

Presentation to:



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September 4, 2008

[the GLOBAL MOBILITY EXPERTS]



Agenda

- ❖ Introduction to AIRINC
- ❖ Explaining the Balance Sheet Approach
- ❖ COL Index in more detail

AIRINC

Associates for International Research, Inc.

- ❖ In business for over 50 years
 - ◆ Headquarters in Cambridge, USA
 - ◆ International Offices:
 - *Brussels, Belgium (European Headquarters)*
 - *Amsterdam, Netherlands*
 - *Hong Kong, China*
- ❖ 800+ clients from all industry groups, geographies

AIRINC Mission

To Provide:

Highest Quality Data

- ❖ Widest global coverage/reach
- ❖ Most comprehensive/flexible market basket
- ❖ Most sophisticated/complete analytical processes

Highest Quality Service and Support

- ❖ Dedicated client service teams
- ❖ Long-term client partnerships

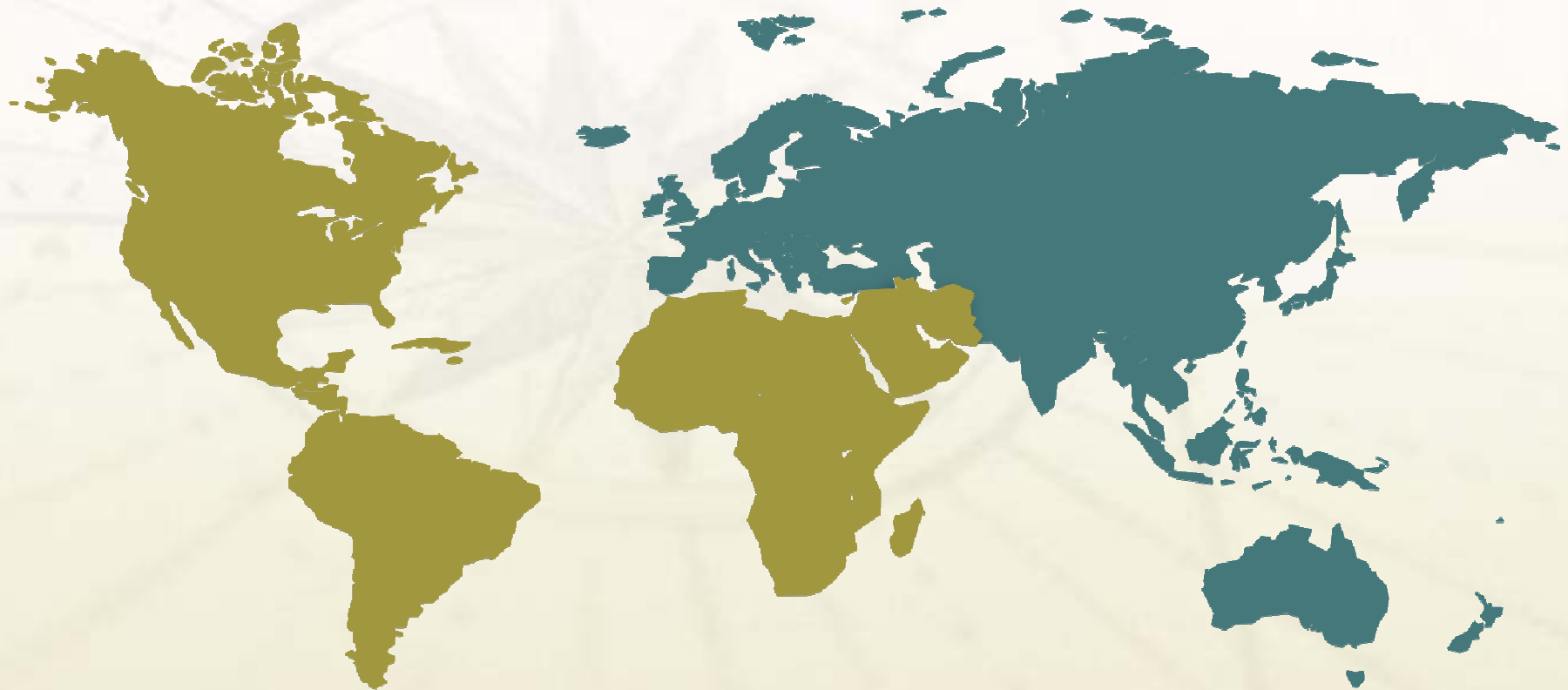
AIRINC...

