

No-Brainer Benefits

Commuter benefits make employees happy, save employers money, and help the environment. Plus, they're a great way to stretch the compensation dollar.

Executive Summary

Simple arithmetic is forcing HR Managers to adjust existing plans and look for creative ways to make benefits packages more attractive. The big question is: how can companies sweeten the compensation pot when the economy turns sour?

For a growing number of companies, commuter benefits are at least part of the answer. These benefits enable employees to pay for their commuting – via mass transit, commute-related parking, vanpooling and bicycling expenses – in pre-tax dollars, thereby getting a boost just for getting to work. At the same time, employers save payroll taxes on the deducted amounts.

Commuter benefits are part of a federally-enabled program governed by IRS tax code 132(f), which allows pre-tax deduction amounts of \$460* per month.

The benefits are proving to be scalable, intuitively attractive, and easy to administer. Plus, there are a number of options to use third-party administrators. The net result is a reduction in commuting costs for employees and payroll taxes for employers; a less-stressed, more productive workforce; less congested highways, cleaner air and a demonstrated commitment to the triple bottom line (people, planet and profit).

For employees, employers and their host communities, commuter benefits are a win, win, win.

** Up to \$230/month for the transit benefit, plus up to \$230/month for those who park and take the train. Bicyclists receive \$20/month as an employer sponsored subsidy for equipment and maintenance.*

Why do we offer benefits to employees? Because they improve workforce well-being, morale and productivity. Because they make companies stand out to potential new hires. Because they improve the bottom line. And yes, because we care about the people who work for us and with us.

The problem is, benefits can be expensive, and in a down economy, prohibitively so. A recent survey by the Society for Human Resource Management (SHRM) indicates that in the face of economic pressure, many organizations have plans to reduce or eliminate financial and compensation benefits within the next 12 months¹. What's more, sixty percent of companies say that they have already cut back².

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Commuter benefits: the ultimate no-brainer benefit

The answer lies in a class of benefits that pay back in multiple ways: higher employee morale, reduced stress, greater productivity, cost savings, tax reductions and high visibility. They are easy to implement and administer, offering a variety of delivery vehicles. Plus, these benefits give back to the community – an area of growing concern given today's sharp focus on corporate social responsibility.

That's the short list of the strengths of a class of perks called pre-tax commuter benefits, an innovative, federally-backed program that allows employees to set aside pre-tax dollars to help pay for the commute to and from work. That includes the cost of transit tickets, commute-related parking, vanpool costs and even bicycle expenses. Any way you look at it, it's a big win for employees, employers and the community at large.

"There are a number of obvious benefits to transit ridership," says Congressman Jim McGovern (D-MA), who has worked to promote such benefits for years, "including a reduction in energy consumption, improved air quality, and reduced congestion. But the one issue that I think is most important to employees and employers is the fact that both employers and employees can save hundreds of dollars a year by simply doing the right thing. It's a no brainer."

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[Congressman Jim McGovern \(D-MA\)](#)

Employees clearly want help with their commutes. An Employee Omnibus Survey by SHRM (January, 2009) indicates that 39% of employees are concerned about the rising cost of commuting, and they'd like to see benefits that help them manage those expenses³.

Recent legislation makes commuter benefits more attractive

There is nothing new about commuter benefits; they've been around for almost 20 years, growing out of legislation in the early 90's meant to encourage transit ridership. The benefits themselves were not very compelling for employees or employers for much of the intervening years, but then three factors combined to make them much more interesting, in a big hurry – rising gas prices, a growing awareness of the need for more sustainable business practices, and the recession.

In February of 2009, thanks to the efforts of legislators like Congressman Jim McGovern of Massachusetts (D), the transit cap was increased as part of the American Recovery and Reinvestment Act (ARRA). The increase in allowable pre-tax contributions has boosted awareness and participation; today, more businesses and employees are taking advantage of the push to encourage the use of alternative forms of transportation.

