WHITE PAPER

Summer
2019

To Lease, Reimburse, or Both? Key Factors to Consider When Making Your Decision

At some point, every fleet faces an important choice: offer a reimbursement program or offer company-provided vehicles. At first glance, reimbursement seems like a simple choice. Employees drive their own cars, and the company pays them back. But as companies grow more concerned about both the hard and soft costs of their fleets, a company-provided vehicle program can provide significant benefits. Gauging certain factors can help determine whether a reimbursement program, company-provided vehicles - or a combination of both - is the right choice for your company's needs and culture.

THE DOLLARS & CENTS OF LEASING VS. REIMBURSEMENT

Before you begin to compare employee reimbursement versus leasing, understand that multiple financial factors will impact your decision. The most basic piece of information to familiarize yourself with is the Internal Revenue Service's standard mileage rates, which are updated annually. As of 2019, the rate for business miles, which accounts for both fixed and variable costs of operation, was increased to 58 cents per mile. This is up from the 2018 rate of 54.5 cents per mile. These types of fluctuations are important to track as small changes can quickly add up.

For example, this rate increase means the annual cost of reimbursing an employee for a vehicle driven 2,000 miles per month is $13,920 – up from $13,080 last year. On the surface, this seems like a small change. However, if you are reimbursing 100 employees at that rate, that adds up to an extra $84,000 per year.

Like reimbursement rates, insurance costs, tax rates and fuel prices aren't fixed, either. Each can vary by geographical location, which means a flat allowance formula must also be carefully monitored. Even with updates, flat rates may pay some employees too much, and others too little.

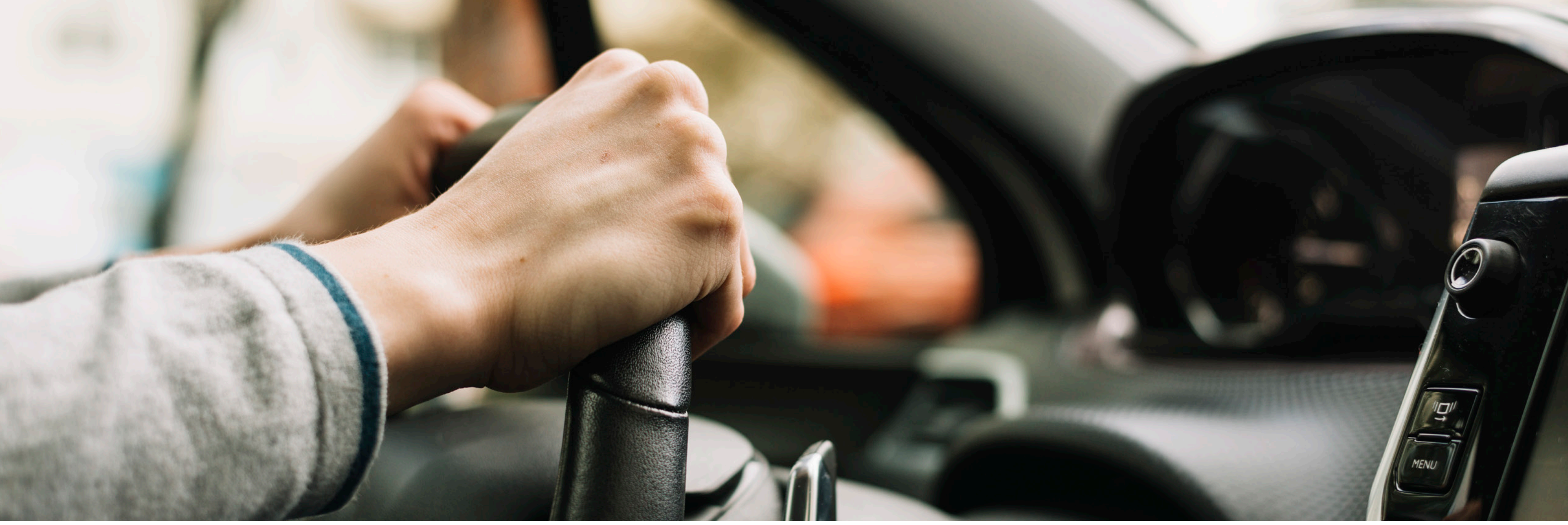
A simple starting point to compare your options is to speak with a fleet provider to obtain a quote for leasing. When getting quotes for commercial leases, remember to include the cost of additional services such as maintenance and fuel cards, as well as any potential revenues from remarketing at the end of the lease, to make sure you are creating an accurate cost comparison. When comparing a lease program to reimbursement, the total cost of ownership should be accounted for to provide the fullest picture possible. A fleet partner can help you with this analysis and determine an optimal mix of leasing and reimbursement, as most fleets can benefit from a combination of both methods.

WEIGHING YOUR OPTIONS

When making a decision about whether to lease or reimburse, finances are important but not the only factor. Safety, compliance, vehicle usage, company image, and company culture all factor in as well. Here are some high-level considerations when leasing company cars or reimbursing employees that should factor into your decision-making process.

