

# STUDY ON THE COST OF LIVING FOR EU STAFF POSTED IN LUXEMBOURG

FINAL REPORT, SEPTEMBER 2019

STUDY BY AIRINC FOR THE  
EUROPEAN COMMISSION



## CONTENTS

1. AIRINC's own expertise / data and methodology	3
2. Objective of the study	4
3. Outline of the methodology	6
3.1. Data collection	6
3.2. Analysis and aggregation	6
3.3. Descriptions of special analysis for specific Basic Headings	7
3.3.1. Housing	7
3.3.2. Motor vehicles	14
3.3.3. Education (crèche)	14
3.3.4. Estimated ratios for some Basic Headings	14
4. Results of the study	15
4.1. Overall Fisher index results	15
4.2. Fisher Index by group	16
4.3. Housing cost ratios	17
4.4. Notes on cost	17
5. Options to offset the cost of living in Luxembourg	18
5.1. Payment of a cost of living adjustment	19
5.1.1. To staff posted in Luxembourg	19
5.1.2. To staff living in Luxembourg	19
5.2. Payment of a housing allowance	20
5.2.1. Unlimited	22
5.2.2. Fixed duration	22
5.2.3. Phase out	23
5.2.4. Fixed value	23
5.2.5. New employees	24

# 1. AIRINC's own expertise / data and methodology

Established in 1954, AIRINC (Associates for International Research, Inc.) is a privately held, global mobility consulting firm specialising in developing, implementing and supporting competitive and equitable compensation systems for organisations with globally mobile workforces. The focus and expertise are specifically on cross border moves / expatriation.

AIRINC's unique approach is to collect all of our own expatriate data. Our in-house survey team is responsible for the field research & data analysis. Price surveys are conducted on a regular basis in cities across the globe and international publications on economic conditions in all the world's significant business locations are monitored. All data collected by our surveyors are analysed by the AIRINC Analysis and Delivery team responsible for data analysis and information systems support.

**AIRINC is committed to providing the highest quality data, technology and advice specific to each organisation's unique context, coupled with personalised customer service, to help our clients establish and maintain competitive and effective mobility and talent management programs.**

**> 1,000 CLIENT ACCOUNTS**

We manage over 1,000 client accounts in all industries, including Governmental and NGO sectors. Among others, we work with NL Ministerie van Buitenlandse Zaken (BUZA), NL Ministerie van Defensie, US State Department, Eidgenössisches Departement für auswärtige Angelegenheiten (EDA) and Agence Française de Développement (AFD). We have completed extensive data collection and data analysis projects for Eurostat and are currently undertaking a data collection project for the Organisation for Economic Co-operation and Development (OECD) and a project for the European External Action Service (EEAS).



**LISTEN  
PARTNER  
DELIVER**

## 2. Objective of the study

The European Commission has appointed AIRINC to undertake a review of the cost of living for staff posted in Luxembourg. The purpose of the study is to compare the cost of living for staff posted in Luxembourg and Brussels.

Luxembourg is unique among EU locations because the Staff Regulations of EU staff state that no correction coefficient is applicable between Belgium and Luxembourg.

At the time that the Staff Regulations were introduced the authorities felt that, in the context of the European civil service and the type of staff employed in those two places of employment, the cost of living in Luxembourg should be considered as equivalent to that of Brussels. As such, there is no specific examination or adjustment applied for any potential differences in the cost of living between those two places of employment. Moreover, the legislator decided that the change in the cost of living for Belgium and Luxembourg would be measured by a joint index.

In the context of this review, it is important to understand the purpose of the correction coefficient, as it represents a fundamental part of the remuneration for employees of the European Commission. When any of the approximately 30,000 officials, temporary and contract staff ('staff') are employed in different places of employment in the European Union, a correction coefficient is applied to their pay if they are not employed in Brussels. The one exception to this rule is Luxembourg.

Correction coefficients are based on economic parities between Brussels and each of the other places of employment and are designed to maintain an equivalent purchasing power for all staff. More specifically, the correction coefficient for a given place of employment is

the ratio between the economic parity and the applicable exchange rate. A correction coefficient above 100 means that the cost of living is higher than in Brussels. Conversely, the cost of living in a place of employment will be deemed to be lower if the correction coefficient is less than 100. Both positive and negative correction coefficients are applied to the pay of staff, to maintain equal purchasing power wherever they may work within the European Union. The correction coefficient is governed by The Staff Regulations of Officials and the Conditions of Employment of Other Servants of the European Union.

The absence of a correction coefficient in Belgium and in Luxembourg is historical in context and there is a perception that it may no longer reflect the cost difference for certain items of expenditure in Luxembourg. A study of the cost of living in Luxembourg and the surrounding cross-border commuter towns has therefore been initiated in the light of the following factors:

- The Commission is faced with a problem of the attractiveness of the Luxembourg site which could be partly attributed to a potential higher cost of living for certain items of expenditure, particularly in terms of housing.
- Luxembourg is one of the smallest EU Member States and is bordered by three countries. Luxembourg also has a significant share of locally-recruited staff who are living in the border countries and not facing the same cost-of-living as expatriates living in Luxembourg.
- The problem of the attractiveness and the inherent specificities of the site of Luxembourg have led to a need to investigate whether a single cost-of-living adjustment for all the staff working in Luxembourg is the most cost-efficient measure.

Existing commercial studies lead to different results and are not always focused on expatriation and cross-border moves. Additionally, the methodologies applicable in commercial cost of living studies do not reflect the robust and specific categories of expenditure used as the basis for calculating correction coefficients. As such, there is not a readily available appropriate cost-of-living figure for Luxembourg.

The present report has been undertaken by AIRINC to provide a statistical and economic study which is underpinned by the principles that apply when calculating the correction coefficient.

This study compares price differences between goods and services (including housing) consumed by staff employed in Brussels and Luxembourg. The methodology takes into account the specific characteristics of the European civil service and the different categories of staff employed by the European Commission in Brussels and Luxembourg such as expatriates who moved to Luxembourg and locally-recruited staff living in cross-border cities. The basket of goods and services used as a basis for comparing prices between the two places of employment reflects staff consumption patterns in all their diversity.

AIRINC conducted a variety of thorough cost of living and housing on-site surveys for different parts of Luxembourg and three representative surrounding commutable cities (Arlon, Trier and Thionville). This extensive survey ensures the robustness and the defensibility of our data for your diverse employee population. The data is not local population government data (national statistics) but is customised data that reflect the specific staff consumption patterns in Luxembourg City and the three surrounding commutable cities.

