FDIC's Relocation Program

Benefit & Cost Comparisons
and
Lump Sum Allowance

OFFICE OF INSPECTOR GENERAL
OFFICE OF CONGRESSIONAL RELATIONS AND EVALUATIONS

July 2, 1999 Evaluation Report No. 99-005

FDIC

Federal Deposit Insurance Corporation Congressional Relations and Evaluations
Washington, D.C. 20434 Office of Inspector General

DATE: July 2, 1999

MEMORANDUM TO: Fred Selby
Director, Division of Finance

FROM: Stephen M. Beard
Director, Office of Congressional Relations and Evaluations

SUBJECT: *FDIC's Relocation Program* (EVAL-99-005)

This report presents the results of our evaluation of the Federal Deposit Insurance Corporation's (FDIC) Relocation Program. We initiated this review at the suggestion of the Chief Operating Officer. The objectives of our review were to: (1) assess the comparability of FDIC's Relocation Program benefits and costs to the other Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) agencies, the Federal Reserve Board (FRB), and the Federal Travel Regulation (FTR), and (2) analyze lump sum payment programs for reimbursing employee relocation expenses to assist management in determining whether such a payment program would be beneficial to the Corporation and its employees.

We found that FDIC's relocation benefits are generally comparable to those of the other FIRREA agencies, FRB, and the FTR with the primary exception of temporary living expenses and the Miscellaneous Expense Allowance (MEA). With respect to those two benefits, FDIC's policy is significantly more generous. Additionally, we believe that a broader based lump sum payment allowance makes sense for FDIC for several reasons, including: (1) the lump sum payment approach has been overwhelmingly endorsed by most organizations that have implemented such programs, (2) employees at such organizations are satisfied with the approach, and (3) there is the potential for reduced costs and administrative requirements.

We made suggestions for the Division of Finance's (DOF) consideration in proceeding to make policy decisions based on the information we gathered. Specifically, we suggested that FDIC should: (1) study the bases for the temporary living expenses and MEA benefits being significantly more generous and determine whether the bases remain valid, and (2) consider implementing a lump sum payment program that expands beyond what FDIC's current lump sum relocation allowance is intended to cover.

On June 25, 1999, DOF provided us with the Corporation's written response to a draft of this report. DOF agreed with both of our suggestions and provided the requisite elements of a management decision. DOF's written response is presented as Appendix VIII to this report. Appendix IX presents our assessment of management's response to the suggestions and shows that we have a management decision for both of the suggestions.

Report Contents

Results in Brief

Why did we conduct this review?

We conducted this review:

- at the suggestion of the Federal Deposit Insurance Corporation's (FDIC) Chief Operating Officer (COO);
- to provide the Division of Finance (DOF) with benefit and cost information for the upcoming union negotiations; and
- to provide FDIC management with information about lump sum payment programs for its evaluation and consideration.

What did our work involve?

To complete this review we:

- discussed the objectives with FDIC management to determine its needs;
- collected, summarized, and compared, to the extent practicable, benefit and cost information from the other Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) agencies, and the Federal Reserve Board (FRB);[1]
- obtained, reviewed, and summarized relocation information from the private
- obtained, reviewed, and summarized information from outside relocation experts [2]

We found that:

- FDIC's relocation benefits are generally comparable to those of the other

  following two benefits:

[1] The FIRREA agencies include FDIC, the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration Board (NCUA), the Federal Housing Finance Board (FHFB), the Farm Credit Administration (FCA), and the Office of Thrift Supervision (OTS).
[2] FDIC management suggested we talk to the Employee Relocation Council (ERC) and Runzheimer International (Runzheimer), two premier relocation specialists in the industry. ERC is a professional membership association of organizations concerned with domestic and international employee transfers. Runzheimer is a management-consulting firm, which specializes in travel and living costs.

- the Miscellaneous Expense Allowance (MEA).

With respect to those two benefits, FDIC's policy is significantly more generous.

- **Lump Sum Allowance**

  - lump sum payment allowances have gained popularity over the last few years;
  - private sector companies have found that lump sum payment programs benefit the company and employees; and
  - based on the information obtained, FDIC and its employees could potentially benefit from a lump sum payment program.

What course of action should FDIC take?

FDIC should:

- **Benefit and Cost Comparisons**

  - study the bases for the temporary living expenses and MEA benefits being significantly more generous and determine whether the bases remain valid.

- **Lump Sum Allowance**

  - consider implementing a lump sum payment program that expands beyond what FDIC's current lump sum relocation allowance is intended to cover.

Overview of FDIC's Relocation Program

What is FDIC's Relocation Program?

What is the annual cost of relocations?

The following table provides the cost of relocations for FDIC over the last 3 years.

Table 1: FDIC's Cost of Relocations

FDIC	1998	1997	1996
Cost of Relocations	$15,917,939	$27,893,039	$20,486,542

Source: Financial Information Management System

The information presented in Table 1 was provided by DOF from the Financial Information Management System (FIMS) to give an overall perspective of the cost of employee relocations. We did not validate nor use the information provided in Table 1 to perform any of the analyses presented later in this report. We used information from FDIC's Advanced Grossup Plus / INTRACK System (Grossup System) for our analysis because it provided specific details necessary to calculate relocation costs per employee.

Who administers FDIC's Relocation Program?

DOF administers the Relocation Program under the terms of the *General Travel Regulations, Relocation Travel, Volume II* (GTR). The authority to develop, issue, and enforce the relocation travel regulations belongs solely to FDIC. All revisions, changes, interpretations, and clarifications of the GTR are issued by the Director of DOF. FDIC and the National Treasury Employees Union (NTEU) have established a Joint Travel Committee to bargain with NTEU on the development and issuance of the relocation travel regulations. The Director, DOF, or his/her designee makes all final decisions regarding the application of the relocation travel regulations.

Where can FDIC's policies and procedures for relocation be found?

FDIC's GTR provides the basis for the reimbursement of essential expenses associated with the official relocation of eligible employees. The provisions of the GTR apply to all employees who relocate for the benefit of FDIC from one official station to another, and to newly hired employees who are authorized and eligible to relocate to their initial official station.

