Cost of Living Allowances:
Strategies for Relocation Success in a Changing Environment

Runzheimer
Attracting new talent in the evolving workforce

Top talent doesn't always reside in your backyard. To hire the best people for the job, many companies find it necessary to broaden their searches - which means potentially costly relocations.

The evolving challenge of relocation expectations

In today’s global marketplace, many organizations face the same four-fold struggle: attract top talent, get the right talent in the right places, and maintain a high level of employee satisfaction - all with an eye toward controlling cost.

The current generation of workers is less inclined to stay employed at the same company for a significant length of time and many companies are not organizationally strong enough to support the rate of career development these employees demand. This generation of “millennials” is far more willing than previous generations to relocate. According to the Kelly Global Workforce Index, 85% of millennials say they would be willing to move for the right job. With the stakes high and employee satisfaction expectations higher than ever, business leaders must re-tune their decision models to ensure fair and attractive relocation packages.

Relocation costs for a home-owning employee can accumulate to $90,000 or more, depending on the benefits package. Organizations are investing a significant amount in getting the right talent to the right place, so it's more important than ever to implement and leverage formal pre-move relocation research.

Reliable cost-of-living information is a key decision support tool for employee relocation. Quality information can help organizations ensure employees achieve satisfactory outcomes as they make the life-altering decision to relocate, while improving relocation cost control.

Developing the relocation package

It is easy to determine that living in the Midwest is empirically less expensive than living somewhere like San Francisco, CA. But a deeper comparison between the two locations tells another story. For example, while a move from Chicago, IL to San Francisco, CA results in an overall increase in housing costs (mortgage, homeowner insurance, real estate taxes, utilities, maintenance), a homeowner will see a significant decrease in yearly income taxes. There are many aspects of a relocation that must be considered and properly modeled in order to help organizations with accurate relocation decision making including:

**Location comparisons** – Even cities in close geographical proximity to each other can have significantly different living costs. An analysis that includes a proper mix of specific criteria ensures that an existing location and a new community are truly comparable.

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1. Kelly Global Workforce Index: The Evolving Workforce, 2011
2. Worldwide ERC. U.S. Domestic Transfers; Relocation Statistics. Published in 2013, based on 2012 data
**Current housing values** - Today’s home market values continue to change rapidly. Therefore, consistent monitoring of this volatility and a thorough understanding of its causes ensures that there are no surprises when preparing for a relocation.

**Mortgage age, household income, income tax, and family size** - These can differ significantly by transferee and location. Proper modeling of all of these factors is necessary to achieve accurate comparisons.

**Consistency**

The measurements applied to cost-of-living information must be done consistently and between comparable communities. This includes comparing standard homeowner or renter profiles, rather than individual lifestyle choices, when evaluating the cost of living across locations. For example, cost-of-living comparisons vary dramatically between Schaumburg, IL, a suburb of Chicago, and various communities in the San Francisco metropolitan area. Inconsistent comparisons in this scenario could easily lead to an over- or under-compensation situation.

![Bar chart showing cost-of-living comparisons between Mill Valley, CA, San Mateo, CA, Fremont, CA, and Danville, CA.](chart)

**Completeness**

One of the disadvantages of an incomplete cost-of-living comparison can include the omission of income tax information. This common mistake can lead to over-or under-paying some relocating employees, while not providing deserved differential compensations to others, as demonstrated by the table on the following page.
Another often overlooked factor is homeowner’s insurance rates. For example, let’s consider a home owning family of two with an income of $160,000 moving from Sarasota, Florida to Santa Barbara, California. An in-depth comparison of the two locations shows that while mortgage cost will certainly increase, other expenses will decrease including homeowners insurance due to higher hurricane premiums in Florida.

**Accurate Modeling & Renter Profiles**

Two types of families in the same community can have drastically different cost-of-living statistics. For example, a home-owning family of four has significantly different spending patterns than a single person renting an apartment in the same community.

<table>
<thead>
<tr>
<th>RELOCATING AN EMPLOYEE</th>
<th>COMPLETE: STATE AND LOCAL TAXES CONSIDERED</th>
<th>INCOMPLETE: STATE AND LOCAL TAXES NOT CONSIDERED</th>
<th>IF STATE AND LOCAL TAXES ARE NOT CONSIDERED IN THE COMPARISON</th>
</tr>
</thead>
<tbody>
<tr>
<td>from Kansas City, KS to Seattle, WA</td>
<td>17.206</td>
<td>21,915</td>
<td>$4,707 over-compensated</td>
</tr>
<tr>
<td>from Houston, TX to Columbus, OH</td>
<td>4,865</td>
<td>(702)</td>
<td>Employee incorrectly does not recieve differential compensation</td>
</tr>
<tr>
<td>from Dallas, TX to Minneapolis, MN</td>
<td>4,811</td>
<td>535</td>
<td>$4,276 under-compensated</td>
</tr>
</tbody>
</table>
Statistically, there are more transferees renting today than in pre-recession years. We also know that many “millennials” are postponing home ownership for a variety of reasons: tighter mortgage restrictions, rising home prices, and the flexibility of renting. The number of homes purchased by unmarried buyers on a national scale has fallen 10 percent since 2006. If this trend continues, relocation packages that take into consideration an employee or hire’s unique situation could be a valuable tool for talent acquisition and retention.

Additional Attributes to Consider

Depending on their organization’s risk thresholds, executives may consider the following when choosing a partner in terms of:

- **Timeliness of information** – how current is the data, and how often is it updated? When housing data is updated frequently, values accurately reflect the fluctuations in the housing market.
- **Quality of data collection methodologies** – asking for details on research and analytic methodologies will also help uncover a provider’s degree of transparency. Data collected from consistent, reliable sources results in values that are consistent and reliable.
- **Depth of detail available for cost components** – greater depth of component breakdowns means greater defensibility. Breaking the housing value down into home market value, property tax, utilities, and insurance provides the information needed to defend a high value due to costly real estate taxes.
- **Number of selectable locations that can be provided** – including more than just metro locations allows for more accurate results. When non-metro locations are offered the potentially lower costs of rural locations, especially housing costs, are captured.
- **The level of support available** – a high level of support ensures proper application of the information such as determining policies and developing programs.

Some questions an executive might ask to further ensure the quality of cost-of-living information include:

- Asking for proof that the information provider conducts research at the community level, zip code level, or even lat/long level. This allows organizations to make accurate “apples-to-apples” comparisons between comparable communities.
- Confirming that the data provided is obtained from consistent sources.
- Determine if the information source utilizes a tax modeling system to generate adjusted gross income typical for each family size and income level.
- Determine if the provider includes federal, state and local taxes, and applies allowable tax deductions.
- Ask the provider for details on their economic modeling – specifically look for a comprehensive assessment of all living cost variables (housing, transportation, taxation, and goods and services), and profiling that is specific to individual characteristics (location, homeowner or renter, income level, and family size).

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Redfin, rent.com, February, 2014
Information and insight, for every move

The right information supporting living cost comparisons across geographic locations allows an organization to compare relevant costs before a move occurs and accurately determine an appropriate cost of living allowance. A comprehensive offer package that takes the differences in cost of living into consideration, via payment of an allowance that phases out over time or the establishment of an appropriate salary for the transferee.

Even when no cost-of-living allowance is necessary, the results of a comprehensive report can be used to demonstrate the affordability of the post-move location to the employee and help encourage your key talent to accept relocations to the geographic areas where their skills are most needed.
INSIGHT AND GUIDANCE

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