12 Keys to Developing a PTO Program

Employers traditionally offer paid vacation, sick leave, and personal days in separate banks. However, in recent years, a growing number of employers have been bundling these types of leave programs into a single paid-time-off (PTO) policy. When contemplating converting to a PTO program, there are a number of issues to consider, including timing, accrual, carry over, and eligibility.

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A growing number of employers use comprehensive paid-time-off (PTO) programs in place of dedicated time off for vacation, sick and personal leave. With a PTO program, employees are typically free to use accrued time off for any reason, rather than having a set number of vacation, sick, or personal days. This can help to ease some of the administrative burden that comes with absence tracking and generally gives employees more flexibility in managing their time off.

Below are 12 considerations for developing a PTO program:

1. Weigh the pros.

A PTO plan may not be right for every business, so you should weigh the potential advantages and disadvantages before converting to one. A major advantage of a PTO plan is that employers need only track that time off was taken, without having to determine and record the type of leave (i.e., vacation, sick, personal). Another potential advantage is that a PTO plan can help to reduce unscheduled absences. Since employees have more flexibility to use the time as they wish, they may be more likely to plan PTO days.

2. Consider potential drawbacks.

A potential disadvantage of a PTO plan is that employees who traditionally may not have used all their sick leave each year may be more likely to use all of their PTO. Another consideration is the time involved in converting from a traditional plan; conversions should be handled with care and clearly communicated to employees well in advance. Disadvantages should be weighed with anticipated gains before deciding to convert to a PTO program.

3. Conversion of old leave.

If you decide to implement a PTO program, consider how accrued vacation and sick leave under the old plan will be affected. Your first step should be to check your state law. Some states treat vacation time as wages earned and prohibit employers from forcing employees to forfeit accrued, unused vacation (also known as "use-it-or-lose-it" policies). If this is the case in your state, you will have to ensure that all accrued, unused vacation time is either transferred to the new PTO plan or you pay employees for it when you convert to PTO. When converting to a PTO program, you should also consider timing. If your time off program is based on calendar or fiscal year, it may be easier to manage the transition if you wait until the end of the year before making the switch.

4. Eligibility.

Your PTO plan should have clear rules on eligibility. The written policy should address what types of employees are entitled to PTO (i.e., full-time, part-time, etc.), in what increments PTO may be used (e.g., one hour, four hour, or full days), when PTO will begin accruing, and whether new hires will be able to use accrued PTO immediately or have to wait a certain length of time (e.g., 30 days from date of hire).

5. Accrual.

PTO plans typically require that employees "earn" their time by accruing a certain number of hours each pay period. To calculate accrual rates, divide the number of PTO days per year by the number of pay periods per year. For example, if you are on a bi-weekly pay cycle and have an employee who is entitled to 10 days of PTO, he would accrue PTO at a rate of 0.38 days per pay period (or 10 PTO days divided by 26 pay periods). Details about PTO accrual should be communicated to employees in your written PTO policy.

6. Carry over.

If your state law prohibits use-it-or-lose-it policies (i.e., the forfeiture of accrued time at the end of the year), you generally must allow employees to carry over any accrued, unused PTO from year to year or pay employees for the unused time at the end of the year. Similarly, you may be required to pay out accrued PTO upon termination. Check your state law to ensure compliance. If your state permits use-it-or-lose-it policies, communicate any limit on carry over in your written PTO policy.

7. Consider caps.

Regardless of whether your state prohibits use-it-or-lose-it policies, you may establish a reasonable cap on accruals. A cap means once the employee has earned a certain amount of time, he or she must use enough PTO to fall below the cap before they will continue to accrue additional time off. For example, if an employee earns 10 days of PTO per year and your cap is two times that, once the employee has accrued 20 days of PTO, the employee would have to start using the time before they can continue to accrue additional PTO.

8. PTO advances.

Some employers permit employees to use PTO before it is accrued. If you decide to make this a practice, keep in mind that you may be limited in your ability to recover payment for this time if an employee has a negative PTO balance upon separating from the company. For this reason, it's generally preferred to require employees to earn PTO before using it.

9. Time off requests.

It's recommended that you require employees to request time off in advance, whenever possible. For unplanned absences (e.g., an illness), it's important to have clearly defined call-in procedures that identify who employees should contact (e.g., their direct supervisor) and the deadline for doing so (e.g., one hour before the start of the shift). For planned absences (e.g., vacation), employees should be informed of how much advance notice is required and should be instructed to submit a written request for time off.

10. Communicating PTO to employees.

When converting from a traditional plan to a PTO program, consider communicating the change over an extended period of time (e.g., three to six months). This will allow adequate time for employees to ask questions and acclimate to the change prior to the conversion. Consider using company meetings, newsletters, email, and intranet to inform employees of how the program will work as well as some of the advantages (e.g., more flexibility and control in managing their time off).

11. State and local mandates.

While there is no federal law that requires employers to provide paid time off to employees, one state (Connecticut) and a few local jurisdictions (D.C., San Francisco, and Seattle (effective September 2012)) require certain employers to offer paid sick leave. Generally, these laws permit employers to offer paid sick leave through a PTO program as long as their program meets the minimum requirements of the law (i.e., time off can be used for the reasons outlined in the paid sick leave law and is accrued at a rate equal to or greater than what the law prescribes). Check the requirements of your jurisdiction to ensure your PTO program complies.

12. Monitor effectiveness.

To identify any trouble spots, you should track the overall use of PTO closely and compare it with use under your old plan. Some adjustments may be required if unscheduled absences rise sharply or productivity dips.

PTO programs can be attractive for both employers and employees. The key is to evaluate whether a PTO program is right for your company, and if it is, develop a program that meets business needs.

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