Subsequent to the survey, a detailed analysis and statistical interpretation of the data has been performed to identify the cost differences. The study on the cost of living for staff in Luxembourg is a statistical and economic survey which meets high standards in terms

of quality of data collated and the analysis of human resources policies. It includes human resources and compensation and benefits options based on current practice.



# 3. Outline of the methodology

There are several steps to arrive at the final numbers for the cost of living comparison between Brussels and Luxembourg. The methodology is largely the same as the one used by Eurostat for calculating economic parities. The 80 Eurostat Basic Headings, weightings and aggregation methodology have been used by AIRINC in the context of this study to define the overall cost of living index. AIRINC has specific experience collecting data and calculating cost of living figures for European Union Staff having been a contractor for Eurostat from 2000 to 2004 and again in 2009-2010.



## 3.1. Data collection

First, in collaboration with DG HR, AIRINC defined a custom market basket of representative goods and services which are available and commonly used in both Brussels and Luxembourg. The 321 items chosen were categorized into 80 Basic Headings (BH) according to the COICOP classification system used by Eurostat.

For each location to be studied AIRINC researched appropriate outlets where the items are available and would be purchased by European Commission employees.

Data collection was then undertaken by dedicated AIRINC survey staff with professional experience in cost of living surveys. For each item multiple sample prices were collected from different outlets and noted with descriptions of the specific sample size and packaging. AIRINC targeted representative samples with consistent sizes so that like-for-like information was compared across the different surveyed locations.



## 3.2. Analysis and aggregation

The survey of Brussels was used to establish the basis for comparison. Not including housing, AIRINC surveyors collected 1,530 sample prices from 213 different outlets covering all 321 items. Once the data was collected and entered into the system, AIRINC began the analysis by reviewing all of the collected data. This involved statistical measures of data variance and standard deviation to ensure data quality and identify anomalies. Outliers that may skew the analysis were identified and double checked.

AIRINC excluded some outliers from the analysis if they were determined to be true outliers. The samples were normalised to a target size for each item and the normalised sample prices were averaged to achieve an average price for each item in each location.

The same process was used to calculate average item prices for the surveys conducted in Luxembourg and the three cross-border towns of Arlon, Thionville and Trier. For those surveys the number of samples collected were 1,381, 1,342, 1,389 and 1,442 prices, respectively.

With the raw data for all locations collected and analysed, the comparisons to Brussels were undertaken. Each item's prices were compared to the price in Brussels for the same item to get an item ratio. These item ratios were grouped and averaged by Basic Heading, to calculate an average price ratio for each of the 80 Basic Headings<sup>1</sup>.

<sup>1</sup> Note that for a few Basic Headings, notably housing, motor cars and education, there is a special analysis tailored to the experience of European Commission employees to arrive at the Basic Heading ratio.

The Basic Heading ratios were then aggregated to 12 category indices and an overall cost of living index using a Fisher index technique. This is the same aggregation methodology that Eurostat uses to calculate its economic parities. Fisher indices have the feature of being invertible, so there is no directional bias in the results, making it useful for purchasing power comparisons. For this analysis AIRINC used weightings for each basic heading provided by Eurostat representing the purchasing patterns of European Commission employees in Brussels and Luxembourg. These methodology choices were made to ensure that the calculations would be directly applicable to the experience of the European Commission staff.



### 3.3. Descriptions of special analysis for specific Basic Headings

For some Basic Headings, specific additional analysis was required to account for the unique differences in available data, consumption or tax regimes between the surveyed locations. A summary of the additional analysis undertaken in respect of Housing, Motor Vehicles and Education is provided below:



#### 3.3.1. Housing

Basic Heading 20 is “ACTUAL RENTALS PAID BY TENANTS AND OTHER ACTUAL RENTALS”.

The ultimate goal of the housing analysis was to create a Basic Heading ratio to be included in the overall Fisher index aggregations. The methodology was based on categorising rental housing stock by type of dwelling (apartment vs house), number of bedrooms and habitable size in square metres (m<sup>2</sup>).

Data was collected from a cross-section of real estate professionals in each of the surveyed locations. Based on the data collected from these real estate professionals, we calculated a range of prices for the dwelling type and size, then an average price per location converted to a price per square metre. Note that in some of the surveyed locations, listed size can be different from actual habitable space for a given dwelling.

In Belgium the listed size can be up to 25% more than the actual measured habitable space. The same phenomenon is present though to a lesser extent in Luxembourg, while regulations in France and Germany ensure that listed size matches habitable space. Size definitions were based on habitable space and realtors were instructed to quote price ranges for habitable space to ensure data consistency among the locations.

The average price per square metre for each location was compared to the price per square metre in Brussels to get price ratios. These were treated as “item” ratios, one for each of 15 distinct dwelling type plus the number of bedrooms plus the size range. The average of these item ratios was calculated and forms the Basic Heading ratio.



#### 3.3.1.1. Housing Findings

Based on the detailed research, methodology and analysis outlined above, the key findings were as follows:

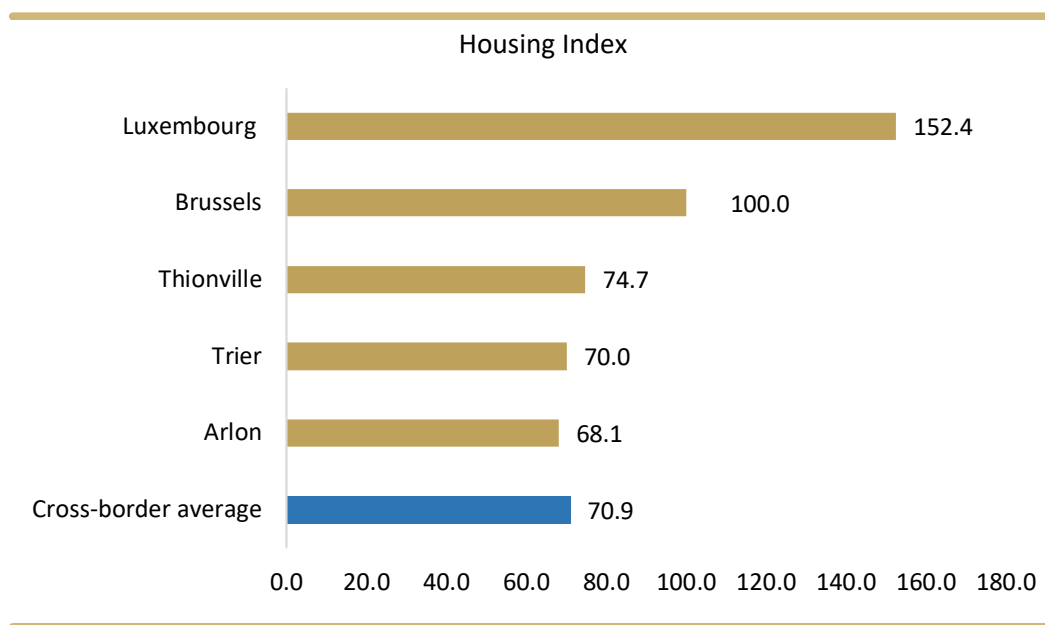
##### KEY FINDING 1:

The Housing index in Luxembourg compared to Brussels is 152.4. The results of the research and analysis confirmed that all three cross-border towns are less expensive for housing than both Brussels and Luxembourg.

