Great Expectations

How expectations of pay, borders, mobility and life are changing

Part 1: The talent lens

In this issue:

- Innovative packages meet changing pay expectations
- New ways of work disrupt pension and benefit plans
- The practical application of work from anywhere
- Designing mobility policies and programs for a transformed workforce

KPMG International

kpmg.com

Marc Burrows

Head of Global Mobility Services
KPMG International

Expectations of talent, the business, and society are changing. The pandemic, evolving social attitudes, geopolitics, increasing cost of living, and technology have fundamentally changed the way we work and what we expect around pay, mobility, remote work, and lifestyle.

The Great Expectations series explores changes in the expectations around pay, mobility, borders and life through the lens of talent, the business and society. This publication, the first part of a three-part series, focuses on the talent perspective. In these pages you'll find:

- how leading organizations are designing innovative rewards packages for increasingly mobile and diverse workforces
- how more flexible work arrangements can jeopardize long-term mobility and benefits, especially pensions and social security, and what can be done to address these risks
- what types of guardrails should be in place for employers seeking to expand their work-from-anywhere programs
- how organizations can satisfy changing career goals to deliver more flexibility, choice, and opportunities for growth

These changing expectations provide mobility professionals an opportunity to bring their expertise into strategic business decisions. It's an exciting time to be in global mobility. KPMG firms are proud to share our wealth of perception and forward-thinking insights with clients and be advisors of choice, helping to address new mobility priorities in an ever-dynamic workplace. I wish you an interesting read.

Articles in this issue

Innovative packages meet changing pay expectations

- **Dinesh Sinniah**
  Partner, KPMG in the US
  dsinniah@kpmg.com
- **Paula Holmström**
  Partner, KPMG in Finland
  paula.holmstrom@kpmg.fi

For companies today, the talent agenda is front and center. Competition for skilled workers remains fierce, while the rise of remote and hybrid work arrangements is vastly broadening the range of potential recruits for employers. New ways to work are presenting employees with more flexibility and more opportunities in new markets, and there is also the emergence of alternate compensation options such as cryptocurrency.

In this environment, culture is in sharp focus. Many companies are working to instil environmental, social and governance (ESG) mindsets, with ambitious commitments to improve business sustainability; diversity, equity, and inclusion; with a strong focus on the overall employee experience. At the same time, the pandemic and current inflationary environment has put companies in many industries under intense pressure to control costs.

More choices for total rewards package

To balance these many imperatives, HR and Global Mobility teams are rethinking employee compensation. They are inventing innovative packages that offer more choice to employees and link rewards to progress on enhancing culture.

With these packages, salary, bonus and benefits are three of an array of building blocks that can be used to tailor compensation with special appeal for selected individuals or employee groups.

Other popular building blocks that today's employees are asking for include:

- full or hybrid remote working arrangements
- flexible schedules
- flexible benefits
- additional time off
- short- and long-term incentives
- remote work stipends

The packages are being designed as part of wider total reward strategies supported by effective change management and communications, as well as technology and systems integration. Tax and legal functions are

involved from a governance perspective to ensure compensation plans comply with local regulations. The company's payroll team is also critical for ensuring pay systems can manage the added global complexity.

In many cases, these packages are being designed to specifically support employees taking up new ways of work. To support increased mobility, for example, a trend in Europe is seeing more employers offer payments toward bicycle leasing, car and bike sharing, fuel cards, public transit and home charging stations for electric vehicles. Benefits for employees working at home might include smart phones, personal computers and tablets, office furniture and Internet fees.

Companies need to be careful about the perceived fairness of the rewards they offer. For example, workers who choose to return to the office may resent the benefits provided to those working from home, especially given the impact of inflation on fuel, transit costs and dining out. For these workers, it is especially important to clearly communicate how inflation is tied to annual salary increases and bonuses.

Tailoring programs for sectors and regions

International companies may need to differentiate their total reward offerings by industry. After the pandemic caused a worldwide surge in pet adoptions, for example, tech companies stepped up with a slew of pet-related benefits, such as reimbursements for pet insurance and bereavement policies. When lockdowns were lifted and pet daycare became an issue, many IT companies adopted policies allowing people to bring their dogs to work. Companies in other sectors competing for the same

The challenge is to create programs that are legally compliant while providing employees choice and promoting the company's broader talent and culture goals.

