



PTO Best Practices

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Agenda

Reasons for PTO

Ways to Structure PTO

Design Considerations

Create a PTO Friendly Culture

Best Practices Guidelines

State Requirements

A person in a black wetsuit is seen from behind, carrying a light blue surfboard under their arm. They are walking through shallow ocean waves, with water splashing around them. The background shows a calm sea and a clear sky.

Reasons for PTO

- Attracting new hires and contributing to work/life balance
- Most valued employee benefit – not always utilized to its fullest
- 98% of employers offer some type of paid time off
- Contributes to employee mental wellness

Reasons for PTO

- Studies link taking time off with mental health
- Healthy employees =
more productive and happy at work



Reasons for PTO

- When PTO is comprehensive, generous, and flexible, employees feel valued.
- Increases loyalty and potentially productivity.
- Good for employees and employer.



Legislation around Vacation

- **No** federal or state requirements that employers must offer paid or unpaid vacation (US only advanced economy)
 - Fair Labor Standards Act (FLSA) does not require payment for time not worked, such as vacation, sick leave or federal or other holidays
 - Always verify any state requirements, especially for sick leave, e.g. Maryland Sick and Safe Leave

Ways to Structure Paid Time Off

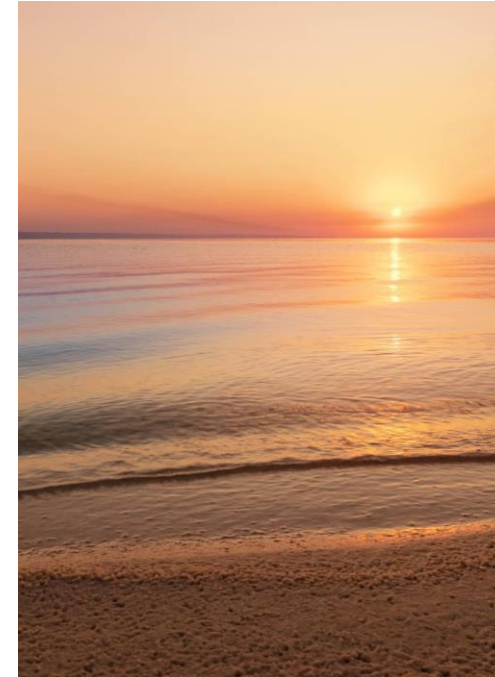
Traditional

- Allocate into categories: vacation, personal, sick, floating holidays

PTO Bank

- Bank of time to use at employee discretion

Unlimited PTO 4 – 6% of employers



PTO Design Considerations

- Separate categories vs PTO bank
- Will both full-time and part-time be eligible?
- How will PTO be earned?
- How far in advance must employees schedule?
- Can unused PTO roll over or be sold back to the company – how much?

Cost of PTO?



Average employee wage in 2022 (US Bureau Labor Statistics): \$28.88

Wages 69% of employer costs for employees



Remaining cost is employee benefits



Average cost of \$2.94 per hour is for paid leave – 7.4% of employee costs

4th highest cost behind wages, payroll taxes and insurance



Important to consider what your company can afford for PTO

How PTO is Accrued (SHRM)

How PTO is Accrued	% of Companies
By Anniversary Date	22%
By Calendar Year	24%
By Pay Period	37%
By Month	10%
All Other Methods	7%

Top Rated Companies' PTO Policies (Glassdoor)

Include Company Shutdowns

- Include these weeks in the PTO allowance. New hires receive 2 weeks of PTO and 1 week of PTO during shutdown the week of July 4th

Pro-rated PTO for part-time employees

Increase PTO with tenure

- Design PTO to be attractive to potential candidates but also to reward tenure

Top Rated Companies' PTO Policies (Glassdoor)

Unpaid or Paid Sabbaticals – after milestone years

Allow usage for Volunteer Days

- Good for team building, PR, and employee engagement

Floating Holidays

- Typically provided at day one, especially if wait for PTO
- Used for days of employees' choice

PTO Design Considerations

- Will yearly PTO be increased with tenure?
- Will PTO rollover from year to year – how much?
- Will employees be allowed to go into negative PTO?
- Will PTO be paid out on termination? Some states consider PTO to be earned income

Research state and local requirements

PTO Design Considerations

- Is there a waiting period before employees can take PTO
- In what increments can PTO be taken - 1 hour, 4 hours
- How will emergency situations be handled
- Can employees take PTO before it is accrued

If so, what happens at termination

Administrative Considerations



Minimum hours of PTO

How will employees request PTO

How will managers approve PTO

Where will vacation/PTO balances be visible to employees

How far in advance must PTO be requested

Do any state regulations require payout on last day worked

Pros/Cons of Unlimited PTO

PROS



Administrative
efficiency



No liability on
the books



Morale boost
– trust
employees to
do the right
thing

CONS

- No clear expectations – can end up taking less PTO.
- Resentment over lost accrued time.
- Unlimited PTO not right for every environment – production scheduling
- Must have policy to avoid overlapping PTO on team

Reasons Companies May Not Choose PTO Bank

- Have unionized employees that need to negotiate paid time off.
- Government employers that need to credit sick time towards retirement benefits.
- In a state that requires payout of accrued paid time off at termination - keeping vacation, sick, and personal leave separate reduces amount paid out at termination.



