Benefits in Detail

Is PTO the Way to Go?

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**What is PTO?**

Unlike traditional benefits, Paid Time Off (PTO) is a bank of hours that employees can draw from for a number of reasons, including taking a vacation, taking care of a sick child, going to a doctor’s appointment or needing a personal day off from work. Employers either credit the employee’s bank every pay period with a specified amount of time that they can use, or credit the year’s worth of days at the start of the year. For instance, if the employer would offer 10 paid holidays, two weeks of vacation, two personal days and eight sick leave days, then the employee would bank 30 paid days off. Instead of these days being tracked by the employer for a specific purpose, the employee uses the days at his/her discretion. (Some PTO plans keep paid holidays separate from the rest of the PTO.)

There are two ways to distribute PTO days. Some employers credit the full annual number of days to the employee’s account on January 1. Others prefer the days to accrue throughout the year and deposit days each pay period. Using the example above, if an employer pays bi-weekly, the employee would accrue 1.15 days every two weeks. Or, if the employer pays semi-monthly, the employee would accrue 1.25 days at each pay period. It is more typical to award PTO on an accrual basis throughout the year than to credit the full number of days at one time.

PTO plans generally work best in an environment that is already flexible in nature and is open to modified work schedules, as PTO plans promote a work-life balance by allowing employees to determine when they want to take time off, and what they want to use it for. However, it is also fair to say that PTO plans are useful when unscheduled absences are excessive or especially difficult to manage.

**Benefits of PTO**

There are several benefits for both the employee and the employer of using a PTO plan versus the traditional vacation and sick benefits allotment.

- The company appears more attractive to potential employees and current employees because they are allotted more days to take off. Since most employees (and certainly those who tend to be most productive) do not use all of their sick days, they view the lump sum days as more vacation time.
- Employees are treated as adults and are able to make their own decisions regarding vacation and personal time without having to provide an explanation to their employers.
- Employees do not have to lie about being sick to take care of personal issues that they would rather not discuss with their employer.
- Healthy employees don’t feel “penalized.”
- Employers have more control over unscheduled absences that can become very costly.
• Employers carry less financial liability to cover accrued vacation time in that most PTO plans limit the number of days that can be carried over to the next year.

• PTO plans provide a great deal of flexibility and offer a way to improve retention. PTO may reduce unwanted turnover that can result from employees leaving for better time off arrangements at other companies. PTO also provides a recruitment advantage for employers as they compete to attract new talent.

• Administration of these plans is not as complex and does not require as much guidance.

Challenges of PTO

Unlike traditional employer-controlled time off packages, PTO plans are in the hands of the employee, which can present several challenges*:

• It is important to decide how much PTO time to provide in lieu of Vacation/Sick Leave/Holiday, because you can expect employees will use it all, unless you allow for some carryover or cashing in of unused time. As a general rule, employers moving to PTO offer fewer compensable days in total, which is considered a fair exchange for the added flexibility that PTO provides employees.

• Since many employees view PTO as a lump sum of vacation time, they may come to work ill because they do not want to use that time to stay home and rest. Therefore, other employees get sick and production decreases. The term for this is "presenteeism."

• New employees tend to accrue time off faster than employees that have been with the company for a longer period of time mainly due to PTO accruals being available immediately or, at least, sooner than traditional vacation, sick or holiday time.

• When employees leave the company, employers are required to pay out any accrued but not taken PTO days because they are considered a vacation benefit, whereas sick days may not have been paid out under a traditional plan.

• Upon implementing a PTO plan, long-time employees may receive a large monetary payout for all of their accrued vacation and sick time or they would bank a tremendous number of paid days off.

• If employees use their PTO time early in the year, they have no safety net if they get sick later on.

*These challenges simply point out that decisions made need to be informed ones, to avoid unintended consequences.
Designing your PTO program

Transitional Considerations

Generally, when companies are converting from traditional leave programs to PTO, accumulated leave is frozen at a certain point. From that point forward, PTO time is offered typically with fairly strict limits on the amount that may be carried forward in order to reduce the employer's financial liability to cover accrued vacation and/or sick leave time. This PTO time is usually driven by length of service, and often is less than the previous combination of vacation, personal days, holiday, and sick leave accumulation. If, for example, an employee gets 10 vacation days, 10 sick days, and 6 holidays (some PTO plans keep paid holiday time separate) in a given year, he/she might receive 20 PTO days instead. This reduced amount is rationalized by the increased flexibility that PTO delivers.

Another question the company has to address is whether frozen sick leave banks have any “cash value” at the time of termination. Some employers will pay those days out at some discount and cap PTO accumulation going forward.

Employers may not, in the short term, necessarily realize direct dollar savings by moving from traditional Sick Leave to PTO. The first and most immediate benefit to the employer is a reduction in unscheduled absences. Unscheduled absences can often lead to non-direct costs for the employer; overtime, shift differentials, temporary agency and supervisor time, for an employer.

This summary is not intended to be exhaustive and is provided as general guidance. It is not intended to be legal or tax advice.

