Lump Sum Allowances: The Efficient Approach to Handling Relocation Expenses
EXECUTIVE SUMMARY

To control costs while keeping their organizations competitive for attracting and retaining talent, most organizations today have turned to lump sum relocation assistance programs.

Organizations can chose from several types of lump sum allowance programs. Each type offers specific advantages. For many organizations, a ‘fixed amount’ program is the first approach implemented, and the program is likely to be designed and managed by the organization’s staff. This approach can work, however tight staffing levels, increased accountability and the growing complexity of relocation processes increasingly limit the suitability of fixed amount assistance program. As a result, an increasing number of organizations are switching to the ‘managed’ approach.

This whitepaper explains considerations related to approach and data quality that can help business executives make effective decisions to establish and maintain lump sum allowance programs that control costs while supporting employee satisfaction.

RELOCATION EXPENSE ASSISTANCE PROGRAMS

Organizations often help employees cover the costs of moving to new locations. Historically these relocation-related benefits tended to be non-taxable, and relocating employees were typically reimbursed through an expense reporting process. Today, things are different. Changes in tax laws, efficiency requirements, plus a desire to avoid inequities inherent with traditional reimbursement programs have led many organizations to shift relocation assistance to a lump sum allowance approach.

OVERVIEW OF LUMP SUM ALLOWANCES

With a lump sum allowance program, a single payment is made to the employee at the start of the relocation process to cover related expenses. This approach helps organizations control costs and reduce the administrative and management time needed to process/approve multiple expense reports for an employee’s relocation.

Most lump sum allowance programs share these attributes:

- Covered relocation costs are identified prior to the move, simplifying the budgeting process
- Employees receive funds up-front, eliminating the need to fund their relocations themselves while awaiting reimbursements
- Employees are empowered to use the funds as best suits their circumstances
TWO IMPORTANT CONSIDERATIONS
A well designed lump sum program balances corporate objectives with employee relocation needs.

First Consideration: Approach  Most lump sum programs are a combination of two or more approaches. To consider these options, it is best to group related approaches for comparison:

Traditional Approach versus Total Approach: The traditional lump sum allowance covers expenses associated with home finding, temporary living, and the final move portions of relocation. This type of allowance typically does not include expenses normally direct-billed to a company. A total lump sum allowance covers all the relocation expenses as the only source of financial support.

Fixed Approach versus Managed Approach: A fixed amount lump sum program provides the employee with an allowance based on a fixed amount determined by the company. Generally, this approach provides the same fixed amount to all employees, or different fixed amounts for different levels of employees. On the other hand, a managed lump-sum program will usually provide the individual employee with a tailored allowance, based on the company’s relocation policy and costs specific to that employee’s relocation.

Each organization is unique. Understanding the differences between these fundamental approaches will help to identify the right fit.

The decision between a fixed or managed approach may be the most significant decision in the selection process. More detailed examinations of these two approaches are provided on page 5 and 6.
Second Consideration: Data Accuracy  Lump sum amounts are based on cost data for the various expenses required to complete the relocation. If that data is incomplete, out of date, or does not reflect regional differences, cost control and employee satisfaction may be measurably diminished. Examining the source and quality of the data used is an essential step in selecting a specific approach, as shown in the following examples.

Example 1: Lodging

Many employees utilize hotels at some point during the relocation process. Lodging rates vary widely, and these differences will have a material impact on cost control, as well as the employee’s perception of fairness and satisfaction.

The average daily lodging rate for an economy hotel in the Boston downtown/airport area is $184. The same class of room in Pueblo, Colorado is just $71, a $113 difference per day. If specific location data is not used, the allowance is likely to be high or low.

Example 2: Grossing Up

Some organizations gross up allowances to offset the impact of taxes. In those situations, only specific components are taxable. With high-quality data, the organization can improve cost control by more easily identifying and grossing up only the taxable components.