IT talent were compelled to offer similar benefits. In sectors where allowing dogs in the workplace is illegal or impractical, creative alternatives have been developed, such as covering the costs of pet sitters and dog walking services.

Regional differences can also lead to variation in reward options. Companies in Europe are putting a lot of programs in place to encourage DEI from an LGBTQ perspective. In other parts of the world, however, such programs face legal barriers. The challenge is to create programs that are legally compliant while providing employees choice and promoting the company's broader talent and culture goals.

Many times tailoring the package may also be necessary just to make sure there aren't any adverse tax consequences. For a global company, even if having a total reward offering that treats all employees equally would be ideal, there are still country borders and different legislation to bear in mind.

Integrating ESG in compensation strategies

As in most areas of operation, ESG considerations are becoming more important in total rewards programs, driven by a powerful mix of changing social attitudes, investor interest, regulation in some jurisdictions (e.g. European Union regulations, US gender pay rules) and employee demand, especially among younger generations. Where mobility is concerned, packages may lean toward offering green choices for moving household goods or providing train and transit passes instead of auto-related benefits. When companies are able to quantify and communicate the impact of these programs, they can help craft a strong narrative to boost their value proposition for talent.

Tying ESG to executive compensation can be more challenging. While short-term incentives (STI) around employee engagement, safety or retention are common, longer-term incentives are harder to define and still relatively rare. In the financial services sector, STIs are being used to track (among others) non-financial ratings against peers, ESG-related projects, and investments in sustainable businesses and underserved communities. For LTIs, however, many companies are struggling with finding the right nonfinancial measures to drive their ESG initiatives and support the strategy.

Early movers in some of the industries most affected by ESG concerns are developing long-term metrics tied to their company's ESG goals. For example:

- **Chemicals**: LTIs being adopted in this sector aim to measure improvements in energy efficiency, performance against ESG indices, and reductions in greenhouse gas emissions.
- **Energy**: Recently introduced LTIs by leaders in this sector target salary equality, performance against sustainability indices and supply chain sustainability.
- **Forestry and paper**: LTIs have been implemented to cover reductions in carbon emissions and empowerment of BIPOC managers.

When setting these metrics, it's important to determine what data is already being collected and what data is available. Any employee whose compensation may be affected by an LTI needs to have confidence that the underlying data is accurate, reliable and relevant to their role. To gain widespread buy-in, communications that explain the LTI and how it ties into the company's ESG strategy are crucial.

Cryptocurrency rewards gain traction among start-ups

Employee demand for compensation in cryptocurrency is leading many companies to incorporate it in their existing total reward programs. Despite recent negative publicity and extreme volatility in cryptocurrency markets, cryptocurrency compensation strategies are starting to emerge. This is especially for start-ups venturing into new jurisdictions, where setting

up traditional compensation (e.g. share plan) is cumbersome and cryptocurrency provides an easy way to administer payroll.

Many mature organizations remain on the sidelines, however. Companies that may have been considering it as a potential rewards option seem to have put such moves on hold.

One of crypto's biggest downsides is the risk resulting from inadequate tax legislation. In one case, for example, a Finnish executive paid enormous amounts of capital gains tax on shares received as compensation because the tax law had no provision to allow crypto losses to be deducted against the gains. While US tax legislation is somewhat more advanced, cryptocurrency remains too volatile and too far removed from business performance to gain traction globally.

Nevertheless, cryptocurrency markets are evolving rapidly. As smaller companies with crypto in their compensation portfolios continue to grow, this will become more of a differentiator. Larger companies should monitor this evolution to determine if and when it makes sense to bring crypto into their rewards programs. Given the hurdles involved from a payroll administration, tax and legal perspective, the decision should be made with broad involvement across the company.

In summary, flexibility of options is highly prized in total rewards programs but can be difficult to achieve in the same ways across different regions and jurisdictions. It's important to ensure the company's total rewards programs have flexibility more broadly, with tailored packages for different employee groups (e.g. by role, level, location) that align with the company's global ESG goals and business strategy.

