

## Expatriate Compensation and Benefit Arrangements

**E**mployers with business operations outside the U.S. often ask promising managerial or technical employees to accept temporary assignments with their foreign subsidiary. Employers see these assignments as both improving the integration of the overseas and U.S. operations, and furthering the employee's career development.



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These assignments can, however, impose substantial hardships on the employee. An employer that contemplates frequent overseas assignments must carefully consider the kinds of pay and benefits

arrangements it offers to address these hardships. Developing a policy describing the employer's standard expatriate compensation package, allows both the employer and employee to fully understand the risks and rewards of a foreign assignment.

A well-crafted expatriate compensation package will include most of the following elements:



An employer that contemplates frequent overseas assignments must carefully consider the kinds of pay and benefits arrangements it offers to address hardships.

- **Relocation expenses** – Travel and household moving expenses for the employee and her family should be reimbursed (within reasonable limits), as should expenses to return home at the end of the assignment.
- **Totalization** – An employer with U.S. employees working abroad should, where possible, take advantage of totalization agreements between the U.S. and foreign governments. These agreements address the issue of double taxation – paying both FICA taxes in the U.S. and contributing to the host country's social welfare plans. These agreements also often

allow an American expatriate who has worked in multiple countries to receive credit for his or her entire working career, including overseas assignments.

- **Tax equalization benefits** – Under a tax equalization benefit, an expatriate employee bears only the cost of income taxes payable to his or her home country, while the employer bears the economic cost of extra income taxes (if any) due to the host country on compensation earned in that country. The objective is to minimize an expatriate employee's financial burden as a result of her

assignment abroad. There are several distinct approaches to negotiating this kind of arrangement.

- **Global medical coverage** – U.S. group health insurance plans typically offer only limited benefits for medical services received overseas. Specialized expatriate health insurance coverage can fill in the gaps.
- **Cost of living adjustments** – Employers often want to keep the relocated employee's base salary in the same range as the salary levels for equivalent domestic employees, while also providing additional cash to cover the significantly higher costs of living in some foreign countries (e.g., Japan or Scandinavia).
- **Housing costs** – In China and some parts of Europe, it is often not practical for the employee to purchase a home; and renting a suitable home is frequently much more expensive than equivalent U.S. housing. Employers can provide a housing allowance to cover the additional housing costs. Some expatriate compensation policies also address the costs of selling the employee's home in the U.S. (sometimes including protection against a loss resulting from forced sale into a depressed market).
- **Family issues** – Since an employee with children may be reluctant to accept a foreign assignment because of concerns about her children's education, employers can provide a tuition allowance for international or boarding schools.
- **Other Issues** – Where appropriate, an expatriate package should also include employer-provided translators, security guards, etc.

These arrangements for expatriate employees are often quite complex. Human resources, tax, and legal staff of employers using U.S. employees abroad can, and should, devote considerable time and effort to developing a policy on expatriate compensation packages appropriate to their company's situation.