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20 Years of Commuter Benefits: Where We've Been and Where We're Going

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This summer, as gas prices reached a national average of nearly \$3.00 a gallon, commuters scrambled to find ways to save. Many found relief by choosing mass transit instead of driving to work.

While there is no denying that we are still a nation of drive-alone commuters - according to the 2005 Census Bureau American Community Survey, 77 percent of U.S. drivers commuting to and from work do so alone in their hatchbacks and hybrids - across the country, transit providers have witnessed a recent rise in ridership.

Is this an effect of the upward spiral in fuel costs? Is the growing popularity of transit a reaction to traffic congestion on U.S. roadways, which according to the recent report from the National Research Council's Transportation Research Board, has pushed more to hit the road before 6:00 a.m.? Is it a cause of the continued expansion of transit services everywhere, from large cities to small suburban communities? Likely, it is all of these things and more. Even before the recent fluctuations in gas prices, this last decade has seen a resurgence of transit development in the U.S. Witness improvements underway everywhere from New York, Boston, and San Francisco, to Dallas, Salt Lake City and Miami, where SFRTA's Tri-Rail project, intended originally to temporarily relieve highway construction, is flourishing. With the growing move towards transit, we must also not forget employers, who, over time, are playing an important role by offering commuter benefits to their employees. This is a phenomenon that TransitCenter Inc. has been a part of more than the nearly 20 years since TransitChek, the first commuter benefits program was launched, helping make commuting - a very necessary cost of employment - more affordable and accessible to hundreds of thousands across the country.

Engaging the Business Community

From city planners to government officials and transit providers, we have long recognized that it is not possible to rely on cars and roadways alone to move people from Point A to Point B.

"This cannot be a future, for cities or suburbs, which is based on the automobile alone; achieving a balance with transit is extremely important," says Rosemary Scanlon, a member of TransitCenter's board of directors who is also associate professor of economics at the Real Estate Institute at New York University, and a consultant in urban and regional economics. Attaining this balance is not a new challenge, and it is a continuous evolution. Take the New York metropolitan area as an example: Twenty years ago, New York was faced with an overabundance of cars on the road as many people commuting to New York's Central Business District from New Jersey via area bridges and tunnels were receiving parking subsidies through their employers. This was creating a major congestion problem. Even to the average person on the street, it was fairly self-evident that a solution was needed, and the transit community saw a promising opportunity: engaging employers to get people out of their cars by creating an equivalent incentive for commuters to take mass transit.

The Birth of Commuter Benefits

TransitCenter, an independent, 501(c)(3) nonprofit corporation since 2001, got its start in 1986 as a regional alliance of transit providers and representatives of the business community - the New York State Metropolitan Transportation Authority, the Port Authority of New York and New Jersey, New Jersey Transit and the New York City Chamber of Commerce and Industry (now the New York City Partnership). Members recognized that encouraging greater use of mass transit could be a solution to addressing traffic problems, at the same time helping to preserve natural resources and protect the environment.

In 1987, TransitCenter launched the nation's first commuter benefits program, TransitChek. The program started with the support of just 12 employers. Today, the TransitChek program is available via some 11,000 employers nationwide, and used by more than 500,000 commuting employees. In fact, the program has been so successful that commuter benefits offerings, still a not-for-profit venture for TransitCenter, have become a for-profit enterprise for several major benefits providers.

Today, an estimated 15 percent of employers across the country offer a commuter benefits program, according to the June 2006 Society for Human Resource Management Benefits Survey Report.

"We understood from the start that offering a commuter benefits program was a way that we could support our employees with the daily, very basic and very necessary cost of commuting to work; that remains just as true for us today," said Charles F. Chiusano, vice president at Avant Business Services, one of the first employers to offer the TransitChek program.

At that time, companies were allowed to provide a \$15 monthly federal transit tax benefit to employees as a result of an IRS interpretive ruling; in 1991, the IRS increased the amount to \$21. Then, in 1992, the late U.S. Sen. Moynihan (D-NY) led the effort to establish IRS code section 132(f), which resulted in an increase in the transit benefit to \$60, and continued the use of employers' tax-free dollars to fund the benefit. Soon after, in 1998, a national coalition moved to expand the commuter tax benefit to give employers the option of structuring the program by having employees fund the benefit using their pre-tax salaries. This move meant that 100 percent of the financial responsibility need not be on the employer, which helped make the benefit more appealing and opened up the tax savings of commuter benefits to millions of employees nationwide.

Since 2002, the IRS has made the allowable cap for monthly transit-related benefits \$105 a month, and \$205 for commuter-related parking. Today, as part of the IRS tax code section 132(f), employers are allowed to offer a tax-free benefit for commuting by transit or eligible vanpools or to pay for commuter parking. Although technically called qualified transportation fringes, these benefits are better known as commuter benefits.

"The transit benefit has grown and adapted over the years, steadily providing riders with greater savings and more convenience," says Gene Russianoff, staff attorney for the NYPIRG Straphangers Campaign, a New York City-based riders group. "It has played a key role in the booming ridership we are seeing today."

The IRS allows employers a variety of ways to offer the benefit:

- It can be provided as a tax-free fringe where the employer pays for the benefit. In this case, the amount is treated as a deductible business expense and the employee pays no taxes on the subsidy.
- It can be paid by the employee with salary before taxes, so that the employee saves on payroll taxes and the employer no longer pays its share of payroll taxes - principally FICA - on the amount set aside.
- Some employers choose to use a combination of these methods, contributing an amount less than the monthly maximum to the employee and letting the employee pay for the remainder as a pre-tax deduction.