New ways of work disrupt pension and benefit plans

- **Robert Rothery**
  Director, KPMG in the US
  rrothery@kpmg.com
- **Alex Thornton**
  Partner, KPMG in the UK
  alex.thornton@kpmg.co.uk
- **Laura Hutton**
  Director, KPMG in the UK
  laura.hutton@kpmg.co.uk

Global Mobility teams were kept on their toes for the past few years, as the pandemic caused remote work and work from anywhere practices to move from a business imperative into the mainstream. The new ways of work came with a raft of tax, legal and compensation issues, requiring agility and innovative responses from Global Mobility professionals to manage the risks while keeping their mobile talent safe and satisfied.

Now that the dust is starting to settle, many global organizations are starting to regroup, consider lessons learned and formalize comprehensive new benefits policies around mobility. As part of this, international pension plans are emerging as a top choice for many employers.

Nomadic workers challenge traditional benefits schemes

Pension and benefits have always raised special tax and legal challenges related to mobile workers. This is especially true for the small but highly valued group of global nomads who move from one international assignment to another and are often restricted from taking part in national pension and social security schemes. Employers that do not inform their employees about the impact of mobility on their pension rights could face issues with their populations.

For example, the amounts that individuals can contribute to private pensions are limited in some countries, such as the reduced Annual Allowance in the United Kingdom which can be as low as 4,000 British Pounds (GBP) per tax year for executives with higher income. Tax rules in the area used to be stable, given the importance of long-term certainty in retirement planning. Now, with ageing populations, high inflation and pandemic-strained government budgets, these rules are changing quickly, and employers need to keep a close eye on any impacts to arrangements already in place.

Reputational risk related to pension entitlements is also a concern. Like all things related to tax, the governance of executive pensions has come under intense scrutiny from media, regulators and tax authorities. A transparent tax governance framework that addresses pension arrangements directly can

International pension plans are proving to be effective vehicles for delivering long-term retirement benefits for global nomads and other long-term assignees moving from location to location.

reduce this risk (including on employer withholding) or at least help mitigate any reputational harm if something goes wrong. In the market, we're seeing businesses take action ranging from bringing their tax governance up to date and checking their policies through to transforming their pension offering for cross-border executives.

International pension plans may be the answer

International pension plans are proving to be effective vehicles for delivering long-term retirement benefits for global nomads and other long-term assignees moving from location to location. These plans can come in a variety of forms, from traditional employer-funded plans to specialized international accounts that can mirror US 401(k) retirement plans.

Variations are available for unfunded plans. Rather than putting away funds regularly on an employee's behalf, for example, the organization could promise to pay a lump sum that mirrors the total pension entitlement that the nomadic employee would have accrued as they moved from one local plan to another. This also works where the local limits for pension are not sufficient and a top up arrangement is needed. Here we are seeing businesses outsourcing the administration and tax withholding when it comes to payment of these amounts.

These plans can be a great way to provide global consistency, providing employees with the promise of a unified pot of funds for retirement that is easy for employees to understand and follows them wherever their career with the organization may take them.

Social security systems pose cross-border challenges

Where social security is concerned, benefits differ widely by jurisdiction, in both the benefits' value and vesting criteria. Unlike pensions, there are far fewer ways to tailor arrangements for individuals. Claiming foreign benefits can be complicated, and mobile employees often do not have the records they need to support their claims. Further complexity could result if mobility leads to multiple partial benefits, especially if these are paid in different foreign currencies.

In addition, social security contributions are not guaranteed to produce future benefits. In some cases, contributions paid in a host country may not create a right to benefits if there is no social security agreement in place. In other cases, benefits received from foreign systems may result in double tax.

Many employers have given relatively little thought to the impact of mobility on their employees' social security benefit entitlement. Policies are often silent on the subject — which leaves the employer exposed to potential material risks and costs. For example, where employees experience a loss of social security pension benefits because of of being mobile, they may look to their employers to mitigate this unanticipated shortfall.

Where employers are taking a proactive approach, they are using a variety of approaches, to help mobile employees fill the gaps. In a number of countries, including some in Europe, voluntary contributions can be paid, and are sometimes relatively cheap. In other countries, it is possible to obtain a refund of contributions when the individual leaves the country, or on retirement.

