

## Designing and Implementing a Paid Time Off (PTO) Program



The traditional way of granting employees time away from work is to allot a specific number of days for vacation and a specific number of days for sick and/or personal reasons. Organizations have found that this traditional way sometimes results in abuse of the system by employees. Many employers prefer to provide their employees a Paid Time Off (PTO) program. This is a more flexible arrangement that gives the employee a set amount of days to be used for a variety of reasons. These days can be used for sick time, personal days, vacations or other reasons the employee may need time off.

PTO plans can have many positive advantages over traditional vacation and sick plans. Some examples of these advantages are:

- Employees have more flexibility in how they choose to take time away from work.
- Fewer employees may call in sick because the reason for taking the time off is irrelevant.
- Employees that rarely get sick now have more time for vacation.
- Planned absences give the employer more time to plan for replacement staff, thus reducing the costs of temporary employees or overtime.
- Reduces sick time expenses.
- Having a uniformly applied PTO program makes administration and recordkeeping easier.

Here are some things to consider when designing and implementing a Paid Time Off (PTO) Program.

### Policy Statement

Consider including a policy statement that provides the rationale for implementing a Paid Time Off program, such as "PTO allows employees more flexibility with planned and unplanned absences and to take responsibility for their own time off needs."

### Eligibility

Most employers provide paid time off to their full-time employees with a pro-rated amount provided to part-time employees. While accrual often begins at the time of hire, most employers will not allow new employees to use PTO until the employee has completed his or her orientation period.

### Scheduled Absences

Most PTO policies include a request that employees schedule their absences in advance whenever possible to ensure the organization's smooth functioning. Vacation time is generally expected to be scheduled in advance and approved by the employee's manager. Employers may reserve the right to make scheduled time off subject to departmental workloads.

Emphasize that time away from work still requires approval and appropriate documentation. PTO may be used for any time-off request. However, if the time off is not pre-approved, it may be subject to your company's attendance policy. Your PTO policy should include what increments of time are allowed for taking PTO, such as full days, four hours, or one hour increments.

You will also need to determine how PTO will be handled for employees who work shifts of different lengths. Do employees working 40 hours per week in 8 hour shifts get paid for 8 hours and employees working 40 hours per week in 10 hour shifts get paid for 10 hours?

## Accrual and Carryover

Employers usually provide a chart in their PTO policy showing how many PTO hours employees accrue based on their years of service and/or type of job.

Before implementing a policy, some things to consider include:

- How will leave accrue and how often? Many companies choose to accrue based on status and hours worked each pay period.
- Will employees be allowed to carry over unused PTO time into the following year? If so, will there be a maximum amount of PTO they can accrue, such as two times their maximum annual accrual? Will the carryover PTO need be used by a specified timeframe?
- May employees who have exhausted their PTO take unpaid time off?

Take a look at what employees are currently receiving to determine if there will be any reductions in time off by moving to a PTO program based on the design. If so, it may be best to “grandfather” them into the new plan and allow for a greater number of days as you transition to the PTO program.

## Donation of PTO

From time to time, employees have personal or medical crises that can result in devastating financial hardship. Some employers provide a PTO donation program so employees can donate PTO time to another employee. If you would like to provide PTO donations, carefully consider the program components, such as:

- What crises will be eligible?
- Which employees are eligible as recipients and donors?
- Who will approve requests?
- Who will coordinate the program?
- What are the tax implications for the organization and the individuals?

## Marketing and Communication

People are resistant to change, so communicating the benefits and main objectives of the new PTO program to employees is critical. Make sure top management is already supportive of the PTO program, and that managers are trained so that they understand the program. Hold informational employee meetings to explain the program and answer any questions. Explaining to employees that if they rarely get sick, they have more time for vacation can help them appreciate the use of one combined time off bank.

And finally, be honest with the employees about the changes. Any time a change is implemented, it is likely to raise employee concerns. If employers design a well thought-out communication plan, it can help to ease the transition and before long the employees will respond quickly and positively to the new PTO program.

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## Selling and Buying PTO

Some employers’ PTO policies permit employees to “sell” unused PTO hours back to the company or “buy” additional PTO hours. Such a program, like PTO donation programs, requires careful thought as to how the program will be implemented and its consequences to the individual employee, the organization, and the operations of the employee’s department. It should also be decided how frequently this will be permitted, such as once or twice a year.


## Borrowing

Another policy feature you can include is the ability for employees to borrow against future PTO accruals. If borrowing is permitted, it should be clearly stated in the policy how negative balances at the time of termination will be handled.

## Payout at Time of Termination

Upon termination, most employers pay out an employee’s earned, but unused vacation or PTO time. If an employer decides they want to include a provision that earned, unused days are forfeited upon termination of employment, it is very important to check applicable state law prior to implementing. Many states require such a payout or have specific criteria to allow or disallow forfeiture so employers need to check state law first.

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