What is FDIC's general relocation policy?

When the needs of FDIC require employees to change their permanent duty station, it is FDIC's policy to reimburse eligible employees for specified reimbursable expenses resulting from the relocation of families of employees and their household effects. The policy requires employees to exercise the same care in incurring reimbursable relocation expenses that a prudent person would exercise in personally paying for the move of his or her own household. Under this standard, FDIC will not reimburse unnecessary or unjustified services or expenses.

What factors impact Relocation Program policy?

Factors that affect FDIC's Relocation Program benefits and policies, include:

- **Shifting needs of the organization**

  Relocation of employees shifts with the needs of the Corporation. Changes in the organization have been identified as a workload driver under the business process of management travel and relocations. A December 1998 progress report on downsizing from the COO stated that the Corporation had made considerable progress in accomplishing its downsizing objectives over the past 3 years. The report noted that there were projected staffing surpluses that remained to be addressed in certain areas. Measures planned by the Corporation to reduce these surpluses involve and affect relocation benefits and costs.

- **FDIC and NTEU**

  Changes in travel and relocation union agreements have been identified as a workload driver under the business process of management travel and relocations. As stated above, FDIC and NTEU have established a Joint Travel Committee to bargain with NTEU on the development and issuance of the relocation travel regulations. All changes recommended by the Joint Travel Committee which are approved by FDIC apply to all nonbargaining and bargaining unit employees.

- **Legislation**

  Changes in travel and relocation legislation have been identified as a workload driver under the business process of management travel and relocations. Currently, FDIC strives to provide entitlements commensurate with those offered by other FIRREA agencies.

How does the relocation process generally work?

Generally, a relocation follows this process:

- **The relocation is authorized**

  Employee participation in FDIC's Relocation Program is officially authorized by a Notification of Personnel Action (SF-50) that results in an FDIC-requested change in the employee's permanent official station. FDIC relocation services begin when management at the relocating employee's new official station provides a copy of a Request for Personnel Action (SF-52) with a completed Official Notification of Relocation (ONR), and a 1-year servicing agreement signed by the employee to the Employee Services Branch (ESB) of DOF in Washington. ESB is responsible for handling all employee relocations.

- **Coordination begins with the employee**

  A relocation coordinator contacts the employee to help plan and make appropriate arrangements for relocating both the employee and the employee's immediate family. Relocation coordinators provide assistance and information only, and are not authorized to approve any employee action that would conflict with the relocation regulations.

- **Employees request relocation services**

  An employee's eligibility to participate in the various categories authorized under FDIC's Relocation Program is determined by employee-specific criteria which include employment status, relocation distance, type of real property owned, rental terms, years in service, grade, and purpose of relocation. Employees who qualify for participation in FDIC's Relocation Program must request participation in each relocation category for which they are eligible.

- **Employees file claims for reimbursement**

  To be reimbursed for relocation benefits, employees must complete and submit travel vouchers. Receipts and necessary documentation are required when claiming expenses under the provisions of the GTR. ESB staff audit the claims submitted for validity, accuracy, and reasonableness for each expense. Exception letters are prepared for employees for any denied claims. Employees can resubmit documentation to support any denied claims. Disputed claims are generally reviewed by the Chief, ESB, and the Director, DOF.

Description of Our Work

What were the objectives, scope and methodology of our review?

What were the objectives of our review?

The objectives of our review were to:

- assess the comparability of FDIC's Relocation Program benefits and costs to the other FIRREA agencies, FRB, and the FTR; and
- analyze lump sum payment programs for reimbursing employee relocation expenses to assist management in determining whether such a payment program would be beneficial to the Corporation and its employees.

What was the scope and methodology for our review?

The scope and methodology for our review included:

- **Benefit and Cost Comparisons**

  - comparing current FDIC Relocation Program benefits to the other FIRREA agencies, FRB, and the FTR; and
  - comparing FDIC Relocation Program costs incurred in 1998 to the total cost of the other FIRREA agency and FRB programs, as well as the cost of individual benefits when available.

We:

- contacted agencies and requested descriptions of their relocation benefits and detailed relocation cost information for 1996, 1997, and 1998;
- reviewed information on private sector relocation programs from Runzheimer and the ERC;
- reviewed FDIC's Relocation Program benefits under the GTR and obtained FDIC relocation costs for 1996, 1997, and 1998 from FIMS and relocation expenses paid in 1998 from the Grossup System;
- computed the average total relocation benefit FDIC paid to employees in 1998, and the average cost paid for individual benefits;
- compared:
  - the number of relocations in 1996, 1997, and 1998, and
  - the nature and extent of benefits, depending upon availability of information we received from FDIC and other agencies; and
- estimated the effect on FDIC relocation expenses if the Corporation modified its policies to be more consistent with the other FIRREA agencies, FRB and the FTR.

Scope limitations on our analysis of benefits and costs are described in detail in the next section of this report.

- **Lump Sum Allowance**

The scope of the lump sum allowance analysis included identifying:

- the advantages and disadvantages of lump sum payment programs, focusing on cost, employee satisfaction and program efficiency;
- industry trends for using lump sum payments;
- benefits typically included in lump sum payment programs;
- methods (i.e., the bases) for calculating lump sum payments; and
- how such a program could be applied to FDIC.

We:

- obtained, reviewed, and summarized articles, studies and other available information from Runzheimer, ERC and other private sector organizations;
- contacted organizations which are currently using some form of a lump sum payment to obtain additional insight into lump sum programs;
- requested, reviewed, and summarized information obtained from other FIRREA agencies about whether they offer lump sum payments for relocation benefits, including: policy development, average cost of lump sum payments, operational/administrative efficiencies, and a description of the lump sum payment method; and
- reviewed the FTR for lump sum payment allowances.

When and under what standards was our review performed?

We conducted our review from January 1999 through March 1999 in accordance with the President's Council on Integrity and Efficiency's Quality Standards for Inspections.

Benefit & Cost Comparisons

How does FDIC's Relocation Program compare?

