

Relocation Costs - 1

**AEROSPACE INDUSTRIES ASSOCIATION
NATIONAL DEFENSE INDUSTRIAL ASSOCIATION**

December 18, 2002

General Services Administration
FAR Secretariat (MVA)
ATTN: Ms. Laurie Duarte
1800 F Street, N.W.
Room 4035
Washington DC 20405

Reference: FAR Notice on Reimbursement of Relocation Costs on a Lump-Sum Basis
(*Federal Register* issuance dated 10/24/02)

Dear Ms. Duarte:

The Aerospace Industries Association (AIA) and the National Defense Industrial Association (NDIA) are pleased to submit comments on Reimbursement of Relocation Costs on a Lump-Sum Basis.

Our member companies believe that lump-sum payments for relocation are beneficial to the transferring employee, industry contractors and the Government. The transferring employee benefits from a more flexible, personalized relocation plan and less administrative paperwork. Industry and Government benefits from lower costs attributed to reduced administrative costs and an increased incentive to employees to find the most expedient and efficient way to move. We further believe the pilot program, which allowed for an expanded use of lump-sum, has proven these points and should be adopted into the FAR. However, statements describing the composition of the lump-sum, i.e., the types of relocation activities and related costs, should be omitted from the rule in order to increase the flexibility and cost efficiencies of an individual relocation according to its own circumstances.

Industry continues to believe that a company's detailed relocation policies provide more than adequate controls and protection to the Government on the reasonableness of relocation costs. Further, these prudent company relocation policies and controls and their monitoring and acceptance by Government oversight agencies are sufficient to allow the Councils to eliminate FAR 31.205-35 in its entirety.

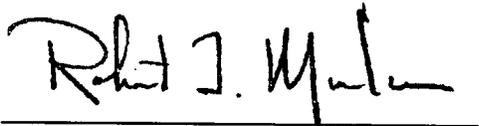
To respond to the Government request for information to help assess the potential costs and benefits of the lump-sum reimbursement approach, we requested our members respond to the questions posed in the Federal Register. The responses to the questions are summarized in the Attachment.

RC-1

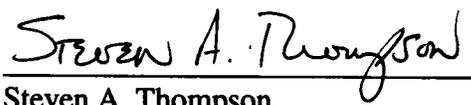
In conclusion, industry recommends the Councils establish a FAR case for expanding the use of lump-sum reimbursement and/or considering the elimination of the relocation cost principle altogether. We are available to meet with the Councils to discuss further our recommendations, to respond to any questions, and to obtain an understanding of Government concerns regarding this matter.

If you have any questions concerning this letter, please contact Dick Powers of AIA or Ruth Franklin of NDIA. Dick can be reached at (202)371-8526, or at powers@aia-aerospace.org. Ruth can be contacted at (703) 247-2598 or rfranklin@ndia.org.

Sincerely,



Robert T. Marlow
Vice President, Government Division
Aerospace Industries Association



Steven A. Thompson
Vice President, Government Policy
National Defense Industrial Association

Attachment

RC-1

Lump-Sum Question Answers

Question 1: Commercial Practice. What has been your company's experience in using a lump-sum approach instead of an actual cost method for reimbursement of employee relocation expenses? If used, is the practice to use the lump-sum approach for total costs of relocating employees, or only certain types of costs? Which types?

Forty-three percent of respondents had lump-sum experience on parts of relocation costs.

One respondent indicated that it uses the lump-sum approach for covering temporary living expenses. This company estimates that the use of lump-sums on the temporary housing component results in an annual savings of \$6.4 million.

Another respondent said they proposed a lump-sum relocation package to the Government that was subsequently refused on the basis of the FAR language. Temporary living was the only lump-sum in the proposal. The lump-sum amount proposed for temporary living (including house hunting) was \$2000. When compared to the actual average spent for temporary living for a year, a saving of 55% would have resulted. The Government representatives admitted the proposal made a great deal of sense but could not agree to it because of the FAR language.

Another respondent ran a pilot program to test the lump-sum relocation approach under an advanced agreement with the Government. The Runzheimer Lump-Sum Relocation Model was used for reimbursing employee relocation expenses for temporary living, house hunting and the final move to the new location. The customer and the Administrative Contracting Officer demonstrated administrative and relocation expense savings of approximately \$90,000 in the year 2000 by using this method. Based on this success, the advanced agreement was extended for several more years.

All respondents believe there would be administrative cost savings if the lump-sum approach were allowed.

