



The Five Myths of Relocation Pricing

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Introduction

Over the years, pricing within the relocation management industry has morphed from strictly fee-based to something very different. Commissions, rebates, kickbacks, and markups now dominate the landscape resulting in a complete lack of transparency, conflicts of interest for providers, and missed savings for employers. Relocation Management Companies (RMC) promote a series of myths designed to perpetuate this system. This paper will serve to dispel those myths and provide recommendations on some simple steps for a better path forward.

MYTH #1. RMC SERVICES ARE FREE TO THE CLIENT SINCE RMCS RECEIVE ALL REVENUE FROM SUPPLIERS

In the early days of the relocation industry, employers paid relocation management companies (RMC) a fee to run the mobility program. All costs of services were passed through with no upcharge, just fees for professional services. This is no different from what you would expect for any consultative service company, accountants, attorneys, etc.

As the industry evolved, competition resulted in RMCs reducing fees. Employers saw this as a win. No fees meant less overall spending, right? Well, not always. Relocation companies needed to make up for the lost revenue. Gradually, fees were replaced by commissions, and rebates were added on top of the pass-through charges for the services managed. With every dollar that an employer spent on things like temporary lodging or household goods transportation, a percentage went to the relocation company.

At first, commission rebates were limited to real estate and household goods transportation, but as fees continued to drop, the scope of these rebates expanded exponentially. Today, RMCs collect rebates on virtually every pass-through service invoice.

We all know that there is no such thing as a free lunch, however, RMCs perpetuate the myth of “free” services by not disclosing the rebates and kickbacks received on services procured on behalf of clients.

It would be a different story if rebates to RMCs came out of supplier profits, but such is not the case. In most cases when an RMC works with a supplier, the rebate amount is demanded and documented as part of the contract. Suppliers have no issue with the amounts, which are simply tacked on to the amount that would have been normally charged. For example, the RMC wants a \$25 rebate on every appraisal. No problem. The supplier’s standard rate for an appraisal is \$750, instead the supplier charges \$775 and sends \$25 back to the RMC for each invoice.

For some services, the amount rebated is a flat dollar amount, in some cases it is based on a percentage of the invoice amount. For percentage-based arrangements, the more these services cost, the more an RMC earns! To add insult to injury, supplier rebates received by the RMC are not disclosed and difficult to identify even if a client knew where to look.

MYTH #2. RMCS WOULD LOVE TO SHARE REAL ESTATE REFERRAL FEES WITH CLIENTS BUT CANNOT SINCE CLIENTS DO NOT HAVE A REAL ESTATE BROKER'S LICENSE

While it is technically true that one must have a broker license to share in real estate commissions, that statement misses the point. There is no reason to go through the hassle of obtaining and maintaining a license when commissions are completely negotiable. Clients should not be asking to share in referral fees but should instead expect the Relocation Management Company (RMC) to negotiate the absolute lowest commission for all home sales and purchases.

How negotiable are real estate commissions? Considering the recent Sitzer-Burnett multi-billion-dollar judgement, settlements by defendants and Multiple Listing Service (MLS) changes agreed by NAR, expect to see serious downward pressure on commission amounts over the next few years as well as related policy and process changes within mobility programs.

Sitzer-Burnett is a class-action lawsuit that was filed in a Missouri federal court in 2019 by a group of home sellers against the National Association of Realtors (NAR) and several large real estate broker defendants. The plaintiffs claimed that real estate commission rates are too high, buyers' representatives are paid too much, and NAR's Code of Ethics and MLS Handbook, along with the broker defendants' practices, lead to inflated commission rates. Defendants settled the case in 2024, resulting in hundreds of millions of dollars for plaintiffs and an agreement by NAR to change specific MLS practices.