Overview

Our objective was to compare the benefits and costs of FDIC's Relocation Program to the other FIRREA agencies, FRB, and the FTR. To accomplish our objective, we reviewed the relocation benefits and total program costs provided from the Grossup System for 1998, and evaluated FDIC's benefits and costs to the extent practicable. We found that FDIC’s relocation benefits are generally comparable to those of the other FIRREA agencies, FRB, and the FTR with the primary exception of temporary living expenses and the MEA. With respect to those two benefits, FDIC’s policy is significantly more generous.

What were the limitations on our analysis?

Listed below are some of the limitations we encountered during our review:

- FDIC does not have an automated system that compiles the detailed history of individual benefits paid to employees. As a result, information was not readily available to analyze benefits paid to employees based on factors such as location, marital status, family size, and grade level.

- FDIC provided relocation expenses paid in 1998 from the Grossup System, which may not represent the full payment of benefits to a relocating employee. Depending on the authorized relocation date, benefits may have been paid to an employee in 1997, or will be paid in 1999 and subsequent years.

- Benefit information was obtained from FDIC, the FTR, FRB, and these other FIRREA agencies: (1) OTS, (2) OCC, (3) FHFB and, (4) FCA. It should be noted that FDIC’s benefits include reimbursable expenses and allowances.

- Cost information was obtained from FDIC, FRB, and these other FIRREA agencies: (1) OTS, (2) OCC, (3) FHFB and, (4) FCA. We did not receive NCUA's benefit and cost information in time to include in our analyses. Additionally, we did not test the validity of any data provided.

- The agencies we contacted provided benefit and cost information presented in varying degrees of detail and categories. Although we requested detailed cost information for 1996, 1997, and 1998, we received information for all 3 years from some agencies, and 2 years, or just 1998, from others. For example, OCC combined their relocation costs into three categories: (1) moving household goods, (2) enroute, and (3) overall miscellaneous. As a result of the information obtained, we were not able to cost out each individual relocation benefit.

What were the volume and cost of Relocation Programs?

- **Number of Relocations**

The table below reflects that, overall, FDIC relocated significantly more employees over the past 3 years than did the other agencies included in our comparison.

Table 2: Number of Relocations per Agency

Agency	1998	1997	1996
FDIC	499	779	501
FHFB	2	4	4
FCA	8	11	17
FRB	44	25	N/A
OCC	160	214	176
OTS	11	5	5
NCUA	N/A	N/A	N/A

Source: As indicated by agency

- **Cost of Relocations**

As would be expected based on its number of relocations, the table below reflects that FDIC's total cost was more than the other agencies included in our comparison.

Table 3: 1998 Relocation Costs

Agency	Total Cost
FDIC	$13,214,628
FHFB	19,785
FCA	262,787
FRB	321,115
OCC	5,896,389
OTS	339,196
NCUA	N/A

Source: As indicated by agency. FDIC cost was obtained from the Grossup System.

As indicated above, FDIC's 1998 relocation costs of $13,214,628 were obtained by DOF from the Grossup System. This system, unlike FIMS, provided specific details (e.g. employee data by SSN) necessary to calculate the relocation costs per employee. As such, we analyzed this data to complete the analyses of FDIC's 1998 relocation expenses. We did not validate the $13,214,628 figure nor did we attempt to reconcile this figure with the 1998 relocation cost obtained from FIMS that was presented earlier on page 3 of this report.

What are the Relocation Program cost categories?

Major relocation program cost categories for FDIC, the other FIRREA agencies, FRB, the FTR, and the private sector generally include the following:

- Temporary living expenses,
- Advance househunting trip,
- Moving household goods,
- Real estate purchase and sale transactions,
- MEA,
- Rental differential allowance,[3]
- Mortgage interest differential allowance,[4]
- Other relocation costs,
- Income tax allowance,
- Family travel, and
- Overall miscellaneous.

Appendix VII, Glossary of FDIC Relocation Cost Categories, contains a brief description of each benefit.

- Appendix I, Summary of 1998 Relocation Program Expenses Paid, provides a breakdown of the total agency costs presented in Table 3 by benefit category. As mentioned previously, we were unable to analyze these costs in detail because of the various ways in which the agencies provided us their information.

- Appendix II, FDIC 1998 Relocation Expenses Paid, shows the amounts paid in 1998 per benefit per FDIC employee relocated. Table 4 below illustrates which benefits, on average, were the most costly to FDIC in 1998.

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[3] FDIC’s Rental Differential Allowance entitlement was eliminated effective January 1, 1998, per the 1997-1999 Compensation Agreement. Any expenses shown for 1998 related to this benefit represent annual payments made by FDIC to fulfill the current year commitment of the 5-year entitlement authorized for employees before January 1, 1998.

[4] FDIC’s Mortgage Interest Differential Allowance entitlement was changed effective January 1, 1998, per the 1997-1999 Compensation Agreement. The MIDA II portion of the benefit was eliminated. Any expenses shown for 1998 related to this benefit represent annual payments made by FDIC to fulfill the current year commitment of the 5-year entitlement for MIDA I and remaining MIDA II authorized for employees before January 1, 1998.

Table 4: FDIC's Most Expensive Benefits Paid per Employee

Relocation Program Benefit	Average Cost
Real Estate Transactions	$6,191
Miscellaneous Expense Allowance	5,881
Transport of Household Goods	5,990
Temporary Living	5,291
Income Tax Allowance	3,785

Source: OIG analysis of Grossup System data provided by DOF officials, as calculated in Appendix II of this report.

- We totaled average individual benefit amounts to calculate average total benefits paid in 1998 per FDIC employee. For homeowners, the total relocation benefit paid averaged $33,724, and for renters the total relocation benefit averaged $27,771. As stated in our limitations, these averages may not include the entire relocation benefits paid to individual employees as these benefits could be paid up to 5 years (e.g. MIDA) after the relocation is authorized and may not include benefits paid in 1997 if the relocation was authorized in that year.

- Appendix III, FDIC 1998 Relocation Expenses Paid by Grade and Cost Category, shows the amounts paid in 1998 per benefit by employee grade level.

