CAR BENEFIT POLICIES: TIME FOR A TUNE-UP?

By Stephanie Wilson

Car benefits can be surprisingly difficult to manage. Market practices seem to shift constantly and vary by country. The need for more environmentally-friendly approaches to transportation demands consideration. And there are details to car benefit policies that can serve as speed bumps to even the most prepared HR professional. The checklist below can help guide your car benefit policy tune-up.

☐ 1. Manage the policy at the right level

Because car benefits can vary significantly from one country to the next, most organizations opt to manage them locally. However, many times the parent organization will control major aspects of the policy even with the local customization, largely to avoid taxing sparse local resources.

☐ 2. Consider greener alternatives

Continuing concerns about climate change are increasing the focus on alternatives to the traditional company car. In some places, these alternatives can even lead to tax breaks. Try these on for size:

- Limit or reduce the number of company cars
- Add hybrid/electric vehicles to the fleet
- Limit vehicle options to those with lower CO_2 emissions
- Promote the use of public transportation by offering subsidies or allowances
- Actively promote other means of transportation (e.g., car pools, bicycles)

☐ 3. Recognize there are significant differences in practices across countries

Did you know that while it's uncommon for non-sales professionals to receive car benefits in the Americas and Asia Pacific, these employees are eligible in just over half of European organizations and in 85% of Middle Eastern and African organizations*? Keeping up with local trends can help keep costs down while maintaining a competitive remuneration package.

☐ 4. Select those eligible for a car benefit carefully

Few organizations provide car benefits to all employees, and geography often plays a large role in eligibility. Articulate a business reason for the inclusion of roles, whether it be logistical efficiency (e.g., sales roles) or market competitiveness to attract and retain key employees.

5. Determine which benefit to offer – cars, allowances, or both

Car benefits can take the form of an actual car or an allowance. Although nearly 70% of organizations offer allowances that remove the hassle of dealing directly with vehicles and their associated obligations, just under half allow employees to choose between a car and allowance*. Even with an allowance, decisions must be made around the amount and guidelines for how it can be spent.

6. Pick out a sweet ride – but not too sweet

Selecting the right make and model of cars for the company fleet is important. Balance the desire for a stylish car that provides a positive perception of the organization with the need to be fiscally and environmentally responsible. Market prevalent practices can provide direction, and, again, vary by geography.

7. Weigh ownership vs lease options

Leasing is more common than owning when it comes to company fleets, regardless of geography*. Organizations should determine the overall cost and the length of time they intend to keep the vehicle, but also must consider how their decision impacts the balance sheet, cash flow, income statement, and important financial ratios. Getting input and modeling from the finance department is recommended for fleets of significant size.

8. Determine program guidelines and ancillary cost coverage

Before deciding on vehicle type or ownership model, companies must consider their program's governance and financial arrangements. These crucial details can include:

- When to replace the vehicle (miles or time)
- Coverage of ancillary costs (fuel, maintenance, insurance, taxes)
- Business usage only or business and personal usage
- Employee ability to choose their vehicle and/or trade up/down
- Employees transferring from eligible to non-eligible roles

9. Communicate carefully

Companies must communicate effectively with both those who are and those who are not eligible for car benefits. Communications with the eligible should cover the program's benefit and details. This ensures the employee appreciates the significance of the benefit and understands exactly how the program works. For those not receiving a car benefit, it can be equally important to make the business reasons behind eligibility selection clear to avoid feelings of being short-changed.

10. Make sure it fits into the broader total rewards picture

Car benefits can be quite visible and valued by employees, but car policies don't always have to be the best-in-class. It's important to make decisions about the program based on how it fits into the broader total rewards strategy. This encompasses the entire employee value proposition, from base salaries, to retirement plans, to flexible working, to pride in the organization.

Conclusion

Car benefits will continue to evolve in the coming years, particularly as the push for environmentally-friendly transportation alternatives grows. Whether you choose to monitor trends or be at the forefront of this movement, having a carefully planned and communicated policy can save you money and headaches now and into the future.

** Mercer's 2017 Car Benefit Policies Around the World*