

Understanding *Local Plus*

Compensation Approaches

By Olivier Meier, Mercer

The concept of [local plus compensation](#) has grown increasingly popular over the past few years as companies look for a viable alternative to the [home-based \(balance sheet\) compensation approach](#). The long-heralded demise of the balance sheet approach has often been exaggerated, but the growing diversity of the assignee workforce, types of assignments, and cost containment imperative is forcing companies to reconsider their compensation approach or use more than one. For selected types of assignees or moves, [a local plus solution](#) is perceived as a reasonable compromise between a full localization, which is difficult to achieve, and the costly traditional expatriate package.

DEFINING LOCAL PLUS

A local plus compensation approach is usually defined as an approach whereby companies pay their foreign employees according to the local (host country) salary structure plus additional compensation elements that are not typically provided to local nationals (such as transportation, housing, dependents' education, etc.) because of the assignees' specific status, requirements, and other factors. In practice, the concept of local plus can mean different things for different organizations, and direct comparisons can be difficult to make.

THE BUSINESS CASE FOR LOCAL PLUS

ENABLING A DEGREE OF LOCALIZATION

Local plus is commonly used when the objective is to go “as local as possible” and sever the link to the home country pay structure while taking into account objective barriers to full localization. Terms and conditions should be local, but practical barriers to full integration into the host location require the provision of specific benefits or allowances.

COST CONTROL AND COMPETIVENESS

Switching to a local plus approach based on a host salary and a limited set of benefits and allowances can [lead to savings](#) but only for specific types of moves between similar countries. Other scenarios – for example, moves to high-paying countries such as Dubai, Singapore, or

Switzerland – may not lead to savings, and in those cases the objective is, on the contrary, to ensure that the package offered to assignees from low-paying countries relocated to high-paying countries is competitive with local peers.

PAY PHILOSOPHY: RECONCILING GLOBAL PRINCIPLES WITH LOCAL FLEXIBILITY

Moving from a [home-based approach](#) to a local plus approach can be driven by the need to end the gap between highly paid expatriates and locals and avoid the perception of having two categories of employees. It can also lead to a degree of local flexibility. The barriers to mobility, the requirements driving the need for a “plus” and its exact definition will vary greatly depending on the destination.

PRACTICAL IMPLEMENTATION TIPS

WHEN TO USE LOCAL PLUS: SEGMENTATION AND THE INDISPENSABLE LINK WITH TALENT MANAGEMENT

Local plus approaches are commonly used in combination with other approaches (mainly the balance sheet) as part of a segmented approach. Local plus is used when companies don’t want to guarantee that a link to the home country will be maintained (permanent/one way transfers) or when the concept of home country is not relevant (locally hired foreigners).

It can also be used after a long-term assignment to discontinue a home-based package and achieve a degree of localization. Companies that differentiate assignments by purpose sometimes rely on local plus packages for developmental moves, especially to develop locations, while traditional home-based packages are more suitable for strategic moves or assignments to hardship locations. In any case, this type of segmentation requires a link with talent management and a good understanding of the potential career evolution of assignees (e.g. will the employees remain indefinitely in the host locations or will they move from country to country several times?).

[Source: 2018 Local Plus Policies and Practices Survey](#)

SETTING THE BASE SALARY

In theory, the employee base salary should be fully aligned with salaries in the host country. In reality, few employees accept a pay cut, and the starting point of the discussion will often be the current salary of the employee in the home country. The objective will be to determine the equivalent salary in the host location taking into account [purchasing power](#), [tax](#), and local salary

ranges. This will help assess if there is a gap and will inform the decision about the need for a plus in the package.

The second point to consider is the definition of a local salary. Should it be the real market structure for local nationals? In some locations, the market is segmented and there are different pay structures for locals, local employees with international experience (e.g. “returnees” who have grown up and studied abroad and are returning to home country) and foreigners hired locally. The specific skill sets and international experience of the returnees and local hired foreigners sometimes means that they can expect a higher salary than local nationals without international experience.

SETTING THE “PLUS”

A clear logic should be established to justify the need of allowances and benefits in the “plus.” Three types of allowances and benefits are commonly used in local plus packages.

- Allowances and benefits designed to meet the minimum requirements/duty of care and avoid exposing the company to liabilities (e.g. tax filing assistance and health insurance).
- Allowances and benefits designed to remove barriers to mobility (e.g. housing and education), that need not to be provided systematically but could be used to address objective issues (for instance, the employee cannot send the children to the local schools).
- One-time relocation support: this type of support is common to many types of assignments, especially permanent or long-term, and is designed to facilitate the move and speed up the integration in the host location.

The allowances included in the plus are less numerous and not always at the same level as in home-based packages. For instance, [housing allowances](#) in local plus packages tend to be a contribution to the housing cost rather than designed to cover the full housing costs based on the actual rental market. Similarly, allowances directly linked to the home country such as the cost-of-living differential are not commonly used in the local plus approaches.

Whenever possible, the plus should not be permanent and would be phased out over time or alternatively provided as a one-time fixed amount. If the “Plus” becomes permanent, the local plus package could become more costly than initially anticipated.

THE LIMITS AND RISKS OF LOCAL PLUS

INEQUITIES BETWEEN COUNTRIES

Assignees receiving a host-based package often turn, later in their careers, into costly employees with inflated base salaries. Salaries go up with each assignment but rarely, if ever, go down. Providing a “plus” benefit package rather than significantly increasing the base salary alleviates some of these problems but doesn’t fully eliminate the fact that some countries are more attractive than others for overall cost, pay, or tax reasons and that the base salary might fluctuate more than with a home-based approach.

BENEFITS ISSUES

Companies [have a duty of care](#) and need to provide a minimum coverage in terms of health, pension, and other benefits. In some cases, the benefits provided to local employees are not meeting international standards or are not available to foreigners. Security issues can also drive the need for specific benefits and force employees to live in specific types of secure housing. These limitations mean that a local plus package can become very expensive (if the plus cannot be limited to a few allowances or benefits) or be insufficient for some moves, especially to dangerous hardship locations.

LEGAL ISSUES

Legal issues can present a significant barrier to complete localization of employees, or even to partial localization. The use of quotas or visa restrictions can prevent companies from localizing employees in some locations. In other cases, legal or contractual issues can prevent the company from breaking the link between the home and the host location or make it prohibitively expensive.

THE RISK OF FAULTY LOGIC

The Local Plus approach is sometimes introduced for the wrong reasons. Having an overall compensation philosophy with consistent approaches is more important than [attempting to cut costs](#). Giving the impression that the local plus is just a low-cost version of the expatriate package can make assignees unwilling to accept it.

UNCONTROLLED EXCEPTIONS

Allowing the Plus to be perceived as negotiable and/or [granting a number of exceptions](#) can damage the consistency of the local plus policy. Local flexibility in the policy doesn’t mean that every assignee can get an ad-hoc deal. There should be clear principles, and these principles should be clearly communicated.

[Contact the author: Olivier Meier](#)