- With regard to private sector companies, we learned that their 1997 relocation costs averaged, for homeowners, $51,390 for current employees and $37,835 for new hires, and for renters, averaged $14,120 for current employees and $10,390 for new hires. Although the detailed composition of these averages was not provided by ERC's 1998 *Transfer Volume & Costs Survey*, the average cost for certain relocation program benefits of private sector companies was provided. These costs are listed in Table 5, 1997 Private Sector Costs.

Table 5: 1997 Private Sector Costs

Relocation Program Cost Category	Average Cost
Transport of Household Goods	$7,311
Federal Tax Liability	7,185
Purchase Closing Costs	6,358
Miscellaneous Expense Allowance	4,108
Temporary Living	3,680
Househunting Trips	1,702

Source: ERC's 1998 Transfer Volume & Costs Survey

How do the benefits compare?

FDIC's Relocation Program benefits are generally comparable to those offered by the other FIRREA agencies, FRB, and the FTR, with the exception of:

- temporary living expenses
    - number of days authorized
    - weekend return trips to residence
    - use of rental vehicle
- and the MEA.

As we describe below, with respect to temporary living expenses and MEA, FDIC's policy is significantly more generous. We noted other differences in benefits authorized and paid between FDIC, the other agencies included in our comparison, and the FTR. These differences were slight or would have minimal impact on benefit costs paid to employees. These differences included, but were not limited to, authorization to move a personal vehicle (POV), payment of a mortgage interest differential allowance (MIDA), and the maximum weight limitation for moving household goods.

- Authorization to move a POV required a minimum of 800 miles to the new location for FDIC, whereas OCC and OTS required a minimum of 1,000 miles to the new destination. A MIDA was authorized to be paid by FDIC, OCC, and OTS, whereas the FTR, FRB, FHFB and FCA did not authorize this benefit. Additionally, the maximum weight limitation for moving household goods for FDIC was 25,000 pounds while the other FIRREA agencies, FRB, and the FTR limit was 18,000 pounds.

- We also noted that FDIC pays relocation benefits to all FDIC employees who are relocating for the benefit of the Corporation. OTS and OCC limit some benefits to its employees based on grade. Appendix IV, Summary of 1998 Relocation Program Benefits, provides a detailed comparison of relocation benefits by agency and the FTR.

- **Temporary Living Expenses**

  This benefit covers living expenses incurred by the employee and by immediate family members such as lodging, per diem, transportation, and telephone calls. Agencies differ in the number of days they authorize employees to incur and expect to be reimbursed for, temporary living expenses. For example:

  - FDIC employees may be reimbursed for costs incurred up to 120 days.
  - FHFB, FCA, and employees under the FTR may be reimbursed for costs incurred up to 60 days.
  - FRB, OCC, and OTS employees may be reimbursed for costs incurred up to 30 days.

  Differences in weekend return trips to the employee's residence and the use of a rental vehicle were also noted. FDIC allows up to 6 or 8 trips, while FRB allows up to 3 trips and the other FIRREA agencies and the FTR do not authorize weekend return trips to the employee's residence. In addition, FDIC allows use of a rental vehicle for up to 30 days during the first relocation period or until the employee's POV arrives at the new official station, whichever comes first. The FRB, the FTR, FHFB and FCA do not authorize use of a rental vehicle. OCC and OTS authorize use of a rental vehicle until arrival of the POV.

- **Miscellaneous Expense Allowance**

  This benefit covers any necessary and reasonable expense associated with relocating that is not specifically provided for in the relocation regulations. Agencies differ significantly with respect to the bases used for determining the amount of this benefit paid to their employees. Specifically,

  - FDIC pays its employees 10 percent of their annual base salary regardless of marital or family status. Thus, for example, the Corporation would pay

    - a CG-7 at the salary range maximum of $39,542, an MEA of $3,954; and
    - a CG-15 at the salary range maximum of $109,249, an MEA of $10,924.

  - The FTR authorizes $350, or one week's salary, to single employees, and $700, or two weeks' salary, for employees with a family. FHFB and FCA provide the same benefits to their employees.
  - OCC and OTS pay 2 weeks' salary.
  - FRB pays $500 for single employees and $1,000 for employees with a family.

What would happen if FDIC bridged the gaps?

- **Temporary Living Expenses**

  - The cost to FDIC for this benefit per FDIC employee was $5,291 in 1998. When divided by the authorized 120 days, the resulting cost per day of this benefit was $44. (Based on discussions with DOF officials, employees did not generally use the entire 120 days. Therefore, this is a conservative estimate and the actual cost per day is likely higher.)

The following table provides a rough estimate of the decrease in expenses FDIC would experience if it changed its policy for the number of days authorized for temporary living expenses to be consistent with the other FIRREA agencies, FRB, and the FTR.

Table 6: Effect of Changing FDIC's Policy for Temporary Living Expenses Per Employee Relocated

Cost per Day	120 days	60 days	30 days
$44	$44 x 120 days	$44 x 60 days	$44 x 30 days
Benefit Cost	$5,280	$2,640	$1,320
Decrease in Expense	N/A	$2,640	$3,960
No. of Employees Paid Benefits in 1998		x 499	x 499
Potential Cost Savings for FDIC 1998 Expenses		$1,317,360	$1,976,040

Source: OIG calculated based on FDIC's 1998 temporary living expenses

- **Miscellaneous Expense Allowance**

  - The total 1998 MEA expenses for FDIC were $1,840,800. The FDIC estimated a 48% income tax rate when computing FDIC's tax liability on relocation benefits paid to employees. As such, the 1998 MEA expenses effectively cost FDIC $2,724,384. FDIC pays employees an MEA, calculated at 10 percent of an employee's annual base salary. The average cost to FDIC for this benefit per FDIC employee, excluding any income tax liability, was $5,881 in 1998.

The following table illustrates the types of decreases in expenses FDIC could experience if it changed its policy on the amount of a MEA authorized to be consistent with the FTR, or FRB, which are included in our comparison in Table 7.

