

benefits and challenges of capped move programs

including best practices for policy design

As part of a solution to reduce overall relocation spend, organizations may seek to implement a capped move program. This may provide the organization with an opportunity to forecast and manage costs by assigning a limit to each move by policy tier. However, there are many factors that may impact the employee's experience that need to be taken into account.

While organizations may wish to utilize a managed capped move program in an effort to control costs, it is important to consider all the factors that may have an impact on this type of program. For example, the relocating employee has a significant role in managing to the cap. This requires the employee to fully understand how the cap works, and to make sure that critical benefits are allotted within the cap. It is important to determine the desired outcome of this program, and the elements to be included.

There are many elements that should be considered when looking at capped move programs, not just cost, including employee productivity and experience, relocation goals, talent management, company culture, and exception management.

what is a capped move?

In a capped move program, the employee is provided with a relocation policy which includes various service offerings and a maximum dollar amount that cannot be exceeded. Some corporations choose to cap a policy benefit versus capping the total relocation costs.

- **Capped move**—provides a limit on total spending by the employee for all relocation benefits (e.g., \$40,000).
- **Capped benefit**—provides a limit on spending by specific policy components (for example, house hunting is not to exceed \$2,500, or household goods weight is capped at 18,000 lbs.) The employee has a relocation policy to follow and is reimbursed only up to the specific capped amounts for each benefit.

key considerations for administering a capped move relocation program

As a best practice, it is strongly recommended that a company does not include the following items within the capped move amount:

Tax assistance: companies typically provide tax assistance, however, it is handled outside the capped amount so the employee receives the full policy benefit as intended. The actual taxes owed will vary based on the employee's total annual income and other factors. Depending on a client's tax policy, it



Consider elements beyond cost when looking at capped move programs:

- Employee productivity and experience
- Relocation goals
- Talent management
- Company culture
- Exception management

Your capped move amount should take into consideration the departure and destination locations and family size.

may be difficult to accurately estimate the tax assistance amount in advance, resulting in overestimates and lower funds available to the employee, or underestimates and overpayments to the employee. More importantly, tax assistance is a significant percentage of relocation costs (on average about 35%) and the employee typically has no influence on how much of the budget is allocated for tax assistance. This can result in dissatisfaction because the employee loses flexibility in the utilization of the capped funds.

Service fees: these are considered a cost to your business and therefore would not be charged to your employee.

Home sale: home sale costs cannot be capped and should be provided outside of the approved capped dollar amount. When you use Cartus for home sale, most costs (real estate commission, costs of second sale) are not considered taxable income to your employee and do not require tax assistance. This is the result of the IRS revenue ruling 2005-74 and its approval of an amended sale program. It is important for you to review your home sale program with your Account Manager from time to time to ensure that you are comfortable with the way the program matches up to the examples in the revenue ruling.

key considerations for employee satisfaction

Following are some key elements that are impactful to the employee's overall satisfaction with his or her relocation experience that you need to consider:

- In general, companies do not follow a capped move approach, as it may impact attracting key talent to an organization.
- Unlike in a traditional managed or core-flex program that provide more service and support to the employee and family, capped moves are considered more burdensome to the employee and will impact productivity as they are more focused on managing their move than on their job role.



Benefits and Challenges of Capped Move Programs—Including Best Practices for Policy Design

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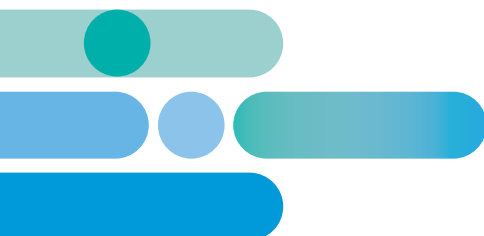
- Family size and distance traveled may contribute to an employee’s stress level as he/she tries to utilize as many benefits as possible. The capped move program may treat employees inconsistently if a flat dollar amount is offered for a specific level, rather than taking into account family size and relocation distance. For example, the cost of airfare to the new location for a family of five will be more expensive than for a family of three.
- The employee may have significant out of pocket expenses if the cap is exhausted and they still have benefit needs that are critical to their move.

typical policy benefits at a glance

Below you will find a benefits grid that includes typical policy components that can be included within a capped move option.

typical policy benefits at departure

Benefit	Description and Comments
Lump sum (in lieu of reimbursement)	A lump sum payment in lieu of actual expenses typically includes home finding, temporary living, final travel, and return trips bundled into a lump sum payment for the employee to manage. Generally this can be provided in a fixed amount by move type or can be calculated based on the move combination and family size.
Home finding trip (if lump sum not offered)	Number and duration of home finding trips can vary based on employee level or move type. Transportation, lodging, childcare, and meals are typically covered.
Rental assistance	View properties with a rental specialist based on preferences and budget. It is common to provide rental assistance to all employees, as some homeowners may elect to rent in the new location.
Lease cancellation	Reimbursement as the result of unavoidable, documented lease cancellation penalties.
Shipment of household goods	Packing, transportation, and unpacking of household goods from departure primary residence to destination primary residence. If this provision is to be capped at the benefit level, a weight limit is recommended in lieu of a dollar amount limit.
Shipment of cars	Standard market practice is to ship two cars for an employee plus a family, and one car for a single employee.
En route expenses/final move (if lump sum not offered)	Reimbursement of travel expenses—mileage, airfare, ground transportation, meals, and lodging for one night pre-departure are included.



typical policy benefits at destination

Benefit	Description and Comments
Miscellaneous expense allowance	One-time payment to cover relocation expenses that are not covered or defined by policy. Most often determined by one-half to one month’s salary with a maximum cap depending on employee level, or a flat amount is provided regardless of salary.
Temporary living (if lump sum not offered)	The days provided are typically based on employee level or by move type.
Return trips (if lump sum not offered)	Trips provided during temporary living to visit family in the departure location.
New home purchase closing costs	Reimbursement of normal and customary one-time closing costs and new home inspections is standard.

As you can see from this document, there are many factors to consider for capped moves. While cost containment is the desired outcome, it is important to balance the many elements that may adversely impact the employee’s service experience. For this reason, it is not typically recommended that organizations utilize capped move policies. However, if capped moves are necessary, our recommendation is to set your cap at the overall level versus the benefit level.

Note: If your organization also has an international relocation program, while the provisions and the taxes are different, the recommendations above would be similar in nature. Due to the complexities of international assignments, capped moves are not recommended for an international program.

for more information

Cartus’ Consulting Solutions team looks forward to answering any questions you may have on capped moves and making the best decisions on policy, program management, and talent management. We look forward to an in-depth conversation with the goal of designing the best solution for your relocation program. For more information on how we can help you, contact consultingsolutions@cartus.com.