- ❖ Surveys performed by full-time AIRINC staff
 - ◆ Surveys of 400 cities in over 150 countries
 - ◆ Major business centers surveyed 2x per year
 - ◆ Volatile economies surveyed more frequently
 - ◆ Largest market-basket of items - over 300 items
- ❖ National expenditure data for 150 home countries:
 - ◆ Savings, Income Taxes, Housing Norms, Spendable Income
- ❖ Supports thousands of home/host combinations
- ❖ Special surveys per client request

AIRINC Methodology Distinctions

- ❖ Index options, customizations available for all locations
 - ◆ International Living patterns
 - ◆ Conservative Living Patterns
 - ◆ Price Ratio Only
 - ◆ Exclude benefits-in-kind
- ❖ Client specific calculations, e.g., low-wage transfers
- ❖ Full-time, professional survey staff ensures highest data quality and place-to-place consistency
- ❖ Expatriates can contribute to the process

AIRINC Survey Schedule



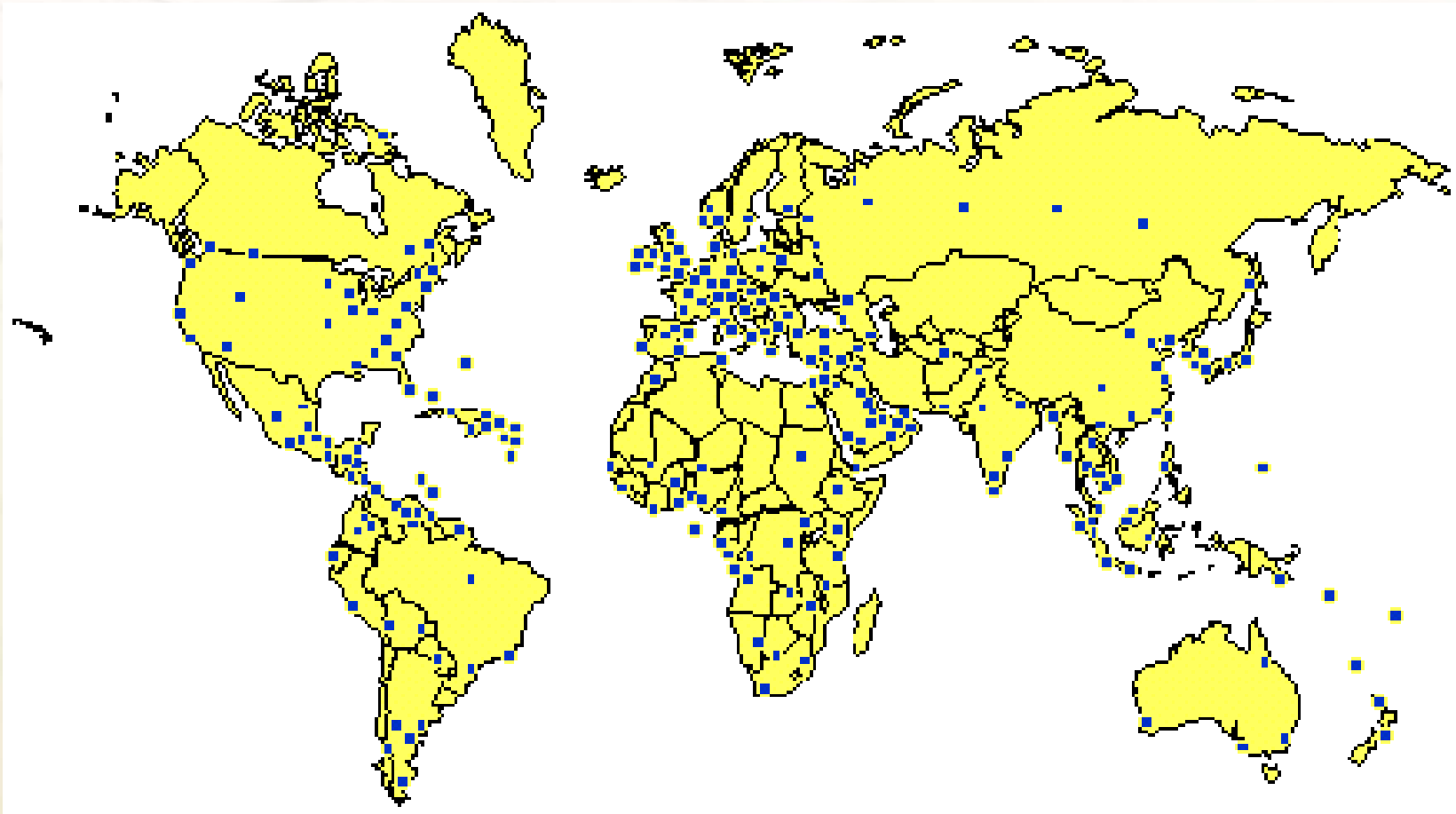
Surveyed February & August



Surveyed May & November



AIRINC Survey Locations



AIRINC Services

Data Services

- ❖ Goods and Services Differentials (COLA)
- ❖ Host Rent and Utilities Guidelines
- ❖ Hypothetical Taxes
- ❖ Per Diems & Short-Term Assignment Data
- ❖ “Permanent” Transfer Reports
- ❖ Hardship Evaluations/Reports

Other Services

- ❖ Benchmarking
- ❖ Training & Presentations
- ❖ Policy review and compensation system design
- ❖ Special Studies, e.g., expat housing analysis
- ❖ Data management software and program feeds

AIRINC Representative Client List

ABN Amro

Addax Petroleum

Alcatel Lucent

American Express

Anadarko

Barclays Bank

BG Group PLC

BPAmoco

CARE

Caterpillar

Chevron

Citigroup

Coca-Cola

Colgate-Palmolive

ConocoPhillips

Dell Corp.