Section 132(f) of the Internal Revenue Code allows employees to set aside up to \$460 per month*, pre-income tax, to pay for their commuting expenses, whether that means mass transit, commute-related parking, vanpooling or bicycling. Essentially this can reduce their commuting costs by up to 40%.

At the same time, employers can write off that portion of the employee's payroll taxes, which amounts to 10% or more. Some employers choose to subsidize the program, providing the benefit as a substitute for taxable salary, as a supplemental benefit, or as a combination of the two.

How much can employees and employers save?

Commuter benefits can save the average commuter big money over the course of a year. For example, a commuter in Poughkeepsie making \$40,000 and commuting into New York City pays \$4,848 in annual transit fees. Enrolling in commuter benefits would save this employee \$1,697 annually – over 1/3 of the ticket cost.

Some employees may live in an area not served by mass transit. To help them defray the burgeoning costs of commuter parking, the same pre-tax benefits apply. The payments, in the form of parking vouchers, debit cards or direct payments to parking vendors, can only be used for commute-related parking.

Above and beyond the tax benefits of the program, commuters save even more in fuel, insurance and auto maintenance costs when they switch to mass transit. An estimated 76% of Americans commute alone by automobile⁴.

	Without Commuter Benefits	With Commuter Benefits
Salary	\$40,000	\$40,000
Commuting Costs	\$4,848	\$4,848 (pretax)
Taxable Income	\$40,000	\$35,152
Tax Rate	35%	35%
Taxes You Pay	\$14,000	\$12,303
Take Home Pay	\$26,000	\$26,697
Total tax savings	\$0	\$1,697

* Up to \$230/month for the transit benefit, plus up to \$230/month for those who park and take the train. Bicyclists receive \$20/month for equipment maintenance.

Get one of those drivers onto mass transit, and he or she could save an estimated \$8,400⁵ and eliminate nearly 5,000 pounds of carbon from the atmosphere per year.

76% of Americans commute alone by car. If just one switches to mass transit, they save \$8,400 and remove nearly 5,000 lbs. of carbon from the atmosphere per year.

Where do employers' savings come in? Basically, employers pay no payroll tax on any money employees set aside in the program. It's essentially a free benefit for employers, which explains the growing popularity of commuter benefits. In fact, employers can save 10% or more on payroll taxes, which includes funds employers may opt to contribute to subsidize employee involvement in the program. In either case, the more employees who enroll, the greater the savings for employers.

Calculate your benefit

To calculate the savings in your company refer to the calculator in Appendix A. The calculator gives an accurate picture of the savings per employee. It's a simple matter of determining the tax bracket of a target employee (the majority will be in the 25% tax bracket) on Chart A, then going to the bottom line of Chart B to see the savings per employee. Employer savings per employee are quickly seen in Chart C.

But how do you calculate the employee savings across the entire company? Particularly when you're not sure how many employees will enroll? One approach is to use the number of employees already commuting via transit as a base number. Add to that the number of employees now paying for parking and vanpooling. Each of them is entitled to any amount that covers their real cost, up to the \$460 benefit per month. Bicycle commuters are entitled to \$20 per month for maintenance and equipment costs.

Then it's a simple matter to add up the numbers to calculate total employee savings:

$$\begin{aligned} & \# \text{ employees riding transit } \times \text{ average monthly transit cost } = \mathbf{A} \\ & \# \text{ employees paying for parking } \times \text{ average monthly parking fee } = \mathbf{B} \\ & \# \text{ employees vanpooling } \times \text{ monthly cost for vanpool program } = \mathbf{C} \\ & \# \text{ employees commuting by bicycle } \times \$20 = \mathbf{D} \end{aligned}$$

$$\mathbf{A + B + C + D = Total \text{ employee savings}}$$

This conservative estimate does not include those automobile commuters who may switch to alternate forms of commuting (an additional estimated savings of \$8,400 per automobile per year⁵) under the program.

