The Hidden Reimbursement

By Mike Antich

A perennial question facing corporate management is whether it makes better business sense to provide company vehicles for employees or to reimburse them for the use of their personal vehicles. Lately, this question has gained increased scrutiny and is being fueled by pressure on all businesses to take costs out of their operations.

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, to be the ideal way to accomplish cost reductions. 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 the hidden costs. In fact, upon closer analysis, reimbursement may actually be your most expensive option. Not only that, but it may directly harm your company's employee productivity and corporate image in the marketplace.

Here are 25 reasons why reimbursement doesn't work.

A Hiring Advantage is Eliminated

1. Providing a company vehicle gives your company a competitive edge in hiring top-caliber salespeople, technicians, and managers. This is especially true if your key competitors do not offer a company car program. A company-provided vehicle can be used as a recruiting tool and company benefit. Past industry surveys have shown that prospective employees view a company vehicle as an equivalent benefit to health care coverage and pension benefits.

"By not offering a company vehicle, employee recruitment and retention may be adversely affected. A company car is a positive recruitment tool. Competitors will use a company car as an incentive to recruit employees away from companies. Conversely, efforts to hire a prospective employee who already has a company car to a company that only offers reimbursement would be handicapped because of the large outlay of money that would be required to purchase a new car and insurance," said Bill Amundsen, manager fleet administration for PerkinElmer LLC in Shelton, CT.

Agreeing is Chuck Woolard, manager – fleet services for Wyeth Pharmaceuticals in Philadelphia. "Wyeth must provide competitive compensation by offering a company vehicle as do other pharmaceutical companies," said Woolard.

Use of Employee Vehicles Increases Liability Exposure

2. Some companies believe that they are eliminating insurance exposure with a car allowance. "These companies may be avoiding 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," said Shelly Lofgren, fleet manager – North America for Honeywell International in Minneapolis. "However, in driver reimbursement, the company does avoid insurance exposure for personal use."

Ask yourself, what is your liability exposure if the employee postpones safety-related repairs? What liability would your company face if an accident was caused by deferred maintenance? A company-provided vehicle allows you to control these variables and minimize this liability exposure.

"If we reimbursed drivers, we would have to be sure that the employee maintained a high enough insurance level. Even still, if an accident occurred, the employer would probably be brought into a lawsuit as well, no matter who carried the insurance," said Elsie Lucia, fleet operations manager for Unilever Bestfoods North America in Englewood Cliffs, NJ.

Costs of Driver Programs

Employee Productivity Will Decrease

3. A business that does not provide a company vehicle has little or no control over the condition of the employee's vehicle. If the amount of reimbursement by the company is not sufficient to cover actual expenses, the employee may defer preventive maintenance, which can lead to breakdowns, downtime, and unnecessary car-rental expense. Also, since preventive maintenance is an immediate, out-of-pocket expense, there is a temptation on the part of the employee to postpone routine maintenance, as well as more expensive mechanical repairs.

"Depending on an employee's financial wherewithal, some may find it difficult to pay for repairs out-of-pocket," said Charles Bowen, fleet director for Rollins, Inc. in Atlanta. "If unable to pay, the vehicle may have to sit idle at the repair facility forcing the driver to either rent a vehicle (if he can) or wait for a check from the home-office to get his vehicle out of the shop and back on the road. Corporate fleets generally have fix-now, pay-me-later arrangements in place that keep downtime to a minimum."

A reimbursed driver will be required to spend an inordinate amount of time coordinating repairs, maintenance, rentals, and registration renewals, which could otherwise be devoted to selling, added Amundsen.

In the event of an accident, with a company-provided fleet, drivers do not have to manage the repair of the vehicle and get a rental replacement vehicle, which is a tremendous productivity enhancement, said Tina Kourakos, assistant director for CIGNA Fleet & Strategic Sourcing in Philadelphia.

"Also, with driver-owned vehicles the employee will probably be shopping for a new vehicle or disposing of an old one on company time," said Kathy Jebbett, travel card & fleet administrator for Cooper Tire & Rubber Co. in Findlay, OH.

