

## Paid Time Off Programs: Giving Employees More Control over Leave

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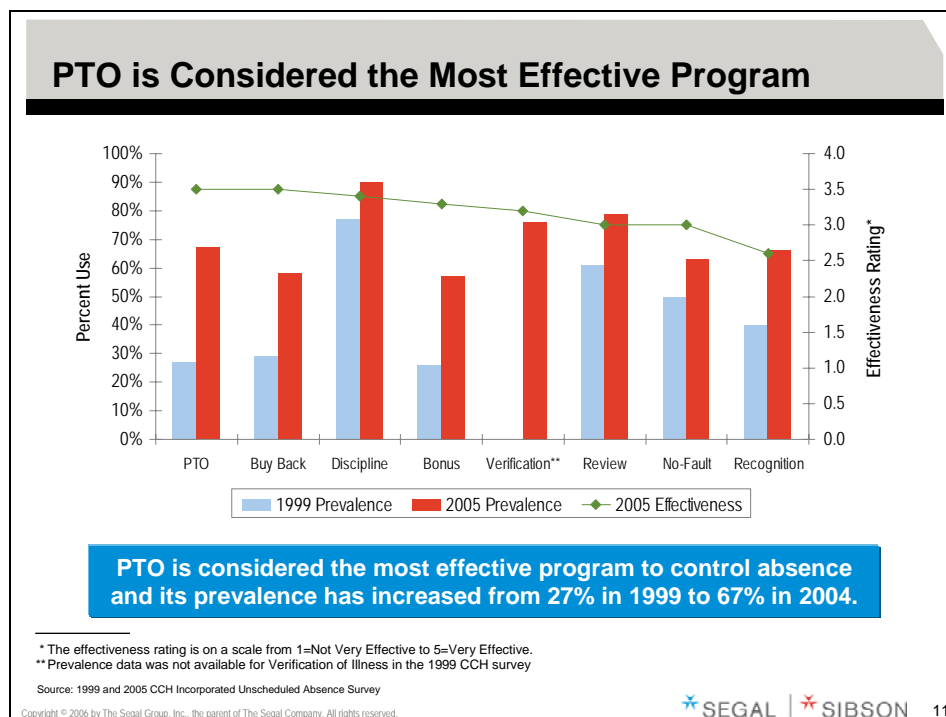
As HR professionals charged with managing employee absences, are you aware that:

- A typical employer spends about 17 percent of its employee compensation budget on costs related to employees not working?
- A significant portion of that amount may be wasted?
- Employees highly value having flexibility in scheduling time off from work, whether for vacation or other purposes?
- When given ownership of paid time off, employees are *less* inclined to “abuse the system” and cause disruptions at work?

You should be. Add it up, and you get the case, in a nutshell, for harmonized paid-time-off (PTO) programs, which have moved rapidly from an appealing idea to a practical reality for many (if not yet a majority) of employers.

The explanation is simple. PTO programs address basic needs for employers and employees alike, are highly cost-effective and meet a common need for employees to strike a better work/life balance. PTO is a key component of the employee value proposition that encompasses tangible and intangible elements. Employees want respect for the demands created outside the workplace, and a PTO program communicates that the company is in sync with this priority.

Compared to alternative rewards, time off ranks near the top on employees' preferences even above cash bonuses, modest raises and future career advancement.



Employers that have not yet analyzed the issue based on their own circumstances may be quite surprised by the potential benefits of a PTO program. Paying employees for time not worked is not always considered an “employee benefit” in the traditional sense, but vacations, holidays, sick leave, short-term disability leave, parental leave and personal days together represent a large percentage of payroll expenditures for benefits.

For many employers, it is the fastest growing percentage of the total payroll expense. A PTO program can be a most effective tool in an employer’s recruitment and retention kit, especially in seeking high-performing, self-motivated employees.

### **A Single Block of Time**

A PTO program replaces traditionally distinct programs—vacation, sick days, personal days, salary continuation programs and (in some cases) certain holidays—with a single block of time. PTO, also known as “earned time,” typically includes a total number of days or hours that is *less* than the sum available under separate programs.

Those employees who are not using paid sick days will get more time to use under a PTO program. PTO programs that allow employees to take time in blocks of hours rather than entire days are generally viewed as an equitable strategy for meeting the needs of a diverse workforce.