A family of four relocating from Atlanta, Georgia to the New Jersey suburbs might receive a lump sum allowance of $13,302. Grossing up that total amount would add $7,695 to the allowance. Grossing up only the taxable components would add just $6,548, saving the organization $1,148 while still supporting employee satisfaction.
THE KEY DECISION
The overview above helps frame discussions regarding employee relocation assistance. However, the choice between a fixed amount and a managed program will likely have the single-greatest impact on the outcome and ongoing support of organizational goals.

With that in mind, additional important details on fixed amount and managed approaches are provided to help organizational leaders make well-informed decisions.

Fixed Amount Lump Sum Program  Fix-sum programs provide the employee an allowance based on a fixed amount pre-determined by the company.

Organizations selecting this approach have an array of options for determining the fixed amounts. In most instances, these amounts are determined using one of several of the following:

- Manager discretion
- Historical averages
- Budgeted amounts divided by the anticipated number of relocations
- Ranged-approach: an allowance grid is created, providing a range of fixed amounts based on factors such as home-owner or renter status, job level of employee, distance of the relocation and family size. The fixed amount can be applied to a traditional lump sum allowance or to a total lump sum allowance.

Simplicity is a feature of the fixed amount lump sum program. However, simplicity comes at a cost - several, in fact:

- Lack of expense detail eliminates the employee’s ability to budget for anticipated expenses
- Lack of expense detail prevents the administrator from accounting for specific expenses—this is especially important when ensuring only the appropriate expenses are grossed up for tax purposes
- Limited differentiation in the flat amounts increases the likelihood that amounts will not be sufficient
- Program amounts must be evaluated frequently to ensure they are reasonable and current—especially important given the unpredictability of components such as airfare and temporary housing
MANAGED LUMP SUM PROGRAM

Managed lump sum programs provide the employee an allowance based on two factors: 1) the organization’s relocation policies, and 2) costs specific to the employee’s relocation. Tailored to an organization’s specific requirements, a managed lump sum program integrates:

**Comprehensive Policies**  Comprehensive policies establish needed parameters around any lump sum program. Properly structured and consistently enforced, relocation policies enable cost control while also helping to ensure adequate allowances. Relocation policies should establish parameters addressing all relevant issues, for example:

<table>
<thead>
<tr>
<th>Airfare</th>
<th>Coach or First Class</th>
<th>Restricted or Unrestricted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lodging</td>
<td>Deluxe, First Class, or Economy</td>
<td>Low, Average, High</td>
</tr>
<tr>
<td>Meals</td>
<td>Breakfast, Lunch, or Dinner</td>
<td>Low, Average, High</td>
</tr>
<tr>
<td>Car Rental</td>
<td>Compact, Intermediate, or Full-size</td>
<td></td>
</tr>
<tr>
<td>Other Costs</td>
<td>Miscellaneous expenses, childcare, mileage reimbursement, etc.</td>
<td></td>
</tr>
</tbody>
</table>

**Relocation-Specific Reports**  After policies are established, customized lump sum reports are calculated using policy parameters, precise pre- and post-move locations, and relocating employees’ family sizes and compositions (adults/children). Report components are established using current costs, plus consistently applied, proven methodologies to ensure accuracy and fairness.

Organizations should also consider the best method for presenting data to employees within these reports—show costs rolled up to one total number, rolled up to subtotals (home-finding, temporary living, etc.), or clearly identified components and costs (i.e. airfares, hotels, etc.). Employees tend to appreciate detailed breakdowns. Clearly identifying allowance components and intended provisions assists the employee in budgeting for the intended expenses.

**Tax Implications**  Managed lump sum programs are designed to track all tax deductible/excludable costs separately. This supports employee satisfaction by enabling them to claim deductible costs on their tax returns. If the organization chooses to gross up the allowance to account for taxes, only the applicable components should be grossed up instead of the entire allowance, saving the organization costs.
Compliant with General Services Administration When the organization has contracted work with the U.S. government, a managed lump sum allowance program is the only type of lump sum program allowed by the General Service Administration. Per GSA Federal Acquisition Regulation Subpart 31.2—Contracts with Commercial Organizations, the lump sum amount must be ‘built-up’ (created by adding up all individual components) based on the circumstances of the employee’s relocation, and the costs must be supported by data on the individual components.

