The False Economies of Driver Reimbursement

Driver reimbursement continues to be the wrong choice for commercial fleets for a number of reasons, ranging from HR issues, safety concerns, liability exposure, corporate image, and tax consequences to employees.

By Mike Antich

Whenever there is new senior management or when corporate sales are flat or new cost-cutting initiatives are instituted, someone invariably asks whether it would make better business sense to reimburse employees for the use of their personal vehicles rather than providing company vehicles.

Invariably, the false economies of driver reimbursement emerge in terms of human resources, safety, liability exposure, corporate image, and employee tax consequences, all of which make a strong business case for the value of company-provided vehicles.

Reimbursement Doesn't Work from an HR Perspective

Since a corporate fleet consumes a large percentage of a company's operating budget, it is a tempting target in cost-cutting programs. Some managers feel that an employee reimbursement program costs less than company-provided vehicles. Shifting the burden of the company vehicle program to employees may seem, at first, an ideal way to reduce costs. But a closer examination shows this may not be the case. If your company spends less by going to driver reimbursement, it is because your employees are shouldering hidden costs. In fact, upon closer analysis, reimbursement may actually be your most expensive option. Not only that, but it can also directly harm your company's employee productivity and corporate image in the marketplace. In addition, there are HR implications to a reimbursement program.

Often, salespeople whose jobs require the use of a vehicle are recruited straight out of college. At that age, many employees have little or no credit history, little or no cash for down payments, and do not adequately understand the need to match their personal vehicle financing and operational costs with a monthly car allowance. Many employees see a reimbursement allowance as personal income. Furthermore, there is no guarantee that the reimbursement provided to an employee driver will be used for a vehicle, but rather to make college loan, mortgage, health, or insurance payments. Also, the company cannot distinguish whether fuel is purchased for personal use or business use.

Vehicle Leasing is More Difficult

The high mileage driven by fleet drivers, averaging 24,000 miles per year, means that many employees are precluded from obtaining a personal closed-end lease. If a driver is able to lease a vehicle, excess mileage charges can be expensive in a closed-end lease. High-mileage drivers are usually upside down at the end of lease term with a balloon payment due for excess mileage. The extremely high mileage rate would preclude many employees from obtaining a personal closed-end lease.

Also, some employees are reluctant to perform business-related work that may damage their personal vehicle, especially if it is leased, since it could result in additional wear-and-tear charges.

Recruiting & Hiring Advantages

A company-provided vehicle can be used as a recruiting tool and company benefit. Providing a company vehicle gives your company a competitive edge in hiring top-caliber salespeople, technicians, and managers. Past industry surveys have shown that prospective employees view a company vehicle as an equivalent benefit to healthcare coverage and pension benefits.

Trying to hire prospective employees who already have a fleet vehicle by offering a reimbursement program puts a company at a hiring disadvantage. Prospective employ-

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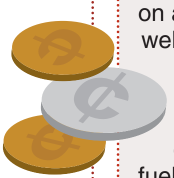
ees realize they will be forced to make a large outlay of money to purchase or lease a new vehicle and pay for auto insurance. While a reimbursement allowance may have an initial appeal by enabling employees to choose the vehicle of their choice, the employee quickly realizes that it is not the best economic choice for them, and typically not for the company either.

Increased Employee Turnover

In addition, employee turnover increases when a company eliminates a company-provided vehicle program. Fleet management companies have found when companies shift to driver reimbursement from a company-provided vehicle, about a 10-percent loss in the work force occurs because employees do not like the new reimbursement program.



Costs are Unfairly Shifted to Employees

It is more expensive for employees to use their personal vehicles for business than it is for a business to offer company vehicles. As a volume vehicle buyer, a company can acquire vehicles at wholesale cost, while employees must pay retail. Additionally, a company can finance a vehicle more cheaply than an employee. A company also has lower vehicle maintenance costs by participating in a national account program, while an employee typically pays retail.