Private insurance also has a role to play. For example, even though healthcare is covered by the social security agreement between the EU and UK, it can still be incredibly difficult for UK nationals to get access to healthcare in some EU countries, thus it is increasingly common for employers to provide comprehensive private health insurance. Private insurance can also ensure consistent healthcare access across mobile workforces globally.

For some mobile employee groups, extra compensation might be the answer, whether in the form of a pension allowance or additional cash in their salary. Many employees may in fact prefer this type of support.

Communicating the 'mobility deal'

Given the diversity of social security systems and difficulty providing consistent treatment among assignees in different locations, some organizations take a strictly hands-off policy, making it clear that employees will not be compensated for any gaps in their social security positions. Communicating this may be sensitive but could be done as part of a discussion laying out the 'mobility deal' — presenting all of the pros and cons of the mobility experience for the employee over their career. While making the employee aware of the potential social security costs, the employer can highlight that, on balance, the mobility deal can produce good outcomes.

This approach can be supported by providing high-level information on each country's social security systems, what benefits they can access and how to claim them (including what records to retain). Employees could also be offered more personalized social security briefings related to their international assignments and how it may affect their access to current healthcare and future retirement benefits.

As more workers demand more flexibility over where they do their work, and more of them choose to work in different countries or cross-border, the challenges of designing attractive, tax-effective and legally compliant pension and benefits packages are multiplying. As Global Mobility teams formalize their policies for mobile workforces in today's reality, they have a wide and expanding variety of options available for creating appealing, globally competitive packages for their highly valued mobile talent.

The practical application of work from anywhere

- **Dave Mayes**
  Principal, Global Mobility Services,
  KPMG in the US
  dmayes@kpmg.com
- **Lisa Cabel**
  National Leader, Employment & Labor Law,
  KPMG in Canada
  lcabel@kpmg.ca
- **Patrick Occhiuto**
  Senior Manager, Global Mobility
  Services Technology,
  KPMG in the US
  pocchiuto@kpmg.com

As organizations grapple with defining their hybrid, remote, or in-office identity, demand for temporary and long-term cross-border remote working is rising — and all signs suggest the trend will only continue. Work flexibility is now a powerful draw for workers and can be a source of significant competitive advantage in a tight labor market for organizations that can navigate the inherent set of complex risks and challenges.

A perfect storm of forces is converging to create more demand for increased choice over where people do their work.

- **Employee expectations —** Employees are now accustomed to the freedom to work flexibly in a fully remote or hybrid environment, and now many don't want to give it up. Even organizations with a strong "in-office" culture are looking for ways to meet employee demand to work remotely, even if it is only for a few weeks per year.
- **Workforce capabilities —** The rise of artificial intelligence and machine learning is changing the skills organizations need, and the talent with those skills may not need to be physically located in the same place as their colleagues. A flexible work environment can help companies attract the talent with the rights skills to meet these shifting needs.
- **ESG priorities —** As Environmental, Social and Governance (ESG) metrics find their way to the top of leaders' priority list, diversity, equity and inclusion are increasingly important. Organizations are seeing early indications that a flexible approach to where and what hours employees work can help promote strategic DE&I initiatives.
- **Talent location strategies —** The combination of worker preference and the challenge of finding the right talent in the right location is driving the realization that remote work can be an essential tool for growth. To prove this point, a Boston-based company seeking to hire a number of data scientists posted the opportunity twice: once as a local in-office role, and again as an entirely remote position. Overnight, the in-office role garnered just one application, while the remote position generated well over 200.

One variation that's making headlines is the notion of the 'workcation.' Whether formally or informally, as the return to the office began, some employers allowed workers do their work temporarily from a different, cross-border location, such as a cottage or holiday destination they could enjoy in their off hours.

Taking work from anywhere in new directions

In response to new demands, some employers are taking flexibility in interesting new directions.

One variation that's making headlines is the notion of the 'workcation.' Whether formally or informally, as the return to the office began, some employers allowed workers do their work temporarily from a different, cross-border location, such as a cottage or holiday destination they could enjoy in their off hours. This practice evolved into more formal talent and branding strategies, such as Airbnb's choice to publicize[1] its "Live and Work Anywhere" program that allows employees to live and work in over 170 countries for up to 90 days a year.

