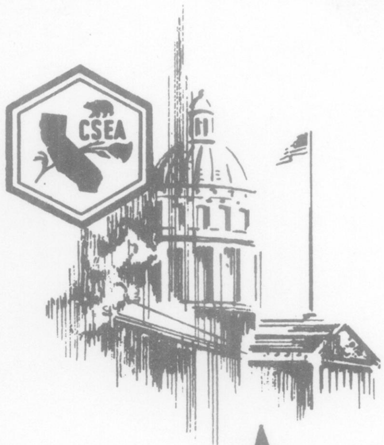
Moving expenses.



A Study of Prevailing Practices

= by Al Riolo =

REIMBURSING EMPLOYEES FOR RELOCATION LOSSES

TITLE SEARCH

REAL ESTATE COMMISSION

LEGAL EXPENSES

LOSS OF EQUITY

Prepared by:

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FOR

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Al Riolo, Analyst

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THE PROBLEM

For various reasons it is a practice of the State of California to require its employees to relocate solely for the convenience of the state. In view of this practice it is extremely important that state employees have protection from serious financial injury when selling their homes because of such transfers.

In an effort to determine the prevailing practice of other employers, with respect to reimbursing home-owning employees who must relocate, CSEA has conducted this study which documents recent developments in employer relocation policies.

SUMMARY OF FINDINGS

Recent reports published by the American Management Association, the National Industrial Conference Board, the Administrative Management Society and others indicate that an overwhelming number of employers with a workforce of 10,000 or more who have a need to relocate employees, pay certain of the selling expenses -- broker's commission, carrying charges, legal fees or specified other expenses -- that transferred employees incur in selling their homes.

Further, these reports indicate that a high percentage of employers follow the practice of purchasing the employee's home outright, while others require the employee to sell the home himself. Where the latter occurs employers frequently provided interim help of another sort such as arranging for home purchase loans; and advertising and/or acting as agent for the employee in selling the old home.

PREVAILING PRACTICE-TRENDS

Reports released recently by several management associations, provide strong evidence that the prevailing practice in private industry relocation policies is that of employers substantially reimbursing transferred employees who must sell their homes. The year 1955 marks the beginning of a trend in this direction.

In 1955 the American Management Association published a detailed study of the various types of financial assistance that employers were providing to relocated employees. Only 10 percent of the participating firms in that study extended financial assistance toward the costs of selling a transferred employee's home. The following year, the National Industrial Conference Board indicated that a sixth of the employers contacted provided real estate assistance. In a subsequent survey, conducted in 1960, the National Industrial Conference Board found that the percentage of companies giving some kind of help, financial or otherwise, to the transferred home owner had jumped from one-sixth to more than one-half.

Still other surveys indicated that the trend was continuing. In 1962 the Administrative Management Society indicated that more than 60 percent of the firms contacted paid expenses connected with the disposal of the employee's former residence. In 1964 the American Management Association conducted a new survey which confirmed the Administrative Management Society's previous conclusion.

Then in 1965 the National Industrial Conference Board Record showed evidence that 85 percent of the participating employers were extending assistance specifically related to the selling of homes. In 1966 CSEA received somewhat the same results when its survey of 95 California employers indicated that nearly 81 percent made real estate reimbursements in some form and to some degree.

Below is a typical summary of the kinds of assistance and reimbursements made by employers:

EMPLOYER ASSISTANCE AND REIMBURSEMENTS*

Type of Benefit Provided	Percentage
Externally Helping Employee Sell Home:	
Transferring Ownership:	
Advertising, etc.	36%
Direct Sale to Employer	28%
Acting as Employee-Agent	8%
Total	72%
No Benefit Provided	28%
Reimbursement of Costs of Sale:	
Real Estate Commission	94%
Title Search	73%
Legal Expenses	81%
Loss of Equity	56%

*Taken from a report by the American Management Association, "Reimbursing Personnel for Transfer and Relocation Costs," March 1964.

Type of Benefit Provided	Percentage
Helping Employee Purchase New Home:	
Payments for Double Taxes or Mortgage Interest	54%
Other (rugs and draperies, loans for purchase of new homes, assisting in financial arrangements, etc.)	29%

WHAT METHODS ARE MOST FREQUENTLY USED IN PROVIDING REAL ESTATE ASSISTANCE?