The MEA at $350 column, as paid by the FTR, reflects the benefit that would be paid to a single individual or one with no family. The MEA at $1,000, as paid by FRB, reflects the benefit paid to a married individual or an individual with a family. We calculated the expenses based on the number of employees, 499, to which FDIC paid the MEA benefit in 1998. We offer this comparison to illustrate the broad range of differences that could exist between FDIC's MEA and the MEA paid by the other agencies. These amounts are illustrative in nature and should not be construed as actual projected cost savings.

Table 7: Effect of Changing Policy for MEA per Employee Relocated

FDIC's 1998 MEA Costs by Grade			MEA at $350	Decrease in Expense	MEA at $1,000	Decrease in Expense
E-3	2	$23,201	$700	**$22,501**	$2,000	**$21,201**
E-2	2	21,832	700	**21,132**	2,000	**19,832**
E-1	3	28,926	1,050	**27,876**	3,000	**25,926**
CG-15	13	118,023	4,550	**113,473**	13,000	**105,023**
CG-14	63	445,101	22,050	**423,051**	63,000	**382,101**
CG-13	78	468,055	27,300	**440,755**	78,000	**390,055**
CG-12	93	557,156	32,550	**524,606**	93,000	**464,156**
CG-11	9	36,246	3,150	**33,096**	9,000	**27,246**
CG-9	3	9,269	1,050	**8,219**	3,000	**6,269**
CG-8	3	11,386	1,050	**10,336**	3,000	**8,386**
CG-7	36	96,003	12,600	**83,403**	36,000	**60,003**
CG-6	4	14,204	1,400	**12,804**	4,000	**10,204**
CG-5	4	11,398	1,400	**9,998**	4,000	**7,398**
TOTAL	313	$1,840,800	$109,550	**$1,731,250**	$313,000	**$1,527,800**

Source: OIG calculated based on FDIC's 1998 MEA expenses.

What does this data mean for the Corporation?

The Corporation's Relocation Program is generally consistent with those programs of the other FIRREA agencies, FRB, and the FTR. FDIC's allowances for the following benefits exceeded those of other agencies:

- temporary living expenses
  - number of days authorized
  - weekend return trips to residence
  - use of rental vehicle
- and the MEA.

With respect to these benefits, the Corporation should study the bases for them being significantly more generous and determine whether the bases remain valid. To do so, FDIC management has acknowledged it must obtain and analyze more sufficient and reliable relocation benefit usage and cost data than was available for our review.

Lump Sum Allowance

Would a lump sum allowance for relocation benefits be advantageous to the Corporation and its employees?

Overview

A lump sum payment allowance is an alternative to the traditional expense report reimbursement payment method. Typically, lump sum payments are made up-front to employees after the relocation has been authorized. Some expense categories lend themselves to this payment policy more than others and reportedly can yield significant benefits with respect to: ease and cost of administration, speed of an employee's transition to a new location, and employee morale.

Our objective was to learn what lump sum payment programs generally entail, the advantages and disadvantages, and how such a program could be applied to FDIC. To accomplish our objective, we reviewed the industry trends, sought information from agencies or firms that had implemented lump sum payment programs, and, finally, evaluated FDIC's benefits in light of the information we obtained.

FDIC's GTR currently permits a lump sum relocation allowance in special circumstances. Specifically, an authorizing official may approve a limited lump sum payment in lieu of all other relocation benefits when an employee voluntarily requests an offered position and is willing to accept a negotiated lump sum payment in lieu of all other relocation benefits. Based on the results of our review, we believe FDIC should consider implementing a lump sum payment program that expands beyond what FDIC's current lump sum relocation allowance is intended to cover.

We believe that a broader based lump sum payment allowance makes sense for several reasons:

- Industry surveys indicate that the lump sum approach has been overwhelmingly endorsed by most organizations that have implemented such programs. Moreover, trends suggest that more organizations will be embracing lump sum payment allowances.

- Savings are possible in both the cost to administer the program and in the actual payments made to employees. Administratively, private sector companies report that the big advantage of a lump sum payment program is the fact that there are fewer vouchers to review and process.

- Lump sum payments reportedly reduce the number of requests for policy exceptions and complaints resulting from different interpretation of relocation benefits by employees and the relocation department. DOF officials said that dealing with exceptions and complaints was very time consuming and caused frustration on the part of the relocating employee.

- Lump sum payments offer employees greater flexibility and freedom to effectively manage their own money and expenses. The potential for leftover dollars can provide a real incentive for employees to manage the money more carefully and complete the move more quickly.

However, before implementing a lump sum payment program, FDIC must conduct further analysis to determine which of its current benefits should be covered by a lump sum payment and what method it will use to calculate a lump sum payment that is equitable to eligible employees. This section of the report is intended to highlight general information about lump sum payment programs, including different methods for calculating the lump sum, and to provide information the Corporation needs to consider if it were to implement a lump sum payment program.

What are the industry trends?

What is the lump sum payment allowance?

A lump sum payment allowance is an alternative to the traditional expense report reimbursement payment method. A lump sum allowance provides transferring employees with an up-front payment to cover various relocation-related expenses, such as househunting, temporary living, shipment/storage of household goods, and return trips to pre-move locations.

Who is using the lump sum payment allowance?

- **Private Sector Companies**

  According to the articles we reviewed, there is a growing movement away from expense reports and itemized documentation of relocation expenses. Specifically, Runzheimer's 1997 *Survey and Analysis of Employee Relocation Policies and Costs* reported that 41 percent of survey respondents offer lump sum payments at least some of the time.[5] Appendix V describes examples of private sector lump sum payment programs based on articles we reviewed.

- **Government Agencies**

  Some government agencies are also embracing the concept. The FTR permits agencies to reimburse employees for a househunting trip and temporary quarters subsistence expenses using a fixed amount option. Under the fixed amount option, employees are not required to document expenses. For example, the househunting fixed amount option is based on whether the employee and their spouse take the trip.

- If the employee and the spouse perform the trip either together or separately, a single amount is determined by multiplying the applicable locality rate by 6.25. If

[5] Runzheimer's *Survey and Analysis of Employee Relocation Policies and Costs,* 6th Edition, compiled in 1997, surveyed respondent organizations' 1997 policies and 1996 costs for relocation practices and activities. According to Runzheimer, the survey was researched and designed to assess present relocation practice and predict future trends in the industry. The survey is done every 2 years.

only the employee or the spouse takes the trip, the amount is determined by multiplying the applicable locality rate by 5.