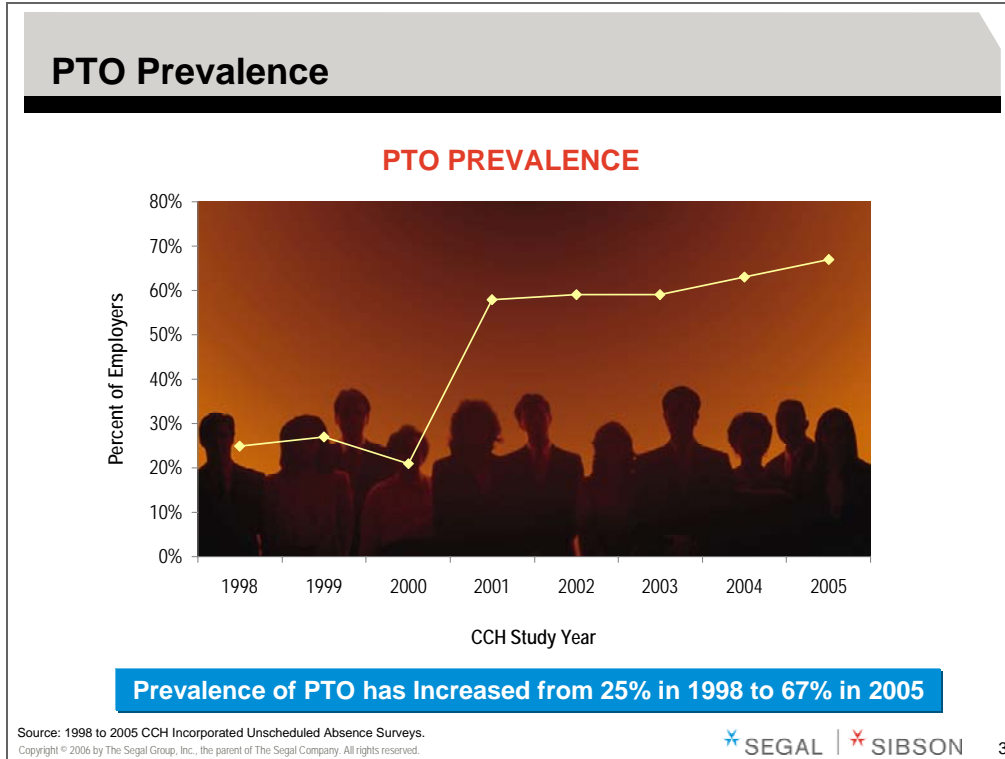
In other words, PTO programs give employees more control over their time, encourage responsible time management and help employees convert disruptive unscheduled absences to scheduled time off.

### **Financial Payoff**

From the employer perspective, PTO programs can help to address the expensive challenge of the high cost of unscheduled. That cost includes lost productivity, reduced productivity of co-workers asked to cover for the absent employee, any overtime paid to covering workers, and hiring and training temporary replacement workers. This is in addition to wages and salaries paid for “lost” days.

Unscheduled absenteeism can be a particularly acute problem for smaller employers and larger firms whose workers operate within small departments or project teams. A vicious cycle can arise: members of a lean workforce unit often bear heavy workloads. Any unscheduled absence increases the burden on those who report to work. Heavier than expected workloads contribute to stress—a frequent cause of unscheduled absenteeism. Customer service and other performance indicators may also suffer due to unscheduled absenteeism.

PTO programs are clearly effective—CCH Inc. has conducted an annual unscheduled absence survey that has consistently shown that PTO is the most effective program for controlling unscheduled absence.



Further, Sibson Consulting's 2004 Rewards of Work study showed that vacation days are the second most cost-effective reward.

### Vacation is Second Most Cost Effective Reward

Additional reward required to induce 25%, 50%, and 75% of employees to take the new job:

I would leave for...	25% of Workers		50% of Workers		75% of Workers	
	Units	\$ Equivalent	Units	\$ Equivalent	Units	\$ Equivalent
Stock Grant Face Value	50 shares	\$500	100 shares	\$1,000	1,000 shares	\$10,000
<b>Vacation Days*</b>	<b>7 days</b>	<b>\$652</b>	<b>10 days</b>	<b>\$1,400</b>	<b>15 days</b>	<b>\$2,769</b>
Bonus Opportunity Increase	\$1,000	\$1,000	\$5,000	\$5,000	\$10,000	\$10,000
Salary Increase*	10%	\$3,750	20%	\$7,500	35%	\$15,000
Career Opportunity: Potential Salary in Five Years	\$6,000	\$6,000	\$15,000	\$15,000	\$35,000	\$35,000
One-time Contribution to Retirement Plan	\$5,000	\$5,000	\$20,000	\$20,000	\$50,000	\$50,000

\* Dollar equivalent calculated using stated base salary

**Vacation days are the second most cost effective reward.**

Source: 2004 Segal/Sibson Rewards of Work Study  
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A PTO program reduces the incidence of an employee's inappropriate use of sick days. Employee responsibility, ownership, and sound time management are all achieved by making it easier for an employee to take time off in a well-designed PTO program. For the employer, it improves planning and reduces costs.