Eli Lilly

ExxonMobil

Ford Motor Company

General Electric

GlaxoSmithKline

Goldman Sachs

Habitat for Humanity

Harley Davidson

Honeywell

IBM

Intel

Japan Tobacco

JPMorganChase

Lehman Brother

Lenovo

Lockheed Martin

Merrill Lynch

Motorola

Nortel

PDVSA

Petrobras

PepsiCo

Pfizer

Phillip Morris

PWCoopers

Procter & Gamble

Saudi Aramco

SNV

UPS

Walt Disney

Wal-Mart

World Vision

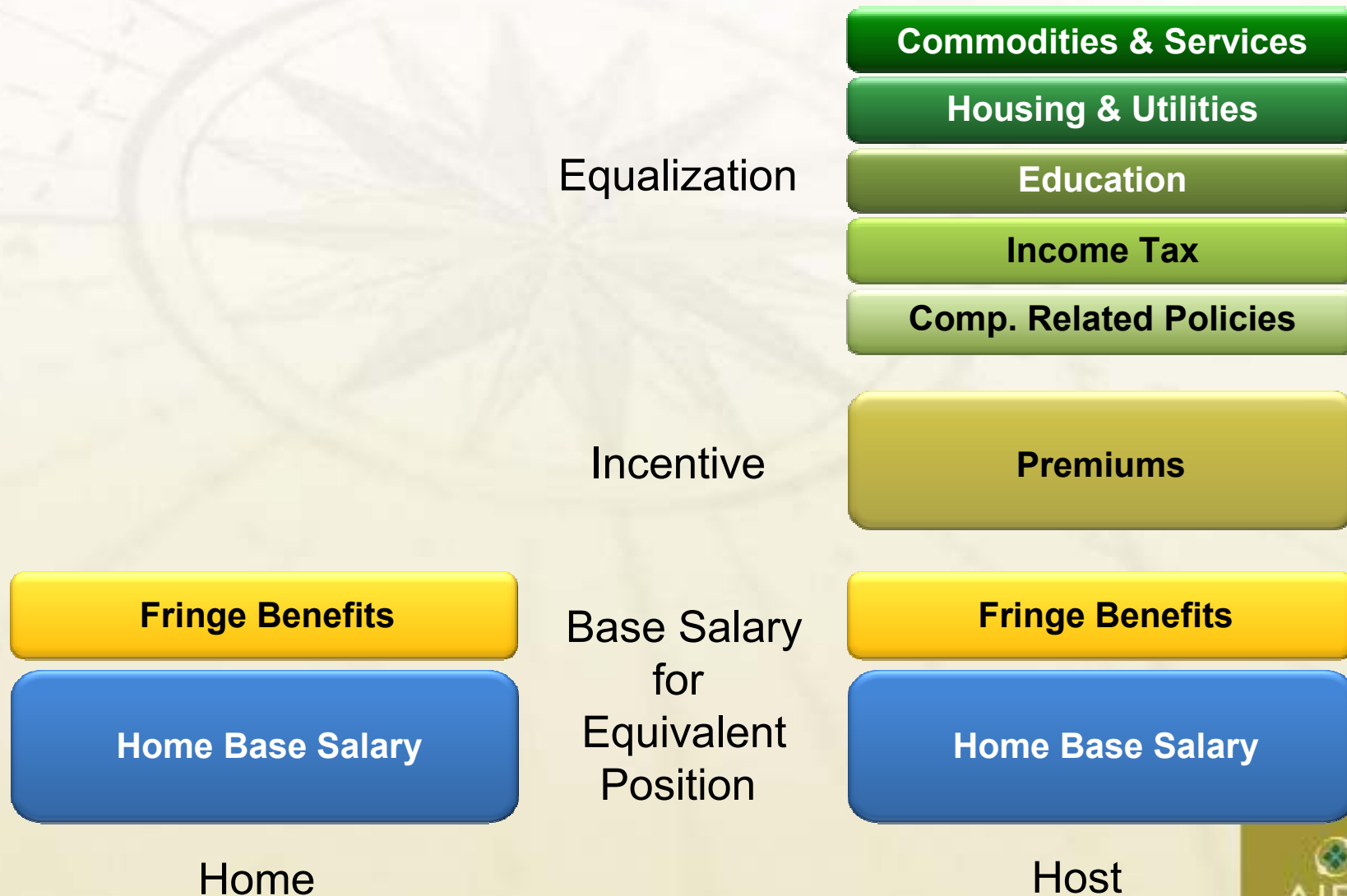
Balance Sheet Approach

- ❖ Philosophy: No financial gain/loss, home purchasing power protected
- ❖ Focus: Fairness to Each Employee – ‘Individualized’ Treatment
- ❖ Application: Temporary Assignments (2-5 Years)

And

- ❖ Facilitates mobility
- ❖ Aligns spending power of different nationalities
- ❖ Recognizes changes at home and host over time
- ❖ Separates incentives from equalization components

Conventional Expatriate Compensation Package



Balance Sheet Approach

Home Base Salary

Taxes

Consumption

Savings

Expatriate Balance Sheet

Hypo. Tax and Soc. Sec.

Host Country and Excess Home Taxes Paid by Co.

Spendable C&S
Auto Purchase
Hypo. H&U

Excess Host Country Costs Paid by Company

Home Levels

Mobility Premium/ Hardship Added by Company

Under SNV Policy....

- ❖ Headquarter based system for all nationalities
- ❖ Interregional mobility incentive = 20%
- ❖ Home housing contribution (hypothetical home housing and utilities) = flat 10%
- ❖ Spendable C&S (spendable income) =
 - ◆ Medior Families: 71%
 - ◆ Senior Families: 68%
 - ◆ Medior Singles: 59%
 - ◆ Senior Singles: 55%

Home Country Spending and the Balance Sheet

- ❖ Balance sheet protects four main categories of salary:
 - ◆ Income tax
 - ◆ Commodities and Services
 - ◆ Housing and Utilities
 - ◆ Residual

- ❖ Contribution to these categories should be commensurate with:
 - ◆ Income level
 - ◆ Home country
 - ◆ Family size

Tax Equalization

The Expatriate Always Pays the Hypothetical Tax.

