How to Talk to Your CFO About Relocation

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Introduction

Out of all the executives in the c-suite of an organization, the Chief Financial Officer (CFO) can be the most intimidating. We've all been there, right? You are running a program that goes over budget and, all of a sudden, the CFO has taken notice and is knocking on your office door. As your brain starts to work on calculations and an explanation all at once, you may find yourself a bit…panicked.

But, the truth is, you don't need to panic. You just need to know how to talk to your CFO – and find a way to keep him or her in the loop so that there is mutual understanding throughout the year, not just during a fire.

The first step towards knowing how to talk to your CFO effectively is to understand his or her responsibilities. This will help you hone in on what he or she cares about, so that you can focus on only the important points.

CFOs are responsible for all of the company's financial statements and compliance measures (in fact, they can be held liable in court for faulty statements), accounting and treasury activities. They also manage banking relationships, which requires a straightforward and honest rapport with banking officials. CFOs need to know what the company needs, as well as what the bank needs, in order to keep the relationship strong. CFOs also maintain shareholder relationships and board relationships as the finances of the firm are especially important to these groups. Finally, most CFOs manage entire departments, while also serving as a consigliere, friend, combatant and facilitator to the Chief Executive Officer. Needless to say, CFOs have a big role with a lot of moving parts. More important, they answer to a lot of different groups on any given day.

Chances are, your CFO will not have intimate knowledge about relocation programs, or the costs relating to the benefits of your policy, unless he or she has been working with the relocation team for a while.

So, why is your CFO asking about relocation? There's usually three reasons your CFO is coming to you: they need your budgets, you are spending a lot of money and are over budget or they heard about a bad experience.

As you know, your CFO will need budgets from your department in order to adequately forecast their own budgets. You will need to use historical numbers to anticipate future numbers which, of course, can shift with volume and the housing market. The more reliable you are, however, the happier your CFO will be. If you are over budget, then you will need to provide an explanation. This may require you to provide some instruction to your CFO on how relocation works, especially home buyouts. If your CFO is coming to discuss a bad experience, especially as it pertains to taking a loss on a home, you will want to be prepared with the numbers and an explanation.

Your CFO will also want to know if your relocation program is as efficient as it can be and whether or not you are getting a good price on the benefits you are offering to your employees. It's up to you, however, to remember that efficiency is two-fold. There's financial efficiency and then recruitment/retention efficiency. Don't let yourself be pressured, either by procurement or your CFO, to forget the latter. It never hurts to remind the CFO that soft costs matter and that talent is one of the firm's most valuable assets.

Chances are, your CFO will not have intimate knowledge about relocation programs, or the costs relating to the benefits of your policy, unless he or she has been working with the relocation team for a while. Thus, when you are talking to your CFO, mutual understanding of how relocation works is key. It may behoove you to check in with your CFO before there is a problem to see what he or she knows about relocation, or if there are any questions about why you offer the benefits you do. From there, you will want to focus on the numbers and be upfront about the risks. Finally, you will want to keep your CFO in the loop as things progress. Communication is essential – CFOs don't like surprises.

In the following pages, we have laid out some steps that may improve your relationship with your CFO and even generate mutual understanding and program buy-in. Without further ado:

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1. Teach the basics, but less is more.

Any CFO clearly has a lot to manage. For this reason, it's important to remember that they may not know too much about relocation programs, policies and benefits. Relocation has a lot of moving parts. We also use a lot of acronyms (GBO, BVO, AVO, BMA, HHG, etc.). If your CFO is not familiar with relocation, you should share information about the standard components of relocation policies, with a special focus on the high cost items. It's especially important to be clear on the following benefits:

Home Selling and Buyouts

Home disposal is among the most expensive line items in any relocation policy and it's sure to stand out to your CFO. Make sure you are on the same page about the basics, before even getting into the reasoning behind the home buyout programs. Since home programs require additional consideration, we will take a more in-depth look at the reasoning behind home programs later in this whitepaper.