Using a list provided by ERC, we identified two government agencies that had implemented a lump sum payment program – the Federal Aviation and Administration (FAA), and Department of the Navy. We were able to obtain some information about FAA's lump sum payment programs. However, we were unable to obtain information from the Department of the Navy. Additionally, Runzheimer International consultants told us that the Department of Defense is planning to implement a lump sum payment program in 2 years.

FAA's relocation policy includes fixed relocation payments. In brief, FAA offers a fixed relocation payment to employees, new appointees, and student trainees assigned to an official station who have not previously received travel and transportation. FAA does not have to pay an employee a fixed amount. There are certain conditions that must be met for employees to be eligible for the fixed amount payment. Specifically, the relocation is not in the best interest of the Government, but the office determines that it will derive a benefit from the employee's relocation, the employee signs a service agreement, the mileage requirements are met, and the employee meets any other requirements established. The amount paid is an amount determined to be reasonable by the staff office or Office of Chief Counsel, but cannot exceed $25,000 for transferees, and $10,000 for new appointees.

FAA also offers eligible employees the option of taking a fixed amount allowance for a househunting trip and temporary quarters subsistence expenses, which mirrors the FTR.

- **Other FIRREA agencies**

As part of our work assessing benefits and costs, we asked the other FIRREA agencies whether they used a lump sum payment program and, if so, to provide us with information about the benefits covered by the lump sum payment and the method for calculating the lump sum. Only OCC and FHFB had lump sum programs. Our analysis was limited to the information provided by these agencies.

OCC allows eligible employees a choice for the househunting trip and the MEA – employees can claim either the itemized expenses associated with the househunting trip and MEA or an up-front lump sum allowance (fixed amount). OCC's lump sum allowance covers the expenses associated with a househunting trip, MEA, and temporary living. Temporary living expenses are authorized only under the lump sum allowance. Employees must forward a completed *Lump Sum Allowance Confirmation* form to the relocation office before taking the househunting trip. OCC did not provide us with any statistics about its lump sum allowance. Appendix VI describes OCC's formula for calculating its lump sum allowance in more detail.

FHFB follows the FTR and, accordingly, offers employees a fixed amount allowance for househunting and temporary quarters subsistence. FHFB did not provide us with any other information about its program.

Why are they using a lump sum payment?

The studies and articles reviewed included the following reasons private sector companies use lump sum payments:

- **A Flexible Alternative**

  Simplicity and flexibility are among the reasons cited for the gaining popularity of lump sum payment programs. With different family arrangements, different work pressures, and different issues relating to the destination location, no two employees have identical needs. Lump sum payment programs give private sector companies and their employees a flexible alternative to traditional expense reimbursement programs.

- **Cost Savings**

  Runzheimer International's 1997 *Survey & Analysis of Employee Relocation Policies & Costs* reported that 35 percent of survey respondents realized an annual saving by having a lump sum policy. The respondents reported a $15,000 median cost reduction per relocation.

- **Reduced Administrative Requirements**

  Documentation including cash advance processing, review time, and phone calls can be greatly reduced. The number of expense checks can also be reduced, thus potentially reducing staffing in both relocation administration and accounting/auditing functions.

- **Accurate Budgeting**

  Companies can establish a fixed figure for an otherwise variable part of the relocation policy.

- **Reduced Exceptions**

  Requests for policy exceptions are reduced to a minimum, an especially important benefit since industry data indicate that temporary living expenses represent the policy feature with the highest incidence of exceptions.

- **Productivity Enhancements**

  Employees have a financial incentive to move more quickly because the employee can retain any funds saved in shortening the househunting or temporary living periods. This financial incentive also promotes employee productivity by accelerating transition time to the new assignment.

- **Employee Satisfaction**

  Runzheimer's 1997 *Survey & Analysis of Employee Relocation Policies & Costs* reported that 96 percent of transferees were somewhat to very satisfied with the lump sum policy at their organization. According to an article written by a Ruzheimer consultant, among the benefits usually cited by employees are (1) individual control over expenditures, (2) flexibility, (3) ready accesses to funds, and (4) the elimination of negotiating allowable expenses.

  According to the information we reviewed, one of the potential drawbacks to the approach is a policy that encourages exceptions to employees who, due to emergency or misuse, require more time or more money than originally allowed under the lump sum program because doing so defeats one of the main purposes – ease of administration. Granting exceptions can be the real downfall of a lump sum payment program. As such, it is important for companies to determine which expenses to reimburse and set the appropriate level of payment. It is important that the standard parameters are set and clearly communicated. A consultant with Runzheimer recommended an extremely high level of management approval for granting exceptions. According to the consultant, requiring a high level of management approval should deter employee requests, and make it clear that exceptions are not the rule.

What are the common benefits covered in a lump sum payment?

In general, private sector companies have found that lump sum payments should not replace direct reimbursement in its entirety, and have sought a middle-ground position that delivers the greatest good to the greatest number of employees. For example, most companies handle certain expenses outside this payment. Specifically, expenses associated with home sale and purchase – such as appraisals, home sale incentives, closing costs, legal fees, and loan origination fees, are not typically included in lump sum payments.

According to articles written on the subject, the principal problem in extending the lump sum approach to these benefit areas is that a company or agency may overpay most relocating employees and yet generate requests for exceptions to the policy when an employee's circumstances do not meet the norm. Table 8 identifies the common benefits covered by a lump sum payment. The benefit categories included in a lump sum payment depend on a variety of factors that each company must determine when setting its policy.

Table 8: Common Lump Sum Benefit Categories

Benefit Category
Temporary Living Expenses
Househunting Trip
Shipment/Storage of Household Goods
Return Trips to Former Location

Source: Runzheimer International and ERC data.

Lump sum payments also typically include relocation MEAs. Most employers adopt this practice for ease of administration, even though the relocation MEA is not intended to reimburse employees for specific expenses incurred, but is usually provided to cover incidental expenses and is generally based on the employee’s salary.