Question 2: Reasonableness. How would your company ensure that relocation costs charged to the Government using a lump-sum approach are reasonable?

One hundred percent of the respondents indicated that written relocation policies had been established to ensure that reasonable and allowable costs are incurred in relocating new and existing employees. In all cases these policies set limits on reimbursements that companies make to employees for their expenses in relocating. Eighty three percent of these respondents said that the policies applied company wide, i.e., to commercial as well as Government business.

Seventy one percent of the respondents indicated they use surveys from other companies and/or commercially available relocation data to set their policies on relocation expenses.

NC-2

Question 3: Limits. Does your company now use commercially available data, such as that developed by the Employee Relocation Council, in order to establish reimbursement limits on relocation costs? If so, what sources of commercially available data do you use, and how do you use the data? If not, what other criteria or standards could be (or are being) used to access reasonableness?

The most frequently mentioned commercially available data were Runzheimer Inc. publications, and issuances of the Employee Relocation Council.

The respondents said they used the data for: (1) competitive comparisons; (2) establishing company policies and expense limits; (3) evaluating estimates by moving companies; (4) establishing controls over excessive expenses; and (5) setting wage rate adjustments for new locations.

Please refer to the answer to Question 1. Two respondents used this type of data to propose and/or agree to an advance agreement with the Government.

Question 4: Benefits. What are the types and amounts of savings or other benefits that you anticipate would result if reimbursement on a lump-sum basis were permitted?

One hundred percent of the respondents said they would have savings in manpower or systems or both. Most said they believed it would reduce relocation time, reduce time in temporary housing and lower relocation costs.

Others stated it would offer transferees flexibility and freedom to facilitate their move in a manner best suited for his/her circumstance. They believe it would result in more efficient relocation and help the transferees become productive more quickly.

Some believe it would promote greater program consistency, resulting in fair and equitable treatment of transferees.

The answers to Question 1 above gives some indication of the savings by our respondents.

Question 5: Costs. What are the amounts of costs or other disadvantages that you anticipate would result, if reimbursement on a lump-sum basis were permitted?

We do not believe there would be any disadvantages to the Government by allowing the FAR 35.205-35 Relocation Cost Principle to permit contractors the option of claiming employee relocation costs on actual cost, appropriate lump-sum basis or a combination of the two. In fact our members believe there is savings for both industry and Government if the lump-sum basis is allowed.

THERE IS NO COMMENT #2

Relocation Costs - 3



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

DEC 19 2002

Ms. Laurie Duarte
General Services Administration
FAR Secretariat (MVA)
1800F Street, N.W., Room 4035
Washington, DC 20405

Dear Ms. Duarte:

We have reviewed the proposed change to Federal Acquisition Regulation (FAR) 31.205-35, Relocation Costs, published in a Federal Register Notice dated October 24, 2002, that would revise the FAR to expand reimbursement of relocation costs on a lump-sum basis. Specifically, this revision would permit contractors the option of claiming employee relocation costs based on actual costs incurred, an appropriate lump-sum basis, or a combination of the two approaches. We do not believe this revision is in the best interest of the government.

The Defense Contract Audit Agency (DCAA) surveyed a small number of government contractors in July 1999 and estimated that over \$600 million in relocation costs were being allocated to cost reimbursement type contracts each year. Because these costs are significant, it is inappropriate to allow lump-sum reimbursement of these costs without supporting documentation. If this cost principle is revised to allow lump-sum reimbursement, the only criteria available to evaluate these costs is reasonableness. Determining reasonableness is subjective and will inevitably lead to differing opinions between contractors, auditors and other government officials that most likely will result in delays and increased costs.

Based on the July 1999 DCAA survey, few contractors use lump-sum reimbursement for their employees' relocation costs. Presently, several types of relocation costs are unallowable per FAR 31.205-35. Expanding the lump-sum approach would make it extremely difficult determining whether or not the lump-sum payment includes these unallowable costs. Therefore, we disagree with this proposed change.

Thanks for the opportunity to comment on the proposed rule. If you have any questions, please contact Mr. Ted Van Why at (703) 604-8748 (evanwhy@dodig.osd.mil).