- ◆ Hypothetical Home Tax Deducted from Employee Pay, Company Pays Any Actual Home and Host Taxes
- ❖ Approximate tax obligation in home country on wages without assignment related allowances
- ❖ Computed at beginning of assignment or assignment year
- ❖ “RETAINED” from compensation similar to actual withholding
- ❖ NOT remitted to tax authorities
- ❖ NOTE: any actual tax liabilities in host country are paid by company

Establishing Statistical Distribution of Income

- ❖ Determine after-tax income
 - ◆ Salary less national tax, social security, pension premium, and other income tax

- ❖ Allocate after-tax income to spending and savings
 - ◆ Spending divided among Goods and Services and Housing and Utilities

Home Country: Source Documents

Australia

Australian Bureau of Statistics
Household Expenditure Survey

Indonesia

Biro Pusat Statistik
*Pengeluaran Untuk Konsumsi Penduduk Indonesia
(Expenditure for Consumption of Indonesia)*

Netherlands

Centraal Bureau voor de Statistiek
Family Budget Survey

Turkey

State Institute of Statistics, Prime Ministry
*Consumption Expenditures, Household Income and
Consumption Expenditures Survey*

United Kingdom

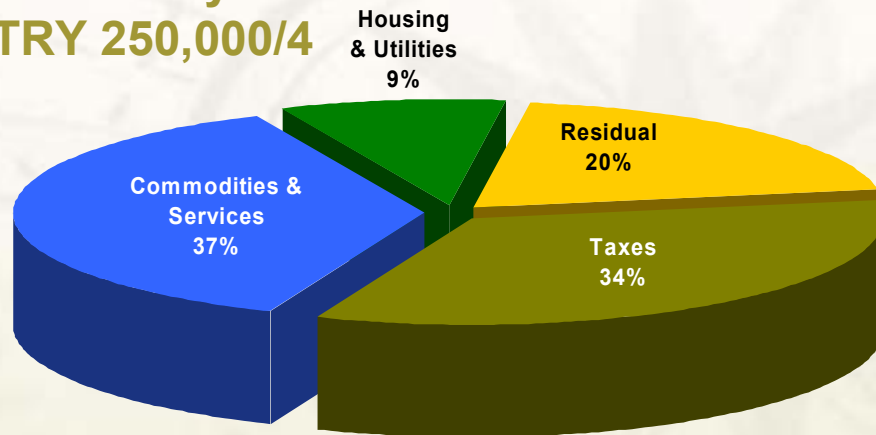
Office for National Statistics
Family Spending – Expenditure & Food Survey

USA

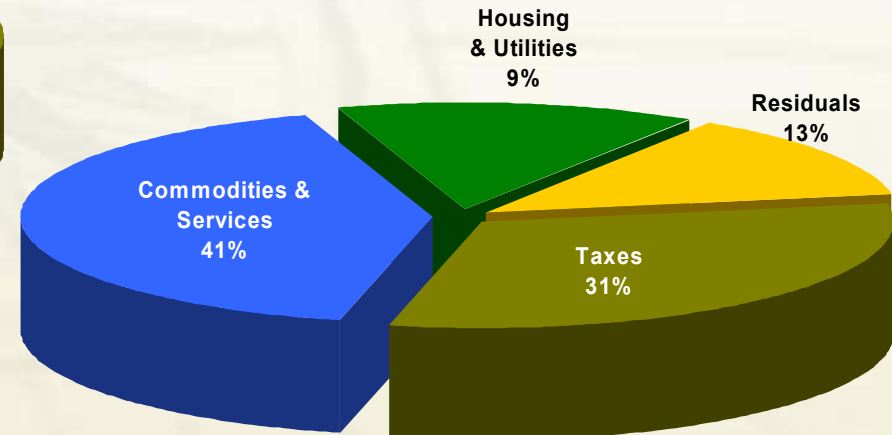
Bureau of Labor Statistics, U.S. Department of Labor
Consumer Expenditure Survey

