

Hardship Premiums: Why There Is Something Fundamentally Wrong With Them....

Hardship premiums or hardship allowances are paid to employees who are assigned to a country with difficult conditions. They can make up to 30% or sometimes more of their salary. There is something fundamentally wrong with them.

Policies define a host of benefits that an assignee and their family are receiving before and on assignment. Basically all of them are defined based on family size. A housing allowance is dependent on it, shipping allowances, spousal assistance and schooling are only provided when accompanied. Often the relocation allowance is based on family size as well, and certainly the cost of living adjustment which is based on spendable income, which is calculated based on family size.

With one notable exception: the hardship premium...

Hardship premiums are generally calculated as a percentage, on gross or net salary. The percentage is in most cases derived from cost of living provider data and based on numerous factors that constitute a hardship in a destination country. I tend to call it a "financial band aid" because the hardship will not go away because of the extra money. But it helps of course to attract employees to accept assignments into so-called hardship locations.



A few companies have recently completely abandoned hardship premiums and just provide material benefits to counter the hardship (e.g. chauffeurs, air filters, family transportation, security training and support etc.). These benefits tend often to be paid on top of a hardship premium where it is still used.

If it is still in use, there are two different schools of thought about applying a point-to-point or a so-called western-centric point of view. But I do not want to elaborate on the pros and cons of one or the other approach here, but rather point out something that escapes my mind why it is done in the way that it is commonly done: The ignorance of this allowance about the family.

If someone is enduring a hardship in a country that has e.g. a very unfavourable climate, poor health services and high crime rate, he or she is entitled to financial compensation for living in these circumstances. Now if he or she is accompanied by their spouses and two children, the policies do not differentiate the payment that the employee is to receive. It should be crystal clear that four persons, let alone two children, who live in a hardship location, do significantly increase the hardship an assignee and their family needs to cope with. Why would a single assignee in a hardship country receive the same amount of compensation for being there, as a father or mother of two, with his or her spouse who endure the same hardship?

While policies are promoted as family friendly, and additional allowances are sometimes added even in times of cost savings - in order to counter the demographic challenge of dual-career couples, where the spouse needs to give up his or her job when relocating – the hardship premium is the one that is not paid based on family size.

Some may argue now that if you use the net salary to base it on, the tax, which is lower in some jurisdictions depending on family size, represents an inclusion of family size. This might hold true in countries like France, where the tax system favours families and makes them pay significantly less taxes, but not true in other jurisdictions and tax systems. And what about the net salary of Mr. Dubois, who chooses to relocate without spouse and children? He would receive the same as if he chose to take his

BENEFITS PAID ACCORDING TO FAMILY SIZE	BENEFITS PAID NOT ACCORDING TO FAMILY SIZE
Cost Of Living Adjustment	Hardship Premium
Housing	
Travel	
Shipping	
Schooling Allowances	
Health Insurance	
Spousal Assistance	
Cultural Training	
Language Training	
Relocation Allowance	

TYPICAL HARDSHIP CRITERIA TAKEN INTO ACCOUNT BY VARIOUS DATA PROVIDERS:

- Climate
- Crime rate
- Pollution
- Diseases and health standards
- Ease of communications
- Public transportation
- Physical remoteness
- Education
- Type of accommodation
- Recreation facilities
- Family status

spouse and children with him to the same location given a tax equalisation. Where is the consistent treatment and fairness that is likely promised in the foreword of policies or HR philosophies?

If you can agree with the points I make above, you are now probably in the search for a solution to the problem.

Whilst the cost of living providers produce only percentage points to date, which are not differentiated by family size, one feasible way - that many companies that I advised in the past have followed - is to use the spendable salary to base the hardship premium on. The spendable salary is calculated based on family size and is higher if the family size increases. It is based on spending statistics and the only valid indicator that represents the family situation in relation to the salary.

You may now say that this will lower the amounts paid out to assignees, since the basis of calculation is lower, and you are right of course. So it's basically your choice if you up the percentages by a few percentage points for using this new approach, or even do away with hardship premiums altogether, or if you see it as a welcome cost savings opportunity to lower the hardship premiums, while at the same time providing them in a much more consistent, fair and family friendly way.



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