Sincerely,


Patricia A. Brannin
Deputy Assistant Inspector General
for Audit Policy and Oversight

cc:
DAR Council



Relocation Costs - 4

18 December 2002

Alliant Techsystems Inc.
5050 Lincoln Drive
Edina, MN 55436-1097

Tel 952 351-3000

General Services Administration
FAR Secretariat (MVA)
1800 F Street, N.W.
Room 4035
Washington DC 20405

Attention: Ms. Laurie Duarte

Reference: FAR Notice on Reimbursement for Relocation Costs on a Lump Sum Basis

Dear Ms. Duarte:

Alliant Techsystems Inc. (ATK) appreciates this opportunity to respond to GSA's request for comments on the possible revision to FAR 31.205-35 to expand the cost principle to include the use of lump sum payments for relocation. ATK believes this would be a very prudent move by the Government that would save costs for both the Government and Defense Contractors. The current relocation cost principle as it stands, has numerous requirements for allowability that add to the challenges of administrating relocations. By allowing the use of lump sum payments, tedious administrative efforts requiring time and money can be eliminated both by the Contractor and its' employees. In today's economy costs are rising everywhere and Contractors are continually seeking areas in which to hold or reduce costs. Allowing the additional use of lump sum payments would give Contractors more flexibility in administrating relocation costs to ensure the most cost effective means can be used for relocation.

ATK would also like to respond to the questions posed.

ATK does not currently use any lump sum reimbursements. We have however, done research into the commercially available relocation data to assist in determining standards for lump sum reimbursements. Using this data along with historical internal data, a database can be set up to establish guidelines and limits on lump sum amounts to ensure that the most cost effective decisions are made regarding lump sum payments.

Not all relocation costs may be conducive to lump sum payments. Costs associated with house hunting, temporary living, and final move would be the most likely candidates for lump sum payments. These expenses require time consuming book and record keeping for both the employee and the Contractor. Lump sum payments would eliminate administrative time and effort, thus reducing the additional costs associated with those efforts.

A very real, but intangible benefit from lump sum payments is the reduction of some of the stress on relocating employees. It will give employees the opportunity to manage their expenses and time to suit their individual needs and potentially result in a quicker relocation process. Another benefit is to the Contractor in having the option to use lump sum payments integrated with actual reimbursements. This would give more flexibility to manage relocation costs by being able to structure relocations to individuals and ensure we are doing it in the most cost effective manner.

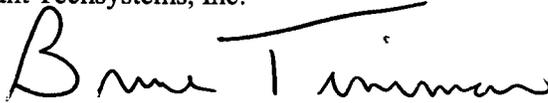
RC-4

ATK sees no disadvantages or additional costs associated with lump sum payments. We see it as a positive step forward. It would give Contractors an additional tool in their ever-constant efforts to maintain or cut cost spending while giving the ability to maintain or improve employee morale.

If you have any questions, please contact me at the above address, e-mail: Bruce_Timman@atk.com, or via telephone at 952-351-2891.

Sincerely,

Alliant Techsystems, Inc.

A handwritten signature in black ink that reads "Bruce Timman". The signature is written in a cursive style with a long horizontal line extending from the top of the "B".

Bruce D. Timman
Director, Government Accounting
Policy and Compliance

BDT:kj



Relocation Cost 5

DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAC 730.81/2003-1

December 16, 2002

General Services Administration
FAR Secretariat (MVA)
Attn: Laurie Duarte
1800 F Street, NW, Room 4035
Washington, DC 20405

SUBJECT: FAR Notice on Reimbursement of Relocation Costs on a Lump-Sum Basis

Dear Ms. Duarte:

A Federal Register Notice dated October 24, 2002 requested comments regarding the DAR and CAA Councils' consideration of revising FAR 31.205-35, Relocation costs, to permit contractors the option of claiming employee relocation costs based on actual costs incurred, an appropriate lump-sum basis, or a combination of the two approaches. The Defense Contract Audit Agency (DCAA) appreciates the opportunity to provide the following comments for consideration.

DCAA does not believe that allowing lump-sum reimbursement of relocation costs is in the best interest of the government. In July of 1999, we performed a survey of more than 50 government contractors to determine the extent of actual relocation costs. Based on this limited survey, we estimated that relocation costs in excess of \$600 million were being allocated to cost reimbursement type contracts each year. Cost principles involving costs of this magnitude should not include provisions allowing for reimbursement of the cost based on general reasonableness criteria in the FAR. Even if the contractor already has in place a system of internal control for relocation costs, the administrative costs to the government will increase if the cost principle is changed to allow lump-sum reimbursement. Audit effort will necessarily increase (as will the contractor support of the increased audit effort) because instead of having uniform objective measurements for allowable amounts, the auditor will now be forced to evaluate each individual contractor system for establishing allowable amounts. Using a broad criterion such as general reasonableness principles in the FAR will lead to differences of opinion amongst government officials and surely more so between the government and contractors. These differences of opinion will result in increased disputes which will increase the effort required by contractors, auditors, contracting officers and the courts to settle these disputes. In addition, these disputes would delay the overhead cost settlements, resulting in further delays in closing contracts that have been physically completed, which would increase administrative efforts by all parties involved.