Although the shipment/storage of household goods was identified as a common benefit covered by lump sum payments, consultants with Runzheimer International did not recommend including this. Generally, Runzheimer officials stated that employees could not match the negotiated corporate rates. In fact, FDIC estimated in a 1998 request for expenditure authority for its household goods contract that if employees were to make independent arrangements to move household goods the costs would be almost double. Thus, it is generally not advantageous for the employee or Corporation if this benefit is included in the lump sum.

Finally, firms sometimes exclude air transportation from the lump sum payment. Specifically, air transportation may be separately expensed and not made part of the lump sum payment because it involves easily quantified variables based on fare structure and geography.

What are the other considerations for making a lump sum payment?

- **Determine the method for calculating the lump sum payment**

  Generally, once the benefits categories have been established, companies base each employee’s allowance on the same set of guidelines, which ensures fairly consistent treatment of employees. This is not to say that the amount of the lump sum payment for each employee will be identical. Rather, industry experts suggest that the allowances should reflect current costs specific to the particular location to which the employee is moving and other circumstances specific to each employee.

For example, according to an ERC *Research Report*, over three-fourths of firms with lump sum payment programs take into consideration a variety of factors other than salary when determining the lump sum amount for temporary living expenses. Specifically, ERC reported that firms consider:

- homeowner status (64%),
- number of dependents (63%),
- cost-of-living at the destination location (47%),
- employee's level in the organization (19%), and
- the distance between departure and destination locations (14%).

Table 9 summarizes different methods for calculating the lump sum payment that we identified during our review.

Table 9: Methods for Calculating Lump Sum Payment Allowances

Description of Approach	Variables
The payment consists of dollar amounts used for househunting, temporary living expenses, and move day expenses.	• Distance to new location. • Family size. • Cost of temporary living expenses in new locale. • Homeowner/renter status.
The payment includes pre-determined meal and room per diems multiplied by househunting and temporary living expenses policy limits. Savings are possible because per diems are usually less than the total of actual expenses.	• Per diem amounts.
The payment consists of one amount approximating the average amount previously paid out, with no variations. This approach offers the ultimate ease of administration at the expense of dealing accurately with different circumstances. The incidence of requests for exceptions to policy can be expected to be higher than average under this approach.	• None
Outside consulting companies calculate the payment cost-of-living data applied to the firm's policies. The added expense of this service can be offset by increased accuracy in the payment in each case and greater acceptance of the policy by employees because of the expertise of the data source.	• Cost-of-living data.

Source: *Relocation White Paper*

- **Determine whether to gross-up the lump sum payment for tax purposes**

  Another consideration is whether to "gross-up" lump sum payments. The Revenue Relocation Act of 1993 eliminated the deductibility of all relocation-related expenses except the reasonable costs of moving household goods from a former residence to new residence and the costs of traveling, including lodging, during the final move. In accordance with tax regulations, companies must include all reimbursed relocation expenses in the employee's gross income. Some companies provide tax assistance for the non-deductible relocation benefits. Specifically, when the withholding tax paid by the company or agency on behalf of the taxpayer is included in the taxpayer's gross income, the company pays that portion of the taxes resulting from additional income. This is known as the gross-up allowance.

  For example, lump sum payment programs typically cover househunting and temporary living expenses, which are no longer deductible. Therefore, payments for these expenses generate taxable income to the employee and require gross-up payments to eliminate employee tax liability. According to Runzheimer International's 1997 *Survey and Analysis of Employee Relocation Policies and Costs,* 55 percent of respondents gross-up lump sum payments and 34 percent do not.

- **Communicate employee responsibilities**

  When the lump sum payment program is an option, most companies make it clear that after the employee accepts the lump sum option, he or she cannot come back for additional assistance. Generally, companies require employees to sign an agreement that they will use the money for relocation expenses and will not ask for additional funding.

How could FDIC use a lump sum payment allowance?

What FDIC benefits could be covered by a lump sum payment ?

We believe, at a minimum, FDIC should consider providing a lump sum payment for eligible employees to cover:

Category

- Advance Househunting Trip
- Temporary Living Expenses including weekend return trips
- MEA

We selected these benefit categories based on several factors including:

- consistency with industry trends,
- potential for administrative cost savings because of the number of travel vouchers typically associated with these expense categories and the number of exception requests generated that relate to these categories,
- potential elimination of time consuming exceptions and complaints,
- consistency with OCC's policy, and
- potential for increasing employee satisfaction.

How would a lump sum payment benefit the Corporation?

- **Cost Savings**

  Lump sum payments are not specifically aimed at reducing relocation expenses. However, private sector companies do report cost savings because of the ease of use, reduction in exception requests, and reduced administrative requirements. As indicated above, Runzheimer International's 1997 *Survey & Analysis of Employee Relocation Policies & Costs* respondents reported a $15,000 median cost reduction per relocation for lump sum payment programs. Moreover, the time spent by employees completing expense reports represents significant productivity or opportunity costs to the employer.

  Initially, FDIC will need to determine whether the primary objective of a lump sum payment program will be to generate cost savings or to set a lump sum payment equal to the current level of relocation expenditures for covered benefits. FDIC needs accurate historical cost data and trends to evaluate any policy options. As stated in Section IV, FDIC's travel relocation system was not designed to specifically identify this information in detail. Individual vouchers will need to be examined to obtain precise information which was not within the scope of our review. We will continue to work with officials in DOF's ESB to obtain such information and evaluate the impact of different lump sum payment methods on FDIC relocation expenditures.

- **Reduced Administrative Requirements**

  FDIC's current Relocation Program provides eligible employees with the right to claim reimbursement for an advance househunting trip, travel and temporary living expenses, real estate expenses, relocation allowances, and other relocation benefits. Eligible employees are entitled to claim per diem, lodging, mileage, and miscellaneous expenses in accordance with FDIC's GTR. Specifically, the GTR defines the lodgings-plus per diem and other allowances employees may claim for themselves, their spouse, and the immediate family members. As discussed earlier, employees are responsible for submitting claims for reimbursement by completing a travel voucher. Employees are required to submit receipts for reimbursement. Officials in ESB audit the claims submitted for accuracy and completeness.