The specific MLS changes implemented in the Fall of 2024 are:

1. MLS listings may no longer include an offer by seller to pay buyer's broker compensation.
2. MLS participants working with buyers must enter into written agreements with their buyers, including any required compensation, prior to the first showing.
3. Buyers may still ask sellers to help with buyer's broker compensation but cannot ask for more than is stated in the buyer agency agreement.

These changes are meant to improve the negotiation power for both buyers and sellers, improve transparency, and incentivize brokers and agents to offer better rates and services.

Real estate brokers working with RMCs in the relocation space have always worked at a discount in the form of a "referral fee" to the RMC. RMCs charge each broker a referral fee to be given an opportunity to work with a transferee. Referral fees are expressed as a percentage of the broker's commission and run anywhere from 35% to 42.5%. Assuming a 40% referral fee on a 3% commission, brokers are working relocation transactions for 1.8% (3% less RMC 40% referral fee).

For employers with home sale programs, a 1.8% commission would represent a significant savings on Direct Home Selling Costs (DHSC). Even if there is no reimbursement benefit provided to transferees, the discount would be a boon for those transferees who must foot the bill. In real numbers, on a \$450,000 home, instead of collecting \$13,500 for a 3% commission, the broker only sees \$8,100. The difference, \$5,400, goes to the RMC with no savings to the client or transferee.

Since brokers are willing to work for 1.8% commissions, the listing agreement should reflect that and the savings can go directly to the client or transferee, whoever ultimately pays the costs. In the new MLS environment, the same can be done for buyer's agreements, saving buyers thousands of dollars in costs.

Clearly, RMCs should receive something for the services provided. But how much? Assuming the same \$450,000 list price, the RMC receives \$5,400. But the transferee also buys a home, and the RMC collects a referral on that transaction as well. Total referrals collected? \$10,800. RMC services are certainly valuable, but is \$10,800 the right amount? It becomes even more absurd as the home value goes up. For a transferee that sells and buys a home for \$1 million, the RMC will collect \$24,000! Certainly, if one were to negotiate a fee for service with their RMC, it would be a lot less than \$24,000.

MYTH #3. RMCs WORK TO GET YOU THE LOWEST TOTAL SPEND ON PASS-THROUGH COSTS

As part of a portfolio of services, Relocation Management Companies (RMC) act as the procurement officer for the client. RMCs are charged with identifying and managing the best relocation service partners for a vast swath of services: household goods shipment, auto transport, temporary lodging, destination services, spousal counseling, etc. These choices are a significant factor in driving clients' total mobility spending. Yet, from each supplier chosen, RMCs demand a rebate of the monies spent. This rebate is simply added on top of the invoice passed on to the client, increasing total pass-through costs.

As part of their procurement duties, RMCs must also manage the day-to-day relationships with the suppliers they have chosen. This includes regular contract review and approval of any price changes. However, many of the rebates RMCs receive from suppliers are based on a percentage of the total cost, meaning that every price increase implemented by a supplier is a revenue enhancement for the RMC, resulting in a clear conflict of interest.

RMCs are also charged with managing usage of services within the confines of the client's relocation policy. Yet for every service utilized and every dollar spent, RMCs earn rebates and commissions. There is no incentive to properly limit utilization and every incentive to encourage usage and increase overall costs.

The entire premise is flawed. Client companies would never allow their internal procurement officers to take kickbacks from suppliers or base their compensation on amounts spent, yet this is the norm for procurement in the relocation industry.

MYTH #4. WORKING WITH AN RMC ENSURES THE LOWEST TAX GROSS-UP COST

Traditional RMC revenue models needlessly increase gross-up costs for employers. Relocation management companies (RMCs) receive "commissions" or rebates on a wide variety of pass-through expenses procured on behalf of clients. These amounts are paid by the supplier to the RMC as rebates after the fact, with the rebate hidden in the gross amount of the invoice. The rebate is part of the overall fee structure that clients pay to the RMC for outsourcing the mobility function.

Rebates from suppliers to RMCs DO NOT come from supplier profits. Instead, any amount rebated to the RMC has simply been added to the amount the supplier normally expected to receive for the service.