In July of 1999, we prepared comments concerning a proposed change to FAR 31.205-32 under FAR Case 97-032. In preparing those comments, we reviewed published relocation surveys, and we found that few companies use a lump-sum approach for reimbursing

RC-5

PAC 730.81/2003-1

December 16, 2002

SUBJECT: FAR Notice on Reimbursement of Relocation Costs on a Lump-Sum Basis

employees for their relocation costs. In fact, the most common use of lump-sum payment is for miscellaneous expenses – an option already available to contractors in the FAR. Further, FAR 31.205-35 makes several types of relocation costs unallowable, such as the loss on sale of a home, real estate and brokers fees on the new home, continuing mortgage principle payments on the residence being sold, and costs associated with acquiring a new home for employees who were not homeowners prior to the relocation. Expanding the lump-sum approach would make it virtually impossible to assure that the lump-sum payment does not include these types of unallowable costs.

The Cost Principles Committee performed an in-depth analysis of lump-sum reimbursement during its deliberations over public comments received in response to FAR Case 97-032, Relocation costs, published in the Federal Register on May 25, 1999. The Committee found that there is no current industry practice of using lump-sum reimbursements for the purchase or sale of a home. The Committee determined, and we agree, that the cost principles should not recognize lump-sum payments for these types of relocation costs if there is no evidence of such an industry practice.

Thank you for the opportunity to comment on this case. DCAA believes that paying a lump sum for such material amounts places an unacceptable risk on the Government and creates an excessive audit task to establish allowability of relocation costs.

Sincerely,

/Signed/
Robert DiMucci
Assistant Director
Policy and Plans



Delta Corporate Services, Inc.

Corporate Relocation Services

Relocation Costs - 6

3401 W. Sunflower Ave., Suite 160

Santa Ana, California 92704

(714) 434-0493 FAX: (714) 434-0274

December 10, 2002

**FAR Secretariat (MVA)
1800 F Street, NW., Room 4035
Washington, DC 20405**

Attn: Laurie Duarte

Subject: FAR Notice on Reimbursement of Relocation Costs on a Lump-Sum Basis

Attn: FAR Secretariat:

Per your request, I have prepared comments on your proposal to consider reimbursement of relocation costs on a lump-sum basis, as follows:

1. Commercial practice. What has been your company's experience in using a lump-sum approach instead of an actual cost method for reimbursement of employee relocation expenses? If used, is the practice to use the lump-sum approach for total costs of relocating employees, or only certain types of costs? If so, which types?

As a relocation management company with more than 30 years industry experience, we began working with corporations to administer their reimbursement and expense benefits in the early 90's. In the beginning policies were designed to support the current IRS guidelines to take advantage of the deductibility of homefinding, temporary living and final move expenses. When the Revenue Reconciliation Act of 1993 eliminated the deductibility of all relocation-related expenses, except the movement of household goods and final move travel expense, companies began looking at ways to reduce the administrative burden of reimbursing employees for their homefinding and temporary living expenses. Since these expenses became taxable, it was decided we could offer a lump sum to the employee thereby reducing the number of expense reports the employee had to submit as well the same number of expense reports the corporate administrators had to audit and process to accounting for payment.

The use of lump sums has continued to increase every year since that time to the point where more than 50% of the 109 corporations surveyed (by Runzheimer International) at the end of 2001 were already using a lump sum. And of those not using the lump sum, 69% were considering switching to one in the future. This research is reported in the 2002 Runzheimer, "Survey and Analysis of Employee Relocation Policies & Costs". Two companies stand out as industry experts for researching, and reporting this statistical data, Runzheimer International and Associates for International Research, Inc. (Airinc). Both offer programs to assist companies with calculating the amount to offer in a lump sum program based on their statistical research. I would suggest the Council contact these two organizations to assist with their evaluation of lump sum programs.

RC-6

Of the companies who currently use lump sums only 30% include all relocation costs in their lump sum payment. Research indicates that these types of programs are only offered to lower level renters or new college grads, both would have very little expense in moving anyway. For the other 70%, almost all include the homefinding and temporary living costs. The average lump sum at the end of 2001 was \$8,270.