Reimbursement Has Negative Effect on Driver Morale

4. A company-provided vehicle helps create high employee morale. "Drivers don't have to worry about getting insurance, paying for unexpected major repairs, and routine maintenance. It is perceived by employees that the company values them more if it entrusts them with a company car," said Cathy Crewson, fleet manager for ADT Security Services in Boca Raton, FL.

On the other hand, driver reimbursement programs that are the same for all drivers can negatively affect driver morale since certain drivers will be overpaid while others are underpaid.

"If the car allowance is provided to a low-mileage driver, then the employee is enjoying additional compensation," said Lofgren. "For high-mileage drivers, the car allowance may not be sufficient to cover the employee's cost and may result in reduced performance by the employee because he or she feels cheated."

Different vehicle requirements, geography, and area economics require a very flexible reimbursement policy to cover these diversities or inequities. Because of built-in inequities in a reimbursement program, some drivers may feel they are being made to subsidize the company's operating costs.

"With a company-provided vehicle, there are no inequities among drivers and no agitation for higher allowances. In addition, under driver reimbursement, employees will constantly agitate for higher allowances as the cost of living prices escalate," said Amundsen.

"Employees also expect reimbursement for fuel or a cents-per-mile reimbursement *with* the car allowance. Depending on the amount of the car allowance, reimbursement could cost the company more than providing a company car," said Lofgren. "Also, the company cannot distinguish if fuel is purchased for personal use or only business use."

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Wrong Company Image May Be Projected

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A company vehicle is part of the corporate image you present 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 you to control the suitability and appearance of the 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. You need to control the image you project to the public," said Crewson of ADT Security Services.

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

"This is the main reason we do not use reimbursement," said Mary Olafson, fleet administrator for The Pape Group in Eugene, OR. "We want to present a professional, uniform presence in the marketplace. If a company uses a reimbursement plan, it cannot dictate what the employee purchases."

Costs are Unfairly Shifted to Employees

6.

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. Second, a company can finance a vehicle at a cheaper cost 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," said Pat Turner, fleet manager for Alcon Laboratories in Ft. Worth, TX.

"The employee can't possibly buy or lease a new car and operate it as inexpensively as a company," added Scott Mayo, fleet director for Wendy's International in Dublin, OH. "It would be difficult to afford a retail lease with the average miles that our drivers drive. Most retail leases are structured for the driver who drives 12-15,000 miles per year. Even if drivers choose to purchase the car, they would find out after two to three years that the resale value is so low because of the high mileage that they would be forced to keep driving that car or take a significant loss selling it or trading it in. When you factor in insurance, maintenance, and fuel costs, the employee always gets the bad end of the deal," said Mayo.

No matter what cost category is examined, a company-provided program is less expensive than driver reimbursement. "A well-run company-provided fleet will generally reap the benefits of lower overall costs due to the economies of scale that larger volume drives. These are: lower acquisition costs, lower holding costs (lease or depreciation expenses), lower maintenance expenses (national account pricing, specially negotiated programs on tires, oil changes, etc.), lower fuel expenses, and lower insurance costs," said Bowen.

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

The National Association of Fleet Administrators (NAFA) Foundation 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."

The software program is available to NAFA members for $99.95, plus $5 for handling. For non-NAFA members, the software program is available for $149.95, plus $5 for handling. To order the Lease vs. Buy vs. Reimbursement software package or for further information, please call the NAFA headquarters at (732) 494-8100 or visit the organization's Web site at www.nafa.org.

Reimbursement Offers Less Control of Employee Safety

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"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," said Mayo of Wendy's.

"We equip all of our vehicles with the current safety features available," said Jebbett of Cooper Tire & Rubber Co. "If employees are providing their own vehicle, they may not have side-impact

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airbags (or any airbags on an older vehicle), anti-lock brakes, and daytime running lights."

"We can provide or mandate additional safety equipment such as barriers in minivans to protect driver and passengers from in-vehicle flying articles," said Sheryl Grossman, fleet manager for GE Medical Systems in Milwaukee, WI.