Fees paid to RMCs for mobility service coordination are not considered taxable income to the employee but can be treated as business expenses. As a business expense, fees are not subject to gross-up, saving the employer additional tax assistance expenses.

Properly classifying commissions as a “fee for services rendered” and splitting those fees out separately on partner invoicing saves on gross-up expense. Service fees are business expenses and are not taxable income to the employee.

By embedding their service fee in the gross amount of the pass-through invoice, the portion of the invoice which represents the fee is now taxable, unnecessarily increasing gross-up expenses for the employer. The table below compares the traditional model of including RMC commission amounts in the gross charge versus breaking that amount out as a fee. While the savings with the fee model is not large in comparison to the overall invoice, multiplied by every invoice paid throughout the year will result in significant savings.

	Traditional Model	Commission as Fee Model
Pass Through Expense	\$10,000.00	\$9,400.00
RMC "Fee"		\$600
Amount to Supplier	\$9,400.00	\$9,400.00
Gross-Up Rate	55%	55%
Gross-Up Amount	\$5,500.00	\$5,170.00
Total Expense to Employer	\$15,500.00	\$15,170.00
Rebate to RMC	\$600.00	\$600.00
Savings to Employer		\$330.00

"Relocation company service fees are universal and are not considered taxable. Rev. Rul. 2005-74, 2005-2 CB 1153, specifically includes among the costs paid by the employer a fee to the relocation management company and holds that none of the costs are taxable. This is in keeping with years of private letter rulings to the same effect.

In numerous IRS audits of relocation programs, agents have accepted the argument that service fees should be excluded from the costs that are considered taxable to employees, even if the actual costs associated...are found to be taxable. This treatment of fees acknowledges that the fees are paid for administration and delivery of a benefits program, not for specific taxable benefits to employees. Seeking to tax the fees would be akin to seeking taxability, for example, of fees paid to benefits administrators for maintaining a company's 401(k) or health plans."

Home Purchasing Program Service Fees
Peter K. Scott, Peter Scott Associates
Worldwide ERC® Tax Counsel
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MYTH #5. RMCS PROVIDE COST TRANSPARENCY TO THEIR CLIENTS

Many RMCs give lip service to “transparency” yet fail to disclose rebates received or markups on cost. True “transparency” would include disclosure of rebates and markups on invoices and periodic reporting of RMC revenue that is really a cost to the client.

One disturbing trend of the last few years has been the shift of internal RMC costs from the RMC to outsourced providers. Tasks such as household goods audits, broker network management, referral placement and monitoring, appraisal review, home sale closing, and other internal process work have been outsourced to third parties. The cost for these outsourced arrangements, once absorbed by the RMC, are now included as a charge on the pass-through invoice or on the home sale closing cost statement charged to the client or transferee.

These charges are not always disclosed and even when the charge is visible, it is not obvious that the practice shifts cost from the RMC directly to the client or transferee.

Recommendations:

1. Get a full understanding of the commissions, rebates and markups collected by the RMC. Most pass-through charges have embedded rebates or markups to the RMC. All these amounts are simply another way employers compensate RMCs for services performed in addition to any fees paid. Recognize that these amounts do not come out of supplier profits but are simply added on.
2. Work with the RMC to properly classify commissions and rebates as service fees to improve transparency and reduce gross-up expense.
3. Ask for regular reporting of all RMC revenue (sources and amounts) related to the client contract.
4. Understand any outsourcing arrangements the RMC might have and whether the costs for such arrangements are passed back to the client.
5. Consider switching from a commission-based compensation model to a purely fee-based model with your RMC. This will save on gross-up expenses and allow greater transparency and confidence in the true cost of RMC services.

Fee is not a four-letter word

Contact us directly at globalmobilityadviser.com. We are happy to help with a review of your current situation, including contracts and audits of costs and invoices.



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