##### KEY FINDING 2:

The Housing index in the representative cross-border towns compared to Brussels is 70.9 on average.

The individual town's housing ratios are set out below:



These relationships are consistent with our understandings of these housing markets for our other clients. To calculate the indices, rents were calculated as a cost per metre squared, per month using the following size for each representative unit (dwelling type):

Bed count	Dwelling type	Average size for square metre calculation		
		Small	Medium	Large
		50	70	90
		70	90	115
		90	115	145
		90	115	145
		125	160	200

The number of real estate sources (outlets) surveyed in Luxembourg City and Brussels were the same, at 11 each. An additional 8 were surveyed in Luxembourg-Outer and 5 each in Trier, Thionville and Arlon.

15 items were priced with each source. Not every source provided all 15 prices. Most who declined to provide a rent for an item did so because of scarcity (e.g. no small 3-bedroom apartments) or unfamiliarity with certain dwelling unit rents (e.g. agency specialised in central apartments and did not have detached houses in their portfolio).

The total number of price quotes for Brussels was 112, for Luxembourg City the number was 130 and for Luxembourg-Outer, the number of prices was 103.



The smallest number of samples were for small 3-bedroom flats in Brussels and Luxembourg City. Sources commented that the target size was too small to match available stock, which tended to be larger. Both attached and detached small houses in Brussels had a small number of sample prices. This is likely because attached houses (rowhouses or townhouses) in the central neighborhoods of Brussels are often luxury properties and were specifically excluded in our survey instructions. In terms of detached houses, these tend to be more available further out from the city centre and larger than the target sizes.

The rent ranges (maximum/minimum) for Brussels and Luxembourg City were compared and show that the ranges provided for 1- and 2-bed flats in Brussels had a smaller variation than those in Luxembourg City, where the variation of maximum/minimum was larger. One possibility is that prices in Brussels are uniform for these unit types because quality (fit and finish and amenities) are similar for all units. It is also possible that this small rent range window is driven by the tenants, a group of singles and couples with professional positions and similar salaries so affordability may be having a dampening effect on achievable rents.

For all other items (3-bed flats and both types of house) Brussels agents provided quotes with a wider range than Luxembourg City agents. This seems a natural result in a city with a diverse economy and a population ten times that of Luxembourg City with a much larger housing pool. It is also true that, because of its geographic size, diversity, and population, Brussels agents tend to specialise more than their Luxembourg City counterparts and therefore, one agent may be providing a sample rent which only applies to one or two city areas which could create a larger variation.

The findings on housing only indices are reasonable in AIRINC's extensive experience. The findings are also supported by staff experience, as well as published and anecdotal information.

Rents in Luxembourg have been rising steadily for several years at annual rates of about 5%. In contrast, Brussels sources reported a relatively stable market with small increases annually.

### Some of the key drivers reported by the real estate professions that are fueling the increase in housing costs in Luxembourg include:

- Population growth in Luxembourg has outpaced that of Brussels and most significantly, the population growth in Luxembourg is driven by immigration which, one could argue, causes a greater strain on housing than does population increase by birth
- Available housing stock: sources reported that there is a need for five to seven thousand new units each year, in and around the capital city. And yet, the view of the real estate professionals was that new supply is falling short by at least two thousand units each year. It was reported to us that there is a call for more high density and high-rise housing and rezoning of unused land to residential use. The real estate professionals reported that overall new units are being planned with a reduced overall habitable space in square metres
- Newly constructed properties are more expensive, but also in great demand because they are compliant with quality and building standards regulations
- The cost of building residential properties in Luxembourg are impacted by availability of appropriate skilled labour and obtaining necessary building permissions and regulations

To help with traffic congestion and encourage workers to consider areas further from the centre of Luxembourg,

the government is working on improvements and innovations to public transportation including making all public transit free starting in 2020.

### 3.3.1.2. Data collection for housing

In collaboration with DG HR, AIRINC established a chart to collect rent data. The chart shows 5 specific dwelling types, each with 3 targeted living area size ranges. For each surveyed city, several neighbourhoods and towns were chosen as being representative of where staff live.

The survey was carried out through in-person interviews of professional real estate and relocation agents to collect qualitative and quantitative information on rental costs of dwellings of equivalent quality and size. Price collection included rental charges and parking spaces, if included.

Costs related to the consumption of electricity, water or gas were excluded from the study. Collective or communal charges such as concierge service, cleaning services, central heating were also excluded.

Participants were given the same form to review and the same instructions to complete the survey.

They could give either a single rent number or a range of numbers for each data box. In any case, they were asked to ensure that the rent(s) represented typical achieved rental amounts.

Agents were asked to comment on market history, trends, changes in demand, new supply, government regulations and lease characteristics.

Agents were asked to comment on local practice for measuring, reporting and advertising unit size, and livable or habitable space to identify and correct for any bias. Agents in Luxembourg City, Luxembourg-Outer, Brussels and Arlon agreed that listed unit sizes were sometimes estimated, rounded up to a whole number, or included non-habitable space (such as under the eaves, balcony, or utility closet). In Trier (Germany) and

Thionville (France), the real estate sales and rental markets are more regulated and habitable space is carefully measured and reported.

Outside of Germany and France, there is no standard definition of habitable space. Certain agents in Brussels mentioned that there may be a 25% difference between listed/advertised size and actual habitable space. The rents included in this report are the raw rent numbers as communicated by the real estate agencies and not adjusted for habitable space, which may have a significant impact on the results.

Each agent in Brussels, Luxembourg City and Luxembourg-Outer were interviewed by one AIRINC employee. Agents in the cross-border cities of Arlon, Trier and Thionville were interviewed by a second AIRINC employee. This approach assured that interviews were conducted with the utmost consistency.

In each location to be studied, AIRINC researched appropriate agencies who work with local professionals and/or European Commission employees.

### 3.3.1.3. Notes on housing survey process

Overall, the survey format was well-received and easily understood by participating agents.