- **Guaranteed Buyout Option (GBO) –** In a GBO program, the employee's home is appraised by two or more independent appraisers. The employee then sells the home to the employer or relocation management company hired by the employer at the average of the appraised values (or at some variation of this method to determine a fair market value). The employer then owns the home until it is sold to an outside buyer.

- **Buyer Value Option (BVO) –** In a BVO, the transferee will market the home on their own (or with assistance from a third-party relocation company) to find a buyer. Once a buyer is found, the company purchases the home for the offer price, and then sells it through an intermediary to the original buyer.

- **Amended Value Option (AVO) –** In an AVO, the transferee lists the home with an "exclusion clause" in the listing agreement with the real estate broker. The broker does not earn a commission until a sale is closed, and earns no commission if the home is sold to the employer.

  When an outside offer is received, the transferee turns it over to the employer for approval. If the employer approves the offer, the employer amends its earlier offer to the employee to reflect the higher outside contract price, buys the home from the employee, signs its own listing agreement with a broker, and then attempts to enter into its own contract of sale with the outside buyer.

- **Direct Reimbursement –** In a direct reimbursement program, the employer reimburses the transferee for all, or a portion of home sale expenses they incur following the sale. This can include listing costs, marketing costs, real estate commissions, closing costs and any tax liability they incur on the reimbursement.

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Gross Up

With the exception of the shipment of household goods and travel to the new location, any relocation expenses that an employer reimburses or pays on behalf of an employee must be included in the employee's gross income. That payment or reimbursement subject to withholding and employment taxes. In some cases, the taxes the employee would have to pay as a result of the move will make the relocation financially inconvenient or, worse, unfeasible. For this reason, most companies provide some tax assistance, referred to as gross-up.

Household goods moving is a staple of any relocation and it won't require a lot of explanation.

Gross up does not always mean making the employee whole. If you have a rich gross up policy, such as one that also grosses up for the tax penalty on the original gross up, you will need to explain why the benefit is so rich. Is it aligned with the culture that HR has cultivated? Will a more moderate gross up policy be sufficient? Whatever policy you use, you can expect your CFO to look closely at this line item and the reasoning behind your decisions.

Household Goods Transportation (HHG)

Household goods moving is a staple of any relocation and it won't require a lot of explanation. If you offer household goods moving benefits and you pay the moving company directly or through your third party relocation company, you may need to explain why you don't just give the transferee a lump sum of money to manage his or her own move. Remind your CFO that by paying the moving company direct, the benefit is not considered taxable income. Consequently, your employee will avoid a tax penalty and your organization will avoid a possible gross-up situation.

Temporary Living and Per Diem

Temporary living and per diem expenses are another policy staple because the transferee will have some lag time between selling their house and moving into a new house. This shouldn't require too much explanation, but you should remind your CFO that temporary living can be less expensive than a long-term hotel stay because of the taxes on hotel rates. Also, temporary living can help you avoid per diem charges because the employee can cook at home. Temporary living and per diem charges are taxable events, so your CFO may want to know about per diem caps and the average cost of temporary living per month in a specific area.

2. Address the why behind your home buyout program.

> *"Why are we buying homes when we are not in the real estate business?"*

At one point or another, any relocation manager with an AVO, BVO or GBO home sale program has been asked this question. Not only are home sale programs among the largest cost drivers in a relocation policy, but they also carry financial risk and sticker shock tendencies.

Before you discuss which home program you use in your policies, you should explain why companies have home buyout benefits (AVO, GBO, BVO) at all. As you know, buyout programs protect employers and employees from incurring tax liability in the case of a two separate sale home disposal program. In a typical one sale disposal process, such as direct reimbursement, the relocating employee will sell their home normally, incurring closing costs and broker's commission. The employer then reimburses the employee for these costs but, since the IRS considers this reimbursement to be income, employers have to gross-up the payment to cover both the original costs and the tax penalty. This is expensive.