The interesting thing to note is that as a result of going to lump sum programs 97% of the companies surveyed reported a high level of satisfaction from the transferees and 76% reported a reduction in the number of exception requests. While not all cases showed a reduction in the costs of lump sum, they did save money by the reduction of administrative hours processing those expense requests.

Some other interesting statistics from the Runzheimer report indicate that Government employees are costing more to relocate than their commercial counterparts.

Average cost to relocate a homeowner \$44,456

Average cost to relocate a homeowner (government employee) \$64,874

Average cost to move a renter (including all businesses) \$12,547

Average cost to move a renter who is a government employee \$17,684

Average Homefinding trip (5 days) \$2,021

Average Homefinding trip (government employees) \$3,166

2. Reasonableness. How would your company ensure that relocation costs charged to the Government using a lump-sum approach are reasonable?

There are two ways to check for reasonableness. The first would be to use one of the two companies mentioned earlier who provide this service with programs that can be customized to calculate lump sums according to client policy and check the calculations annually based on their data.

The second would be to use company specific historical data, providing the corporations tracked enough detail when reimbursing their employees. We have had experience with this and in the past taken three years of data, averaging the cost of homefinding and temporary living by employee level (if the company has a tiered program) and by owner versus renter. Using these averages, then we created a matrix based on family size, home ownership, and number of miles moved, and also added for a higher calculation for employees who moved to higher costs areas, such as Boston, San Francisco, New York, etc.

KC-6

The first year this is done, it is important to track the number of requests for exceptions requesting and increase of the lump sum and to monitor employee feedback. Then annually adjust according cost of living increases, and comparison to national averages.

3. Limits. Does your company now use commercially available data, such as that developed by the Employee Relocation Council, in order to establish reimbursement limits on relocation costs? If so, what sources of commercially available data do you use, and how do you use the data? If not, what other criteria or standards could be (or are being) used to assess reasonableness?

We currently work with both government and commercial clients. One of the commercial corporations uses one of the lump sum calculator programs. We also assist a government contractor who has been authorized by the government to use a lump sum program. Their lump sum was determined by researching historical costs.

Runzheimer International

Marcia Klein

Runzheimer Park

Rochester, WI 53167-0009

(800) 558-1702

Associates for International Research, Inc.

Art Layton

1100 Massachusetts Ave.

Cambridge, MA 02139

(203) 325-4331

4. Benefits. What are the types and amounts of savings or other benefits that you anticipate would result if reimbursement on a lump-sum basis were permitted?

The biggest potential savings will come from creating a lump sum policy for renters that does not include or encourage temporary living. A cost effective and well-managed move would involve providing a lump sum to cover a 3-5 day homefinding trip with a rental assistance tour. The employee would locate an apartment, sign the lease, and return home to pack and move. Upon arrival in the new location, the employee might require a few days in a hotel while the household goods is being delivered, but should rarely need the longer term type of housing. This would not only reduce the temp housing cost, but the meal per diem, return trips, auto rental, storage, and delivery out of storage charges would also be eliminated. Finally there would be a savings in the grossup (tax assistance) by reducing the amount spent on the taxable items. We have seen the average cost of moving a renter

RC-6

drop to the \$8000 range (a 50% savings) by moving to this type of policy and still retain a high level of satisfaction from the transferred employee.

What the lump sum accomplishes is creating a new mindset in the employee to speed up the relocation and get settled in so as not to use all of the lump sum. Instead of living off the company for as long as they can, the employees view the lump sum as money in their pocket and they become much more efficient with how they spend it. This is also true of the homeowners. They become more aggressive with the marketing of their homes, they buy faster, and rarely require duplicate mortgage assistance or storage of household goods. This can be a significant cost savings in other areas of the policy even when it doesn't save money in the homefinding and temporary living benefits.

5. Costs. What are the types and amounts of costs or other disadvantages that you anticipate would result if reimbursement on a lump-sum basis were permitted?

The only way a lump sum program could be considered as more costly would be to use one of the commercially available programs and not take the time to set it up properly. They do require some customization in order to make certain their calculations are not ridiculously high. I've seen clients purchase these programs and then spend far more than they would have, had they reimbursed, just because they failed to implement properly. I would also suggest not permitting any of the final travel and household goods expense to be included in any lump sum payment. It wouldn't be cost effective to pay tax grossup on items that could have been excludable.

