

# PTO: One of the Most Desirable Benefits

By Bobbi Kloss

## Strategizing Paid Time Off

Paid time off (PTO) is one of the most desirable benefits, with 40% of all U.S. workers in 2019 stating it was the top non-insurance benefit. It comes as no surprise then that it is often the most negotiated compensation benefit for applicants. Whether the time is allocated in buckets of vacation, sick, and personal leave or lumped together under a single policy, a 2019 PTO study found that over 60% of employers design and market their PTO policy as a way to attract and retain employees.

## Expanding Paid Time Off

Before the United States population became under attack from Coronavirus-19 (COVID-19), the U. S. was in an extremely tight labor market, at 3.5% unemployment with turnover at an increase of 35% over prior generations. Design, strategy, and company dollars continued to be redefined to create a competitive total rewards package encompassing base salary, well-being, benefits, recognition, and development promoting employers of choice. Companies large and small began incorporating the following strategies into their compensation packages:

- Unlimited PTO – Employers, including start-ups, those competing for technology candidates and non-profits, were all offering this perk.
- Mandated or employer-sponsored paid leaves – This leave allowed for parental leave, leave for school activities, or to seek medical treatment.
- Expanded parental leave policies - In response to COVID-19-related school and day care closings, employers added to time away. Microsoft added 12 weeks of paid time off for employees with kids to accommodate school closures; Bloomberg expanded its paid leave policy from 18 weeks to 26 weeks.

Offering these expanded or unlimited leave and PTO policies employees currently have more access to time away without the need to tap into their traditional paid time off.

## PTO Buy/Sell Plans

PTO buy/sell plans allow an employee who needs additional days off to purchase additional PTO on a pre-tax basis, or sell PTO back to the employer. Some employers also allow employees to donate PTO to other employees or to a charity. For some employers, having a cash out opportunity for unused PTO is a way to reduce the payroll liability. These employers may structure their cash out or vacation sell policy to value PTO days at the original purchase rate or based on the employee's compensation when the cash-out occurs.

For many employers, allowing donations of vacation time grew from the desire to support employees who suffered loss through disasters or through medical challenges. This continues to be an offering and a discreet way for employees to support each other and be assured of maintaining the confidentiality of transactions.

New vendor programs are available where employers can manage their buy/share/sell PTO program. Employees can turn their PTO into 401(k) contributions, use for charitable donations, reduce their student debt and other uses.

Employers who are using or considering a PTO buy/sell arrangement should consult with legal counsel, as most PTO buy/sell plans are offered through a qualified cafeteria plan subject to Section 125 rules. Internal Revenue Service regulation 1.125-1(o) guides an employer through developing a qualified PTO buy/sell plan.

## **Unused PTO**

Even with PTO being the most desirable benefit and companies continuing to expand their PTO policies, according to surveys conducted by both U. S. Travel and World at Work, employees year-over-year increasingly leave PTO on the table. Approximately 19% of those will allow that time to be lost with “use it or lose it” policies.

A study by Namely found that employees with unlimited time off take 2 days less than the average for employees with a limited PTO policy. Why? These employees cite competition within employee groups to see who works harder, who can move up the corporate ladder faster, or gain access to better projects by not taking time away.

## **The Shocking Costs of Unused PTO**

Stress, productivity, health, happiness, and creativity are costs of unused PTO that can be measured by factors such as rate of turnover, health care costs, and accountability measures. Individual costs to employees who have no ability to roll-over their PTO (use-it or lose it) show that there are more than 200 million vacation days area lost annually. This loss equates to employees giving up approximately \$62 billion in benefits for an average of \$600.00 annual loss per employee.

Costs associated with the PTO carryover liabilities carried by American companies, according to the U. S. Travel survey, equals approximately \$224 billion annually. Although with unlimited PTO there is no accrual of PTO, therefore, there is not a payout required at termination of employment and no balance that employers need to carry on the books.

Related economic costs according to the survey are the loss of U. S. jobs, (1.9 million) and \$255 billion in missed opportunities that would be supported by the impact of domestic travel.

## **Time Off Barriers**

A company culture that is non-supportive to employees taking PTO has been found to be a large barrier to employees using their earned time away from the office. Companies utilize a variety of passive-aggressive tactics with employees, from vacation or sick leave shaming, not preparing for lack of substitute coverage, to encouraging employees to work while away. The U. S. travel survey found the following cultural perceptions from employees in regards to leaving PTO on the table:

1. Returning to a large work-load;
2. Inability to rollover or bank time;
3. Not being able to financially afford time off;
4. Taking time off becomes harder with advancement in the company;
5. A desire to show dedication to work;
6. Fear of being seen as replaceable.

Employees are also saving or banking their time for planned or unplanned high impact life events, such as medical necessities, family, caregiver, or parental leave needs. The U. S. still does not mandate a paid Family Leave (with the current COVID-19 or state law exceptions), and as a result, many employers do not provide for paid leave. The good news: a Mercer study shows that the gap is closing, however, with 40% of employers surveyed offering a paid parental leave policy.

PTO policies also include time away for sick leave. The uncertainties surrounding the transmission of COVID-19 has changed, or should be changing, the way companies are viewing employees using PTO for sick time. Wanting to save PTO for enjoyable experiences, employees often do not use their PTO to take time off for colds or flus. Instead, they go to work, bringing their sicknesses and germs with them. This may seem harmless, but these are communicable diseases. A supportive PTO culture should include a positive message for all the reasons why an employee would need to use their PTO, especially when they are sick.

For 2020, PTO maybe unbalanced since employees may not be able to take PTO for the first half of the year as a result of the stay at home restrictions across the nation. In planning time for the rest of the year, employers will need to manage this time carefully so that PTO requests are balanced against efficiently maintaining business operations.

## Holistic Wellbeing Culture

A Work and Wellbeing survey conducted by the American Psychological Association (APA) found that the positive effects of returning from paid time off left employees with less stress, increased energy, more motivation and a positive mood. These resulted in an increase in productivity and quality of work.

The same APA study found that two-thirds of the employees who did not return to a supportive culture of work-life balance saw the positive effects of PTO quickly fade as compared to those who had a supported culture of wellbeing.

Leaders can build a supportive culture by:

1. Using PTO when sick, mental health days and for vacation themselves. The team will look to the leader and traditionally follow in their footsteps. If leaders come to work when ill that can send a negative image to those who are emulating leadership styles that PTO should not be used.
2. Encouraging others to use PTO and then sharing positive experiences of being away, whether it's time spent on vacation or mental health day experiences.
3. Supporting the idea of "unplugging" from all work-related technology, using email out of office messaging, and phone apps such as Thrive Away to block time away.
4. Reviewing workload and cross-train so the important work has coverage.
5. Allowing employees the opportunity to have appropriate time to transition smoothly back into daily routine.

By building a supportive wellbeing culture around the PTO benefit, a positive net effect of the work-life balance is a workforce that is whole, healthy, and productive. In return, the holistic health of the employees leads to the holistic health of the organization.

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