#### Luxembourg City, Luxembourg

- » In Luxembourg City, agents clearly understood the project and the targeted properties and tenant population. Most agents volunteered that they had experience working with European Commission employees.
- » There are a great number of professional real estate and relocation agencies in the city. Most Luxembourg City agents covered all the city districts we targeted though a few were limited either geographically or by price (only on the most exclusive areas).

- » Several sources commented that 3-bedroom flats are very rare in Luxembourg City.
- » Several agents commented that the smallest sizes as listed for 1-, 2- and 3-bedroom flats and houses were “too small” and not readily available in the market.

### Targeted areas were as follows:

- Belair, Gare, Centre, Cessange, Bonnevoie, Hollerich, Cents, Kirchberg, Gasperich, Dommeldange, Limpertsberg, Merl

### City sources also commented on rents in other neighborhoods and near-central villages such as:

- Bridel, Mamer, Strassen, Bertrange, Schuttrange, Steinsel, Senningerberg, Niederanven, Howald, Bettembourg, Clausen, Neudorf, Eich, Hesperange, Alzingen and Fentange

### Luxembourg - Outside Luxembourg City

- » To collect rent data on areas outside of Luxembourg City, agents located in Dudelange and Esch-sur-Alzette (south of the city); Bereldange and Mersch (north of the city); and Bertrange (west of the city) were included. Also consulted was a city-based relocation agent with expertise in the south, north, and north east areas.
- » The agents clearly understood the project and the targeted properties and tenant population.
- » Several sources commented that 3-bedroom flats are very rare in Outer Luxembourg.
- » Some agents commented that the smallest sizes as listed for 1-, 2- and 3-bedroom flats and houses were “too small” and not readily available in the

market. An agent in Mersch, said the largest units were not available in his area.

### Targeted areas were as follows:

- South SW: Hesperange, Bettembourg, Fentange, Alzingen, Esch-sur-Alzette
- West NW: Bridel, Mamer, Strassen, Bertrange, Schuttrange
- North: Helmsange, Steinsel, Lintgen, Heisdorf, Mersch
- East NE: Senningerberg, Roodt-sur-Syre, Gonderange, Niederanven, Sandweiler

### Outer Luxembourg sources also commented on rents in other towns and villages such as:

- Dudelange, Kapstol, Differdange Schifflange, Belval/Belvaux

### Brussels, Belgium

- » In Brussels, agents clearly understood the project and the targeted properties and tenant population.
- » Certain agents in Brussels mentioned that there may be a 25% difference between listed/advertised size and actual habitable space.
- » There are a modest number of professional real estate and relocation agencies in the city. Most Brussels agents covered only a selection of the city districts we targeted, limited either geographically or by price (only on the most exclusive areas).
- » Several sources commented that 3-bedroom attached houses in the targeted areas and of the size and quality described are extremely rare. This type of house is a luxury choice in central areas and generally larger if available in the suburbs.

- » Several agents commented that the smallest sizes as listed for 1-, 2- and 3-bedroom flats and houses were “too small” and not readily available in the market.

### Targeted areas were as follows:

- Bruxelles 1000, Ixelles, Etterbeek, Uccle, Auderghem, Schaerbeek, Watermael-Boitsfort, Woluwe-St-Lambert and Woluwe-St-Pierre

### Sources also commented on rents in:

- Schuman, St. Gilles, Chatelain, Rhode-Saint-Genèse, Sablon and Forest

### Arlon, Belgium

- » The rental market is very limited with a small supply and low demand.
- » Most agents commented that the largest sizes as listed for 1-, 2- and 3-bedroom flats and houses were “too large” and not readily available in the market.
- » One source commented that attached and detached houses are extremely rare.
- » Attached houses tend to be older and less desirable than apartments, which is reflected in the rent data.

### Targeted areas were as follows:

- Arlon Centre, Spetz, Autelhaut & Autelbas, Waltzing, Schoppach, Barnich, Seymerich, Weyler, Eischen

### Sources also commented on rents in:

- Attert, Bonnert, Vaville and Frassem
- Sources suggested we remove Eischen from consideration

### Thionville, France

- » The rental market is limited with a small supply and low demand.
- » Agents here were very conscious of rents expressed as a cost-per-metre-squared.
- » Most agents commented that the largest sizes as listed for 1-, 2- and 3-bedroom flats and houses were “too large” and not readily available in the market. Two agents suggested lowering size ranges for “small” apartments.
- » Multiple sources commented that attached and detached houses are extremely rare.
- » Attached houses tend to be older and less desirable than flats, which is reflected in the rent data.

### Targeted areas were as follows:

- Thionville Centre, Terville, Hettange-Grande, Yutz, Manom, Volkrange, Illange, Basse-Ham, Entringe

### Sources also commented on rents in:

- Cattenom, Breistroff-la-Grande, Hayange and Metz
- Sources suggested we remove Manom from consideration

### Trier, Germany

- » Agents in Trier were reluctant to participate in the Rent Survey. Some cited privacy concerns, busy schedules, or disinterest while others simply did not return calls and emails.
- » The rental market is moderately sized (larger than either Arlon or Thionville).

- » Agents here were very conscious of rents expressed as a cost-per-metre-squared.
- » Most agents commented that the largest sizes as listed for 1- and 2-bedroom flats were “too large” and not readily available in the market.
- » Multiple sources commented that attached and detached houses are extremely rare on the rental market.

### Targeted areas were as follows:

- Trier Zentrum, Trier-Euren, Sirzenich, Tarforst, Trierweiler, Zewen, Basse-Ham

### Sources also commented on rents in:

- Nittel, Wincheringen, Petrisberg and Waldrach



### 3.3.2. Motor Vehicles

To calculate the relative cost of purchase of motor vehicles, AIRINC identifies 5 broad car types:

**COMPACT | MODERATE | PREMIUM | SUV | LUXURY**

Because of the importance of this category, more samples were collected than for typical grocery items; 43 samples across the 5 car types. Prices were collected for the exact same make, model and trim level in each location, so that comparisons were truly like-for-like. Also incorporated into the prices were one-time taxes like the Brussels “mise en circulation” and annual road taxes. Additionally, because this study is targeting costs as experienced by European Commission employees, consideration was taken of the specific Luxembourg VAT exemption scheme. The index calculations assume the purchase of a new car every 5 years with VAT exempted each time for individuals living in Luxembourg and with residual VAT paid on the resale value of the 5-year-old car.

### 3.3.3. Education (crèche)

Prices for crèche (child care) were used for the Education Basic Heading. Primary and Secondary education were excluded from the calculations because the assumption is that school age children would attend European schools free of charge. Additionally, the crèche prices in Luxembourg were adjusted to reflect the public benefit offered of 20 hours free crèche for every child age 1-4.