Before you discuss which home program you use in your policies, you should explain why companies have home buyout benefits (AVO, GBO, BVO) at all.

A two-sale home disposal program has bona fide two separate sale processes. The employee sells the home to the employer or the third party relocation company. Then, the employer or your relocation provider will sell the home to an outside buyer. The employer then pays closing costs and broker's commissions in the second sale, relieving the employer of having to pay compensation income to the employee.

Of course, the idea of buying homes may not sit well with every CFO. There are inherent risks in owning real estate, especially in down markets. While you should always be upfront with your CFO about these risks, you should also be prepared to talk about ways to mitigate risk.

The risks your CFO will be most concerned about include taking a loss on the final sale of the home and carrying costs if the home sits in inventory. These risks can be managed. Guaranteed buyouts, for example, are risky because there is no outside offer at the time of purchase. A buyer value option, however, reduces this risk because there is already a buyer lined up. You can further manage risk by pre-qualifying buyers, ordering thorough home inspections, prohibiting contingency offers and ensuring that a great home marketing team is at your disposal. Further, settling inspection issues prior to the company buying the home and then handling the two separate transactions closely will reduce risk for the deal to fall through.

Finally, while it's important to stress risk management, it's also important to remind your CFO of the softer reasoning behind buyout programs. Buyout programs can help ease minds and reduce transferee downtime during the relocation. What you pay in home sale costs, you can reap back in time on the job.

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3. Bring on the numbers.

Don't be afraid to talk numbers. It's easy to shy away from providing cost estimates to your CFO because you either don't have them or you don't want to dissuade buy-in due the expense. This tactic, however, is a sure fire way to breed mistrust. Most CFOs do not want surprises.

Setting up a good policy or program is a critical step towards delivering accurate numbers to your CFO. A market competitive policy that clearly outlines which benefits are offered and to whom will help you organize your budget. First, you will need to identify how you are budgeting for your relocation expenses. Some companies will establish budgets by policy, where others will run a budget for the entire relocation program.

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We believe that the detail required to budget by policy paints a clearer picture for the relocation team, as well as the CFO, so, if possible, set your budgets by policy. You can build individual policy budgets based on the very specific benefits offered, which will give a more accurate view of what those transferees are costing the firm. Further, if you are halfway through the year and your relocation expenses are over budget, you will be able to identify which components are driving cost more easily.

To illustrate these nuances, you may want to provide your CFO with line by line cost estimates for each relocation policy, as well as information about who is eligible for which policies. It will help your CFO understand who gets what benefits and why the company is making the investment. To further illustrate which elements of a relocation policy or program are driving costs, you should work with your CFO to develop a set of key performance indicators (KPIs) that are meaningful to him or her so that you have a group of benchmark measurements to work against.

Below are some of the KPIs that you may find useful, as well as the stories they tell your CFO:

Average home cost – If home costs are higher than the average set in your budget, initial home buyout investments will jump, as well as carrying costs. This number can be swayed by a housing market shift, or one very expensive home taken into inventory. Budgeting by policy will help identify the root cause more easily.

Average days on market – If homes are sitting on the market longer than expected, carrying costs will increase.

Variance of distance – If you are relocating people further than expected, either to a different location than initially planned or because transferees live, on average, a greater distance away, household goods transportation costs will increase.

Average move and storage cost – If moving costs jump, it can be a sign that you are moving bigger homes with more items. If storage costs jump, it can be a sign that homes are not selling fast enough and transferees are staying longer in temporary living.

Average spent on exceptions – If money spent on exceptions is higher than the average in the budget, this may be a sign of a shift in the market place. For example, if transferees are requesting more time in temporary living, then it's likely that homes are not selling. On the other hand, exceptions may be up because business line managers are being too lenient. This is an area that should be looked at closely and actively managed by you and your CFO.