Some companies affix "How Am I Driving" bumper stickers to their company vehicles as part of their fleet safety program. "All of our company vehicles have a blue 'How Am I Doing' sticker affixed to a bumper with a 1-800 number to call. It would be difficult to require these on a personal vehicle," said Don Topar, fleet manager for Truly Nolen of America in Tucson, AZ.

Advantages of Professional Fleet Administration Not Used

A company-provided fleet is easier to manage with one payment to a leasing company rather than processing numerous expense reports, said Debbie Ricciardelli of Watson Pharmaceuticals.

"Also, professional fleet management, especially by those with a CAFM certification, will make better fleet-related choices than individual drivers," said Ben Robinson, CAFM, manager support service for Royal Cup in Birmingham, AL. "We can control lifecycle costs by ensuring proper cycling of the vehicles."

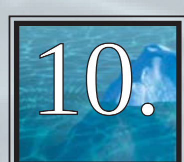
According to Turner of Alcon, there are 11 advantages of professional fleet management:

1. Ensures correct vehicle specifications.
2. Expedites vehicle maintenance.
3. Monitors and negotiates on vehicle maintenance, parts availability, service work, and scheduling.
4. Pursues accident reimbursement.
5. Serves as liaison in lawsuits resulting from auto accidents.
6. Audits and/or pursues warranty reimbursements.
7. Audits and/or pursues manufacturer and lessor rebates.
8. Keeps daily rental car rates to a minimum.
9. Audits sales of used vehicles.
10. Ensures that fleet reporting is consistent and in compliance with applicable tax laws.
11. Provides safe driving materials to reduce accident expense and time away from work.

Loss of Competitive Allowance Program Monies from Factories

Oftentimes, manufacturer fleet incentive programs, such as competitive allowance programs (CAP), are structured based on reaching tiered volume purchasing levels. A reimbursement program, in which employees acquire their own vehicles, would eliminate a company's fleet volume and its eligibility for CAP monies. "Many companies have grown to rely on these monies to assist in lowering their vehicle-related overhead expenses," said Brett Quigley, corporate director of transportation for U.S. Filter in South Bend, IN.

Inadequate Insurance May Be Carried by Reimbursed Employee



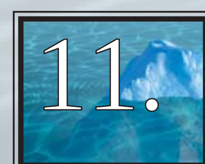
If a vehicle is not provided by the company, then the company must be certain that the driver has sufficient insurance to protect it from exposure should there be an accident while the driver is on company time. It is difficult to confirm driver compliance with your company's insurance requirements. "Our insurance company requires that drivers who use their own vehicles for business need to carry a certain dollar level of insurance and it is difficult to ensure compliance," said Julie Bromley, fleet director for Reedy Industries in Glenview, IL.

"If a personal unit is used for part of his or her job, then the employee needs to carry 'business' insurance, which costs twice as much as personal insurance," said Jan Cornell, fleet administrator for E.M.C. Insurance in Des Moines, IA. "The reason for this is if the employee is involved in an accident and does not have 'business' insurance on the unit, the carrier for the personal insurance can deny the claim on that person's incurred loss because he had not advised the carrier he was using his personal vehicle for business."

With driver reimbursement, the driver may not carry adequate liability insurance which puts the company at increased risk.

"Minimum limits of liability should be established if personal vehicles are used. Someone internally must track this, as well as renewals," said one fleet manager who wished to remain anonymous. "There should be insurance limits, a minimum amount should be $300,000. This could be very expensive since reimbursement mileage rate may be inadequate for some, perhaps many, employees. Other coverage areas would include sufficient insured/underinsured coverage, rental reimbursement, and towing. We would also require such insurance be obtained from financially solvent insurers."

Reimbursement Still Requires Monitoring Employee MVRs



Company-provided vehicles offer a better opportunity to monitor drivers by a required annual DMV check, said Bowen.

Even with a driver reimbursement program a company should still monitor MVRs. "How do you know if someone is driving for your company without a valid license or with a DUI conviction?" said Josie Sharp, CAFM, manager of fleet and fleet safety for Aventis Pharmaceuticals in Bridgewater, NJ.