What are the savings? For employees, this depends on individual tax brackets as well as the amount they choose to set aside pre-tax for transit and perhaps commuter parking. It is common for employees to save 30 to 40 percent on their out-of-pocket commuting costs in the form of tax savings. At the same time, employers achieve payroll tax savings per participating employee.

Supporting Transit Growth

As cities and transit providers have expanded the options available to commuters, more people are seeing transit as an attractive and convenient alternative. According to the

2000 U.S. Census figures, 53 percent of those employed in the New York metropolitan area and 10 percent of those living around Los Angeles are riding mass transit to work.

Commuter benefits are helping facilitate this conversion. A 2004 survey by TransitCenter of commuters in the New York area found that 14 percent of TransitChek users previously did not ride mass transit. This finding is validated by the 2005 Transit Cooperative Research Program (TCRP) Report, "Analyzing the Effectiveness of Commuter Benefits Programs," which revealed that employee transit ridership increased 10 to 50 percent at worksites that implemented a commuter benefits program, with 10 to 25 percent of participants being new transit riders. With the continued improvements and expansions needed to serve a growing pool of mass transit commuters, the cost of transit has understandably increased over time. Solutions like commuter benefits have helped soften the impact on commuters' pocketbooks.

At the same time, continued investment in transit has had a tremendously positive impact on communities and businesses. A 1997 report prepared for the Campaign for Efficient Passenger Transportation, "Dollars & Sense: The Economic Case for Public Transportation in America," found that every dollar taxpayers invest in public transportation generates \$6 or more in economic returns.

Adding Meaningful Value for the Transit Community

The commuter benefits industry had sales of roughly \$1.1 billion in 2005 - and anticipates continued growth as more employers and employees latch on to this benefit. In recent years, transit operators across the country have started to recognize that commuter benefits can be a meaningful, reliable generator of fare revenues.

Commuter benefits providers are, in many cases, large purchasers of fare media from a host of transit operators. The result is lower operating costs for transit operators from the reduced need to handle pass distributions and cash.

According to the 2005 TCRP report, transit benefits users can make up a sizable portion of total transit ridership - from five to 25 percent of riders, and represent anywhere from five to 41 percent of revenues.

Agency	Annual Revenue (\$M)	Est. % of Revenue from Transit Benefit Program
WMATA	\$190.8	30%
MARTA	\$20.0	11%
King County Metro	\$25.7-29.7	35-41%
RTD	\$8.1	17%
Metro Transit	\$25.1	42%
VTA	\$1.7	5%
Valley Metro	\$3.6	NA

Source: TCRP, 2005

At the same time, it is important to point out that most commuter benefits providers also offer employers and their employees the alternative of "universal," transit-specific purchase media in the form of paper vouchers, electronic credits to mail program accounts, and re-loadable debit cards. Widely accepted by transit providers, these offerings are often easier for employers to offer because they can be used conveniently by employees to purchase tickets or passes anywhere they commute.

Card-based commuter benefits solutions have become increasingly popular as transit providers across the country have expanded the use of credit and debit card-accepting ticket vending machines to provide customers with greater speed and convenience and reduce workforce demands. "We're continuing to develop new solutions that bring the efficiency and security of payment cards to employee benefit programs," said Stacy Pourfallah, vice president, prepaid products at Visa, a partner in TransitCenter's new TransitChek Card, the first non-personalized transit benefit card program. "As a result, we're finding that payment cards are helping employers drive adoption of benefit programs while making redemption more efficient for transit personnel - it's much easier to swipe a card than manage stacks of paper vouchers."

Supporting Mass Transit is an Employer-of-Choice Message The value of commuter benefits has not only been realized by well-known corporations such as Microsoft, Google and Nike, as recognized by the 2006 Best Workplaces for Commuters program, but also by small businesses, nonprofits and many government agencies. The Best Workplaces for Commuters program is a joint initiative by the U.S. Department of Transportation and U.S. Environmental Protection Agency to celebrate environmental leadership among employers that provide alternatives to drive-alone commuting.

In June 2006, TransitCenter conducted an independent survey of 312 human resource professionals to assess the strategies that employers are undertaking to relieve commuting costs. More employers are focusing on providing solutions, from commuter benefits, to facilitating carpools and vanpools, and telecommuting. Why?

- 72 percent say they are worried that rising commuting costs will affect employee salaries
- 60 percent foresee greater difficulty hiring qualified employees
- 59 percent say they are worried that rising costs will spur employees to seek jobs closer to home

Encouraging the use of mass transit as a more affordable substitute to driving - and providing cost-saving solutions to employees - is becoming more important for employers of all sizes.

A Continuous Evolution

Many factors have played a role in spurring more people to choose transit, which is serving to take cars off the road, protect our environment and improve the overall quality of life where people work and live.

The transit community's support of commuter benefits not only adds value in the form of revenue-generation, it creates closer ties to businesses and commuters, and supports a cleaner environment.

The rise of transit is a phenomenon that we are seeing play out not only in the U.S., but around the world. A recent trip to Tokyo's Shinjuku Station - Japan's busiest - serving more than two million passengers a day, was a real lesson in the potential for what the future could be for transit here in the U.S. The Japanese have made a tremendous investment in technology and commuter services, and using transit is truly a part of their way of life.

Achieving a balance between mass transit and private automobile use remains extremely important. Having significant and accessible transportation options in a country that is now 300 million strong is an important key to our future.

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