

Addressing Allowances during COVID-19

The COVID-19 pandemic is presenting us all with a period of great uncertainty. One thing we have learned from past crises is that we will likely experience economic volatility, including wide exchange rate swings and abnormal patterns of inflation. While these are early days, we have already measured higher rates of inflation in China, as well as significant fluctuations in major currencies. In addition, living conditions have worsened for many across the globe. It is likely economic volatility and restricted lifestyles will be with us for some time.

At AIRINC, we are getting a lot of questions from clients about updating COLA and hardship in these uncertain times. Some companies are unsure if changing allowances at this time is a good idea given all the disruption employees are already experiencing. AIRINC has put together this guide to help you navigate this landscape.

Should I update the COLA?

We have learned that not updating COLA in volatile times can lead to unintended problems later. For example, during the Asian economic crisis many Asian currencies plummeted, causing COLAs to drop precipitously in the region. Some companies did not implement the reduced COLAs. When the economies started to recover, employees felt the inflation and exchange rate increases but the companies had no mechanism to adjust since they had frozen allowances at artificially high levels. It took a long time for companies to live out of these decisions.

It is important to note that COLAs are a balancing mechanism. They simply protect the employee against excess goods and services costs. When the home currency is strong, less support is needed, and the COLA rebalances to a lower level. When the home currency is weak, more support is needed, and the COLA increases.

Inflation also affects the COLA. Decreases occur when home inflation is high, and increases occur when host inflation is high.

When the COLA goes up or down, we are not increasing or decreasing pay, we are simply rebalancing.

During volatile periods, updating the COLA regularly ensures you are following a logical and transparent method for protecting the assignee against exchange rate change and inflation. If you do not have a regular COLA update schedule, it is a good time to consider putting one in policy. If you pay assignees fully in home currency, a quarterly schedule is recommended to protect against changes in exchange rate and inflation.

Updating COLA regularly also allows the company to spend more on employees who need the help most – those that are experiencing high inflation or weaker home currencies. And to spend less on those that don't need it – those that are experiencing deflation or stronger home currencies. In essence, balancing the COLA also balances the company spend in the right way.

A silhouette of a person walking from left to right, carrying a suitcase. The background is a dark, textured blue with a grid pattern.

Should I increase Hardship Payment?

Hardship payments present a different challenge. Unlike COLA, hardship payments are not a balancing payment, they are premiums to cover sustained difficult living conditions. That is, they are paid only in the relatively more difficult locations.

In the case of COVID-19, we don't know yet if changes in conditions are short- or long-term, or whether these changes will become more significant and persistent in some locations than others.

AIRINC did recently increase its hardship score for China as the changes in that country have been sustained and are estimated to continue to be more difficult than before the virus. But we do not yet know how this will play out in other countries.

A way to address hardship in hard-hit locations is to offer a temporary premium if the location is not a hardship country, or in addition to the current hardship payment. This approach works for companies that believe assignees experience difficulties and risks unique to their temporary, non-national status, including less access to local and family networks, language differences, and fewer government and other official supports.

However, some companies have expressed a preference not to take actions that cannot be applied to both local and expatriate staff alike. For equality reasons, temporary premiums are not an option these companies implement. It is important for companies to know their philosophy on premiums so consistent decisions can be made as more and more countries are affected by the virus.

Let us know if we can help

These are uncertain times for us all. Many of AIRINC's senior client-facing staff have 10+ years addressing volatility. While this crisis is unprecedented and the outcomes uncertain, AIRINCers are happy to use their past experiences and their current knowledge working with a large client base to help you.