Create a PTO Friendly Culture

- 54% of employees felt guilty for taking PTO
 - 19% said it was due to pressure from their manager
- 30% of workers check in on work once a day while on PTO
 - 22% say their managers expect it

PTO Good for Mental Health

2018 American Psychological Association survey

Those who took vacation were **more**
productive and produced **higher** quality
work!

Create a PTO Friendly Culture

- The most generous best-designed plans are useless if employees don't feel they can use it.
- Starts with strong managerial support and role modeling.
- Encourage managers to discuss their own PTO and encourage others to take time away.
- While project planning – build in time for PTO – who will be on PTO this quarter?

Create a PTO Friendly Culture

- Provide written guidelines on requesting PTO:
 - 5 days notice for 1 day off
 - 1 month notice for a week off
 - 2 months notice for 2 weeks off
- Help employees plan for PTO coverage
- Set clear expectations around checking emails etc. while on PTO

Create a PTO Friendly Culture

- Plan for return to work
- Build in time for employees to catch up on missed emails, etc.
- Do not only reward staff who don't use PTO.
- Working hard doesn't have to mean working long hours.



Best Practices Guidelines

- Create a **flexible policy**

Job flexibility is more important than ever.

- Bundle all types of PTO – allow employees to use days as needed
- Supports a diverse and inclusive workforce – to take off days that are meaningful (especially floating holidays)

Best Practices Guidelines

- Make your policy **clear and understandable**

Clearly defined – what is / is not allowed

Helps employees feel informed

- Post where easily accessible



Best Practices Guidelines

- Use it or Lose it is often criticized
 - Accrued PTO is lost if not used before end of year
 - Often creates hardships on departments because too many employees need to take PTO at end of year or lose it

Provide training – especially new hires and supervisors

Best Practices Guidelines

- Demoralizing if employees feel they can't or shouldn't take PTO
 - Consider allowing employees to roll over some of the unused PTO
 - Research your 401k plan document to see if employees can roll value of unused accrued PTO
 - Consider PTO donation program

More Design Considerations

Allow

Allow employee input - especially if redesigning policy - satisfaction & engagement

Communicate

Communicate benefits of taking PTO

Stop

Stop solving for every "what-if" - can't cover everything - use company discretion

Include

Include policy in handbook and in new hire orientation and refresher supervisor training



Employer Rights

- Employers **can limit** *when* an employee takes time off.
- Employers **can require** the use of PTO.
- Balance between employees and needs of the business.
- Examples – Peak operating times
 - Can restrict as long as applies to all
 - Plant furloughs, layoffs, slow periods

Cannot restrict legally required leave, such as FMLA

Considerations for Design of Policy

- With traditional leave programs, employees more likely to call-in sick when they are not.
 - Leads to unscheduled absences.
 - Affects productivity.

All-inclusive PTO Policy helps reduced these unscheduled absences.

Alexander Hamilton Institute study:

54% of companies that switched to PTO saw unscheduled absence reduce 10%

Best Practices Guidelines

Create a PTO policy to reflect company culture.

Don't offer unlimited if your company is not a strong supporter of PTO.

Must have a good understanding of your company and industry culture to design a policy that works.

If unsure of what employees want in a PTO policy, send an anonymous survey to ask.



Don't Solve for What-if's

- *Why* are you creating or revising the policy?
- Don't write a policy for outliers
- Focus on 90+% of those who will comply
- Analogy is a points system – make it so complicated to deal with every scenario
- Don't take away all supervisor discretion
- Coach leaders to make decisions and be accountable for team

Create A Sustainable Plan

- Be realistic about what your company can sustain
- If you can't continue rich benefits over the long-term, don't design an excessively rich plan
- Will lead to resentment and may backfire



Creating PTO Donation Program

- Three standard models:

- 1) Leave Bank Model – employees donate accrued time off to a central bank and those employees in need, apply for leave

- 2) Leave Sharing Model – employees donate accrued leave directly to an employee in need

- 3) Leave Donation to a Charitable Organization – may donate value unused accrue leave to an organization of their choice

Creating PTO Donation Program

- Creating a compliant program requires careful planning
- Engage tax and legal guidance
- Design policy based on type of program
- Consider administrative costs of tracking, application process, etc.
- Governance – related to state and tax law



State Requirements on PTO payout

ALABAMA

- No state requirement to pay out on termination.
- Must inform employees if intend to change vacation/PTO policy.

