

## BEST PRACTICES IN GLOBAL MOBILITY: LOCALIZATION

*Puzzled?* The term localization is sometimes confused with “local expatriate policies” whereby employees living in the host location, remain on the home country payroll and benefits, however their compensation has already conformed to local standards. Often “local” expatriates are given additional benefits, i.e., financial assistance for housing and/or education. In contrast, a permanent international relocation is a one-way move to the host location with no repatriation expected, and the employee is enrolled in the local compensation and benefit plan immediately.

Graebel has witnessed a decline in the localization of expatriates. This seems to directly correlate to a steadily increasing number of permanent relocations and local expatriate programs. Globally active companies have shown interest in better understanding when to apply a localization plan, because long-term assignment policies often reference localization although specifics are not detailed.

Among the most common reasons to trigger a localization package:

### I. EMPLOYEE-INITIATED

Typically, employee-initiated localizations find the employer less inclined to continue expatriate benefits. Although employers will commonly cease benefits immediately, the housing and educational allowances may be honored until lease cancellation or the school year ends.

### II. COMPANY-INITIATED

This can occur when a suitable job does not exist at the home location, or the position’s responsibilities have transferred to the host location. When localization is company-initiated, benefits are typically phased out over two or three years. However, a one-year reduction schedule is becoming more popular.

### III. ASSIGNMENT-INITIATED

Refers to a ‘test to fit’ for the position and its location. A specific time period identifies when the transition to local status will occur. Clear language about the localization process should be included in the original offer letter.

No matter the reason for localization, employees sever ties with their home locations, therefore home country real estate and/or stored household goods must be addressed.

- > Disposition of the home will fall under the home country home sale benefit (if one exists)
- > Shipment of the stored household goods provided



In these cases, it is also best practice for an employer to allow one round trip home so the employee can handle these matters.

When the housing allowance is reduced immediately, but the employee is living in accommodations that exceed a personal budget, the employer will often assist the employee with a local move to less expensive housing.

It is critical to determine upfront whether or not local employment rules or regulations exist that could impede localization; and, it is important to establish whether retirement plans and healthcare benefit programs may pose unique problems. Graebel recommends that discussions with the employee take place with the company’s program administrator.

Companies with a large globally mobile workforce may create a Global Employment Company (GEC) or Global Employment Organization (GEO). A GEC fundamentally acts as a ‘leasing organization’ with a global pay scale regardless of location, and it offers the employee a formal retirement plan that is registered for multiple nationalities. Another strategy is an offshore 401(k)-type plan that can be established in countries with fewer restrictions and favorable tax regulations to support these types of schemes. It should be noted that trailing tax liabilities may occur for certain individuals and could be addressed by reimbursing tax preparation expenses for newly localized staff, or in some instances, continuing tax equalization.

### THE GRAEBEL BEST PRACTICE GLOBAL MOBILITY LOCALIZATION CHART

For your convenience, the chart on page two compares the two most common localization program options. Option 1 outlines an immediate cessation of benefits, and Option 2 describes a phased cessation of

#### Localization:

When an employee on an expatriate assignment remains permanently in the host location and is removed from the home (former) country’s payroll and benefits, and the employee is transferred to the local payroll, health and welfare benefits.

**THE GRAEBEL BEST PRACTICE GLOBAL MOBILITY LOCALIZATION CHART, continued**

benefits. Additionally, there is a third, lump sum payment option to mitigate the cost of home country obligations, and in certain ways, compensates for the loss of housing, education, and other allowances.

Graebel is prepared to discuss these options, answer questions and offer guidance on how to successfully implement your localization solutions.

**LOCALIZATION PROGRAM OPTIONS**

BENEFIT	OPTION 1 – IMMEDIATE LOCALIZATION	OPTION 2 – GRADUAL LOCALIZATION
<b>Definition</b>	Localization of an expatriate assignee may occur after a certain number of years on assignment or if the employee opts to remain in the host country indefinitely. Employee is placed on a local compensation and benefits package.*	Localization of an expatriate assignee may occur after a certain number of years on assignment or if the employee opts to remain in the host country indefinitely. Employee is placed on a local compensation and benefits package.**
<b>Visa/Work Permit</b>	Company will assist employee obtain permanent residency upon localization.	Company will assist employee obtain permanent residency upon localization.
<b>Tax Equalization</b>	Tax equalization will cease.	Tax equalization will cease.
<b>Tax Assistance/Tax Return Preparation</b>	Company will assist with filing home and host tax returns in the year of localization, and then cease.	Company will assist with filing home and host tax returns in the year of localization, and then cease.
<b>Sale or Management of Origin Home</b>	If company elects to localize the employee, Home Sale Assistance may be provided according to home country policy as employee is not expected to return. If company supported property management program, company will cease paying management fees, etc.	If company elects to localize the employee, Home Sale Assistance may be provided according to home country policy as employee is not expected to return. If company supported property management program, company will cease paying management fees, etc.
<b>Destination Services</b>	If housing allowance will cease immediately, company may help employee locate affordable housing.	N/A
<b>Household Goods Surface Shipment and Storage</b>	If company elects to localize the employee, paid storage will cease and surface shipment of one (1) 20' container may be provided to transport any home country belongings held in storage. If employee must move locally, because housing allowance ceases, the company may offer local household goods moving service.	If company elects to localize the employee, paid storage will cease and surface shipment of one (1) 20' container may be provided to transport any home country belongings held in storage.
<b>Goods and Services Differential</b>	Goods and services differential will cease.	Goods and services differential will be reduced over time, typically over two or three years.
<b>Housing Allowance</b>	Housing allowance will cease immediately or until lease agreement ends.	Housing allowance will be reduced over time, typically over two or three years.
<b>Housing Norm</b>	If housing norm was deducted from pay, will cease.	Housing norm will continue as long as company is supporting host country housing.
<b>Vehicle/Transportation Allowance</b>	Company may provide one vehicle, car and driver, or transportation allowance according to local practice.	Company may provide one vehicle, car and driver, or transportation allowance according to local practice.
<b>Education Allowance</b>	Education Allowance will cease at the end of the school year.	Education Allowance will be reduced over time, typically over two or three years.

\*Company may provide a lump sum payment to compensate for the termination of allowances and to help pay for any home country obligations.

\*\*If assignee initiated, company will typically cease allowances more quickly than if company requested.

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