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WEBINARS

# **Cost of Living: Challenges, Trends & Best Practices**

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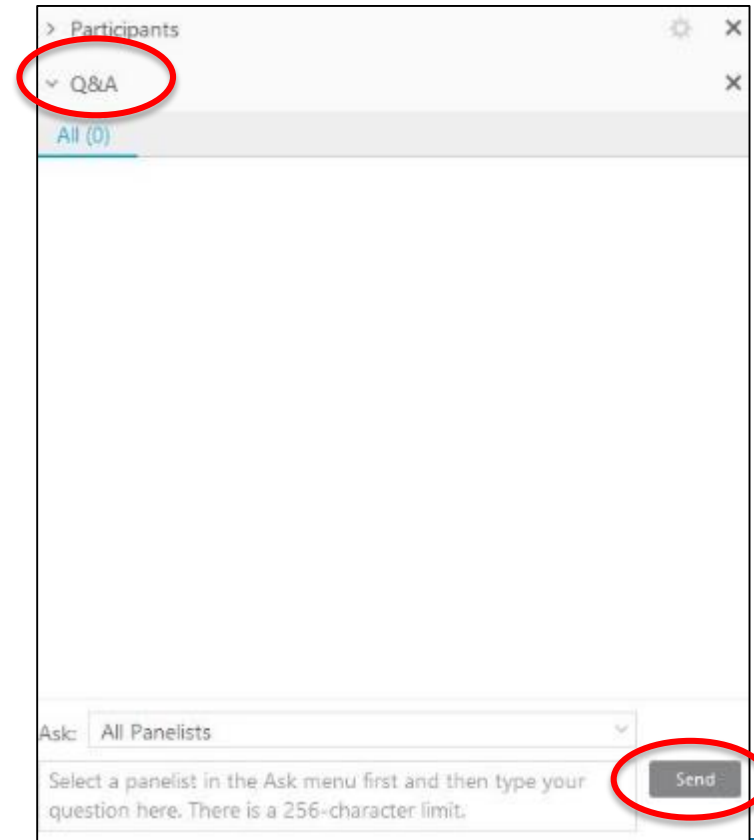
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# Today's Panel

## Moderator



**Romyne Dillner**  
**Aires**

Senior Policy Consultant  
724-382-4530  
rdillne@aires.com



**Erin Tansley**  
**Aires**

Manager, International  
Compensation  
203-702-9032  
etansle@aires.com



**Sylvie Durand-Morris**  
**AIRINC**

Client Solutions Director  
617-250-6559  
SDurand-Morris@air-inc.com



**Rob Kreiling**  
**Runzheimer**

National Account Executive -  
Relocation  
262-971-2330  
REK@runzheimer.com



# What is COLA?





# What is COLA?

Cost Of Living Allowance



# What is COLA?

An allowance or differential paid to the employee to provide approximately the same goods and services purchasing power in the host location that they have in the home location based on their family size and salary level.

-Worldwide ERC Glossary



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An allowance or differential paid to the employee to provide approximately the same goods and services purchasing power in the host location that they have in the home location based on their family size and salary level.

-Worldwide ERC Glossary

An amount of money that an employee gets in addition to his or her normal pay because the cost of living in a particular area is high

-Cambridge Dictionary



# What is COLA?

## What it is...

- Cash allowance in addition to salary
- Temporary
- Balance of purchasing power

## What it is not...

- Salary increase
- Permanent
- Market pay rate



# What are Typical Categories for COLA Calculations?

- Goods & Services
- Housing
- Transportation
- Taxes



# When is a COLA Applied?

- Domestic
  - Permanent Relocations
  - Total cost of living
- International
  - Temporary Long Term Assignment
    - Balance Sheet
    - Goods & Services
    - Housing



# How is a COLA Calculated?

- Differential between home/origin and host/destination
- Applies consistency and a standard methodology to compare the cost between locations
- Pricing Indices
  - Expatriate market basket
  - i.e. grocery store versus convenient store