### 3.3.4. Estimated ratios for some Basic Headings

Basic Heading 70, Package holidays, is estimated at an index of 100 for all 4 surveyed locations. The costs experienced by European Commission employees for this Basic Heading are not based on prices in the surveyed locations, but rather prices in the holiday destinations. As all the surveyed locations are so close together, essentially the same holiday options are available to everyone living in them.

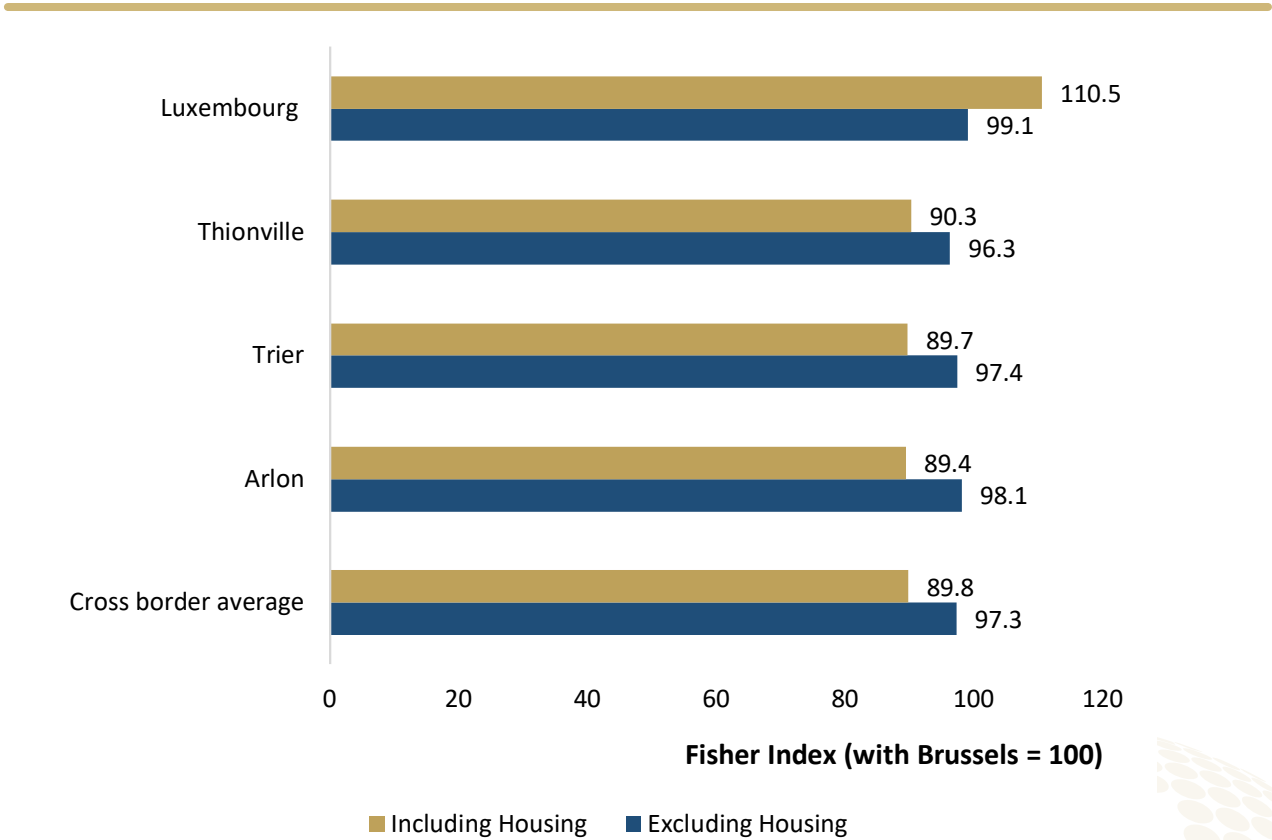
For those few other Basic Headings where insufficient prices were collected, ratios were estimated based on similar Basic Headings. For example, Basic Headings 49, 50, and 51 all concern uncommon, combined or miscellaneous passenger transport services and were estimated based on the average cost ratios of the more commonly used passenger transport services (by rail, road and air) contained in Basic Headings 46, 47, and 48. The cost ratio of canteens (Basic Heading 73) is set equal to that of restaurants (Basic Heading 72).



# 4. Results of the study

This section contains the results of the study of relative costs in Brussels and Luxembourg. The overall numbers are presented first with detail by 12 groups and then specific data on the housing costs.

## 4.1. Overall Fisher index results



## 4.2. Fisher index by group

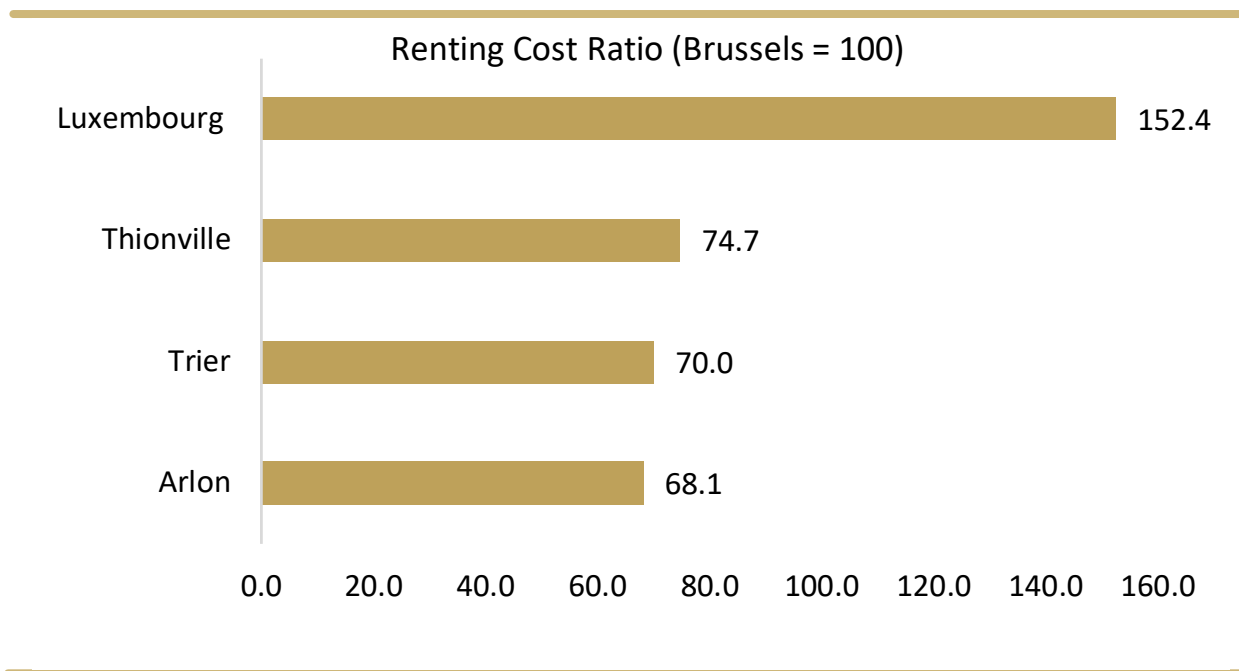
LUXEMBOURG CITY, LUXEMBOURG		
1	FOOD AND NON-ALCOHOLIC BEVERAGES	102.4
2	ALCOHOLIC BEVERAGES AND TOBACCO	87.1
3	CLOTHING AND FOOTWEAR	100.5
4	HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	140.6
5	FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE MAINTENANCE OF THE HOUSE	104.4
6	HEALTH	112.0
7	TRANSPORT	101.1
8	COMMUNICATIONS	98.6
9	RECREATION AND CULTURE	102.9
10	EDUCATION	61.9
11	HOTELS, CAFES AND RESTAURANTS	96.0
12	MISCELLANEOUS GOODS AND SERVICES	97.0
	BRUSSELS = 100	