For total employer savings, use the same number of employees you just compiled, but determine how many of them are earning over \$106,800, and how many are earning less.

Add the savings from each group for the total employer payroll tax savings:

employees making 106,800 or less **X** \$211 = **A**

employees making 106,801 or more **X** \$40 = **B**

A + B = Total employer savings

Stress-free commuting means a more productive workforce

Economics is not the only motivation for commuters looking to leave the crowded highways. "I've always felt that once people get into the habit of using alternative commuting, other reasons take over to make them stay," says Dave Beadle, an HR Manager who was instrumental in bringing commuter benefits to Qualcomm.

"For me, it was the lack of stress -- not having to deal with that daily commute and wonder if the guy in that SUV was going to smash into me. It's being able to sit back and read a book or catch up on some work that I didn't quite get done at the office, or being able to leave a late meeting to catch your train. So other things take over to keep people using mass transit but the financial incentive inherent in commuter benefit programs definitely encourage people to take that first look."

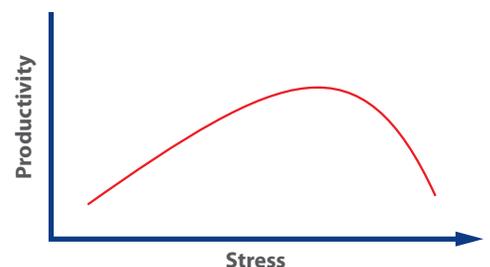
"...once people get into the habit of using alternative commuting, other reasons take over to make them stay..."

Dave Beadle, Qualcomm

Beadle points out that people don't live in suburbs because they love mowing lawns and driving stressful hours in traffic to work. Adding to traffic stress is the financial strain that drives some employees to the suburbs in the first place. "An employee relocating to San Diego from Missouri is going to be paying a heck of a lot more for housing; in order to get something equivalent to the home they just sold in Kansas City they're probably going to be living fifty or sixty miles away from the worksite."

According to the U.S. Census Bureau, the average round-trip commute went from 48.6 minutes in 2006 to 51 minutes in 2009. If that doesn't sound like much of an increase, consider that even the lower figure added up to more than five weeks of worktime, and just adding two minutes a day would be the equivalent of an extra twelve hours over the course of a year.

What that does to people's stress levels is hard to quantify, but easy to imagine. Studies show that up to a point, stress makes people more productive. But it's an 'inverted U' curve; beyond the tipping point, added stress causes productivity to drop rapidly. Exactly where



Inverted "U" relationship between stress and productivity

that tipping point lies is different for every person, but coming into the office after a near-miss on the highway can't be good for anyone's productivity.

Plus, it's the right thing to do – and consumers are watching

Public awareness of sustainability issues and the ubiquity of the Web have brought sharper scrutiny to corporate social responsibility than ever before. A BBMG survey⁶ shows that three-quarters of U.S. consumers reward and punish brands based on corporate behavior. What's more, over half of them are driven to share their views on and offline. The internet has put teeth in consumer's demands for corporate social responsibility.

It's not just consumers. Employees also want to know that their companies are doing the right thing. Organizations that demonstrate their commitment to the triple bottom line (people, planet, profit), rather than profits to the exclusion of all else, score points with consumers battered by a sluggish economy and familiar with tales of corporate greed.

The choice is clear: the willingness to take on bigger problems outside the traditional corporate purview – like clean air, climate change, and crowded highways – is an important positioning statement. Companies ignore larger responsibilities at their peril. And there's no doubt that changing commuter behavior can have a major impact:

- One person switching to public transit can reduce daily carbon emissions by 20 pounds, or more than 4,800 pounds in a year.
- When compared to other household actions that limit CO₂, taking public transportation can be 10 times greater in reducing this harmful greenhouse gas.
- Public transportation's overall effects save the United States 4.2 billion gallons of gasoline annually – more than 3 times the amount of gasoline imported from Kuwait⁸

How they work; implementation, administration and customer service

Companies can administer commuter benefit programs themselves or hire one of a number of companies that offer setup and ongoing administration and maintenance. Administration firms offer a range of services, from simple programs designed to make implementation and self-administration easier, to online systems accompanied by ongoing program administration, order fulfillment and customer service.