Cornell of E.M.C. Insurance agrees. "Hopefully, no matter which vehicle provision is used, companies should

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make sure that drivers have acceptable MVRs as outlined by underwriting departments of the carriers and that these MVRs are updated at least yearly, or more frequently," said Cornell.

Increased Temptation to Defraud the Company

12. Reimbursement opens the door for the padding of business mileages in order to increase allowances.

"Drivers keep poor records of where they drove and for what reason so we pay without solid knowledge that we are paying for business mileage," said Bromley. "In the long run, it's much easier to account for personal use (by tax implication or other method) than to make sure you are not paying a higher cents-per-mile rate for possible personal use," added Bromley. "The cents-per-mile on reimbursement, which the IRS raises annually, can be higher than the cost-per-mile cost of having well-managed fleet vehicles."

"Also, some employees may attempt to get reimbursed for unauthorized expenses and there may be a deception of the true operating costs," said Theresa Anderson, fleet administrator for The Walsh Group in Chicago. "It takes time and labor to monitor these issues."

Added Tax Burden for Drivers and the Potential of an IRS Audit

13. If not handled correctly, reimbursement can be considered taxable income by the federal government and some states. "Car allowances are taxable to the employee and the company is subject to its portion of FICA tax," said Lofgren.

"On average, the employee's combined state and federal tax burden will increase, which amounts to a direct reduction in salary," said Amundsen.

In addition, reimbursed employees may be subject to possible IRS audit. "Mileage/expense is auditable," pointed out Kourakos of CIGNA.

Company Might Have to Make Loans to Cash-Strapped Employees for Vehicle Repairs

14. Will the reimbursement provided by a company to an employee driver be used for a vehicle or to make a college, mortgage, health, or insurance payment?

Often, salespeople whose job requires the use of a vehicle are recruited straight out of college. At this young age, many employees have little or no credit history, often no cash for down payments, and little experience in buying or leasing cars.

Many fleet managers report that these younger employees often need the company to be a co-signer of a loan and lease. Other fleet managers report that sometimes employees run short of cash and have to ask the company for a loan to repair their personal vehicle to continue working. "We had one instance where a transmission blew and the rep did not have the money for repairs or a replacement rental vehicle. The company loaned him the money to make the repair," said one fleet manager who wished to remain anonymous.

High-Mileage Drivers are Upside Down in Reimbursement

15. High-mileage drivers will usually be upside down at the end of a lease with a balloon payment due for over-mileage. "When the driver leases a vehicle in a closed-end lease, excess mileage charges can be expensive," said Joseph Cannavo, manager, fleet operations for Berlex Laboratories in Wayne, NJ.

Replacement cars are needed sooner because they quickly accumulate high mileage, but negative equity prevents employees from doing so unless the company intervenes with special compensation assistance, said another fleet manager who wished to remain anonymous.

The high mileage, an average of 30,000 miles per year, would preclude many employees from obtaining a personal closed-end lease, said Amundsen.

Many Employees Will Buy the Least Expensive Vehicle

16. Often, drivers seek the lowest payments possible through longer terms because they think they can "make some extra money" by doing so.

"If you allow employees to buy their own vehicles, some of them will buy the cheapest vehicle so that they can try to make money from the company allowance," said Mayo of Wendy's.

"Also, drivers do not always replace vehicles on a timely basis," added Cannavo of Berlex Laboratories.

Company Loses Dividends of Resale Profit

17. In a strong used-vehicle market, the additional revenues derived in the resale of a company vehicle go straight to the company's bottom line, said Jim Anselmi, director fleet operations & travel for Lorillard Tobacco Co. in Greensboro, NC. This revenue source, albeit unpredictable, would be lost in reimbursement.

The Perk of Buying a Used Company Vehicle is Eliminated for Employees

18. "Employees may be interested in the benefit of buying the vehicle when its useful life at the

company is completed. This perk is eliminated when employees are reimbursed for their personal vehicle," said Kourakos of CIGNA.

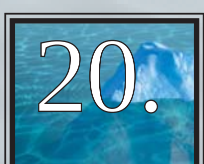
"There is also the employee perception that a perceived fringe benefit has been eliminated. Many sales and service personnel consider the purchase of their used vehicles a fringe benefit," said Amundsen.