If I can be of further assistance, please feel free to contact me at:

Deborah Freeman, CRP
Executive Vice President
Delta Corporate Services, Inc.
3401 W. Sunflower Ave., suite 160
Santa Ana, CA 92704
(800) 545-3388 - extension 101

Sincerely,



Deborah Freeman, CRP

Relocation Costs - 7



November 20, 2002

General Services Administration,
FAR Secretariat (MVA)
1800 F Street, NW., Room 4035
ATTN: Laurie Duarte,
Washington, DC 20405.

RE: FAR Notice on Reimbursement of Relocation Costs on a Lump-Sum Basis

1. *Commercial Practice. What has been your company's experience in using a lump-sum approach instead of an actual cost method for reimbursement of employee relocation expenses? If used, is the practice to use the lump-sum approach for total costs of relocating employees or only certain types of costs? If so, which types?*

Associates for International Research (AIRINC) sells licenses to allow our clients to use a web site to calculate lump-sum allowances. Our clients use it to calculate allowances to pay for expected expenses during home finding, temporary living and final move (transit) expenses. These include travel, lodging, meals, rental car and dependent care costs. These costs can be estimated with a fair degree of accuracy. We collect this data for 217 locations in the United States. We have offered a methodology to calculate allowances for seven years.

AIRINC doesn't have any personal experience using lump-sum allowances as part of its relocation package. However, our clients who offer lump-sum allowances report improved employee satisfaction, reduced administrative expenses, reduced request for policy exceptions and employees complete moves faster.

2. *Reasonableness. How would your company ensure that relocation costs charged to the government using a lump-sum approach are reasonable?*

12/2/02

RC-7



We recommend our clients take several steps to assure that the calculations are reasonable. First, we suggest that the number of days allotted for home finding and temporary living reflect common patterns of behavior, not policy limits. For example, a client's relocation policy might allow seven days for a home finding trip. However, the average time employees actually spend on home finding is four days. We suggest they use four days in the calculation process.

Second, we suggest clients consider the use of different classes of hotels or corporate apartments to calculate lodging amounts.

Third, clients can calculate meal allowances that exclude lunch costs, or provide a flat dollar amount if the employee is using a furnished apartment during temporary living.

Finally, we suggest that clients use a service provider that can provide the research and quality control to determine the appropriate numbers.

Some organizations compare lump-sum calculations against their actual experience. This may be inaccurate, since expenses for home finding and temporary living vary significantly from year to year. And some relocation costs may be inadvertently counted as business travel expenses.

3. Limits. Does your company now use commercially available data, such as that developed by the Employee Relocation Council, in order to establish reimbursement limits on relocation costs? If so, what sources of commercially available data do you use, and how do you use the data? If not, what other criteria or standards could be (or are being) used to assess reasonableness?

AIRINC uses its own research resources and other commercial databases to determine costs for lodging, meals, rental car and travel costs. We incorporate this in our web site for our clients to calculate allowances.



Other methods include using historical data to calculate averages, establishing flat dollar amounts or percentage of annual income of the transferred employee.

4. *Benefits. What are the types and amounts of savings or other benefits that you anticipate would result if reimbursement on a lump-sum basis were permitted?*

Our clients report reduced administrative expenses, greater employee satisfaction with the reimbursement process, reduced requests for policy exceptions, and employees complete their moves faster. We don't know of any studies done that can document specific dollar savings.

5. *Costs. What are the types and amounts of costs or other disadvantages that you anticipate would result if reimbursement on a lump-sum basis were permitted?*

There are licensing fees related to using our website to calculate allowances. The first-year's fee is \$5,000 and allows unlimited calculation of allowances. Annual renewal fees are \$2,000. Users can also pay on a per-report basis. Fees are negotiated on a volume basis.

One cost attached to using lump-sums is that the amount may be greater than the employee's actual needs. This can happen because the employee is especially frugal or is able to complete their relocation in a short period of time.

There is the potential for relocation costs to be counted as business travel costs. This would result in a double payment for the same item.

Arthur Layton, SCRP
National Accounts Manager, USA
Associates for International Research

Relocation Costs - J

October 31, 2002

Laurie Duarte
General Services Administration
FAR Secretariat'1800 F Street NW, Room 4035
Washington, DC 20405

Public Comment: 48 CFR Part 31 – Federal Acquisition Regulations:
Reimbursement of Relocation Costs

Dear Ms. Duarte:

I strongly recommend that the GSA take this opportunity to support government cost savings by encouraging and allowing the use of Lump Sum payments where companies are able to determine measurable cost savings over the reimbursement and/or per diem approach.