A review of all the methods used by employers with workforces of 10,000 employees or more indicates that essentially four methods have the most appeal in guaranteeing home owners against loss in disposing of their homes. (The appendix provides examples of the procedures used to implement these methods.)

1. Of the four methods, 38 percent of the employers purchased the employee's property outright. In these instances, employers primarily used the current appraised value of the employees' homes by arranging for independent real estate appraisals (two or three of them as a rule) to determine the current market value of the house.

2. A second alternative used by 29 percent of the employers was to base the guarantee on the invested value, i.e., the sum of an employee's original purchase price, closing costs and what he spent for capital improvements minus a depreciation deduction (often 3 percent), for each year of occupancy.

3. A third alternative used by 23 percent of the employers was to require the employees to sell the property themselves. Once the property is sold the employer reimburses the employee for the broker's commission up to 6 percent of the selling price, normal selling costs (such as attorney fees, realty transfer taxes and survey charges), and mortgage prepayment penalty. Carrying charges are also allowed if the employee vacates the house before it is sold.

4. As a fourth alternative, 18 percent of the employers engage the services of one or more real estate or banking firms for the sale of the employee's property. With this method the employee is given the option of (1) selling the home on his own and being reimbursed by the company for selling costs, including broker's commission, or (2) letting one of the real estate

or banking corporations handle the sale for him.

5. As a fifth alternative, one percent of the employers allow their transferred employees a sum equal to about 23 percent of their annual salaries which is intended to cover traveling expenses and allow leeway for real estate expenses.

In addition to these private industry practices, the federal government through the July 21, 1966 amendment of the Administrative Expenses Act of 1946, provided reimbursement for the expenses of the sale of residences (or the settlement of unexpired leases) though such reimbursements for brokerage fees and other real estate expenses are not to exceed those customarily charged in the locality where the residence is located.

ADDITIONAL FACTORS WORTHY OF CONSIDERATION

Where employers provide relocation expenses, such expenses are generally granted on a uniform basis. The most recent American Management Association survey indicates that 85 percent of the employers with reimbursement policies give blanket coverage to all levels of personnel. (Frequently top executives are allowed additional flexibility.) This means, of course, that the rank-and-file, when relocated, are accorded the same coverage as professional, supervisory and managerial personnel. However, unless plant closures or reductions in force are in effect, the rank-and-file employees are moved much less frequently than other job levels.

Another practice generally followed by most employers is that of planning transfers of personnel as far ahead of time as possible. Most relocation policies stipulate that no employee is to be asked to relocate unless he has been given a minimum of two months advance notice. Even in the case of emergency moves caused by reasons beyond management control (such as death or resignation), employers agree that relocating employees must have at least one month's notice.

WHY ARE EMPLOYERS FINDING IT ADVANTAGEOUS TO MAKE REAL ESTATE REIMBURSEMENTS?

A 1965 issue of the National Industrial Conference Board Record showed that employers' objectives in making formalized real estate reimbursements include:

1. Maintaining good employee morale and productivity.

2. Permitting the employee to complete the transfer with the least disruption of his work effort.

3. Insuring equitable treatment.

4. Implementing the company's policy of promotion from within.

5. Keeping moving expenses out of the wage and salary structure.

6. Facilitating staff development.

7. Controlling expenditures incurred as a result of transfers and relocations.

In short, maintaining equity in the face of changing real estate market conditions requires employers to provide financial assistance to transferred home owners. Thus, employers generally are providing fairly liberal allowances to make the employee's transition smooth and uneventful.

Interestingly, at a time when corporations sometimes seem preoccupied with their "image" it is worth noting that the common image projected on this issue is one of enlightened management taking good care of its most important asset - the employee.

A P P E N D I X

APPENDIX

DETAILED EXPLANATION OF REIMBURSEMENT APPROACHES FOR EMPLOYEE RELOCATION AND COMMENTS THERETO

1. Employer Paying Original Purchase Price Minus Depreciation Deduction

Instead of purchasing the property at current appraised value, some employers base the loss on invested value - the sum of an employee's original purchase price, closing costs, and what he spent for capital improvements minus a depreciation deduction (often 3 percent), for each year of occupancy.