Leasing

- **There are more options to monitor maintenance compliance.** With lease programs, the company has more opportunities to monitor maintenance. Staying on top of vehicle upkeep is a major benefit, as it costs less to perform routine maintenance than it does to fix heftier repairs down the road, and well-maintained vehicles are safer and more efficient. This lowers a company's overall total cost of ownership. Companies with a leasing program in place can add a maintenance service with exception reporting to notify them when vehicles are overdue for service, making it easier to hold drivers accountable and keep maintenance on track.
- **The company has more control over safety and driver accountability.** When a company provides the vehicle, they can choose newer models with enhanced safety features or install telematics. They also dictate who drives the car. Advances like GPS and telematics give fleets the lead on running more efficiently and can improve driver habits and increase productivity. All of these factors can reduce the company's exposure to liability.
- **Companies can avoid dramatic budget fluctuations.** With a lease program, spikes and dips in reimbursement rates can be avoided, and reimbursement fraud can be more easily mitigated. In a survey of business travelers by Chrome River, over 34% of fraudulent business expense claims involved claiming additional mileage while on company business. A company knows exactly what costs to expect when they purchase or lease vehicles. Companies can also leverage wholesale purchasing opportunities and service discounts, meaning the company saves time and resources over the long term.
- **Managing a leased program can be more efficient.** Reimbursement programs are managed at the individual level, whereas company-provided programs are managed at the fleet level. Providing vehicles allows for centralized control, putting the focus on managing a policy, rather than administrative tasks – and that makes for more productive management.
- **Leased vehicles give more control over brand image.** With company-provided cars, an organization can control its image and make sure their drivers present an attractive, professional impression. This can include adding brand wraps to vehicles to increase brand exposure. They can also advance their green image by providing efficient, environmentally friendly cars, or even hybrids.



- **Company cars can be used as a hiring and retention tool.** A company car is a competitive hiring advantage for many companies. Prospective employees see it as a benefit, and when employees get used to enjoying a company car, they are also not likely to take a job with a competitor that has a reimbursement program.

Reimbursement

- **It can be simple and cost effective for some situations.** In some situations or for certain segments of a fleet, reimbursement may provide a more economical option. This is especially true if you have drivers that are low mileage. For these drivers, offering a reimbursement could make more financial sense than leasing a vehicle. Executive vehicles are another situation where reimbursement may be more attractive because of the limited mileage and the ability for executives to drive whichever car they choose. Finally, while the IRS rate is often considered "standard" for reimbursement, companies may choose a different, lower rate or a combination of cents-per-mile and monthly allowance, known as a Fixed & Variable Rate (FAVR) program. These other options may result in a cost that is similar to a lease.
- **Employees enjoy increased choice and flexibility.** Reimbursement gives employees total control over which vehicle they want to drive. While this freedom is attractive to employees, it results in less control over company image. This type of flexibility may also not be feasible for fleets that require specialized vehicles.
- **Employees may see it as a perk.** Federal law technically does not require companies to reimburse employees for mileage (although some state laws do). For some employees, reimbursement programs are seen as a perk since a reimbursement is perceived as extra income, and it can serve as a hiring and retention method. However, other employees may realize reimbursement is not the most economic choice for them personally.
- **Administration can quickly become complex.** Mileage reimbursement programs often present administration challenges. Staff time is required to gather and tally mileage if an automated system in not in place, and companies need to verify that drivers are carrying enough insurance to cover business usage. If a company opts to use a FAVR program or adjust formulas according to geographic location, tracking reimbursement can quickly become a complex task.

FINDING THE RIGHT MIX

Deciding between leasing and reimbursing does not have to be an all or nothing decision. You may find that your company could benefit from a mix of reimbursement and leasing. This mix can be broken down in several different ways. For example, there may be a mileage threshold where it makes financial sense to switch an employee from reimbursement to a leased vehicle. Your company may also decide that different job functions require different policies – it may

make the most sense to lease service vans for technicians while making reimbursement vs. leasing decisions according to mileage for the sales force.

With today's mobility options, companies may even incorporate a sharing model where they lease vehicles but do not assign them to specific employees, instead creating a company pool for occasional drivers. This type of model can reduce leasing costs while also reducing the amount of reimbursement processing. Ultimately, the mix between traditional leasing, pools, and reimbursement is going to be different for every company. Here is what the decision process looked like for a hospice company.

Company: Home hospice care company utilizing 400 sedans with 800-900 employees on mileage reimbursement

Challenge: The business was expanding, causing an increase in reimbursement expenses and budget pressure.

Solution: Their existing program was evaluated and the breakeven point was discovered. Going forward, program cars were leveraged where needed, a personal use charge was implemented, and drivers on reimbursement were aligned.

Results

- Operating cost per mile ↓
- **$30,000/ month** reduction in cash flow
- On track for **$3+ million** in lifecycle savings

MAKING THE CHOICE

At face value, a reimbursement program may seem like an economical choice. It seems like a "what you see is what you get" option: an employee drives a certain number of miles, and the company reimburses her for it. Another employee gets an oil change, and he gets paid back. But reimbursement formulas usually aren't that simple, and you also have to consider your company's culture and expectations around reimbursement vs. company cars. It's important to consider both the hard and soft costs. A fleet's true cost of operation depends on lots of factors, all of which should be weighed together in order to get an accurate picture of which choice is right for the fleet.

Before making a final decision, it's smart to seek outside expertise. Fleet providers can conduct a complete analysis specific to your fleet, present best practices and use cases, and have up-to-date market data so they offer a professional recommendation that best suits your bottom line.

If you are looking for guidance about your leasing and reimbursement options, contact Merchants Fleet at 866.653.2737 or leasecontact@merchantsfleet.com.