Home Country: Distribution of Income

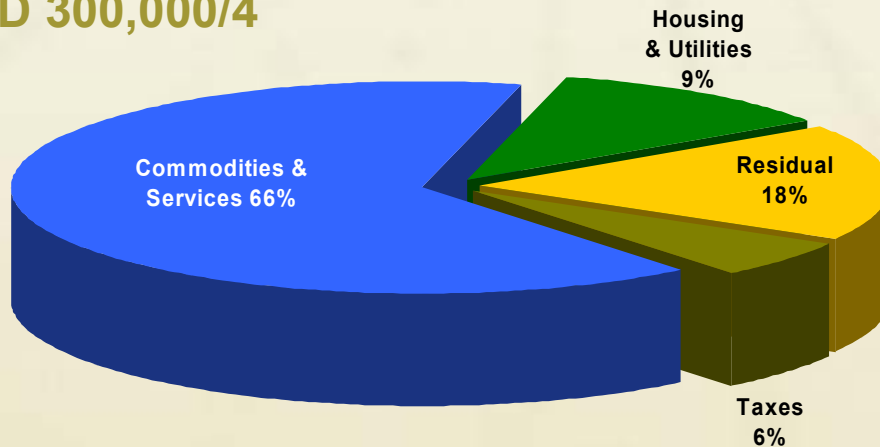
Turkey
TRY 250,000/4



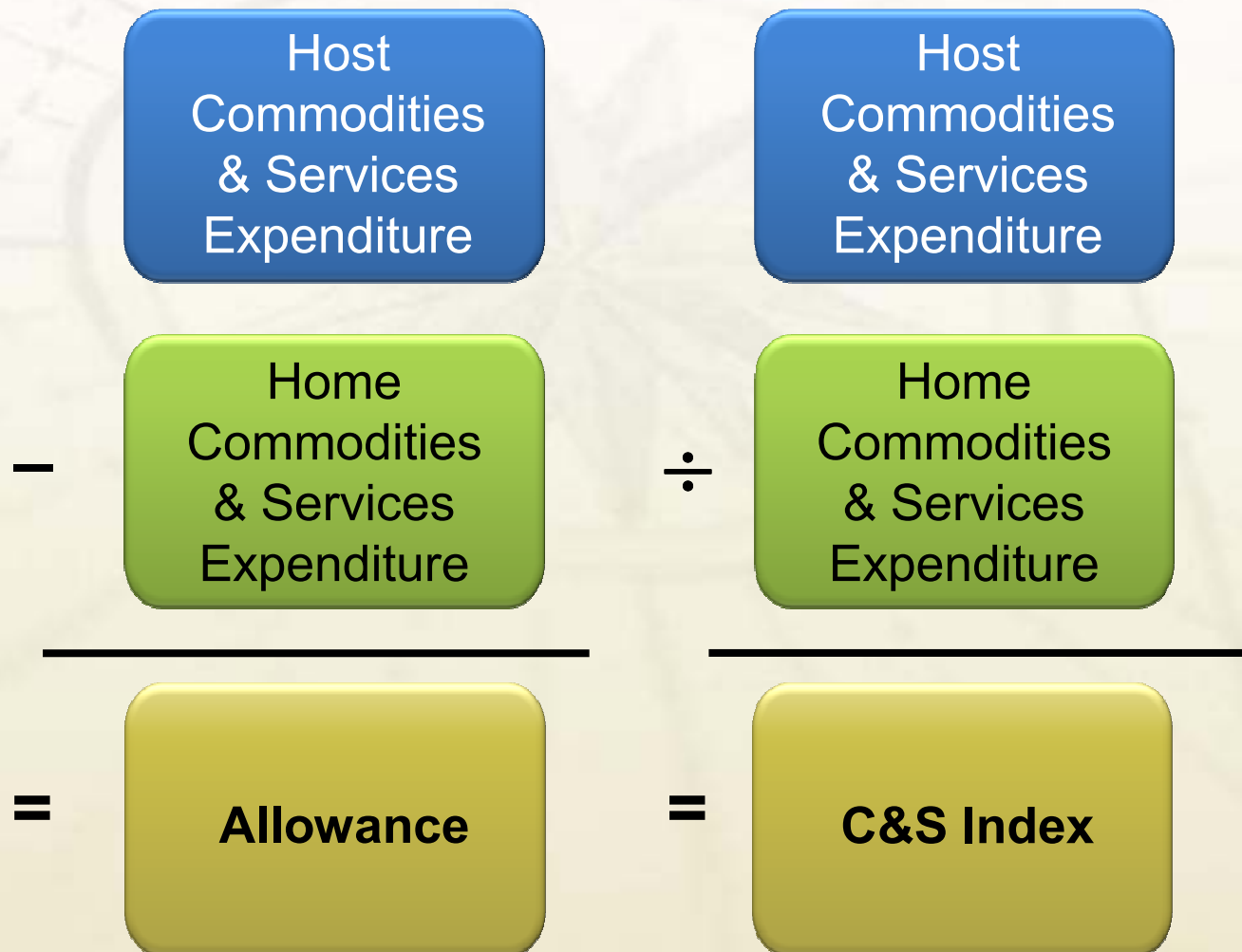
Netherlands
EUR 100,000/4



UAE
AED 300,000/4



Measuring C&S Cost Differences



The COLA Calculation

Data Collection

- ❖ Collect prices
- ❖ Survey living patterns

Data Analysis

- ❖ Assign weights
- ❖ Construct living pattern models

Determining Host Expatriate Expenditure

**Food Prepared at Home
Household Supplies &
Furnishings
Personal and Medical Care
Clothing**

Adjust Expenditures for
Price Differences Only

**Communications
Domestic Help
Transportation
Recreation & Entertainment
Food Away from Home**

Use Expatriate Living
Patterns to Determine
Expenditures

Expenditure Categories

Salary

- Taxes
- Housing & Utilities
- Commodities & Services
- Residual

Commodities & Services

- Food Prepared at Home
- Household Supplies & Services
- Personal Care Supplies & Services
- Clothing
- Medical Care
- Communications
- Household Furnishings & Equipment
- Domestic Help
- Transportation
- Recreation & Entertainment
- Food Away from Home
- Alcohol & Tobacco

Food Prepared at Home

- Cereal & Bakery Products
- Meats, Poultry, Fish
- Oils, Fats & Sweets
- Dairy Products
- Fresh Fruit & Vegetables
- Processed Fruit & Vegetables
- Canned & Packaged Goods
- Beverages

Cereal & Bakery Products

- Flour
- Rice
- Pasta
- Bread
- Cookies
- Cereal

C&S Allowance by Category

Netherlands to Sao Paulo

EUR 100,000

Family of 4

EUR = BRL 3.00