These are just a few KPIs that you might find helpful. Your CFO will have additional ideas based on your industry and location. This is an area where you can shine by collaborating with your CFO to find the best measurement strategy.

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Ultimately, if you are over budget, you should tell your CFO right away. For this reason, it's especially helpful to have technology that runs actual relocation expenses against the budgets you have built.

4. Be sure to include accruals in your budgets and analysis.

It's important for your finance department to be prepared for relocation costs in the year in which they occurred. That's why developing a thorough budget each year is a critical step towards helping your CFO and his or her team. But, what if you set a budget based on projected moves for the year, but those moves don't complete until the next year?

This happens all the time, especially when it comes to homes in inventory. If you pick up a home in October, and it isn't sold by January, some of the expenses for that home will not come in until the following year.

CFOs don't like surprises, so you need to start measuring for accruals. This way, you can determine how much money should be set aside for expenses that happened in the current year, but don't actually hit until the new year. A robust and up-to-date tracking system is critical here – you will want to work closely with your relocation provider to ensure that you are up to speed on the actual accruals to date. For example, if it's December and the home has been on the market since October, you will know how much was accrued to run the home in those past months. From there, you will need to gather information on how long the home might remain on the market in the following year so that you can budget for the upcoming expenses.

Since there's no way of knowing the actual costs that will be incurred in one year and paid out in the next, accruals are best forecasted on a move by move basis.

5. Be honest about potential downsides.

Relocation Appraisals are Subjective

As you know, to establish a buyout, you need a relocation appraisal. But, while your CFO may understand mortgage appraisals, he or she may not know much about relocation appraisals, which are different. Since the appraisal determines the price of the home during a set time period, it can change. As such, you should explain the difference between the two appraisals. For the most part, this is the forecasting tool.

The forecasting adjustment tool is a factor which predicts the price the home will sell for if the transferee is able to sell it within 120 days.

Purchase and refinance loan appraisals are not forecasted. On a purchase or refinance appraisal, the closing date is relatively close to the closing, usually within a month. So, the value at the time of the appraisal is unlikely to change dramatically between appraised date and the closing.

A relocation appraisal, however, does not know when an actual outside buyer will come along and purchase the home. The only date that the appraiser has to go by is the date the employer will aim to purchase the home from the transferee. Thus, the appraiser must use a forecasting tool.

The forecasting adjustment tool is a factor which predicts the price the home will sell for if the transferee is able to sell it within 120 days. In a balanced housing market, with low inventory, this adjustment would be zero.
In today's housing climate, however, there is an oversupply of homes and a lack of ready, willing and able buyers. For a transferee's home to sell first, it has to have the best perceived value for the price. As sellers jockey for best value, prices slide. And so the cycle continues.

The 120 projection is used because it is a reasonable amount of time to complete the various aspects of a relocation program, such as home finding trip(S), preparing the home for sale, applying for a mortgage at the destination, arranging for belonging s shipment and, finally close, on the property.

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So, adjusting the number of days upward to more closely match the number of days on market would result in a lower home value in a declining market. Alternatively, reducing or removing the forecasting piece would not reflect the value of the home at the actual time it is being purchased by the employer.

The downside to appraisals is that there will always be an element of opinion and conjecture regarding both the appeal of the property, and the strength of the real estate market. For this reason, you should explain that you always order at least two appraisals from separate firms. It is important that each appraisal be carefully reviewed for consistency in value, amenities, and market absorption rate.

Inventory Homes May Have Challenges

Time is money. It's important to have a strong marketing strategy to reduce the number of days a home will be in inventory. Typically, you will want to review the marketing strategy to date to find out what is, and isn't, working. If it has been on the market awhile, then the appraisal could be different so you will need to order a new broker market analysis. Further, since inventory homes come with unique challenges, you should work with a Realtor who has inventory home experience.

One of the reason why homes don't sell is because of condition.