The intent of this is to induce employees to sell their homes themselves, since they are likely (especially if they have lived in the home for any length of time), to realize a better price on the open market than under a guarantee which includes an automatic deduction for each year of occupancy.

Generally, this approach turns out to be unsatisfactory because it:

1. Affords little or no company assistance for a man asked to transfer, if he had owned his home for a long period of time.

2. Makes no distinction between an owner who has spent the time and money required to maintain a home in good condition and an owner who fails to do so.

3. Allows no credit for the labor put into a home by an owner who is an expert craftsman.

4. Gives undue value to capital improvements added for the owner's personal benefit but having small appeal for prospective buyers.

In short, the disadvantage of this method is that an employee is frequently not, in fact, guaranteed against loss and thus does not receive sufficient moving assistance.

2. Engaging The Services of Real Estate Firms For Sale of Property

When a home-owning employee is notified that the employer wants him to transfer to a new location, he asks the employer for an appraisal of his home and submits a copy of his deed. The employer than selects two appraisers and averages their fair market evaluations of the property. Within the next week or two, a letter notice of this average appraised value is mailed to the employee.

The real estate firm engaged by the employer then offers to take the house off the employee's hands at its average appraised value, and 90 days from the date the employee was notified of that value the real estate firm sends him a contract of sale in a form that is approved by the employer and that specifies the date he has to vacate the property (which cannot be more than 90 days from the date of the contract of sale).

As soon as the realty concern receives the signed contract of sale, it sends the employee a check for his equity in the property, less the greater of $500 or 2-1/2 percent of the average appraised value. This withheld amount plus interest at 5 percent per year (minus any costs incurred in clearing title), is forwarded to the employee after the real estate firm either sells or takes title to the property. Generally, the final settlement is reached within six months from the date of the contract sale. The employee, however, is relieved of all responsibility for the property when he receives the initial payment of equity or when he vacates the house, whichever is later.

For this service, the employer pays the real estate corporation a fee equal to a percentage of the average appraised value of each employee's home bought or sold.

3. <u>Engaging The Services of Banking Firms For The Sale of Property</u>

With this plan an employee has 60 days in which to request plan coverage. If he does, the employer contacts one of nearly 100 banks throughout the county with which it has negotiated agreements. The bank selects one appraiser, and gives the employee a list from which to select a second appraiser. Averaging the two appraisals (provided they are no more than 5 percent apart), determines the property's fair market value.

The relocation coordinator of the employer, after checking the appraisals, authorizes the bank to notify the employee, in writing, of the established appraised fair market value of his home. If the employee is satisfied, he signs an agreement in which he is guaranteed that, when his home is sold, the employer will reimburse him for any difference between the appraised fair market value and lower gross selling price. The total reimbursement payable under this guarantee, however, normally does not exceed an amount equal to the employee's earnings during his first two months at the new location.

Sale of the home is handled by the bank, which lists it with realty brokers of its choice. The listing price is usually 100 percent to 105 percent of the appraised value, but this price can be adjusted by the employer's relocation coordinator to reflect market conditions and accomplish a reasonably quick sale. Before an offer received from a prospective buyer can be accepted, it must be approved by the relocation coordinator.

The employee, who is made responsible for keeping the home available for showing at reasonable times, must agree to the acceptance of any offer that would not result in a loss in excess of his earnings during his first two months at the new location. Expenses that the employer pays under this plan include the cost of appraisals, the bank's service charge (usually 1 percent of selling price), the broker's commission up to 6 percent of the selling price, normal selling costs (such as attorney fees, realty transfer taxes, and survey charges), and mortgage-prepayment penalty. Carrying charges may also be allowed if the employee vacates the house before it is sold.

Again, the disadvantage of this system is the difficulty that it causes employees and employers. The controlling objective of the employer in providing any assistance at all is to minimize the inconveniences and disruptions resulting from employer-requested moves so that the employee can take over his new post with full effectiviness. Requiring employees to dispose of their homes, themselves, tends to defeat this objective. When an employee has to move to his new location before selling his home at the old location, he often carries a disturbing financial problem with him. His worries are aggravated, too, by the prospect of an extended separation from his family. In addition his wife is submitted to the harrassment of having to keep the home ready for possible buyers.

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