ALASKA

- No state law requirement.
- Determined by employer's policy.

State Requirements on PTO payout

ARIZONA

- Earned vacation is considered wages when practice is established.
- Must pay out at termination.

ARKANSAS

- No state law requirement.
- Determined by employer's policy.

State Requirements on PTO payout

CALIFORNIA

- Earned vacation is considered wages.
- Must be paid at termination.
- Requires rollover of up to 40 hours.

COLORADO

- Earned vacation is wages.
- Must be paid out at termination.

State Requirements on PTO payout

CONNECTICUT

- Vacation is not considered earned wages.
- Employer's policy governs.

DELAWARE

- Vacation pay is negotiated between employer and employee.
- If paid out, must be within 30 days of termination

State Requirements on PTO payout

DISTRICT OF COLUMBIA

- No law.
- Employer's policy governs.

FLORIDA

- No state law or other requirement.

State Requirements on PTO payout

GEORGIA

- No law or other requirement.

HAWAII

- No state law.
- If policy provides payout, must be paid out on last day of work.

State Requirements on PTO payout

IDAHO

- No state law.
- If policy provides for it, must be paid out.

ILLINOIS

- Governed by employer's policy.

State Requirements on PTO payout

INDIANA

- If employer policy provides vacation, considered deferred compensation and must be paid out.

IOWA

- Earned vacation time is considered wages.
- Must be paid out if policy provides it.

State Requirements on PTO payout

LOUISIANA

- Required to pay accrued unused vacation time at termination.

MAINE

- An employer's policy governs.

State Requirements on PTO payout

LOUISIANA

- Required to pay accrued unused vacation time at termination.

MAINE

- An employer's policy governs.

State Requirements on PTO payout

MARYLAND

- Employer's policy must state that accrued time is forfeited or else it must be paid out.

MASSACHUSETTS

- Earned vacation is considered wages and must be paid out at termination.

State Requirements on PTO payout

MISSISSIPPI

- No state law.
- Employer's policy governs.

MISSOURI

- No state law and no requirements.

State Requirements on PTO payout

MONTANA

- No state law.
- Employer's policy governs.

NEBRASKA

- Vacation pay is a type of fringe benefit and must be paid out.

State Requirements on PTO payout

NEVADA

- No state law.

NEW HAMPSHIRE

- No state law.
- Employer's policy governs.

State Requirements on PTO payout

NEW JERSEY

- Accrued and unused vacation are not considered wages.
- Must be paid out if vacation policy provides for this.

NEW MEXICO

- No state law.
- Employer's policy governs.

State Requirements on PTO payout

NEW YORK

- No state law.
- Must follow employer policy.

NORTH CAROLINA

- No state law.
- Must follow employer policy.

State Requirements on PTO payout

NORTH DAKOTA

- Earned vacation is considered wages.
- Employers are required to pay accrued unused vacation at termination.

OHIO

- No state law.
- Employer's policy governs.

State Requirements on PTO payout

OKLAHOMA

- Considered wages if the employer's policy states this.
- Then must be paid out at termination.

OREGON

- Considered wages if employer's policy states it is to be paid out.
- Then must be paid at termination.

State Requirements on PTO payout

PENNSYLVANIA

- Considered wages when an employer's policy states it is paid out.
- Must be paid at termination.

RHODE ISLAND

- Considered wages after one year of employment when policy pays out.
- Then must be paid at termination – after one year of service.

State Requirements on PTO payout

SOUTH CAROLINA

- Considered wages when customary to pay out upon termination after one year of service.

SOUTH DAKOTA

- No state law.
- Employers policy governs.

State Requirements on PTO payout

TENNESSEE

- No requirement to have a policy even if offer vacation.
- Policy governs whether paid out upon termination.

TEXAS

- If provide PTO (vacation) required to follow terms of policy.

State Requirements on PTO payout

UTAH



No requirement for policy.



If have policy, must state explicitly if no payout on termination.

VERMONT

- If provide PTO must honor terms of contract.

State Requirements on PTO payout

VIRGINIA

- No requirement for any PTO policy.

WASHINGTON

- Must pay out if this is included in the policy.