Self-administered programs using outside fulfillment enable employers to place bulk orders online or by mail with a simple form. Commuting products are distributed by the employer. For larger employers, it's easiest to let employees order their commuter benefits online, which are mailed directly to employees' homes.

In addition, online systems offer turnkey simplicity for already-busy HR professionals. According to Dave Beadle, who helped bring commuter benefits to Qualcomm, "We literally click a button once a week and the data feed is automatically uploaded to the outside firm with the eligibility information. It's so simple for us it's almost ridiculous."

Selecting an administrator

Beadle cites a number of important factors in selecting a program administration firm: National scope, ease of implementation, solid customer support, and of course, what the service will cost.

Qualcomm switched from self-administration to hiring the services of a program administration firm in 2006. “We certainly wanted an organization with national scope, capable of servicing our employees in all of our current locations, and some of the other metropolitan areas where we might be looking in the future. We also wanted something that wasn’t going to be a burden administratively.”

In the end, after looking at a number of companies, Qualcomm ended up going with Commuter Check, a national provider of commuter benefits administration. Along with the fact that they are one of the few administration firms with a national scope, Beadle was drawn to Commuter Check’s ability to integrate their user-friendly interface and front-end system Qualcomm’s installed HR systems.

Customer service is an important element in either type of program, but particularly in the case of the large-scale systems administered by outside firms, HR should ensure that the firm’s infrastructure and professionalism are such that employee questions are answered quickly and accurately.

Beadle also mentions the importance of scalability in the decision. “I like programs that are scaled to the actual cost and the actual participants. With Commuter Check, I’m only paying for the people who are actually using it.”

And the price was right, in terms of administration fees. “Our current administration costs are pretty minimal – a tiny fraction of what we pay in health care.”

Making the case for commuter benefits

Let’s say you’re convinced; commuter benefits are a great idea. Now you need to convince the C Suite. A good place to start is to think about the goals of the organization. Re-read the corporate mission statement, and think about how commuter benefits support that mission. As Dave Beadle says, “If you’re looking at any type of benefits decision, you need to show how it helps the company achieve its overall goals and objectives.

At Qualcomm, Beadle presented commuter benefits to upper-level management as an enhancement to employee productivity. “We emphasized that for employees enrolled in the commuter benefits program, commuting logistics are one less thing they have to worry about. They feel as though they’re being taken care of by the company, which frees them to be more creative and innovative at work which then translates into better Qualcomm products.”

It’s important to present the way that commuter benefits can give a company a strategic and competitive edge. The substantive positive practical effects of commuter benefits also result in positive perceptions:

- Reducing stress helps to boost employee productivity
- Far less expensive than standard benefits: an economical surprise

- Community benefits include clean air and less congestion
- Commuter benefits prove that your company values its employees
- Consumers are more focused on the triple bottom line (people, planet, profit)
- The program is easy to administer and reasonably priced
- Plays well in social media

One of the most important success factors in presenting commuter benefits, or any benefits program is how HR is viewed within the organization. "At Qualcomm, our HR team is really viewed as a strategic partner in the company," says Beadle. "If you're looking at any type of benefits decision, you need to show how it helps the company achieve its overall goals and objectives. And practically from the start, we had support from the C Suite on down."

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Once the program is a reality and even beforehand, enrollment should be an important priority. It's more than just that the more employees who join, the better the tax savings for the company. It's also a boon for clean air, traffic reduction, and a boost for the economy. For that reason, it's a good idea to institute employee awareness campaigns in the form of check stuffers, posters, informational 'launch lunches' and the like. To help boost enrollment, companies like Commuter Check have created entertaining, user-friendly websites that specifically target employees (see <http://www.commuternation.com/>).