Another variation sees a rise in permanent cross-border remote positions that allow employers to access new talent pools and resources. For companies that do not have a presence in a foreign labor market, a recent trend has seen the emergence of professional employer organizations and employer of record companies, providing turnkey solutions for reaching local talent.

Setting the right guardrails

Of course, providing cross-border work options at scale across a global organization can expose the company to a number of risks and operating challenges. Corporate income tax, cybersecurity, legal liability, and payroll are among the biggest challenge areas, and Global Mobility teams have their hands full helping organizations determine the right guardrails to cover off these risks.

Where corporate income tax is concerned, one of the most common guardrails involves limiting remote work to a set number of days in the remote location to avoid presence thresholds that trigger tax related obligations. Since different jurisdictions have different number-of-day thresholds, tracking days for a stream of employees coming and going is incredibly complex.

A second common guardrail is to restrict what the worker can do in the cross-border location, especially activities like soliciting sales and concluding contracts that could create a permanent establishment for tax purposes. In setting this guardrail, close attention needs to be paid to the day-to-day activities of workers in all roles. For example, IT consultants may not seem like salespeople at first glance. These roles often have a sales element in promoting the company's IT platform, however, so permanent establishment rules might apply.

Minimum employment standards add more complexity

In terms of employment law, Global Mobility teams need to consider the minimum standards in the host jurisdiction, as well as any standards that follow the employee as they continue to work for the origin country. These standards often mandate basic terms such as hours of work, overtime, parental and other paid leaves, vacation days and public holidays, and they can vary considerably from one country to the next.

Further, these standards may change over time as the assignment goes on. In France, for example, the longer a person stays in the country, the more employment laws apply to that person. Changing terms and conditions in the host country could spill over into issues over hours of work and payroll, so these need to be considered as part of the remote work arrangement.

[1] https://news.airbnb.com/airbnbs-design-to-live-and-work-anywhere/

Clearing operational hurdles

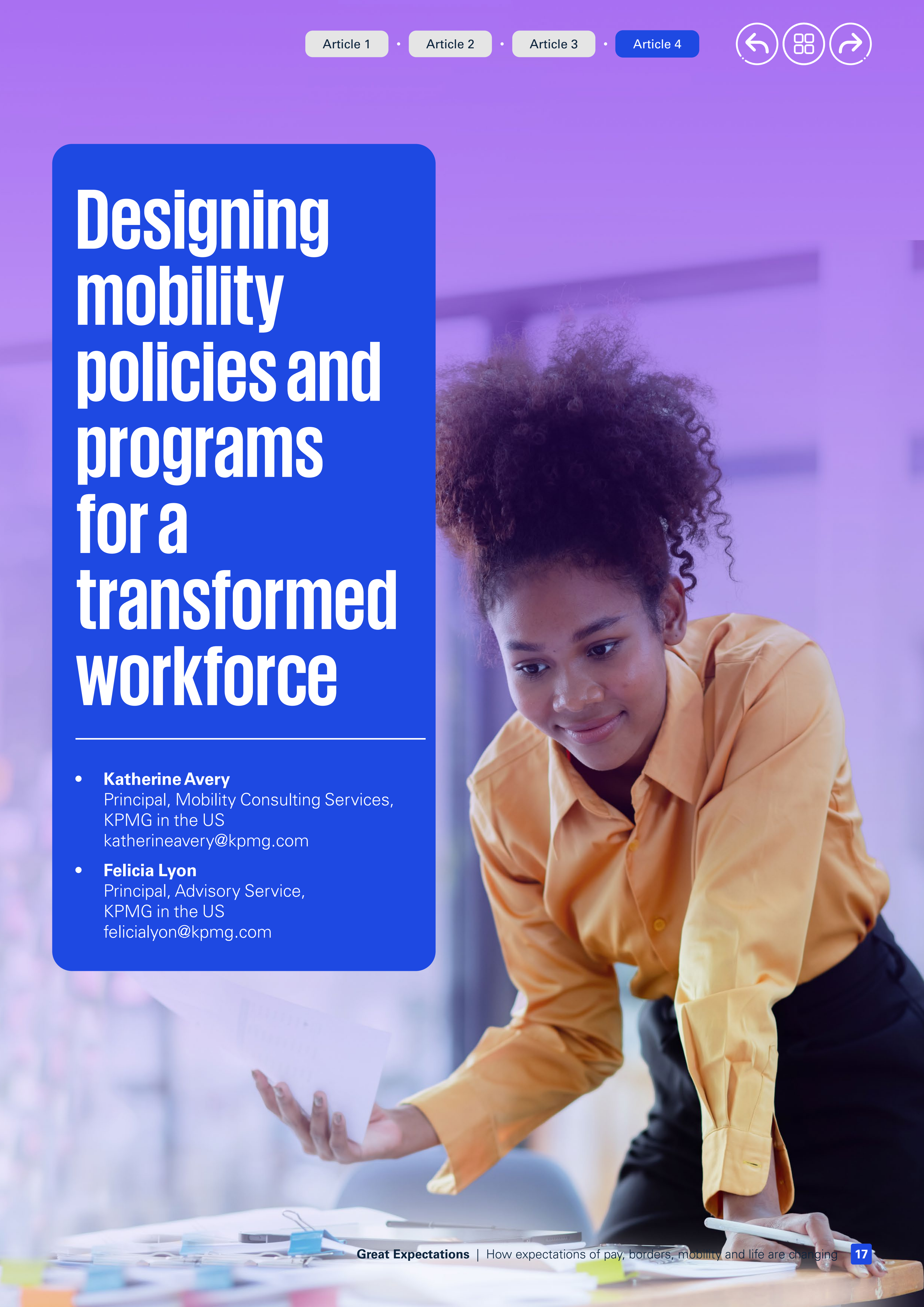
As organizations pursue greater flexibility, they need to overcome a number of operational hurdles. One of the biggest obstacles is setting up an efficient remote work request intake process, with provision for necessary levels of approval while not attending to the workload of already stretched mobility programs.