A significant part of PTO cost savings are derived from the elimination of the misuse of employees' sick day allocations. Employees who had formerly used their sick days only when necessary will receive an economic benefit under a PTO program because they will have more time off available to them than under a traditional sick leave policy.

## Designing Your Program

Designing and implementing a PTO program has four phases: Assessment, design, implementation and monitoring.

Basic information gathering is the first step in designing a PTO program, beginning with data about how employees are currently using their vacation, personal and sick days. Data on the number of days taken under each category of time off is also important although this component is often difficult to obtain and imprecise. (Hiring an outside party to get this data can increase its reliability as employees may be reluctant to share this information directly with the company.)

The second essential step is defining goals. Ideally, employees will be incorporated into the process to achieve maximum buy-in. Program design will depend on corporate culture and financial considerations.

Program design flows naturally from the goal setting. A successful project includes financial modeling, winner/loser analysis, litigation risk analysis and compliance mechanisms in the design phase.

### PTO Programs: The Bases To Cover

- **Scope.** What type of PTO will be included in the program? How much PTO should be given? How may PTO be taken (for example, can time be used in blocks as small as 30 minutes or an hour)?
- **Features.** Two popular features of PTO programs are earned-time banks and buy/sell options. If an earned-time bank is added, limits can be placed on the amount of time that can be "banked." If a buy/sell feature is part of the PTO program, the employer can encourage or discourage employees from "selling" (or "buying") days, by balancing the selling price of a day with pay against its purchasing price.
- **Extended benefits.** If PTO can be carried over from year to year so that a large bank of time can be accumulated, employers may want to encourage employees to save the time for a particular purpose.
- **Eligibility.** Eligibility for features of a PTO program can vary according to performance, seniority, hours worked or position or classification.
- **Procedures.** To encourage employees to plan ahead for the use of their PTO, there should be written policies and procedures for requesting time off, including the time in advance required when notice must be given.
- **Structure.** A PTO program can be added to a flexible benefits plan, but doing so can be complicated. (The legal obstacles and other technical issues involved in designing PTO programs are discussed briefly below.)
- **Administration.** The relative ease of administering a PTO program will vary depending on program design and the size of the workforce. Supervisors may still need to be involved in the administration of the PTO program, but it may make sense to provide a little more central oversight to ensure compliance and consistency, and a single tracking system to facilitate better reporting and metrics

## Putting It in Place

Implementing a PTO program requires not only a well-functioning administrative infrastructure, but a carefully designed transition program, tracking systems, training of line supervisors and solid employee education and communication efforts.

Post-implementation monitoring of the PTO program must include not only the basic employee absence metrics, but employee satisfaction, supervisor support in encouraging employee compliance and any possible legal risks associated with inconsistent implementation or other issues.

Of particular importance to the ultimate success of a PTO program in discouraging unscheduled absenteeism is the manner in which it is communicated to employees. Employees who understand that they are being given additional personal time over which they have control are more likely to use the time wisely (including banking it for future needs) than employees who believe they are losing sick days to which they are entitled.

In addition, employers must ensure that all employees account for their time away from work consistently. Those who do not follow the procedures should be penalized. If the requirements of a PTO program are inconsistently applied and/or the program is not strictly enforced, it will collapse. Line managers and direct supervisors are still critical to the administration of a PTO program.

**Employees with more control over personal time are more likely to use it wisely (including banking it for future needs) than those who believe they are losing sick days to which they're entitled.**

PTO programs will never eliminate all unscheduled absences. Employees do, in fact, get sick without warning and need to take time off to recuperate. However, PTO programs do reduce unscheduled absences by employees who misuse sick leave because they believe that they are entitled to use all of their paid time off—including accrued but unneeded sick days.

Finally, advance notice of absences facilitated by PTO programs help employers maintain productivity that otherwise suffers when absences are unplanned by scheduling work to accommodate the anticipated absence, minimizing the need for overtime and/or temporary help.

In sum, employers are taking a fresh look at their PTO programs because of the important role they play, both in terms of upping the “employee value proposition” that boosts morale, and reducing the costs and stresses associated with unscheduled absence.

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