CROSS-BORDER CITIES		
1	FOOD AND NON-ALCOHOLIC BEVERAGES	95.1
2	ALCOHOLIC BEVERAGES AND TOBACCO	92.0
3	CLOTHING AND FOOTWEAR	100.3
4	HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	76.9
5	FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE MAINTENANCE OF THE HOUSE	108.4
6	HEALTH	121.9
7	TRANSPORT	104.9
8	COMMUNICATIONS	102.4
9	RECREATION AND CULTURE	102.4
10	EDUCATION	74.5
11	HOTELS, CAFES AND RESTAURANTS	77.1
12	MISCELLANEOUS GOODS AND SERVICES	89.4
	BRUSSELS = 100	



### 4.3. Housing cost ratios

The Housing, Water, Electricity, Gas and Other Fuels group also contains costs for utilities. This table includes the price ratios relative to Brussels for rental housing



### 4.4. Notes on cost

Overall we could not find any significant difference in price level for goods and services, Brussels being slightly more expensive than Luxembourg, Thionville, Arlon and Trier. The most significant difference being that housing rental costs are higher in Luxembourg, while significantly less expensive in the cross-border towns.

This has not always been the case. When the EU staff regulations were first implemented, housing prices between the two were more similar. However, Eurostat home price statistics show that between 2009 and 2018, home purchasing costs have risen 28% more in Luxembourg than in Belgium - a 57.7% increase in Luxembourg compared to a 27.7% increase in Belgium<sup>2</sup>. OECD historic home price data has a similar story, from 2007 to 2018 Luxembourg housing increased 26% more than Belgium<sup>3</sup>. AIRINC's own historic data on rental prices goes back even further and shows prices in Luxembourg increasing 42% more than in the city of Brussels between the years of 2001 and 2018. The Education group index is low in Luxembourg due to the public daycare benefit.

<sup>2</sup> source: Eurostat Annual Home Price Index

<sup>3</sup> source: OECD Nominal House Price Series

# 5. Options to offset the cost of living in Luxembourg

Before discussing the possible options to offset the cost of living in Luxembourg, it is important to understand the historical context as to why there is an absence of a correction coefficient between Brussels and Luxembourg. When the decision was originally made to establish parity between Luxembourg and Brussels, living in Luxembourg was cheaper or similar to living in Brussels. Parity was established as an instrument to encourage employees to relocate and work in Luxembourg.

Based on recent and long-term economic trends, Luxembourg has become progressively more expensive with respect to housing. As a consequence, the Commission is faced with the problem of the attractiveness of the Luxembourg site; employees feel the level of housing they can afford, is higher in Brussels.

Against this background some staff representatives argue that a correction coefficient should be introduced in Luxembourg, pointing to the substantial differences that now exist in comparison to Brussels with regard to housing.

The outcome of the independent research conducted for this study suggests that some difference in the cost of living between Brussels and Luxembourg may have been accumulated recently.

We would also like to point at the **geographical particularities of Luxembourg**. Luxembourg, being one of the smallest EU Member States and being bordered by three EU countries (France, Germany and Belgium), has significant numbers of cross-border workers. There is a complex interaction of cross-border employment, cost of living and housing considerations. In particular, housing in all three cross border towns is less expensive than in both

Brussels and Luxembourg, as confirmed by the study.

Based on the outcomes of the study, options to offset the cost of living in Luxembourg were explored in more detailed ways.

- 5.1. Payment of a cost of living adjustment
  - 5.1.1. To staff posted in Luxembourg
  - 5.1.2. To staff living in Luxembourg
- 5.2. Payment of a housing allowance
  - 5.2.1. Unlimited
  - 5.2.2. Fixed duration
  - 5.2.3. Phased out
  - 5.2.4. Fixed value
  - 5.2.5. New Employees Only

In considering each of these options, some broad considerations that should be borne in mind are:

- » The methodology established by the Commission to apply a correction coefficient to account for the goods and services and housing differences is unique.
- » As demonstrated by the research conducted for this project, the cost for goods and services are broadly the same in Brussels and Luxembourg; the primary factor affecting the cost of living differences is the divergent cost of housing in Luxembourg and the neighbouring cross-border commuter towns.
- » Given the high cost of housing in Luxembourg compared to more affordable housing in the neighbouring cross-border commuter towns, it

is important that the recommendations do not further distort the overall compensation parities between employees.

- » Indeed, it is worth remembering that most of the employees who are cross-border workers benefit from a 16% expatriation allowance applied to the whole remuneration package.

## 5.1. Payment of a cost of living adjustment



### 5.1.1. To staff posted in Luxembourg

Applying an overall cost of living adjustment for all staff assigned to Luxembourg based on the cost-of-living index that accounts for the goods and services and housing differences between Brussels and Luxembourg, means that the same index will apply for everyone.

The advantage of this approach is that it is consistent with the overall compensation strategy for the European Commission employees working across the European Union.

However, there are some important points to note about adopting this approach which need to be considered:

- » Luxembourg is unique in having thousands of employees employed by the European Commission (and other EU Institutions) who are expatriates and locally-recruited in the border countries. The geographic size and location of Luxembourg means that each category of employee may live either inside or outside the borders of the country of Luxembourg.
- » Expatriates and locally recruited cross-border staff (e.g. recruited in Thionville, France and working in Luxembourg) usually benefit from an expatriation allowance of 16%. The 16% expatriate premium, although having a broader objective, which is outside this scope of the

project, does also serve to provide additional compensation to employees who are living in lower cost locations in neighbouring countries.