# Determining a COLA

## Domestic

Total  
Cost of Living at  
Destination

—  
Total Cost of  
Living at Origin

=  
COLA

## International

Host Goods &  
Services  
Expenditure

—  
Home  
Goods  
& Services  
Expenditure

=  
COLA





# Sample Goods & Services Expenditure Categories

## Goods & Services Market Basket

Food Prepared at Home

Household Supplies & Services

Personal Care Supplies & Services

Clothing

Medical Care

Communications

Household Furnishings & Equipment

Domestic Help

Transportation

Recreation & Entertainment

Food Away from Home

Alcohol & Tobacco

## Food Prepared at Home

Cereal & Bakery Products

Meats, Poultry, Fish

Oils, Fats & Sweets

Dairy Products

Fresh Fruit & Vegetables

Processed Fruit & Vegetables

Canned & Packaged Goods

Beverages

## Cereal & Bakery Products

Flour

Rice

Pasta

Bread

Cookies


Cereal

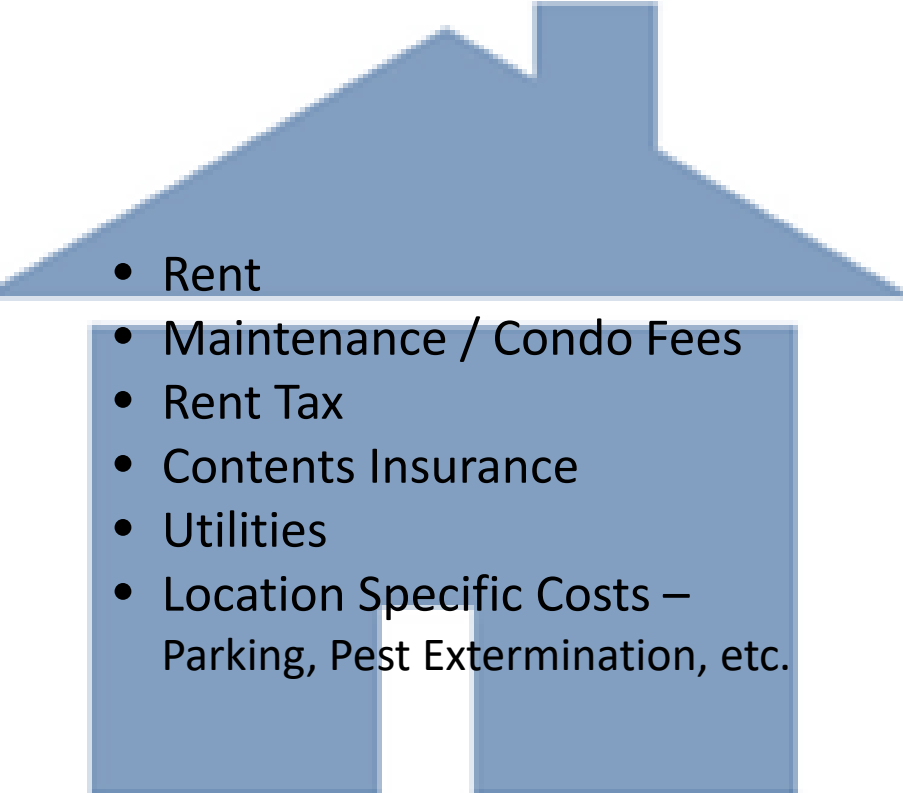


# International Home and Host Housing Components


**HOME –**  
**Normative Spending**

**HOST –**  
**Current Market Rental Costs**

- 
- Rent or Mortgage Interest
  - Utilities
  - Property Taxes
  - Property Insurance
  - Repairs / Maintenance

- 
- Rent
  - Maintenance / Condo Fees
  - Rent Tax
  - Contents Insurance
  - Utilities
  - Location Specific Costs –  
Parking, Pest Extermination, etc.

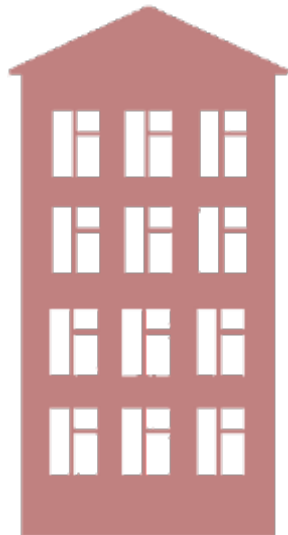
# Intl Host Housing Data Sample

		<h2>Toronto ON, Canada</h2> <p>February 2017 - Rent in CAD/month</p>	
Housing By Area	Size (ft <sup>2</sup> )	Normal Rental Range	Mid-Level Rent
<b>Central City:</b>			
Forest Hill, Rosedale, Yorkville			
1 Bedroom Apartment	500 - 1,000	2,200 - 3,200	2,650
2 Bedroom Apartment	900 - 1,300	2,500 - 4,400	3,325
3 Bedroom Apartment	1,200 - 2,000	3,500 - 5,900	4,550
3 Bedroom House	1,400 - 3,500	3,600 - 6,400	4,800
4 Bedroom House	2,000 - 4,000	5,000 - 9,400	6,900
5 Bedroom House	3,000 - 5,000	5,500 - 12,000	8,100
The Beach, Davisville, Leslieville, Liberty Village, High Park, Yonge Street Corridor			
1 Bedroom Apartment	500 - 1,100	1,800 - 2,800	2,250
2 Bedroom Apartment	900 - 1,500	2,500 - 3,900	3,125
3 Bedroom Apartment	1,000 - 2,500	2,900 - 4,900	3,775
1 Bedroom Luxury Apartment	1,000 - 1,500	2,300 - 4,300	3,150
2 Bedroom Luxury Apartment	1,300 - 2,000	2,600 - 5,400	3,750
3 Bedroom Luxury Apartment	1,500 - 3,000	3,500 - 7,400	5,100
3 Bedroom House	2,000 - 3,000	3,300 - 6,400	4,600
4 Bedroom House	2,500 - 3,500	3,700 - 7,400	5,200
5 Bedroom House	3,000 - 4,500	5,000 - 10,400	7,200
Lawrence Park, York Mills			