One of the reason why homes don't sell is because of condition. Therefore, you will need to assess the condition of the house to see if anything needs to be repaired. From there, run the numbers. Will the perceived value of the home increase with repairs? If so, will it increase enough to incite a purchase and make the expense worth while.

Another challenge that inventory homes face is the prolonged market exposure. There are stigmas attached to homes that have been on the market for a while. You will to understand why the home hasn't sold. Is there competition? Is the price right? Is the disrepair too egregious?

Sometimes, if the home is empty because the transferee has already moved, the buyer can't picture the finished home. Other times, the décor in the home can be off-putting and a distraction. In these cases, it's a good idea to stage the home. While this is an extra expense you may need to explain to your CFO, if it sells the home more quickly, it's justifiable.

Relocation Appraisals Can Change with Time

One of the biggest downsides of taking a home into inventory is that there is no guarantee that you will be able to sell the home for the original appraisal price (the price you purchased it for). It's important to be upfront with your CFO about this risk, as surprises are never a good idea when it comes to major financial transactions.

If you have a home buyout program and you have homes in inventory, your CFO will want to know why the home is being listed below the appraisal price. If the listed price is less than the appraisal price, then the home was either too high or the home has been in inventory beyond the 120 day window and has dropped in value. Using the information about forecasting above, you will want to explain why the listing price changes with time. If there are more homes on the market (i.e. more competition), then a new appraised value will be lower than the original. Of course, if the housing market stalls, that will also impact the value of the home. If you are facing a major price reduction, you may want to request a second appraisal to understand what the house is now worth so that you have more information to give your CFO.

Price Reductions Happen

As relocation appraisals change over time, so might the value of the home in inventory. If you brought the house for $800,000 and it sat in inventory for a year, the value may have changed depending on the housing market and/or market competition. If the value is lower, it's possible that the Realtor will suggest a price reduction. Of course, it makes sense to take the price reductions when needed, but no CFO wants to hear that they are taking a loss on the home sale in addition to the carrying costs already paid out. Before discussing a price reduction with your CFO, work with a Realtor to determine the likelihood of the home selling at the higher price and when it might be sold. Then, calculate how much you will have to pay in run costs before the home sells. Even if it's a rough estimate (which it will be), it can still help everyone see the bigger picture. If the company will lose more money paying the carrying costs then it will with a price reduction, a price reduction is the better option.

Some price reductions are minimal when compared to the overall home value and cost of running the home. In this case, your protocol may be to approve reductions yourself up until a certain limit. For the most part, however, it's a good idea to keep your CFO informed when you do so there are not any surprises. If you have a conservative CFO, or you are working with a major price reduction, always get approval in writing.

Carrying Costs are a Necessary Evil

Carrying costs are unavoidable for homes in inventory. Fortunately, they are relatively easy to predict. Typically, carrying costs run about 1-1.25% of the total value of the home, per month. Included in this cost is the mortgage payment, taxes, insurance, maintenance, general repairs, etc. Calculating carrying costs are essential for budgeting (you can estimate them off the average home price), as well as for determining price reductions and when it makes sense to take a loss on sale.

Loss on Sale Benefits May Be Needed

Anyone who has been in the housing industry for the past decade has heard of about negative equity and loss on sale. This is still a very real problem for transferees who may not be able to move because they simply can't afford to take the price hit on their home.

Some price reductions are minimal when compared to the overall home value and cost of running the home.

Negative equity occurs when a third party sale price under a Buyer Value Option (BVO) program or an appraised offer price under a Guaranteed Buyout Option (GBO) program is less than the total of the amounts owed by the employee on all mortgages and other closing costs. This is sometimes referred to as the employee being "underwater" or "upside down."

A negative equity transaction is different from a short sale transaction in that, in a negative equity transaction, the employee has the resources to pay the shortfall and the home is acquired. According to a recent Worldwide ERC Transferred Employees survey, 7 of 10 companies will accept homes into the home sale program with negative equity and the vast majority require the balance to be paid at closing with no assistance from the company.