In particular, employees may be taking their mobility request to their local HR team, who might not know all the issues and might accept a request that puts the organization at risk. This can be managed by ensuring a global policy or framework is in place and followed locally to ensure all mobility requests go through the right channels.

Resistance to flexibility from the C-suite is another potential snag. With some CEOs intent on getting workers back in their seats, Global Mobility professionals may need to bridge the disconnect between competing demands. Employee surveys and benchmarking data on the flexibility policies of peer organizations are two sources of information that might help bring leadership onside.

Technology has a significant role to play in managing and processing high volumes of requests involving a multitude of potential destinations, as well as monitoring cross-border movement, automating changes to payroll, and generating tax information and financial reports. The wealth of data integrated within the systems can also be mined for future strategic changes to make the organization's remote working policies.

With a cross-border remote work technology solution, organizations can help to ensure consistent policies and processes are followed, effective guardrails are in place and, most importantly, provide employees with valuable remote working experiences that improve their satisfaction and advance their careers.



Designing mobility policies and programs for a transformed workforce

- **Katherine Avery**
  Principal, Mobility Consulting Services,
  KPMG in the US
  katherineavery@kpmg.com
- **Felicia Lyon**
  Principal, Advisory Service,
  KPMG in the US
  felicialyon@kpmg.com

Three years after the pandemic's outset, organizations and their people and mobility leaders are striving to manage workforces transformed by advancing technology, disrupted business models and changing expectations around remote work and careers.

While many CEOs may have looked forward to the day when everyone was back in the office from 9 to 5, that day may never come as a high proportion of workers demand to retain the flexibility they've become accustomed to. Global mobility policies and programs offer opportunities to satisfy new worker demands in ways that benefit the organization overall.

Currently, however, statistics suggest that in many organizations, there is a serious disconnect between what the C-suite wants from a transformed workforce and what employees want for themselves. For example:

- 75 percent of CEOs have an aggressive digital investment strategy,[2] but 44 percent of workers worry technology could replace them[3]
- 72 percent of upper management say their job has become more demanding,[4] but only 40 percent of CEOs say they are investing more capital in developing their workforce's skills and capabilities
- 72 percent of CEOs say they are actively disrupting the sector they operate in,[5] but 40 percent of employees say they are left to navigate changes without enough resources.[6]

Work in the new world — purposeful, connected, authentic

Regardless of what anyone wants, the world of work has changed in some fundamental ways.

