Cost of Living Allowances

Weichert WORKFORCE MOBILITY

The Issue

The combination of inflation, housing cost volatility and mortgage rate increases can contribute to significant variances in cost of living. While housing itself is often the primary determinant of the cost of living, affordability in the destination can also be affected by a host of other factors, including lost equity in the departure location, the ability to qualify for financing due to tighter lending regulations, and the need to rely on total household income, which may not be the same after a move.

The Mobility Impact

Nothing curbs an employee's enthusiasm for relocation more than realizing that the cost of living in the new location will be significantly higher than in their current location. If their spouse/partner's employment and/or income will be impacted by the move, or if they rely on family for child care at origin, the situation may be further compounded. Add dramatic increases in mortgage rates, and the picture gets even more grim. For many companies and recruiters, these challenges are real.

A cost of living allowance, or COLA, is an allowance given to an employee to offset the differences in the cost of living when relocating from a low-cost area to a high-cost area.

The Client Impact

While it was once common practice, one of Weichert's Canadian clients has reported that they no longer focus solely on the cost of housing alone when considering the cost of living. Yes, this sometimes results in a higher differential calculation, but in many cases, this approach has resulted in a COLA **not** being offered due to a reduction in provincial taxes and cost of goods that has offset the transferee's increase in housing costs. In this way, the company maintains cost control with an approach that is fairest to all employees. Because they utilize the services of a third-party living cost data expert, their calculations are always up to date, data-driven and defensible.

By the Numbers

The 2022 ERC U.S. Domestic Transfer and Volume Cost Report ranked cost of living assistance as the **5th** largest cost ($11,798 on average) among U.S. Domestic Permanent Transfer cost components.

According to Atlas' 2023 Corporate Relocation Survey (584 respondents across 19 global industries), 39% of all companies offered cost of living assistance.

Motus' Fall Cola Pulse Survey reported that 88% of companies do not gross up their COLA payments.

Among Weichert Clients

- The majority who offer a COLA, have a specifically stated threshold: 43% use 10%, followed by 21% using 5%.
- 70% of companies pay the allowance monthly through payroll, regardless of domicile status.
- 80% of companies use a 3-year declining scale, with 15% using a 5-year scale.

Our Recommendations

- Consider a minimum differential (threshold) for the benefit to apply. By limiting the cost-of-living provision this way, you contain costs while assisting employees who need it most.
- Use a qualified provider to calculate the difference and allowance.
- Consider living cost elements in addition to housing costs (goods, services, and taxes) for an accurate picture of the actual overall living cost differential.
- Consider an “incent to rent” program for homeowners who cannot afford to buy immediately in the new location. This may include a provision that allows home purchase benefits to be exercised later when market conditions are more favorable.
- Develop policy language that serves as an addendum to the policy to allow it to be used in situations when conditions warrant it.
- Counseling and policy language should state that the allowance is used to offset increased costs, which implies a shared responsibility and will be applied in the most effective way based on the employee’s situation (COLA or Mortgage Subsidy).
- Many clients have elected to utilize alternate terminology such as “Relocation Supplemental Living Allowance” to eliminate the assumption that the benefit is tied to any specific Cost of Living index or that it is intended to cover the transferee’s every difference in Cost of Living.
- Consider allowances paid over longer than the typical three to five years and provided on a declining scale to allow the employee to acclimate to the costs in the new area.
- Renters may need help with security deposits and other one-time expenses, so consider a lump sum in the first year only for this population.

The Bottom Line

The best practice approach to cost-of-living assistance should include a broad-based, expert evaluation of the differential; a plan for equal application to all qualifying employees; a payback agreement; a minimum qualification threshold, and clear guidelines for the administration, terms, and conditions under which it is provided. We prefer a separate document because -- like so many things – it's better to have one and not need it than need one and not have it! Plan to revisit your approach periodically to make sure it's still appropriate to market conditions. If you need help with that, we're here for you.

Further Reading

- Weichert Workforce Mobility blog: Worried About Cost of Living for Your Mobile Employees? : Weichert Workforce Mobility
- U.S. Government COLA tables: https://www.ssa.gov/cola
- What is a COLA? Investopedia: Investopedia: What is a COLA?
- AIRINC: AIRINC-COLA-Market-Basket-Paper.pdf (air-inc.com)
- ERC: Return of the COLA? (worldwideerc.org)

Weichert Workforce Mobility has prepared this information from the most current data available. However, the client is advised to consult with their own tax and legal counsel with regard to any interpretation of IRS regulations or subsequent changes in policy.

References:
Select benchmarking from Weichert Book of Business
ERC 2022 U.S. Domestic Transfer and Volume Cost Report
Atlas 2023 Corporate Relocation Survey
Motus 2021 Fall COLA Pulse Survey

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