

# AIRINC Cost of Living Allowance (COLA) vs. Per Diem

Data

Should you deliver cost of living support for temporary cross-border moves via a cost of living allowance (COLA) or a per diem (sometimes referred to as a short-term allowance/STA)?

To answer this question, it's helpful to review the intent of each approach.

## Cost of Living Allowance

A COLA is designed to fully protect the home goods and services living standard for "long-term" assignments (between one and five years' duration). While on assignment, the assignee is expected to contribute from salary what would normally be spent on goods and services at home (spendable income). The cost of living allowance is the differential; it is paid to bridge the gap between what the assignee spends on goods and services at the host location compared to their home spendable income. Since home living standards vary by home country due to differences in incomes, taxes, and local costs, the cost of living allowance is specific to each home-host combination, and varies by income and family size.

Given the long-term assignment time frame, the market basket required to protect the home standard includes not only daily essentials such as food and transport, but also goods and services typically purchased over the course of a year or more such as household supplies and services; personal care; clothing; recreation and entertainment; medical care; and communication services.

Since a cost of living allowance is a relative measure, it is periodically adjusted to recognize changing costs not only at host but also at home. As a cost of living allowance is commonly delivered in home country currency, it is also revised as necessary to reflect changes in the home-host exchange rate. As a result, a cost of living allowance may increase or decrease over the length of the assignment to reflect changing economic factors.

## Per Diem/Short-Term Allowance

Per diems are designed to cover host costs of a very limited set of goods and services (such as meals and transport) essential for cross-border business travel and "short-term" assignments (of up to one-year duration). Unlike the cost of living allowance, there is no expectation that the assignee contributes funds from their salary towards this small set of goods and services. As such, it is not a differential but rather an allowance to cover the full cost of the limited market basket.

The **assignee** is expected to **contribute** to their **COLA** from their salary. **Per diems** are intended to cover selected costs **without employee contribution**.



This is because while on assignment the assignee typically has ongoing costs at home and is therefore not able to fully contribute toward host costs. Most business travel and short-term assignment policies do not support accompanying dependents, so assignees at host are typically on an unaccompanied basis with dependents remaining at home. To the extent the assignee continues to support these dependents and the household, the assignee incurs some duplication in costs at home and at host. Even assignees without dependents tend to have ongoing home obligations for long-term expenses or charges for services not easily discontinued for short periods (such as car payments or basic phone charges). Since per diems are intended to cover selected costs without employee contribution, per diem budgets are specific to host location, not assignee home country. In addition, they are determined as host-specific amounts which do not vary by income but rather represent typical spending patterns for an average assignee.

Per diems/short-term allowances are generally designated in host currency and thus do not require adjustment for currency fluctuations, but do require regular updates to ensure budgets are sufficient to cover changes in local costs over time.

## Comparison

The following chart summarizes some key differences between cost of living allowances and per diems:

PER DIEM	COST OF LIVING ALLOWANCE
<ul style="list-style-type: none"><li>• Intended to fully cover host costs</li><li>• Assumes no contribution from employee salary</li><li>• Varies by host</li><li>• Limited market basket assuming business travel/ short-term assignment of less than 12 months</li><li>• Generally delivered in host currency, periodically adjusted for changes in host prices</li></ul>	<ul style="list-style-type: none"><li>• Intended to protect home living standard</li><li>• Assumes contribution from employee salary</li><li>• Varies by home and host</li><li>• Full market basket assuming long-term (1 to 5 years) assignment</li><li>• Generally delivered in home currency, periodically adjusted for changes in host and home prices, currency fluctuation</li></ul>

Icons: House, Money, Family

SHORT TERM ASSIGNMENTS (LESS THAN 12 MONTHS)	LONG-TERM ASSIGNMENTS (1 TO 5 YEARS)
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## Flexibility

Both cost of living allowances and per diems are flexible elements. Market baskets for each can easily be adjusted to recognize in-kind provisions and host living circumstances, as well as align with company philosophy regarding appropriate level of support. For example, business travel per diems might assume all meals are consumed in hotels and restaurants, whereas a short-term assignment per diem may assume some or all food is purchased in grocery markets and prepared in corporate apartments. Your AIRINC client engagement representative will be glad to discuss and recommend the appropriate cost of living allowance or per diem configurations based on your assignment specifications.



### LEARN MORE

*For further guidance on COLAs, per diems or any other product or solution, please contact us at [inquiries@air-inc.com](mailto:inquiries@air-inc.com) or [www.air-inc.com](http://www.air-inc.com)*