Based upon a simple evaluation of how a company manages its relocation costs associated with, for example, travel, meals and temporary living, such an evaluation would clearly reveal that many if not most relocating employees will exhaust any benefits offered to them under a expense reimbursement process. Often these employees will seek additional benefits through requests for an extension of temporary living, because there is not a motivation or external pressure to move beyond the temporary living cost reimbursement model. Employees and their relocating families, (i.e. family of 4) who receive per diem rates for meals may find that they typically exceed what they may have spent without the per diem benefit. By implementing a lump sum payment process the employee is encouraged to take responsibility for managing their home finding and temporary living expenses within a pre-determined budget. Experience tells me, when it is their money they manage it differently than when it is not.

With a lump sum payment in hand; employees will be motivated to be resourceful in identifying cost saving methodologies. Suddenly the relocating employee will find the motivation to move from a temporary living situation more quickly, and better manage expenses related to meals. In the end any company, including a government contractor, who offers a Lump Sum option within their relocation policies, to cover Home Finding and Temporary Living, expenses will be positioned to make a significant savings in relocation expenses related to these costs and therefore, charge less back to the government. The use of Lump Sums has been proven by private non-government contracting companies, and those who have a FAR Deviation, to be the smart thing to do if you want to manage relocating costs.

Lump Sum payments can be offered on a sliding scale to relocating employees based upon travel distance for the relocation move. If the company uses a tiered relocation policy process, that may be related to the compensation of the

11/6/02

position, then the scale could be expanded to fit that model, offering a little more for the more highly compensated position, to keep relocation policies competitive within the market place. I project about 30% to 50% savings could be made by paying a Lump Sum, considering what an employee might spend without the Lump Sum. Of course, the Lump Sum allocation would need to be reviewed periodically to ensure the allocation remain competitive while continuing to offer substantial cost savings to the company and in turn the government. I recommend the government not attempt to set a limit to Lump Sum amounts, but to allow company's to determine reasonable and appropriate allocations based upon their own evaluation of expenses and monitoring of industry standards.

I think it is a wonderful to see the government taking this step forward. This will help bring the government in line with how private companies manage relocation costs that benefit their profits. Thank you for the opportunity to comment as a citizen and a person who has professionally worked in the relocation industry for many years.

Sincerely,



Bernadette Phillips-Garcia
6639 E. Sleepy Owl Way
Scottsdale, AZ 85262

GENERAL DYNAMICS
Decision Systems

Relocation Cost - 9

Larry Grow
Senior Vice President & Chief Financial Officer

December 20, 2002

General Services Administration
FAR Secretariat (MVA)
ATTN: Ms. Laurie Duarte
1800 F Street, N.W.
Room 4035
Washington D.C. 20405

Reference: FAR Notice on Reimbursement of Relocation Costs on a Lump-Sum Basis (Federal Register Notice dated 10/24/02)

Dear Ms. Duarte:

General Dynamics Decision Systems is pleased to submit comments on Reimbursement of Relocation Costs on a Lump-Sum Basis as requested in the referenced FAR Notice.

We believe that based on our own experience and the experience of commercial companies as reported by Runzheimer International, lump-sum payments for relocation costs under an effectively managed program would be beneficial to the transferring employee, Government contractors, and ultimately to the Government itself. The transferring employee would benefit from less administrative paperwork and an opportunity to share in saving costs of the move. Government contractors and the Government would benefit from reduced administrative costs and reduced overall relocation costs.

To respond to the Government request for information to help assess the potential costs and benefits of the lump-sum reimbursement approach, attached is our response to the five questions posed in the FAR Notice. Our response not only includes our personal experience but also includes comments from surveys performed by Runzheimer International. We believe the information provided strongly supports the use of lump sums and would recommend that any change to the FAR include the acceptability of lump-sum payments. The FAR should not be restrictive by specifying the types of activities and costs to be covered by a lump-sum approach but should allow flexibility in the use of lump sums to best fit the circumstances of an individual relocation.

Sincerely,



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Attachment

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1. Commercial practice. What has been your company's experience in using a lump-sum approach instead of an actual cost method for reimbursement of employee relocation expenses? If used, is the practice to use the lump-sum approach for total costs of relocating employees, or only certain types of costs? If so, which types?