	NL Expenditures (EUR)	SP Expenditures (EUR)	Index	Allowance (EUR)
Food at Home	7,446	6,770	91	- 676
Household Supplies	1,291	1,079	84	- 212
Personal Care	1,289	1,062	82	- 227
Clothing	4,326	3,975	92	- 351
Medical Care	1,040	1,070	103	30
Telephone	1,290	3,424	265	2,134
Household Furn. & Eq.	3,578	2,878	81	- 700
Domestic Help	1,414	4,806	340	3,392
Transportation	7,197	9,676	134	2,479
Rec. & Entertainment	6,905	9,445	137	2,540
Food Away From Home	4,035	4,509	112	474
Alcohol & Tobacco	1,789	1,306	72	- 483
	41,600	50,000	120	8,400

Different COL Index Levels

- ❖ International Living Pattern (ILP) Indexes
- ❖ Conservative Living Patterns (CLP) Indexes
- ❖ Modified Price Ratio (MPR) Indexes

Switching from MPR to CLP Index

- ❖ Recognize expatriate spending pattern “uplift”
- ❖ Average expatriate spending patterns
- ❖ “Conservative” level suits not for profit industry
- ❖ 46% of companies (in all industries) implement a “reduced” COL Index

Cost of Living Index Options

Netherlands to Sao Paulo

Salary: EUR 100,000/M+2

Rate of Exchange: EUR = BRL 3.00

	<u>Index</u>	<u>Allowance/yr.</u>
International Living Patterns Index:	120.0	EUR 8,400
Conservative Living Patterns Index: (proposed index)	105.0	2,080
Modified Price Ratio Index: (currently implemented)	90.0	-4,200

Implementing a negative COL index – Why?

- ❖ Inherent to “no gain/no loss” philosophy of Home/HQ Based System
- ❖ Purchasing power still protected, foreign spending power remains the same
- ❖ Feeling the actual change in cost of living in your wallet