EXPERT ASSISTANCE
Managed lump sum programs tend to deliver an attractive return on investment through cost controls and employee satisfaction. However, this approach requires specialized expertise, so organizations selecting this approach typically turn to third-party specialists for assistance.

When examining potential service providers, business leaders may wish to pay special attention to several key points, which will help illuminate the quality of service that can be expected.

What to look for:

Setup Assistance and Ongoing Support The service provider’s relocation experts should work closely with the organization to set up the program that best fits the organization’s goals. This should also extend beyond setup to include ongoing support.

Look for a multi-step program set up that includes:

- Reviewing current programs
- Analyzing goals and needs
- Developing initial lump sum policies
- Generating sample allowances
- Reviewing policies and modifying as necessary
- Finalizing policies and assisting in developing communication materials

Policy Assistance Determine what level of assistance is provided to establish clear and enforceable policies. Once established, effective policies ensure consistency across multiple offices, departments, and divisions, which is particularly beneficial to highly decentralized organizations.

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1 GSA Federal Acquisition Regulation Subpart 31.2—Contracts with Commercial Organizations 31.205-35 Relocation costs. b(6)(i) Reimbursement on a lump sum basis may be allowed for any of the following relocation costs when adequately supported by data on the individual elements (e.g., transportation, lodging, and meals) comprising the build-up of the lump sum amount to be paid based on the circumstances of the particular employee’s relocation:

(A) Costs of finding a new home, as discussed in paragraph (a)(2) of this subsection. (B) Costs of travel to the new location, as discussed in paragraph (a)(1) of this subsection (but not costs for the transportation of household goods (C) Costs of temporary lodging, as discussed in paragraph (a)(2) of this subsection. (ii) When reimbursement on a lump sum basis is used, any adjustments to reflect actual costs are unallowable.
Process Improvement A successful and well-designed lump sum allowance program will not only eliminate the burden of expense report reconciliation, but provide a consistent, accurate, and fair program that clearly communicates the cost components. This allows administrators to focus on value-added services and employees to more quickly become productive at the new location.

Management Reporting Management reports are typically included in the provider’s scope of services. To aid companies in making strategic decisions, management reports examine the impact of policies, while also detailing cost components. As a company’s circumstances and philosophies change, their policies and resulting allowances can reflect those changes accurately and defensibly.

Data Quality When interviewing service providers, special attention should be given to the source and quality of the cost data used to calculate assistance for each employee. Cost control and employee satisfaction may be negatively impacted if the cost data is not locally accurate, current, and defensible.

SUMMARY
Most organizations today rely on lump sum relocation assistance programs to control costs while maintaining competitive positions for attracting and retaining talent. When instituting a lump sum assistance program, the key decision is to determine the right approach—a fixed amount program versus a managed program.

For many organizations, a fixed amount program is the first approach implemented, and the program is likely to be designed and managed by the organization’s staff. This approach can work, however tight staffing levels, increased accountability and the growing complexity of relocation processes increasingly limit the suitability of the fixed amount approach. As a result, an increasing number of organizations are switching to the managed approach.

Policy-driven and established with the help of industry experts, a managed lump sum program offers several distinct advantages for the organization and the employee, including:

- Cost control through better policy adherence and fewer exceptions
- Improved tracking and management reporting
- GSA compliance
- Detailed accounting of taxable and deductible allowances, helping employees control tax liabilities while minimizing gross-up amounts for employers
- Each employee receives fair assistance based on regionally-accurate costs and that employee’s individual profile
INSIGHT AND GUIDANCE

Founded in 1933, Runzheimer connects people, companies and their vehicles in ways that drive superior productivity and impactful business intelligence. We provide expertise, technology and world class customer service that empowers companies to move their businesses forward with confidence. As a result, our customers are able to better manage cost, reduce business risk and increase employee satisfaction in the mobile workplace.

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