State Requirements on PTO payout

WEST VIRGINIA

- No state requirements.

WISCONSIN

- Considered wages when policy states this but not required to pay out upon termination.

State Requirements on PTO payout

WYOMING

- Employer's policy governs.

Expanding View of Paid Leave

Only 24% of private employers grant some form of paid family leave.

- Other companies are allowing more flexibility to provide for other uses of paid leave.



Expanding View of Paid Leave

- Including grandparents in definition of bonding leave.
- Once pandemic hit, employees starting asking for what they need.



Patchwork of Paid Leave

- HR is facing an expanding regulatory environment.
- More states and localities offering certain types of paid or unpaid medical, family, or bereavement leave.
- Illinois, Nevada, and Maine – mandated employers provide a capped amount of annual leave for any reason.
- Workers in Cook County and city of Chicago covered by local paid leave ordinances.

Expanding Definition of Bereavement Leave

- More employers are becoming more generous with the amount of paid bereavement leave, which is typically 3 to 5 days.
- Expanding definition of relative beyond immediate family.
- Between 3 to 5% of large employers are allowing paid leave for loss of a pet.

Example of a PTO policy

Any PTO (paid time off) will start accruing after a 60-day preliminary period after hiring. To be eligible for the PTO, the employee must work full-time and have a minimum of 32 earned hours weekly. Part-time employees who work fewer than 32 hours weekly are not eligible for PTO through [company name]. PTO is not accrued during any pay periods of unpaid leave, disability leave and workers' compensation leave.

PTO can be taken in increments starting at two-hour blocks. PTO can be used for any purpose. All PTO requests should be submitted directly to your supervisor. PTO requests can be denied based on staffing needs. Advance notice is preferred for PTO requests, but [company name] understands that unscheduled PTO is needed from time to time. In non-emergent cases, please notify a supervisor of your PTO request at least 24 hours in advance. If more than three days of PTO are used without prior scheduling, a medical note may be requested by your supervisor. If excessive unscheduled PTO is being used by the employee, disciplinary action may be taken by [company name]. Prior to any termination, two warnings will be provided in writing to the employee.

Example of a PTO policy

PTO is paid at your normal base rate and is not subject to any overtime rate. Accrual is based on the amount of time you have worked for [company name]. Employees who have worked at [company name] for less than five years earn four hours of PTO for every two weeks of full-time work. Annual accrual will equal 13 days per year. Employees who have worked for [company name] for more than five years earn eight hours for every two weeks of full-time work. Annual accrual will amount to 26 days per year.

Payment of all PTO upon termination is subject to [state] law. After [state-required time period], you will receive payment for all PTO hours that you did not use prior to termination, resignation or retirement. Cash-outs of PTO are also permitted for current employees, with a maximum of 40 hours of PTO available annually.

Example Policy - Paid Time Off (PTO) with Accrual and Carryover Provisions

Purpose

[Company Name] believes that its employees are the key to what makes a great company. Although work makes up a large portion of an employee's life, we believe that a balance between work and nonwork activities is essential to maintain quality performance and a positive work atmosphere. To support this philosophy, the company has designed a paid time off (PTO) plan that incorporates vacation, personal and sick leave into one program.

Accrual Rate

All full-time employees will accrue PTO hours according to the following schedule:

<u>Years of Service</u>	<u>Hours per Pay Period</u>	<u>Days per Year</u>
0-2 years	3.07 hours	10 days
3-5 years	4.61 hours	15 days
6-10 years	6.15 hours	20 days
10+ years	7.69 hours	25 days

Eligibility

For purposes of this policy, the year begins on the employee's date of hire.

Example Policy - Paid Time Off (PTO) with Accrual and Carryover Provisions

Procedures

PTO is designed to cover leave for vacation, personal sickness, family sickness, family activities and extra holiday time.

In general, foreseeable PTO must be preapproved by and prescheduled with the employee's supervisor and must be taken in full hour increments. Approval for all scheduled time away is subject to applicable workloads. In case of an emergency, however, employees shall be allowed to take up to [number of hours/days] unscheduled PTO with less than 24 hours' notice and regardless of applicable workload.

A maximum of 40 hours of accrued and unused PTO time may be carried over from one calendar year to the next.

Example Policy - Paid Time Off (PTO) with Accrual and Carryover Provisions

Procedures

In the event an employee needs time away from work prior to accruing the necessary PTO hours, an employee may build up a negative balance with the prior approval of his or her supervisor.

Employees will be paid for all earned and unused PTO time upon termination of employment.

Final paychecks for nonexempt employees will include deductions for repayment of any negative PTO balance upon termination.



Enjoy your PTO!

Thank you

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