Loss on sale, however, occurs when the difference between the original purchase price of a home is greater than sales price (either the third party sale price under the BVO program, or the appraised offer price under a GBO program). There are many options to calculating loss on sale. Some companies consider capital improvements in the calculation, either depreciated value or actual cost, while others don't.

Loss on sale is an added expense, so you will have to weigh the pros and cons with your CFO to come to a conclusion about whether or not to include the benefit in your program. Companies that have a loss on sale benefit in their relocation policy have seen increased usage and a higher expense (by 33%) of this benefit and, subsequently, increased relocation program costs. Companies that do not offer this benefit have seen the challenge of relocating employees increase and, in some cases, become impossible. In most instances, loss on sale has been a hot topic of discussion when relocation policies are analyzed against a company's workforce mobility goals. There is no right or wrong, but you should select the course that fits in best with your corporate culture.

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6. Exception management is vital.

Inconsistent exceptions are one of the leading drains on relocation budgets because they swell the total relocation costs, set bad precedents for the future and undermine any chance for cost predictability or containment. Regardless of papers signed, or the fine print in the policy, transferees will talk to one another, which will lead to more exception requests.

In fact, the increase in exceptions over the past several years is a good indication of the pressure employers are feeling to address the concerns of skilled talent. Unfortunately, over time, managers and previous transferees often share commonly granted exceptions with new transferees as if they are a staple of the program. Consequently, unexpected relocation expenses start to spring up frequently.

It's especially important to be upfront about inventory home activity, especially if there is a significant price reduction.

In short, exceptions are a nightmare for your CFO.

The best way to make exception requests more predictable is to have an established protocol for granting and tracking exceptions so that decisions are made on precedent, instead of whim. You will need to decide who can approve exceptions and if there is an exception cap. A conservative CFO may want to approve all exceptions, while other may only care about exceptions that exceed a certain expense limit. You should establish these rules upfront to limit miscommunications throughout the year.

The most efficient way to handle exceptions is to assign a centralized gate keeper that closely monitors exception requests. This gatekeeper can be you, someone on your team, or even your relocation provider.

Once a gatekeeper is assigned, you should implement a tracking process. Exceptions, including those rejected, should be tracked across divisions and reviewed by relocation managers and relocation partners at regular intervals. A tracking system will also be especially helpful if you have to report specifics to your CFO, or if your CFO has decided that total exception spend is an important KPI. Remember, CFOs like numbers because they tell a story. Number trends may show certain cost centers are more generous than others for similarly qualified employees. For example, some may have a more challenging time filling position needs and so they need an extra boost. If this is happening, you may need to reign in or expand coverage – you can even add an entirely separate policy to address certain groups if need be – and the CFO is getting a clear picture of the "why" behind the expense.

7. Great teams communicate, no matter what.

Ultimately, the best way to build a positive relationship with your CFO is to communicate regularly throughout the year. You should establish a baseline understanding of relocation, as well as a process for managing relocation expenses, early on so that there are no surprises down the road. Be sure to keep your CFO updated if relocation estimates are off for any of the reasons mentioned above. It's especially important to be upfront about inventory home activity, especially if there is a significant price reduction. In fact, it's a good idea to keep your CFO informed about every offer you receive on the inventory property, even if they are low-ball offers, so that he or she is aware of the level of activity on the property.

Most of the time, conversations with your CFO will be based on dollars and time. But, don't let this sway you from justifying your program or expenses when necessary. Talent is among the most critical assets in the company. Investing in great employees will reap benefits for the entire firm.

About XONEX Relocation

XONEX Relocation is a third party relocation services company that offers the right solutions for corporate clients – solutions that meet the demands of relocating families in today's hectic business climate.

We help corporate America move their valuable talent with minimal interruption and maximum satisfaction for everyone involved in the relocation process. Our knowledgeable and caring staff combine cost transparency with creativity to structure benefit plans that are sensible and targeted to each client's needs.

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