of employment.
- **Income tax implications.** Frequently overlooked is the hidden cost of various relocation options. The most costly option, in terms of tax liability, is to simply give the new employee a relocation cash bonus. These cash bonuses can be substantial and are fully taxed as income by the IRS. Many of the relocation benefits previously outlined are also viewed as cash compensation by the IRS and will be taxed as such. The employer must state these benefits on the new employee's tax form 1099 at year-end. The employee will be responsible for paying income taxes on the cash value of many relocation benefits. Many employers are choosing to "gross-up" the new executive's compensation by providing a one-time reimbursement equal to the amount of taxes on the relocation benefits. Clients, as well as the new employees themselves, should be advised to consult with a tax counselor to determine the tax impact of relocation benefits. Certain relocation benefits are tax deductible by the employee. New employees should be counseled to consult a tax attorney or tax specialist following a year in which they have changed residences.

Summary

These relocation benefits, standard and embellished, can be an expensive commitment for the employer. They are

a good investment, however, in encouraging top quality candidates to consider relocating, especially to high cost of housing areas or in a "down" real estate market. In order to protect the investment in the new hire, many employers are choosing to tie relocation benefits to continued longevity in the new position. Language is frequently applied to relocation policies and employment contracts stating that relocation benefits are repayable at one hundred percent if the employee leaves of his or her own volition within the first six months on the job. The repayment is then prorated sequentially through the first two years of employment (75 percent repayable if the executive leaves within the first year; 50 percent repayable within the first two years, etc.) Adding such language to a relocation policy protects the employer's investment in the new hire and encourages the new executive to be a long-term employee.

Relocation in a flagging economy

Many of our clients have struggled in the last year to land their candidate of choice because candidates are experiencing difficulty in selling their current residence and relocating to a new community. Not-for-profit hiring organizations are becoming more creative in what they can do short-term to assist candidates in relocation efforts. Traditional relocation packages offering a moving allowance with short-term temporary housing are no longer adequate to enable candidates to establish new residences without selling their existing homes. While organizations typically have more flexibility with relocation packages for CEOs, hiring organizations today need more creative packages for C-suite and vice president positions in general. The following options have been used by not-for-profit healthcare organizations to move candidates successfully since the economic decline of October 2008:

- **Movement of household goods.** Hiring organizations are footing the full bill for relocation costs including packing, unpacking and storage. Most are grossing up these allowances so there is no negative tax impact on the individual.

- **Sign-on bonus.** Sign-on bonuses, ranging from \$20,000 to \$100,000, are becoming much more prevalent. These allowances generally are tied to longevity at the hiring organization. Should the candidate resign voluntarily, a prorated portion of the sign-on bonus is repaid to the hiring entity.
- **Temporary living.** The increase in duration of temporary housing subsidies is the single greatest change since the economic downturn. The traditional six months is now 12 months with options up to 36 months based on board approval if the individual's home does not sell in that time period. In the event of longer timeframes, additional terms are approved in six-month increments.
- **Travel allowances.** Travel allowances for candidates to visit their families who haven't yet relocated are now fully paid for up to six months with options up to one year if the home has not sold.
- **House-hunting trips.** The standard allowance is two family trips, up to three nights and four days. We have seen this extended to make a third trip an option.
- **Ongoing housing allowances.** In higher cost of living areas, we have seen an increase in ongoing housing assistance programs. These include a set monthly allowance for up to five years. In one very sophisticated organization, a housing allowance is allocated over nine years, declining proportionally annually so that the individual's base compensation would increase during that same period to offset the ultimate loss of additional housing assistance. (This is a taxable benefit to the employee, but does not impact established base salary ranges. However, the total compensation paid to the new hire usually does not exceed the overall 90th percentile of market value for the position.)
- **Bridge loans.** Bridge loans to allow candidates to buy and establish themselves in a new principal residence are increasing. These loans, generally up to \$250,000, are repaid in full 30 days after the former residence is sold.
- **Mortgage assistance programs.** Longer-term loans are also becoming available with a lower rate of interest to be repaid upon the sale of the new home. The hiring entity receives a proportional share of the equity appreciation and is paid in full at the time of the sale for the interest that has been deferred until that time. Should an individual leave the hiring organization, the loan and appreciation are due within six months of termination.
- **Real estate commissions and closing costs.** More and more organizations are paying full real estate commission costs so that the full value of the home is realized by the seller once it is sold. In addition, we are seeing clients pay loan origination fees of up to 1 percent of the loan value on the new residence, as well as all other costs associated with the sale of the original home and the purchase of a new home, including appraisals, city and county taxes, title insurance, title transfer, etc. Once again, this is a taxable benefit to the individual.
- While we are not seeing not-for-profit organizations purchase homes on a regular basis, it is happening in some exceptional cases.

Clients are using a combination of the options listed above to attract and sign their candidates of choice in these challenging economic times. Those items formerly considered embellishments are more and more becoming the norm. We would be happy to discuss these and other executive recruitment options; please contact Elaina Genser at elainag@wittkiewfer.com.