# Housing - Domestic

- Compares similar housing between locations for income/level of transferee
- Not meant to include an individual's "lifestyle" or personal choices
- Needs to include actual data – (e.g. closed homes in the U.S. – not just listings)
- Homeowner and Renter data are completely different



# Domestic Housing Data Sample

2,300 Sq. ft. home – January 2017

<b>LOCATIONS</b>	<b>MIAMI, FL S4</b>		<b>WASHINGTON DC, VA S3</b>	
<b>LIVING COMMUNITIES</b>	Davie, FL Pembroke Pines, FL Weston, FL		Alexandria, VA Arlington, VA Falls Church, VA	
<b>HOUSING MARKET VALUE</b>	<b>\$423,500</b>		<b>\$756,700</b>	
Current Home Price Differential	NA		\$333,200	
Current Home Price Index	NA		1.8	
<b>HOUSING</b>	<b>\$35,726</b>	<b>\$48,685</b>	<b>\$12,959</b>	<b>136.3</b>
Mortgage (P & I)	19,410	35,207	15,797	
Homeowner Insurance	6,466	1,164	-5,302	
Real Estate Taxes	5,761	7,886	2,125	
Utilities	2,988	3,306	318	
Maintenance	1,101	1,122	21	



# Transportation

- International
  - Stand alone allowance or included in COLA
- Domestic
  - One of major components in domestic moves
    - Fixed Costs – insurance, depreciation, registration, maintenance, etc.
    - Variable Costs – fuel



# Income Taxes



- International
  - Companies will provide some type of tax assistance/tax equalization as a separate benefit.
- Domestic
  - Federal, state, and local taxes included in COLA calculations
  - In higher housing cost areas, federal (U.S.) taxes decrease as transferees can deduct the additional mortgage interest (and possibly property taxes).



# Who is Eligible for a COLA?

- International
  - Expatriates/Assignees on a temporary, long-term (1-5 years) international assignment
  - Local Hires/Transfers – typically offered in the form of a lump sum, if offered salary yields a lower purchasing power.
  - Local “Plus” – ongoing education, housing allowances can be negotiated into local pay packages for certain host-based moves.





# Who is Eligible for a COLA?

- Domestic
  - Most companies look at pre and post move locations as opposed to specifying higher cost areas. Typically offered to any employee relating to a higher cost area
  - A minimum threshold is often required to qualify for the benefit such as the difference between the locations must be greater than 5%.
  - A few companies look at only certain components such as housing but this isn't recommended due to other variables and depending on compensation structure (national vs. regional pay scales)



# What are Common COLA Resources?

- Third party service providers
- Websites and free calculators
- Government (State Dept. & DOD)



# When Does a COLA Change?

- International
  - Policy defined review/updates
    - Ex. quarterly, Fx threshold
  - Localization: after 3+ or 5+ years on assignment
  - Volatile currency/inflationary locations
- Domestic
  - Typically applied through payroll (monthly, bi-monthly)
  - Step-down / declining (3, 4, or 5 years)
  - Sometimes offered as a lump payment
  - Can use national relocation lenders to administer a mortgage subsidy



# How Do Extremely High Salaries Impact COLAs?

- Limitations
  - Salary Caps used to mitigate allowances on high salaries
  - Maximum first year payment amount can be established for any salary level
- Base Salary versus Commission



# Additional Solutions in “Extreme” High Cost Areas

- International
  - Lower wage assignee to higher wage location may need more than a COLA because home spendable income may be too low
- Domestic
  - Longer payout terms (5 years as opposed to 3)
  - Front-loading or paying additional year up front to assist with down payment on a home
  - Corporate Second Mortgages



# Per Diem or COLA?

- Per diem ≠ COLA
- Destination-driven
  - Short Term Assignment
  - Home vs. Host location expenses
- Covers specific expenses



# Questions & Answers

Q  
and  
A



# Thank you for attending!

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