Companies are eligible for discounted prices for initial vehicle cost, repair, parts, and service. Plus, they can get extended warranty reimbursement. Also available are reduced rental car rates. As volume customers, they have direct access to manufacturers for assistance with parts expedite and additional reimbursement. The employee can't possibly buy or lease a new car and operate it as inexpensively as a company.

Exaggerated Business Mileage

Employees may feel that their company is not adequately reimbursing their personal vehicle use for business purposes. When this occurs, employees attempt to maximize reimbursement for mileage and vehicle expenses. One common way is to exaggerate business mileage. One fleet management company conducted a study with its lessees that showed when switching from a reimbursement program to a company-provided car program, the reported business mileage goes down by 30 percent. It is not that employees drive less, it is that the business miles no longer generate reimbursement monies, so employees report actual miles.

Wrong Company Image May Be Projected

A company vehicle is part of your corporate image presented to the world. With driver reimbursement, whether a vehicle is appropriate to the type of image the company wants to project is determined by an employee.

On the other hand, a company-provided program allows control of the suitability and appearance of vehicles used for your business. When an employee provides the vehicle, you surrender this control. The wrong vehicle can send the wrong message to your customers.

If the company doesn't provide the vehicle, it has no control over what the employee drives to a customer location. Customer perception is everything, especially when it involves prospective customers. Also, employees may be required to entertain customers and you don't want them to drive customers in an unsuitable vehicle.

Another problem that a reimbursement program creates occurs when someone is hired who already owns a vehicle; the company will most likely have to accept whatever he or she is driving.

If the job doesn't entail customer contact, it isn't really important what the employee's car looks like. However, if the driver has regular contact with customers, then providing a car will ensure that your company is represented correctly.

Problems with Safety & Liability

Some companies believe that they eliminate insurance exposure with

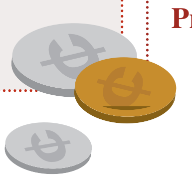
Employee Reimbursement is Counter-Productive to Corporate Green Initiatives

Professional fleet management helps the federal government achieve its environmental objective by operating millions of well-maintained, fuel-efficient vehicles. The late-model company-provided vehicles on the road today help the government reduce tailpipe emission levels and conserve gasoline.

Consider the alternative. Without professional fleet management and company-provided vehicles, the alternative is driver reimbursement with employees, on average, driving older, less well-maintained vehicles or large SUVs with lower fuel economy. These employee-reimbursed vehicles emit greater emissions and consume more fuel rather than the alternative company-provided vehicles.

There are other ways that company-provided fleets contribute to emission reductions and fuel conservation. Fleets routinely restrict the grade of fuel drivers can purchase. For instance, the majority of fleets have policies or employ fuel cards that restrict the purchase of premium-grade fuel. Many consumers are misinformed, believing their vehicles require premium-grade gasoline to operate effectively. On the contrary, the overwhelming majority of domestically manufactured vehicles are designed to operate at their optimum using regular unleaded gasoline. From an environmental perspective, many people may not realize that the use of premium-grade fuel actually contributes 30 percent more greenhouse emissions than regular unleaded gasoline.

The more environmental groups learn about well-maintained company-provided vehicles and how fleets control fuel purchasing habits, the more they realize how very important company-provided vehicles are in helping our nation meets its environmental objectives. In the final analysis, the absence of professional fleet management and company-provided vehicles would be detrimental to the environment.



a car allowance. These companies may avoid the lesser amount of the damage because the employee's insurance is primary; however, they are still responsible for the liability exceeding the employee's insurance coverage.

The difficulty with an employee-provided vehicle is that you cannot ensure that it is properly maintained. For instance, how do you know whether the tires are in safe driving condition? What about the brakes? How do you know when an employee postpones a safety-related repair? If an accident is caused by deferred maintenance, what is your liability exposure if it occurred while conducting company business?