ABILITY TO PROVIDE PROPER VEHICLES FOR FLEET APPLICATIONS IS RESTRICTED

A key problem with reimbursement is the inability to provide the proper vehicle for the job function. Specific fleet applications require specific types of vehicles; however, in a reimbursement program a company loses control of this, said Anselmi. With a company vehicle, you are able to make vehicle modifications and enhancements to protect the driver and stock, added Anselmi.

"Service vehicles often require specialized outfitting which requires they be company-provided to maintain safety and weight standards," said Margaret Crowley, manager, supply chain management at ABB Inc. in Raleigh, NC.

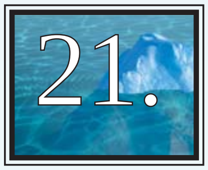
UNABLE TO MONITOR CONDITION OF EMPLOYEE VEHICLES



With an employee-provided vehicle, how do you ensure it is properly maintained? "With driver reimbursement, the company is not aware of the vehicle's condition and maintenance," said Sharp of Aventis.

"How are you going to monitor the condition of that employee's car? Is the oil being changed at 3,000-mile intervals, as it is done on fleet units? Are the tires in safe driving condition? What about the brakes? Who will be monitoring this? How will repairs be handled?" said Cornell of E.M.C. Insurance Co.

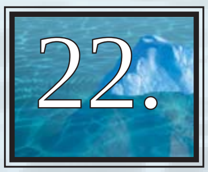
REIMBURSEMENT PERCEIVED TO BE PART OF COMPENSATION



Often a reimbursement allowance is seen by the employee as part of his or her personal income.

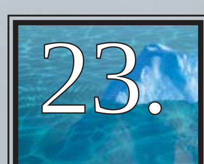
"When it is time to replace the current vehicle, the employee may resent the outlay of a large sum of money," said Amundsen of PerkinElmer.

INABILITY TO REGULATE PERSONAL USE OF EMPLOYEE VEHICLES



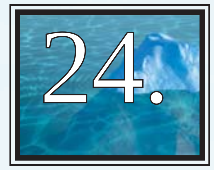
With driver reimbursement, there is an inability to restrict who can drive a vehicle. For instance, with some industries, it is important to regulate who can drive the car (such as no one other than an employee and spouse) because, as is the case with Watson Pharmaceuticals, some of these cars may contain drug samples, said Debbie Ricciardelli, manager, meetings & travel services for Watson Pharmaceuticals in Morristown, NJ.

EMPLOYEES ARE RELUCTANT TO PERFORM WORK THAT MAY DAMAGE THEIR PERSONAL VEHICLE



"With a company-provided vehicle, we know it will be used for company business rather than having a truck rented because an employee does not want to damage the inside of his own vehicle," said Grossman.

DIFFICULTY IN GETTING EMPLOYEES TO COMPLY WITH COMPANY POLICY

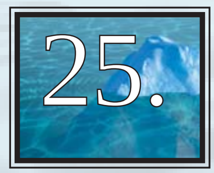


Under a reimbursement program, a company still needs to set up policies and guidelines regarding the use of the employee's personal vehicle to conduct company business.

"The administrative burden would be a pain in the neck and what would we do if we found the employee was not complying with the rules?" said Lucia of Unilever Bestfoods.

Companies offering reimbursement end up with an inconsistent mix of fleet vehicles and fleet policies with mileage and financing terms that make it impossible to manage equitably.

LACK OF ON-VEHICLE ADVERTISING OPPORTUNITIES



"One of the most important reasons we frown on employees using their personal vehicles in their job is because of the inability to advertise our company on their personal vehicles," said Topar of Truly Nolen of America. "Our sales fleet consists of the new VW Beetles done in a bright yellow actually called Truly Nolen Yellow and they are adorned with ears, tails, buck teeth, nose, and eyelashes and are quite noticeable. Our vehicles are very high profile and are basically a trademark of the company. Thus, drivers using their own vehicles would not be doing their part in advertising," said Topar. AF

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