When the Revenue Reconciliation Act of 1993 eliminated the deductibility of all relocation-related expenses, except for the movement of household goods and final move travel expenses, our company began looking at ways to reduce the administrative burden of reimbursing employees for their homefinding and temporary living expenses. Since these expenses became taxable, it was decided we could offer a lump sum to the employee thereby reducing the number of expense reports the employee had to submit as well as the same number of expense reports the corporate administrators had to audit and process to accounting for payment.

In various companies, the use of lump sums has continued to increase every year to the point where more than 50% of the 109 corporations surveyed by Runzheimer International at the end of 2001 were already using a lump-sum approach. And of those not using the lump-sum approach, 69% were considering switching to one in the future. This research is reported in the 2002 Runzheimer, "Survey and Analysis of Employee Relocation Policies & Costs". Two companies stand out as industry experts for researching and reporting this statistical data: Runzheimer International and Associates for International Research, Inc. (Airinc). Both offer programs to assist companies with calculating the amount to offer in a lump-sum program based on their statistical research.

Of the companies who currently use lump sums only 30% include all relocation costs in their lump-sum payment. Research indicates that these types of programs are only offered to lower level renters or new college graduates, both of which would have very little expense in moving anyway. For the other 70%, almost all include homefinding and temporary living costs.

As a result of going to lump-sum programs 97% of the companies surveyed reported a high level of satisfaction from the transferees and 76% reported a reduction in the number of exception requests. By going to lump-sum payments, administrative costs were reduced.

2. Reasonableness. How would your company ensure that relocation costs charged to the Government using a lump-sum approach are reasonable?

There are at least three ways to ensure that relocation costs charged to the Government using a lump-sum approach are reasonable. The first would be to use one or both of the two companies mentioned earlier that provide this service. Programs can be customized to calculate lump sums according to

client policy and the calculations can be checked annually based on their data.

The second would be to use company specific historical data that we have incurred over the past few years. Our relocation provider has had experience with this and, in the past, taken three years of data, averaging the cost of homefinding and temporary living by employee level (if the company has a tiered program) and by owner versus renter. Using these averages, they then created a matrix based on family size, home ownership, and number of miles moved, and also adjusted for a higher calculation for employees who moved to higher cost areas, such as Boston, San Francisco, New York, etc.

The third would be the written relocation policies of the contractor, which are established to ensure that reasonable and allowable costs are incurred. These policies normally set limits on relocation reimbursements.

3. Limits. Does your company now use commercially available data, such as that developed by the Employee Relocation Council, in order to establish reimbursement limits on relocation costs? If so, what sources of commercially available data do you use, and how do you use the data? If not, what other criteria or standards could be (or are being) used to assess reasonableness?

We have been authorized by the government previously through an advance agreement to use a lump-sum program. Our lump sum was determined by researching historical costs. We monitor our program benefits and lump sum allocations against industry standards reported through commercially available data obtained through commercial sources such as Runzheimer.

4. Benefits. What are the types and amounts of savings or other benefits that you anticipate would result if reimbursement on a lump-sum basis were permitted?

The biggest potential savings will come from creating a lump-sum policy for renters that does not include or encourage temporary living. A cost effective and well-managed move would involve providing a lump sum to cover a 3-5 day homefinding trip with a rental assistance tour. The employee would locate an apartment, sign the lease, and return home to pack and move. Upon arrival in the new location, the employee might require a few days in a hotel while the household goods are being delivered, but should rarely need the longer term type of housing. This would not only reduce the temporary housing cost, but the meal per diem, return trips, auto rental, storage, and delivery out of storage charges would also be eliminated. Finally, there would be a savings in the grossup (tax assistance) by reducing the amount spent on taxable items. We have seen the average cost of moving a renter drop to the

\$8000 range (a 50% savings) by moving to this type of policy and still retain a high level of satisfaction from the transferred employee.

What the lump-sum approach accomplishes is creating a new mindset in the employee to speed up the relocation process and get settled more quickly so as not to use all of the lump sum amount. Instead of living off the company for as long as they can, the employees view the lump sum as money in their pocket and they become much more efficient with how they spend it. This is also true of the homeowner. They become more aggressive with the marketing of their homes, they buy faster, and rarely require duplicate mortgage assistance or storage of household goods. This can be a significant cost savings in other areas even when it doesn't save money on the homefinding and temporary living benefits.

5. Costs. What are the types and amounts of costs or other disadvantages that you anticipate would result if reimbursement on a lump-sum basis were permitted?

The only way a lump-sum approach might be more costly would be to use one of the commercially available programs and not take the time to set it up properly. They do require some customization in order to make certain the calculations are not unreasonably high.