The reality is that it is difficult, if not impossible, for a company to be aware of the condition and maintenance of every employee's personal vehicle. In fact, a reimbursement program may actually contribute to poorly maintained employee-owned vehicles. Depending on financial wherewithal, some employees may find it difficult to pay for repairs out-of-pocket. Also, since preventive maintenance is an immediate, out-of-pocket expense, the employee may be tempted to postpone routine maintenance, as well as more expensive mechanical repairs. Neglected PM can lead to breakdowns, downtime, and unnecessary car-rental expense. A reimbursed driver has to spend time coordinating repairs, maintenance, rentals, and registration renewals — time that otherwise could be devoted to selling the company's products or services. It is not uncommon for drivers to forego repairing their vehicles after an at-fault accident because of limited finances.

The bottom line is that a business has little or no control over the condition of an employee's personal vehicle. A company-provided vehicle allows you to control these variables and minimize this liability exposure.

Inadequate Auto Insurance Coverage

If a company vehicle is not provided, then the company must be certain that the employee has sufficient insurance to protect it from liability exposure should an accident occur while the driver is on company time. It is difficult and time consuming for a company to confirm driver compliance with its insurance requirements.

If a personal vehicle is used for work, an employee needs to carry "business" insurance, which is more expensive than personal insurance. Also, the increased miles driven annually, as a result of work, will result in a higher premium.

How to Make the Lease vs. Buy vs. Reimbursement Decision

The National Association of Fleet Administrators (NAFA) Foundation, Inc. has developed an Excel-based software program, in conjunction with Deloitte & Touche, to allow fleet managers to analytically answer the question of whether it is more cost-effective for their company to lease or buy company vehicles or whether to reimburse drivers for the use of their personal vehicles. "The program provides numerous input fields to allow users a wide range of variables and choices to make the analysis specific to their company requirements," said Jim Anselmi, president of the NAFA Foundation. "In addition, there is a user guide to assist fleet managers in how to gather information for input into the software program."

Version 1.2 can be downloaded for $100 from the NAFA Foundation Web site, www.nafafoundation.org.

Minimum liability coverage should be established if a personal vehicle is used for business. Also, an employee's auto insurance should include sufficient uninsured/underinsured coverage, rental reimbursement, and towing. All of this could be very expensive for employees since the reimbursement may be inadequate to cover the additional insurance expense. In addition, a company should require that insurance be obtained from a financially solvent insurer. All of this involves administrative expense and corporate overhead to ensure that adequate insurance coverage has been purchased and that it is renewed each year.

Reimbursement Offers Less Control of Employee Safety

Sometimes employees will buy a cheaper vehicle to pocket money from the company allowance. They will seek the lowest payments possible through longer terms because they think they can "make some extra money." Under reimbursement, an employee can buy or lease a less-safe vehicle, which exposes the driver and the company to a higher risk of serious injury in the case of an accident. Fleets typically equip all company vehicles with the current safety features available. If employees are providing their own vehicles, they may not have side-impact airbags (or any airbag on older vehicles), anti-lock brakes, and daytime running lights.

Some companies affix "How Am I Driving?" bumper stickers with a 1-800 number to their company vehicles as part of a fleet safety program. It would be difficult to require these on a personal vehicle.

Under a reimbursement program, a company still must set up policies and guidelines governing the use of a personal vehicle to conduct company business. However, it is difficult to get employees to comply with company policy. A company should still monitor motor vehicle record (MVR) checks of employees using personal vehicles. Unless you do so, how do you know if the employee representing your company is driving without a valid license or with a DUI conviction? To protect against this liability, companies need to update employee MVRs annually or semi-annually.

When you consider that an employee vehicle may be less safe than a company-provided vehicle and that it may have insufficient insurance coverage, along with the overhead expense to maintain an MVR program and to monitor insurance compliance, it is apparent that a driver reimbursement program