

Welcome to *Policy Matters*, an engaging and informative monthly e-newsletter featuring expert insight and analysis on emerging relocation products, policies and services that can provide immediate benefit to your organization.

June 2009

## Revisiting the Miscellaneous Expense Allowance

The Miscellaneous Expense Allowance (MEA), also known as the Incidental Expense Allowance, has long been an integral component of virtually all relocation policies. No matter how much effort may go into the building and crafting of a relocation policy, a company cannot reasonably anticipate every expense that an employee may encounter during their relocation. The purpose of the MEA has always been to provide financial support to the transferee, in the form of a lump sum payment, for the cost of items not specifically addressed in the policy.

This MEA lump sum approach helps reduce any anxiety that may occur when a transferee incurs expenses that are unexpected or outside of their company's relocation policy. In addition, both the transferee and the company benefit from not having to account (with receipts) for these transferee specific costs. Requests for exceptions to the MEA are rare because the intent of the MEA is typically described in the policy as a non-negotiable benefit which is either a flat dollar amount or an amount based on a formula (such as salary).

Although they have long been with us, MEAs should not be overlooked when revising relocation policies—it's important to ensure they adequately reflect the realities of today's difficult relocation environment.

Below are a few factors to be considered:

### **Define Intent**

It is important to explain what the MEA is and what it is not. Most policies cite examples of the types of expenses that the MEA is intended to cover. Some policies go into great detail and list as many items as possible, which at times can be counter-productive. When the list is long, and the employee does not see their particular expense mentioned, the natural tendency may be to request to have the item reimbursed as an exception to the policy. Rather than trying to cover every item that may have occurred in the past, take this as an opportunity to address several larger categories of possible expenses, stating that these items are just a few possible examples. Be sure to include increased taxes as one of the items the MEA is designed to cover since factors such as spousal income, which is not considered in gross-up, will result in additional taxes in most cases.

Some policies specifically state that the MEA should not be seen as a relocation bonus or additional compensation to reward the employee for accepting the relocation. At the end of the

day, however, transferees will see their MEA as they wish to see it and will spend it as they determine is appropriate. Therefore, the better guidance is to advise the employee in the policy to spend the allowance as they see fit but that once spent there is no more.

**MEA as One of the Answers**

One of the primary reasons for having an MEA is to empower transferees to spend this lump sum amount as they wish. And one of the advantages of an MEA is that it should be used in many cases as the “answer” to requests for policy exceptions. For example, let’s say the relocation policy allows for the transferee and the spouse/partner to go on the house hunting trip, an almost universal feature, but the transferee would like their children to accompany them on the trip as well. The answer to the transferee should be more than just saying “Sorry the policy does not allow for that”, but rather “The policy does not provide for children to accompany you but feel free to use your MEA for this purpose.”

**Establishing the MEA Amount**

We are frequently asked what the amount of the MEA should be. The MEA is one area of relocation policy where there is significant variation in what companies provide. In 2008, the Worldwide Employee Relocation Council® (ERC) reported \$5,466 as the average MEA amount.

SIRVA’s own statistics are as follows:

SIRVA completed a Benchmark on February 25, 2009 of the Miscellaneous Allowance relocation benefit for homeowners. Results below are based upon 195 policies that offer the highest level of benefits. The companies vary in size, relocation volume, and industry.							
Methodology		Capped		Capped Amounts		Gross-up	
Flat Amount	39%	Yes	71%	\$500 - \$1,999	6%	Yes	37%
1 Month’s Salary	42%	No	29%	\$2,000 - \$2,999	8%	No	63%
% of Salary	7%			\$3,000 - \$3,999	9%		
Other*	12%			\$4,000 - \$4,999	8%		
*May include a specific number of week’s salary or one-half of one month’s salary.				\$5,000 - \$5,999	29%		
				\$6,000 - \$6,999	1%		
				\$7,000 - \$7,999	10%		
				\$8,000 - \$8,999	2%		
				\$9,000 - \$9,999	1%		
				\$10,000 - \$14,999	19%		
				\$15,000 - \$24,999	7%		