We performed a cursory review of the typical relocation travel voucher review process to evaluate the administrative cost savings the Corporation could realize by providing a lump sum payment in lieu of reimbursement for expense claims. ESB officials identified the individuals involved in the review process and provided us with estimates for the amount of time it typically takes to review and process travel claims. ESB also estimated that implementing a lump sum payment program encompassing househunting, temporary living expenses, weekend return trips, and MEA would on average reduce the number of vouchers processed by nine for each employee relocation. We based our total savings calculation using the assumption that FDIC would relocate 500 employees a year. Table 10 provides an estimate of potential cost savings resulting from a lump sum payment program.

Table 10: Potential Administrative Cost Savings Per Year

	Expense Reimbursement Method	**Lump Sum Payment**	**Estimated Savings**
Estimated Cost for Processing a claim	$92	$92	--
Estimated Relocation Claims Filed	10	1	9
Estimated Cost to Process Claim(s) per Employee	$920	$92	$828
Estimated Total Cost to Process Claims for 500 Relocated Employees	$460,000	$46,000	$414,000

Source: OIG analysis of data provided by DOF officials.

How would a lump sum payment benefit employees?

Generally, lump sum payment programs provide employees with greater flexibility and control over their move. This should translate to greater employee satisfaction. A lump sum payment program should also benefit employees by:

- providing immediate access to funds,
- reducing the number of travel vouchers that need to be completed and the need to keep track of receipts to obtain reimbursement,

- eliminating the need for seeking approval of allowable expenses, and
- allowing employees to decide how best to spend the money to meet their needs.

Further, one concern expressed by FDIC employees that have relocated relates to the interpretation of the GTR. For example, in 1994, FDIC employed a contractor to conduct focus groups and construct a *Travel and Relocation Customer Survey*. All employees who had relocated between October 1, 1993, and July 1, 1994, received the relocation survey. The most common written comments in the relocation survey addressed confusion with the written regulations.

ESB recently requested that FDIC's Training Consultant Services Branch (TCSB) conduct another customer survey. As part of its initial work, TCSB evaluated information from the Employee Services Correspondence Tracking System (ESCORTS), which is the system of record used by ESB to track audit exceptions, issues, projects, and other information.

Based on its review, TCSB found that most complaints again resulted from issues related to the interpretation of FDIC's GTR. ESB officials also told us that most questions related to entitlements for the househunting trip, temporary living expenses, and weekend return trips. These areas would presumably be included in a lump sum payment program. Thus, employee confusion related to interpretation of current policy could be eliminated under a lump sum payment program.

Where does the Corporation go from here?

Based on the results of our review, we believe FDIC should consider implementing a lump sum payment program that expands beyond what FDIC's current lump sum relocation allowance is intended to cover. Not only do industry trends support the notion of a lump sum payment, there is some indication that FDIC employees may be interested. FDIC's 1994 *Travel and Relocation Customer Survey* results showed that at least half of employees surveyed showed interest in a lump sum payment or were at least open to the idea.

The effective implementation of a lump sum payment program requires consideration of a number of issues. Specifically, we believe DOF needs to:

- determine which benefit categories to cover in a lump sum payment and which employees would be eligible for a lump sum payment allowance;
- consider whether the primary objective of the lump sum payment is to create cost savings or to set the lump sum payment equal to the current level of expenditures;
- determine whether the lump sum payment would be offered as an option or implemented completely in lieu of traditional expense reimbursement; and
- develop a method for calculating the lump sum payment that is equitable to eligible employees.

In assessing options for determining which method is most appropriate, we believe that DOF needs to gather additional cost data to analyze alternative methods for calculating the basis of FDIC's lump sum payment. Additionally, DOF should consider developing a pilot program before implementing the alternative completely.

Finally, literature on the subject emphasizes that a well planned and executed introduction of such a program is vital to maximize acceptance and to avoid the suspicion that a policy change was adopted to take benefits away. Accordingly, FDIC should consider getting employee involvement in the study to ensure their views are understood before any policy decisions are made.

Corporation Response and OIG Evaluation

Corporation Response and OIG Evaluation

On June 25, 1999, the Director, DOF, provided the Corporation's response to a draft of this report. The response is presented as Appendix VIII to this report. DOF's response describing actions already taken and planned actions provided the requisite elements of a management decision for both of our suggestions.

Study the bases for the temporary living expenses and the MEA benefits being significantly more generous and determine whether the bases remains valid. DOF agreed with our suggestion. They have already begun a study of the intent of the temporary living expenses and the MEA benefits. This preliminary work will be leading to a more complete analysis of the relocation benefits that are actually used by relocating employees and associated cost data. This work will allow FDIC to determine if modifications should be made to the current benefits and to identify any monetary benefits that would be gained as a result.

Consider implementing a lump sum payment program that expands beyond what FDIC's current limited lump sum relocation allowance is intended to cover. Specifically, we believe DOF needs to:

(a) determine which benefit categories to cover in a lump sum payment and which employees would be eligible for a lump sum payment allowance;
(b) consider whether the primary objective of the lump sum payment is to create cost savings or to set the lump sum payment equal to the current level of expenditures;
(c) determine whether the lump sum payment would be offered as an option or implemented completely in lieu of traditional expense reimbursement;
(d) develop a method for calculating the lump sum payment that is equitable to eligible employees. In assessing options for determining which method is most appropriate, we believe that DOF needs to gather additional cost data to analyze alternative methods for calculating the basis of FDIC's lump sum payment.
(e) consider developing a pilot program before implementing the alternative completely; and
(f) consider getting employee involvement in the study to ensure their views are understood before any policy decisions are made.

DOF generally agreed with our suggestion. They have introduced the concept of a lump sum payment option to corporate management and NTEU. DOF has begun an in-depth study that would take into account each of the suggestions listed above. This study will be ready for the 1999 FDIC/NTEU negotiations process. Employee involvement would occur if FDIC and NTEU agree on using interest-based bargaining.

Appendices