- » As a result, significant disparities would be amplified between employees working in Luxembourg as a function of the application of a single, Luxembourg adjustment for all staff working in the Luxembourg sites.
- » This option would accentuate cost of living disparities by providing additional compensation through the correction coefficient adjustment for staff in locations where housing costs are in fact, lower than in Brussels (the base location for calculation of the cost of living adjustment).
- » From a cost management perspective, compensating all employees working in Luxembourg through a **single cost of living adjustment based on Luxembourg is not the most cost-efficient option for the European Commission.**
- » **A single cost of living adjustment in Luxembourg does not align with the typical practice of other international organisations and multinationals.** Benchmark practice is to pay an allowance for housing costs based on the location the assignee lives, plus a separate differential for differences in the cost of goods and services. **Furthermore, locally recruited cross-border employees are not usually provided with expatriate support (expatriate premium, cost of living adjustments) as a market practice.**



### 5.1.2. To staff living in Luxembourg

Applying an overall cost of living adjustment for all staff living in Luxembourg based on the cost of living index that accounts for the goods and services and housing differences between Belgium and Luxembourg, means that the same index would apply for everyone who lives

in Luxembourg. Employees living outside the country of Luxembourg would not receive the correction coefficient.

The advantage of this approach is that it is focused on those employees who live within the borders of Luxembourg and for whom the full impact of the differences in cost of living are felt.

This approach also prevents the further accentuation of different standards of living between employees in Luxembourg and those from neighbouring cross-border commuter towns.

From a cost management perspective, compensating only those employees living in Luxembourg through a cost of living correction coefficient adjustment based on Luxembourg is likely to generate significant cost savings for the European Commission compared to a correction coefficient paid to all employees working in Luxembourg.

However, there are some important points to note about adopting this approach which need to be considered.

- » Application of the correction coefficient only to employees living in Luxembourg is not consistent with the overall compensation strategy for European Commission employees working across the European Union.
- » Other international organisations and multinationals also use alternative compensation mechanisms than a single cost of living adjustment. Benchmark practice is to pay an allowance for housing costs based on the location the assignee lives, plus a separate differential for differences in the cost of goods and services.

## 5.2. Payment of a housing allowance

Applying a housing allowance or subsidy for all staff living in Luxembourg would ensure that the European Commission provides specific, targeted support to address the central factor influencing the cost disparity. Employees would receive an allowance reflecting the

difference in housing cost between Luxembourg and Brussels.

The advantages of a housing allowance are that it isolates and directly addresses the central problem of housing being the driver of higher costs in Luxembourg.

The survey work has established that the overall cost of goods and services are broadly equal between Luxembourg and Brussels (although differences do occur in the individual categories of goods and services).

**As such, it is specifically an issue of housing costs that needs to be addressed.**

In considering the introduction of a housing allowance, the following should be considered:

- » Providing a housing allowance gives greater clarity on the purpose of the payment and avoids mixing two widely different cost bases (goods and services that are broadly cost neutral and housing which is considerably more expensive).
- » A housing allowance is not only focused directly on the cause of the cost differences, but it is also focused on those employees who live within the borders of Luxembourg and for whom the full impact of the differences in cost of housing are felt.
- » A housing allowance prevents the further accentuation of different standards of living between employees in Luxembourg and those from neighbouring cross-border commuter towns where the cost of housing is lower.
- » From a cost management perspective, a housing allowance is likely to generate significant cost savings for the European Commission.
- » **A housing allowance aligns with the practice of other international organisations and multinationals.** Benchmark practice is to pay an allowance for housing costs based on the location the assignee lives, plus a separate differential for

differences in the cost of goods and services. A granular approach that addresses each item of the compensation packing individually ensures that adjustments and support is focused on the specific need. It ensures payments can be clearly communicated and the purpose of the support is not 'lost' within an overall catch-all adjustment.

- » **It is nevertheless important to note that application of a housing allowance only to employees living in Luxemburg is not consistent with the overall compensation strategy for European Commission employees working across the European Union.**

Based on the points above and assuming the European Commission is comfortable that the unique conditions for employees working in Luxembourg warrant a tailored solution for employees living there, our recommendation is to pay a housing allowance that accounts for the higher housing costs in Luxembourg. **This approach would be aligned with the current market practice in international organisations and multinational companies,** it would address the concerns of employees living in Luxembourg, whilst also being easy to administer and cost efficient.

There are a number of options available to the European Commission should a housing allowance be adopted. These choices revolve around whether and/or how an allowance should be time limited.

The arguments for and against a time limitation generally revolve around whether or not an employee purchases a property or if they rent.

## Purchase of a property

- When an employee purchases a property, the cost of that property becomes fixed at a certain point in time. Subsequent payments are a combination of interest payments and capital repayment on the mortgage loan. Over time, a larger proportion of the property becomes the personal possession of the employee until it is owned out-right and the employee has no monthly outgoing to secure housing. To reflect this, the support offered through a housing allowance could therefore be time-limited or phased-out to reflect the dynamics of purchasing a property. After a defined period of time, the allowance is discontinued.

## Rental of a property

- When an employee rents a property, there is no capital accumulation for the employee associated with the property. These employees experience an ongoing incremental cost of housing. In these circumstances the support offered through a housing allowance could be unlimited to reflect the dynamics of renting a property.

The allowance should be reviewed regularly to adapt for changes in the comparative housing markets in Brussels and Luxembourg. Should employees move to live outside Luxembourg, the housing allowance would be discontinued.

In the following subsections, we discuss the different market practices in relation to the provision of a housing allowance and the relative merits of each of the options.

## 5.2.1. Unlimited

Given the nature of employees' long-term roles at the Luxembourg site and the permanent nature of the correction coefficient, the European Commission may consider paying the housing allowance on a permanent basis to employees while they live in Luxembourg. This would align the delivery of the housing allowance with that of the correction coefficient.

Applying a housing allowance or subsidy for all staff living in Luxembourg would ensure that the European Commission provides specific, targeted support to address the central factor influencing the cost disparity.

Employees would receive an allowance reflecting the difference in housing cost between Luxembourg and Brussels. The allowance would be unlimited to align with the principles of the correction coefficient.

In considering the introduction of a housing allowance without a time-limitation, the following should be considered:

- » An allowance without a time limitation (provided the employee continues to live in Luxembourg) would ensure employees who rent accommodation would be compensated for the higher cost of housing on an ongoing basis.
- » An allowance without a time limitation (provided the employee continues to live in Luxembourg) would be advantageous to employees who purchase a property, particularly when the property has been purchased outright. It is worth noting however that that the housing portion of the correction coefficient is not adjusted for staff in other EU locations based on whether or not they own the property.
- » From an HR policy perspective, a housing allowance without a time limitation would mirror the principles of the correction coefficient.
- » From an administration perspective, there would be a requirement to track where employees are

living and if they move their home, whether the new location is within or outside the territory of Luxembourg.

