Policy Tip

To Tier or Not to Tier…

Tiered Relocation Policies

As industries continue to face this tough economic climate and weak residential real estate markets continue to bounce around the "bottom" in many metropolitan areas, it is unlikely that the pressure to further cut relocation costs will be reduced anytime soon. Relocation policy tiers have received an increasing amount of attention, and it appears that an increasing number of companies are considering moving to a tiered relocation policy as a cost containment initiative. The Worldwide Employee Relocation Council® (ERC) recently reported that the use of at least two policy tiers had risen to 73 percent in 2008, which is up from 67 percent in 2004. As a point of reference, in 1988, only 10 percent of companies had tiered programs. Companies elect to tier their policies for a number of good reasons, but the overriding driver is the company's desire to limit the cost of relocation by not granting all transferees the same relocation benefits.

What is a Tier?

It is important that we define what tiers are and what they are not. We define a "tier" as a level of benefit that differs for transferees who are in the same group or category (status). A company implements a tier when it elects to treat a similar group (status) differently in terms of eligibility for relocation benefits.

Understanding a "Tier" versus a "Status"

A policy "tier" is different than the "status" of the employee. Tiers are almost always based on salary grade/level while a status is a "type" of transferee such as homeowner, renter or new hire. For example, almost all companies would provide a different set of relocation benefits for a college new hire than they would for a regular exempt transferee homeowner. This differing treatment is not reflective of a "tier" but rather a "status." If a company offers differing benefits for exempt homeowners, then this would be considered a tiered program. However, if a company offers only one program for all exempt employees but offers other programs for non-exempts, renters or new hires, then this is not a tiered program but rather a program which properly reflects the different groups (statuses). For the purpose of this discussion, it is important to look at how a company elects to treat its current (not new hire) exempt homeowner employees.

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Making the Decision to Tier Policies

First and foremost, you will need to determine if tiered policies are right for your organization. Once you move in the direction of policy tiers, it will be difficult to return to a single policy. You will need to weigh the advantages that policy tiers may provide to your organization against how the tiers will impact your culture and support corporate objectives. If your organization has benefit programs that are generally unrelated to salary levels and a philosophy of treating low-level and high-level employees reasonably consistently, then the continuation of one policy (for example one exempt homeowner policy applicable to all levels) would be entirely reasonable.

The One Tier Approach

Let's discuss the advantages of the one tier approach for all exempt homeowner employees—from the CEO to the lowest level exempt employee. For this selected transferee status (exempt employee homeowners) providing the same tier of benefits has the following advantages:

- Only one policy to administer, update and revise (one-size-fits-all)
- All employees go through the same process—regardless of salary level
- Very democratic and seen as "team-like"
- Your company can still utilize "built in" differentiators even in one tier programs

For instance, the miscellaneous expense allowance is often a function of salary. Typically, the higher paid employees have more costly homes to both sell and buy than lower level employees; consequently, these "built in" differentiators benefit higher paid employees.

On the other hand, a one tier approach may lead to more exception requests, which is especially true for higher level employees. The purpose of tiers is simple, to give some transferees greater relocation benefits and/or to give some transferees less. In so doing, there can be cost savings—namely the cost of the benefits not provided to some transferees.

Number of Tiers

Deciding on the proper number of tiers is critical to the success of the program. While there is not a right or a wrong answer, there are a number of factors to consider when designing the tiers. For example, make sure the difference in benefit levels makes sense and that there is enough differentiation to warrant a separate tier. This generally means implementing three tiers or less. A common breakpoint is the type of home sale program offered, a guaranteed buy-out program for the top tier and a Buyer Value Option (BVO) for the lower tier. However, in today's tough real estate market, even the lower tier may receive a guaranteed offer, although later in the process than in the higher tier.

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Establishing Policy Levels

When deciding how to differentiate the relocation benefits between transferees, there are some natural and defendable breaks, which typically involve job grade or salary level. When making the decision to differentiate by salary or grade level it is important to take into consideration whether your policy tier, for a specialized skill or resource, will be competitive and suitably attractive in securing and retaining talent.

Best Practices

The best practice from both an equity and legal safety approach is to base the eligibility for tiers on salary grades and/or job titles. This approach is the most defendable and best limits "jumping" to a higher level of benefits. It is important to hold to the rule that a transferee is only entitled to the tier to which he or she is being transferred (or hired) into. Since one of the primary reasons to have tiers is the ability to give some transferees greater relocation benefits and/or to give some transferees less, it would be a significant legal risk to treat individuals in the same tier differently without strong justification and documentation in the file. Doing so could easily lead to an unwanted grievance.

Certain relocation benefits make sense to tier while others do not. The benefits that usually are not tiered include: movement of household goods, house hunting trips, home purchase closing costs, loss on sale, family assistance and tax gross up. Lastly, in the ideal world, transferees should only have visibility to the policy tiers for which they are eligible. No one likes to see what they cannot receive and restricting access will limit the number of requests for additional benefits to which they are not entitled. Tiers are increasingly popular and companies continue to implement them as a cost saving initiative. While the case can be made to tier, or not to tier, if tiers are chosen it is critical to ensure they are structured with logical break points and administered equitably.

If you would like more information on creating effective policy tiers please contact your local Allied Agent.

Fred Rogers
T:734 573 2682
M:248 252 2260
E:frogers@morsemoving.com

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