One change is the increasing desire of workers to feel connected to a sense of purpose. They need to know how their

[2] How CEOs are winning the digital transformation race, KPMG (2021).
[3] COVID-19 and the American worker | Remarkably resilient with the right support (April 2020) COVID-19 and the American worker (kpmg.us).
[4] See note 1.
[5] See note 1.
[6] See note 2.

own role contributes to the organization's purposes to anchor the meaning of their work. More than a few workers would be willing to trade a pay cut for work that is more meaningful to them.

A related change sees workers keen to align their personal interests with their work contributions. Organizations can improve engagement through social or community activities that matter to employees. In addition to providing meaningful experiences, the organization can get a reputational boost in the community for its employees' good works and build a better brand in the eyes of potential recruits.

A third change is the move toward bringing your authentic self to work. The rising emphasis on diversity, equity and inclusion is changing social norms and allowing people to be themselves at work, rather than conforming.

This is about much more than diversity of gender, race or age. It also spans differences in hairstyles, clothes, jewellery and all of those ways that we show our creativity, innovation and character. Whether differences are visible or not, employees are likely to be happier in their roles when they are comfortable being their unguarded selves at work. Research shows that diverse organizations are 33 percent more likely to outperform those who are less diverse.

Since this change means breaking with current social norms and taboos, it needs to be led by example from the top. Leaders need to think differently about how they show up as well. When a CEO adds their pronouns to their LinkedIn profile, for example, they send a powerful signal that creates a safe space for others in the organization as well.

Careers in the new world — flexibility, choice and growth

Add all these changes up and traditional notions of what a career means go out the window. For employees wanting more flexibility, more choices and continual growth, the idea of commuting to the office every day and working your way up a ladder has no appeal. As Pattie Sellers, co-CEO of SellersEaston Media, famously said, "Careers are a jungle gym, not a ladder."[9]

In other words, workers are not looking for a set path to take but an array of opportunities that can support their lifestyle choices around growth as they move from one work experience to the next. They also expect clarity from their employer to navigate their careers to develop their skills for now and the future while receiving the necessary coaching and recognition for their opportunities and successes.

Mobility programs are a great fit with changing employee expectations about remote working, variety of experience and non-linear careers. But to achieve maximum benefits, the organization's mobility opportunities need to be connected, transparent and equitable to promote agility and empathy for workers.

This means ensuring all employees have ready access to information about mobility opportunities through a unified point of entry (e.g. intranet). Employees should understand what movement opportunities are available, what levels and roles might qualify, and what the path is to attain them. It also means designing programs that are balanced and fair to the employee, the business and other stakeholders.

Research shows that diverse organizations are 33 percent more likely to outperform those who are less diverse.

[9] As quoted in *Lean in: Women, Work and the Will to Lead*, Sheryl Sandberg (Knopf, 2013).

Hallmarks of a leading global mobility program

Today's mobility teams need to get involved in much more than the usual transactions of mobility and relocation. Putting the employee experience at the center means engaging in their health and wellness, financial wellbeing, family impacts and career development. Mobility also requires the necessary connected insights into the business strategy as well as into talent to provide effective assessments and recommendations for employees' movement around the globe, their development, career pathing and leaders' talent decisions.

To lead in this environment, the ideal global mobility programs should be designed to:

- align with and support the organization's overall philosophy, culture and strategic objectives
- align and integrate with the organization's talent management philosophy, priorities and processes
- deliver on multiple Global Mobility policies that support the changing business landscape
- clarify roles and responsibilities among internal stakeholders, the mobility function and their vendors
- be readily scalable and adaptable.

Many mobility functions may find they need to review their capabilities, geographical resources and available technologies to ensure they have what it takes to design and run a modern global mobility program. Those organizations that get it right stand to gain a happier, more loyal workforce — and a big advantage in the global war for talent.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia

Designed by Evalueserve.

Publication name: Great Expectations
Publication number: 138690-G
Publication date: April 2023