How to get started with commuter benefits

When people understand what commuter benefits are all about, it truly is a 'no-brainer' to gain their support for bringing the program to your company. But that's not to say it will happen without some initial effort. Here are a few practical steps and tools to help you get started:

- Float the idea within HR: get everyone on board
- Conduct a straw poll of management; listen to objections carefully
- Build the case for commuter benefits that incorporates and answers objections
- Create a PowerPoint deck that presents the case
- Use this white paper as a platform for discussion

For more insight and assistance in setting up your own commuter benefits program, call Commuter Check at 800-531-2828.

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¹ 2009 Employee Benefits: A Survey Report by the Society for Human Resource Management" (SHRM), page 19

² 2009 Employee Benefits: A Survey Report by the Society for Human Resource Management" (SHRM), page 2

³ SHRM Employee Omnibus Survey, January 2009, page 19

⁴ US Census Bureau: Journey to Work 2000, page 3, table 1

⁵ American Public Transportation Association website (<http://www.apta.com/mediacenter/ptbenefits/Pages/default.aspx>)

⁶ 2009 BBMG Conscious Consumer Report: Redefining Value in a New Economy

APPENDIX A

COMMUTER BENEFIT TAX SAVINGS CALCULATOR

The IRS allows commuters to set aside pretax earnings to help pay for transit. Employees can deduct up to \$460/month (\$230 for transit costs plus \$230 per month for those who pay to park and take mass transit) and use that money to pay for transit tickets, commute-related parking, vanpool costs, and bicycle expenses. This calculator assumes a benefit level of \$230 per month, allowed under 132(f).

CHART A: TAX BRACKET

2009 Federal Tax Brackets	Married <i>from - to</i>	Single <i>from - to</i>
10%	Under \$16,700	Under \$8,350
15%	\$16,701 - \$67,900	\$8,351 - \$33,950
25% (most common)	\$67,901 - \$137,050	\$33,951 - \$82,250
28%	\$137,501 - \$208,850	\$82,251 - \$171,550
33%	\$208,851 - \$372,950	\$171,551 - \$372,950
35%	\$372,951 +	\$372,951 +

1) In Chart A, determine the tax bracket of the target employee who could be enrolled in the program (the majority will be in the 25% tax bracket).

CHART B: EMPLOYEE SAVINGS

Federal Income Tax Brackets <i>(25% is most common)</i>	10%	15%	25%	28%	33%	35%
Federal Income Tax Saved	\$276	\$414	\$690	\$773	\$911	\$966
FICA Savings	Social Security		\$171	\$0*	\$0*	\$0*
	Medicare		\$40	\$40	\$40	\$40
State/City Income Tax Saved <i>(varies by state; assumes 6%)</i>	\$166	\$166	\$166	\$166	\$166	\$166
Total Annual Employee Savings	\$653	\$791	\$1067	\$979	\$1117	\$1172
Percent Saved	23.7%	28.7%	38.7%	35.5%	40.5%	42.5%

2) It's easy to calculate employee savings under the commuter benefits program. Using the tax bracket for your target employee from Chart A, simply jump to the bottom line: "Total Annual Employee Savings."

CHART C: EMPLOYER SAVINGS

		Annual Salary \$106,800 or less	Annual Salary \$106,801 or more
FICA Savings	Social Security	\$171	\$0
	Medicare	\$40	\$40
Total Annual Employer Savings		\$211	\$40
Percent Saved		7.65%	1.45%

3) Table C allows you to estimate employer savings on payroll taxes for employees enrolled in the program: \$110 per year for each employee earning \$106,800 or less, and \$21 per year for each employee earning \$106,801 or more.

Simply multiply the employer savings per employee times the number of employees you think might be likely to enroll, and add these figures to arrive at an estimate of your company’s total payroll tax savings.

[Source: Transit Benefits Tax Savings Calculator.pdf]