The key feature of this proposal is that the housing allowance would be unlimited in duration for employees living in Luxembourg. The allowance would be reviewed and adjusted on a regular schedule to maintain consistency. It would cease to be paid should a member of staff move to live outside Luxembourg.

## 5.2.2. Fixed Duration

As with Option 5.2.1., applying a housing allowance or subsidy for all staff living in Luxembourg would ensure that the European Commission provides specific, targeted support to address the central factor influencing the cost disparity.

Employees would receive an allowance reflecting the difference in housing cost between Luxembourg and Brussels. However, in this option, the allowance would be limited to a fixed duration of time.

- » An allowance with a time limitation (provided the employee continues to live in Luxembourg) would disadvantage employees who rent accommodation. They would not be compensated for the higher cost of housing on an ongoing basis once the fixed period of the housing allowance has expired.
- » For those organisations that limit the duration of the housing allowance, the setting of the time limit is not scientific. The complexity of establishing when someone who purchases a house no longer needs the support of the allowance means that most organisations have established an arbitrary time limit. In terms of the market perspective, the timeframe varies based on organisation. However, anecdotally among peer organisations of the European Commission, a typical timeframe is 10 years.

- » From an HR policy perspective, time limiting the housing allowance would not be aligned with the unrestricted duration of the correction coefficient.
- » From an administration perspective, there would be a requirement to track where employees are living and if they move their home, whether the new location is within or outside the territory of Luxembourg. Additionally, there will be a requirement to track the duration for which the housing allowance has been paid and to put in place a mechanism to turn off the housing allowance at the appropriate time.

From a cost management perspective, a time-limited housing allowance will generate significant cost savings for the European Commission when compared to an allowance that is unlimited.

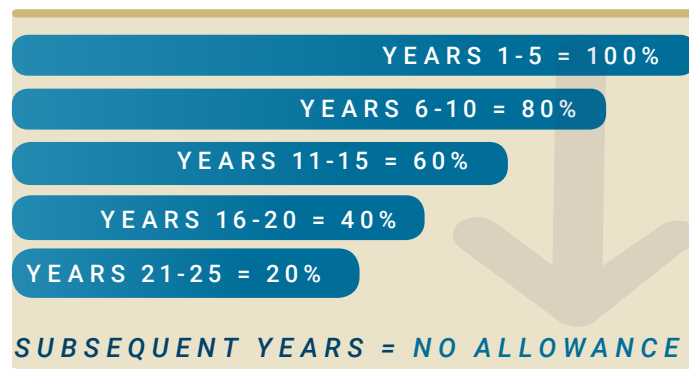
The allowance should be reviewed regularly to adapt for changes in the comparative housing markets in Brussels and Luxembourg. Should employees move to live outside Luxembourg, the housing allowance would be discontinued.

### 5.2.3. Phase Out

As with the previous options, applying a housing allowance or subsidy for all staff living in Luxembourg would ensure that the European Commission provides specific, targeted support to address the central factor influencing the cost disparity. Employees would receive an allowance reflecting the difference in housing cost between Luxembourg and Brussels. However, in this option, the allowance would be phased-out over a period of time.

- » An allowance with a phase-out (provided the employee continues to live in Luxembourg) would disadvantage employees who rent accommodation. They would not be compensated for the higher cost of housing on an ongoing basis once the housing allowance has phased-out.

- » A phase-out of the housing allowance would imitate the gradual change in the cost base of staff who purchase a property as the mortgage is converted into capital. The phase-out is generally set on an arbitrary basis for example as follows:



From a cost management perspective, a phased approach will generate significant cost savings for the European Commission when compared to an allowance that is unlimited. However, it is likely to increase administration and tracking costs.

The allowance should be reviewed regularly to adapt for changes in the comparative housing markets in Brussels and Luxembourg. Should employees move to live outside Luxembourg, the housing allowance would be discontinued.

### 5.2.4. Fixed Value

As with the previous options, applying a housing allowance or subsidy for all staff living in Luxembourg would ensure that the European Commission provides specific, targeted support to address the central factor influencing the cost disparity.

Employees would receive an allowance reflecting the difference in housing cost between Luxembourg and Brussels. However, in this option, the allowance would be fixed, and no adjustment would apply over time.

- » A fixed allowance (provided the employee continues to live in Luxembourg) would disadvantage employees who rent accommodation. They would

not be compensated for changes in the cost of housing on an ongoing basis.

- » A fixed housing allowance would reduce in value over time in 'real-terms'. As such, it would mimic the effect of fixing a mortgage loan at a specific point in time. However, fixed allowances are not aligned to the overall compensation philosophy of the European Commission.

The allowance would not be reviewed regularly to adapt for changes in the comparative housing markets in Brussels and Luxembourg. Should employees move to live outside Luxembourg, the housing allowance would be discontinued.

### 5.2.5. New Employees

Applying a housing allowance or subsidy only for new staff living in Luxembourg would ensure that the European Commission provides specific, targeted support to address the challenge of recruiting staff to the Luxembourg site. New employees who do not already own their own property would receive an allowance reflecting the difference in housing cost between Luxembourg and Brussels. The allowance could be delivered according to one of the previous options (unlimited, limited, phased-out, fixed)

As noted in the previous options, there are a number of advantages to providing a housing allowance. However, provision of the allowance only to new employees or to employees who do not already own a property would, in our view, be open to interpretation and challenges from staff. Communication of the fairness of this approach may also be difficult.



©2019, Associates for International Research, Inc. All rights reserved.

Commercially reasonable care was taken in compiling this publication to ensure that the information it contained was correct at the time compiled; however, the publishers make no express or implied warranties with respect to the information provided and accept no liability for any inaccuracies.

AIRINC does not grant any license or other permission for the content contained within this publication to be (a) reproduced, disseminated, or otherwise used by any person or entity other than the purchasing company or organisation without AIRINC's express written consent, or (b) used for commercial purposes at any time.



## OFFICES

### AMERICAS

Cambridge, MA (Global Headquarters)  
United States of America  
T +1 617 250 6600

### EMEA

Brussels, Belgium  
T +32 (0)2 650 0970

London, United Kingdom  
T +44 (0)20 3514 8650

### APAC

Hong Kong  
T +852 2541 8380



[WWW.AIR-INC.COM](http://WWW.AIR-INC.COM)