Many factors should be considered when determining the MEA amount. First, the overall structure and design of the relocation policy has a direct impact on establishing the actual amount of the MEA. Logic would seem to indicate that a more comprehensive policy should result in a lower MEA because of what is already directly covered in the policy. Even though this may be appropriate, often the amount of the MEA is influenced by other factors such as: policy goals, company culture, budget restrictions and company industry. Is the strategy to be viewed as “best in class” or is the intent to be competitive but at an acceptable cost? The MEA is most often determined by how much the company is willing to spend or what is seen as a reasonable amount for these miscellaneous expenses. However, as the MEA is revisited, all these factors need to be evaluated and should drive the decision on how much to offer, whether to gross-up the payment, and what to base the MEA on.

Secondly, in determining the amount, the MEA can be based on salary or a flat amount. If based on salary, a common approach is to base it on X weeks of salary. If you decide to institute an MEA based on salary, then it is imperative to set a cap on the amount. An uncapped MEA, based on salary, provides a transferee with far more benefits than needed for the miscellaneous expenses they will incur.

Lastly, it's imperative to determine whether or not the company is going to gross-up the MEA amount, as this can have significant impact on program costs. For example, if the MEA for a homeowner is set at \$5,000 and this payment is grossed up, the cost to the company when the MEA and tax gross up are totaled together could reach \$8,300, which is a 66 percent increase over the original MEA amount. If the MEA is not grossed-up and taxed at the supplemental federal rate, the net to the employee might end up at \$3,100 (when accounting for FICA and possible state taxes), reducing the MEA amount by 38 percent. Depending on the example, the financial impact on the company or the employee could be significant.

#### **When Should the MEA be Paid?**

Since the MEA is designed to cover a wide variety of expenses that occur throughout the relocation process, it is advisable to not delay the payment. Best practice is to provide the payment at the beginning of the relocation process when the transferee is submitting other expenses (e.g. home finding trip). The optimal time to provide the payment is when there has been a work location change in the transferee's payroll as the MEA should always be paid to reflect the new work location. It is critical that the transferee not be allowed to determine when he/she receives the payment, especially when the amount is not grossed-up (which is the most common approach). For example, if the transferee is moving from a state where there is no state income tax to a state where there is a state tax, if given the choice the transferee will want the MEA paid from the old work location.

#### **Consider Combining the MEA with Other Taxable Benefits**

One of the latest trends is to combine the MEA with other taxable benefits such as the house hunting trip and temporary living. This combination is known as a Managed Lump Sum. With the Managed Lump Sum, the transferee is provided an amount (often easily customized to the new location) covering all house hunting, temporary living and miscellaneous expenses. There are no rules on how transferees may spend this Managed Lump Sum, no receipts or accounting required, and any money not spent is theirs to keep. This approach has some powerful outcomes—namely, empowering transferees to determine how best to spend the money, which in turn makes it far more difficult for them to ask for exceptions for increased benefits such as temporary living (currently very prevalent). With the MEA as a part of the Managed Lump Sum, increased funds are available to the transferee which would not be the case when such benefits are treated individually.

#### **Summary**

Revisiting your MEA may uncover new opportunities to make your policy more cost-efficient and flexible; consequently, increasing transferee satisfaction with both the policy benefits and the relocation process. If you would like more information on the Miscellaneous Expense Allowance please contact David Barlow, SCRP, GMS, senior vice president, SIRVA Relocation at 925.824.3109 or david.barlow@sirva.com.

*David B. Barlow Jr., SCRP, GMS, is a senior vice president and senior consultant at SIRVA Relocation. David joined SIRVA in 2000, bringing with him more than 33 years of human resources and global relocation experience. He recently completed a three-year term on the board of directors of ERC and a seven-year term on ERC's Public Policy Committee.*

The foregoing is intended as general information only. SIRVA suggests that decisions as to your specific situation should be made only after full evaluation of your circumstances with your company leadership, tax and legal advisors, and HR personnel.

© 2009 SIRVA, Inc. / [www.sirva.com](http://www.sirva.com) / [blog.sirva.com](http://blog.sirva.com) SIRVA and the SIRVA LOGO DESIGN are registered service marks of a subsidiary of SIRVA, Inc.