Voluntary Individual Short Term Disability (ISTD)

Sagewell Partners has helped organizations transition from sick leave to PTO, and in the majority of instances, have introduced a Voluntary Individual Short Term Disability (ISTD) Plan with multiple elimination periods to assist employees in reducing gaps in potential unpaid absences related to non-occupational injury or illness. Employees with larger banks might purchase an option with a longer elimination period at a reduced cost, or not participate at all. New employees or employees that have chronic or extended illness, who will never have an opportunity to accumulate large amounts of sick leave, might choose a shorter elimination period. The key point is that employees have a choice of options available to meet their needs for income replacement, benefit duration and elimination period. All three of these factors drive the overall employee cost for the plan. Another important consideration is whether an employer offers a long term disability (LTD) plan and what the elimination period is for that plan. All of these factors allow employees to make an informed decision on whether they need the insurance or the amount of short term disability coverage they may need.

Typically, these voluntary plans become part of the open enrollment. It is important that employees have ongoing opportunities to revise their elections as their circumstances change.

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Insurance Carrier Choice

When performing an RFP for an insurance carrier to provide a voluntary short term disability plan, consideration should be given to the following:

- Ability to be flexible in providing multiple plan designs for disability income percentages, benefit duration and elimination periods to fit individual employee needs.
- Explore the benefits of using the same carrier for both long term disability and short term disability, and group life insurance, as well.
- Financial strength – evaluate the insurance carriers A.M. Best, Fitch, and Standard & Poor ratings.
- Consider the JHA ranking for the insurance carrier.
- Voluntary Group Platforms – how long has the insurance carrier been utilizing a group platform for delivering voluntary short term disability plans? Not all group platforms are of equal administrative strength.
- Offer multi-year rate guarantees.
- Consider carriers who do not offset against current in-force individual short term disability plans or other in-force employer funded group short term disability plans, if these plans exist.
Communication strategies

Communication is vital with the implementation of any benefit program. Employee benefits play an important role in employee satisfaction and engagement. It’s important that HR professionals help employees fully understand all of their options and the true value of the benefits to alleviate any disconnect between the dollar amount employers spend on benefits and the employees perception of the value of their benefits package. Tools such as total rewards statements, benefit workshops/fairs, employee meetings, Intranet tools, use of printed materials or mobile technology are examples of communication methods that organizations can use to help ensure their benefit program is valued, understood and used by the employees. Typically, an insurance carrier or broker / consultant would provide the following value-added services:

- Product overviews & materials.
- Communication support.
- Ongoing annual enrollment meetings.
- Annual benefit fair attendance and support.
- Toll-free client services number to assist employees with claims filing and answer questions, if a voluntary STD plan is implemented.
- Produce total compensation statements to enhance appreciation and understanding of the entire benefit package.
How we can help

If your company is considering implementing a PTO plan, there are several considerations to take into account. First and most importantly, make sure this benefit option fits with your company environment and culture. It is best to establish clear directives for your employees before implementing the plan. For instance, you may require employees to give at least a three-day notice before using a PTO day unless he/she is sick or there is an emergency. With that, you must also define an emergency situation and stick to that definition. Does a sick child or a flat tire count as an emergency? What about a hangover? Or waking up on the wrong side of the bed? If the policy is straightforward and clearly outlined, employees will not feel apt to take advantage of this newfound freedom.

PTO programs are not a panacea. They can and will reduce unscheduled absences, but they will not eliminate them. They are generally appealing to employees less likely to abuse sick leave benefits, but they will not eliminate abuses. They will simplify time off administration, but some reporting/tracking will still be necessary. Also, simply because the employee has control of when and why they take off work does not mean that you are not able to manage them while they are at work. Therefore, if they come in sick because they do not want to use PTO days, you can simply send them home. Those days are designed for fun times as well as illness, so they should be used as such. In total, we believe PTO programs are excellent alternatives to traditional vacation/sick leave/holiday arrangements.

Designing a PTO Program: Checklist

The following factors are ones that should be considered when designing a PTO plan:

- What types of absences will you include in the PTO bank?
- How many PTO days will be available to employees? Will those days be determined by job level, seniority or another factor?
- Will PTO replace all forms of paid absence or will you retain separate policies for typically unanticipated leaves, like bereavement or jury duty?
- Will any of the PTO days be eligible to carry-over to the following year? If not, must the account be paid out at the end of the year?
- How is payment calculated for unused PTO days? Will the employee get 100 percent of the cash value or a lesser percentage?
- If the employee leaves the company, will the individual receive the value of their PTO account?
- How will the program be administered and coordinated with payroll?
- How often will the program be reviewed, and by whom?
Sagewell Partners Expertise

Our team of experts has assisted many companies with the transition from traditional leave programs to PTO. In addition, we have extensive experience identifying appropriate voluntary STD carriers. We can provide benchmarking data for your consideration regarding paid time off programs and practices and would welcome the opportunity to further discuss whether PTO is the way to go for your organization.
Sagewell Partners is a team of disability & life specialists offering a rare and unsurpassed combination of deep expertise and value-added services. Serving mid-size and large regional and national clients, Sagewell is client-focused and results-driven. Our firm was founded in 2006 by a small group of industry experts with an average of 25+ years of experience at leading national disability & life carriers. Today, our expertise is matched only by our commitment to delivering the highest level of service to every client, every day.