



# Career Development

## INTERNATIONAL ASSIGNMENTS and Remuneration Issues

### Introduction

A number of complicated issues revolve around the acceptance, or otherwise, of an expatriate assignment. Much will depend on the private circumstances of an expatriate and their immediate family – for example the age of dependent children and perhaps the health of parents. This article doesn't attempt to address those issues, which differ from expatriate to expatriate, but to very briefly focus on two specific issues; the impact of expatriation on career development and assignment remuneration.

### Career Development

Unless you work in certain specific fields where overseas experience has a direct relevance to your work in Australia, or within the confines of an Australian or International company that actively promotes and manages expatriates assignments, you should not proceed overseas on the premise that an expatriate assignment will automatically assist your career prospects. In fact, there is much experience to the contrary and it is often the case that the absence from your domestic workplace and environment will negatively impact your career progression. Within wider Australian industry there seems to be little current appreciation for skills and experiences acquired overseas and returning expatriates will inevitably be met with inquiries like, "what's your network like in Sydney?" Despite a widening engagement with the world at large, most Australian employers and recruiters remain determinedly parochial and unadventurous.

This position is expressed in the bleakest of terms because you need to make a rational assessment of the value of proceeding on an expatriate assignment and plan, if possible, to mitigate the impact of these attitudes. In terms of the latter, it means making a strong effort to maintain your Australian networks (internal and external) and making an assessment of how well your employer manages assignments and probably, more importantly, re-integration at a later stage. It is important in this context that you judge systems rather than the intent of your current line manager – almost certainly they won't be in the same position at the time your assignment comes to an end. If possible, talk to expatriates who have just returned both about whether the systems worked and also the attitude to returnees – did they return to a promotion, demotion or sideways shuffle?

Expatriation can be immensely rewarding, both from a personal and family perspective and this can often, rightly, overrule concerns about career

prospects. However, while there is every chance that attitudes in Australia will change for the better over time, you should proceed on an expatriate assignment with your eyes open. There is a tendency in this context, in the midst of considering exciting possibilities overseas, to think that the “future will look after itself” – it won’t.

## **Expatriate Remuneration**

Remuneration systems for expatriates range from simple systems based on base country net salaries plus various allowances to ones of eye-watering complexity operated by large multinationals for hundreds of nationalities with thousands of permutations.

It would take very many pages to address all the different issues and systems. The focus of this paper is simply to outline the major remuneration issues that potential expatriates should consider when reviewing an offer to work overseas.

### **The Starting Point: Net to Net Comparisons**

The starting point for any analysis is to look at any offer in terms of how your net (after tax) take home salary – inclusive of any government and social security allowances – compares to your net salary in your host country. You may be entitled, in parts of Europe and elsewhere, for social security payments but you should not assume so in the absence of direct advice from your employer. This should be done in AUD terms in the first instance and you should ask your employer whether any portion of your salary is guaranteed in AUD terms (this protects a portion from exchange rate changes) or whether (and how often) your package is adjusted for exchange rate changes.

In traditional “expatriate” remuneration systems it was normal to protect a part of the package called “discretionary expenditure and savings” from exchange rate changes and to adjust it for changes in tax rates in the base country. There has, however, been a marked shift to expatriates being employed on “host country plus” arrangements and, in these circumstances, for better or worse, expatriates are totally exposed to exchange rate changes.

### **Cost of Living Adjustment Factors (COLAF) & Local Costs**

Of course, net to net comparisons are not the whole story – you need to factor in cost differentials in your host country. A number of consultancies currently carry out cost living surveys in even the most remote corners of the world, and they may tell you, for instance, that London is 30% more expensive than Melbourne. Notionally that means that the part of your package that you would normally spend on every day living, not that which you would “save”, should be increased by 30% just to keep you “whole”. Of course, the reverse situation can apply and you may be sent to a lower cost environment and in theory you could be paid less and still live as

comfortably. Somewhat understandably, individuals often find the latter hard to accept.

However, just as in other parts of expatriate remuneration, this area is more complicated than first appears. For example, COLAF's rely on a number of assumptions that normally don't fit any family or individual with exactitude. Thus, assumptions may be made about the composition of the basket of goods you buy, how you will live in terms of accommodation, your family size (eg. 2 adults and 2 children) and the age of your children. Of course, if your circumstances are well outside these norms (eg. single individual vs. large family) you may find the remuneration results generate too much or too little income – although to some extent this probably mirrors your situation in Australia.

Some things you need to specifically consider though – because they can be (very) big budget items – is whether your employer will pay for accommodation, school and health insurance costs, and how much. If they don't, and this is often the case on so-called local packages, then you need to very carefully research local costs for both these items. If the employer does pay for accommodation costs then you have also got to satisfy yourself that the quality of housing provided is acceptable. In certain parts of the world even (extraordinarily) high rental costs do not equate with luxury, and particularly of concern for many Australians used to large homes, to a “lot of space”. This should be one of the main focuses of any familiarisation trip, if available. It is not uncommon to find expatriates, in a number of locations, using part of their salary, in addition to rental allowances to improve their standard of accommodation in the second or latter years of an assignment.

Finally, remember that COLAF's are usually quoted at specific exchange rates – if there have been significant movements in the cross rates during the intervening period then the COLAF's should be adjusted accordingly.

### **Incentives & Assignment Conditions**

Apart from simply keeping you “whole” from a base country perspective, most expatriate remuneration systems will also provide an allowance or additional salary to compensate for the innate difficulties posed by an expatriate lifestyle and to assist employee mobility. Other payments may also be payable based on geographic location and an assessment of relative “hardship” in these locations. In concert, you will probably be offered return flights to Australia on an agreed basis and these may, or may not, be used for travel elsewhere.

### **Insurance and Superannuation**

You should ensure that part of your arrangements include adequate life insurance coverage – you may find coverage in certain locations difficult to arrange individually and it is most efficiently done through group or

corporate cover. The default situation also tends to be, for assignments ex Australia, that superannuation contributions continue to be made into your designated domestic superannuation scheme. Since you will be non-resident for tax purposes that may not be optimal from your point of view.

## **Parting Words**

Expatriation, and particularly long term expatriation, has a tendency to change an individual's view of the world. Australian's traditionally maintain a strong affinity for Australia and usually see themselves returning at some point in time. However, there may be, for example, a desire to send children to overseas Universities, establish or retain houses in other countries or regularly travel to see friends me overseas. This means, amongst other things, a much more complicated financial profile and a need for financial advice early in an expatriate career to ensure that the most effective use is made of any additional expatriate income, and that any investments are both structured appropriately and are tax effective.

Additionally, bearing in mind the previous comments about the current career problems faced by many returning expatriates, there is a need to ensure that there are sufficient funds on hand to comfortably sustain them through a period searching for appropriate employment or to establish their own businesses.

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