

Paid Time Off: Employer Strategies

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CEBS



Introduction

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Agenda

- Overview of Paid Time Off (PTO)
- Time Off Program Design
- Compliance Considerations
- Managing Financial Liability
- Questions & Answers





PTO Overview

- Employer challenges
- PTO overview
- Design checklist

Employer Challenges

Employers are overwhelmed by ever-evolving compliance requirements and lean staff

- Juggling compliance and tracking requirements while also managing HR responsibilities
- Dealing with increased scrutiny and audits from the EEOC and DOL
- Weak points are supervisor behavior and outdated policies

Employees are demanding flexibility...

- Pressure on “new hire” levels of benefits: seasoned employees don’t want to “start over” with vacation when they change jobs and don’t like tenure-based salary continuation plans
- Migration to PTO (single bank of time off for vacation & sick time) and more “family friendly” leaves, such as Paid Parental leave
- Competition for workers: more employers are offering employee choice and buy-up options, and reducing employer base

Employer Challenges

Employees are using more time off

- Time off costs about 14% of employer payroll

We are all getting older and sicker – and working longer!

- Increased importance of strong Return-to-Work policies, case management and employee advocacy to promote quick and healthy return to work (not just in disability plans)
- New focus on interplay between wellness and time off benefits
- Strong focus on reducing vacation and sick time liability due to excessive hours in time bank

Overview of Paid Time Off

- Traditional time off is the separation of sick time from vacation time
- Paid Time Off (PTO) is time inclusive of sick, vacation, and other leave types

PTO design offers employees more flexibility with regard to taking time off to meet personal needs, and has shown higher engagement levels and reduced voluntary turn over.

PTO typically includes:

- Vacation
- Sick
- Floating Holidays
- Personal Days
- Parental/Family Leave
- Other

Design Checklist

- Identify the goal and objectives of the time off program
 - Recruit and retain, program flexibility, budgetary efficiencies, ease of administration, industry competitiveness
- Consider all compliance requirements that will be layered in to the design
 - Federal, State, Municipal: requirements, definitions, reasons for leave
- Determine the types of leaves to be offered under the plan
 - Vacation, Sick, Maternity/Paternity, Bereavement (including pets), Personal Days

Design Checklist (continued)

- Determine the number of days and how they are earned
 - Accrual, frontload, years of service, unlimited, waiting period
- Determine employee eligibility and varying workforce
 - Exempt, non-exempt, part-time, seasonal, union, executives
- Decide how unused time will be addressed
 - Use it or lose it, carryover, cash out

Design Checklist (continued)

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- Determine how and when time off will be used
 - Approval process, coordination with other leaves, dotted line to Attendance policy
 - Calculate cost of the program, financial analysis
 - Model various design options and associated costs

Design Checklist (continued)

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- Draft the Policy in clear terms
 - Document the overlap of paid leave and unpaid leaves
 - Communicate the Policy and train staff
 - Update Employee Handbook, post required notifications



Time Off Program Design

- **Company size and industry**
- **Workforce considerations**
- **Accrual methodologies**
- **Emerging trends: Parental and Exchanges**

Size and Industry Prevalence

Industry	Traditional	PTO
Manufacturing and other	64%	36%
Finance & Insurance	51%	49%
Health Care and Social Assistance	21%	79%
Private Sector, Publicly Traded	58%	42%
Private Sector, Privately Held	49%	51%
Public Sector, Nonprofit	56%	44%

- Company size: 1,000 - 9,999 Traditional more likely
- Company size: 10,000 - 19,999 PTO more prevalent

World@Work 2016 Paid Time Off Survey

Workforce Considerations

Workforce	Full Time EEs # Days	Part Time EEs # Days
PTO	18	12
Vacation	16	11
Sick	11	7
Personal	4	4

- Government and nonprofit companies are more likely to offer more paid sick days to part-time employees, than other organizations

Accrual Methodologies

Years of Services (YOS)	Avg # Days Off Traditional	Avg # Days Off PTO
< 1 Year of Service	20	16
1-4 YOS	23-24	17-18
5-10 YOS	28-29	22-23
11-19 YOS	32-34	25-26
20+ YOS	37	27

Waiting Period:

- 56% at Date Of Hire
- 23% after 90 days
- Maximum accumulation often based on YOS or other criteria, but generally 1 to 1.5x annual allocation
- Unlimited – a cultural decision, less than 2% of U.S. employers

Traditional = combined averages of vacation, sick and personal leave

World@Work 2016 Paid Time Off Survey

Paid Parental Leave

Program	Avg # Days Off
Maternity	41
Paternity	22
Adoption	31
Surrogacy	36

Based on a 2016 NBGH Maternity and Parental Leave report:

- 45% of survey respondents offer paid parental leave that can be used by mothers, fathers and/or adoptive parents for bonding purposes/
- Birth mothers and adoptive parents on average receive more paid leave than birth fathers.
- Paid leave offered to fathers shows variation between companies, ranging from two days to 16 weeks.

SHRM 2016 Paid Leave In the Workforce Survey

Paid Parental - Emerging

An increasing amount of employers are offering new-parent paid time outside of FMLA, State mandated leaves (e.g. CPFL, NY PFL), and other time off (vacation).

Company - 2016	Mothers	Non-Parent
Dow Chemical	minimum of 12 weeks of paid leave (up from six to eight weeks),	non-birthing parents will get two weeks (up from one week) during the first year after the baby's arrival
Hilton Hourly and Salary	10 weeks of paid leave for mothers who give birth.	two weeks of paid leave to all new parents, including non-birthing parents
Twitter	20 weeks paid time off	20 weeks paid time off
Deloitte	16 weeks of paid family leave for new parents Full 16 weeks at one time, or taking a few weeks at different points in the year	16 weeks of paid family leave for any Deloitte employee with family caregiving responsibilities Full 16 weeks at one time, or taking a few weeks at different points in the year



Compliance Considerations

Compliance Considerations

When creating a PTO policy that includes sick and vacation with the additional intent to include federal, state and/or municipal requirements, it is imperative to align program parameters.

- Same reasons for leave and same conditions for leave (own illness, domestic violence, care of family)
- Definition of a family member (in locus parentis, grandparent, caregiver)
- Reporting and posting requirements (paycheck, posters)
- Accruals methodologies must be aligned (1 hour for every 30 hours or 40 hours worked, reinstatement rules)
- Pay out or Use-It-Or-lose-It (California versus New Jersey)
- Part-time, seasonal and other employee types are considered

Additional Compliance Considerations

States are also passing legislation related to paid family laws that include time off for baby bonding, adoption or foster care as well as other reasons such as parents or other family members.

States with Paid Family Leaves

- California
- New Jersey
- Rhode Island
- New York (effective 1/1/18)
- District of Columbia (effective 2020)



Managing Financial Liability

- Cash out
- Frozen banks
- Emerging trends

Managing Financial Liability

Cash Out

- Employees are written a lump-sum check for the dollar value of time vested
- This approach is necessary in some states with non-forfeiture rules
- Immediately removes balances and provides for a clean slate and less hassle during transition process to new PTO design

Frozen Bank

- Vested time is put in to a separate account. No additional time is added
- Employees are required to use this time before other available time can be used
- Employees are typically given a timeframe in which the time must be used or forfeited (e.g. within one year)

Unlimited

- No need to accrue time, therefore administratively enticing
- No pay out or carryover
- Typically for employees who work independently and set their own hours, such as senior level employees. Companies include: Jellyvision, General Electric, PwC, Netflix
- Manager approval required. Might be seen in violation of some regulations where time is non-discretionary

Creative Time Off - Emerging

Based on a recent report*, \$272 billion in accumulated vacation time is sitting on the balance sheets of U.S. businesses; equaling 658 million unused vacation days. Its time to get creative!

Employers are exploring creative ways to:

- Pay out cash for unused vacation time
- Remove/reduce liabilities from their balance sheets
- Offer more flexible and creative options to employees and cater to diverse populations in their workforce

Use Vacation Dollars to:

- Donate to charitable causes
- Book flights and lodging via on-line partnerships
- Contribute to a HSA
- Deposit monies to 401(k)
- Give time to coworkers in need

Leveraging tools that provide dollar value exchanges is an emerging and creative solution for some companies.

* The High Price of Silence: Analyzing the Business Implications of an Under-Vacationed Workforce

VACATION REQUEST

Employee Information

Name (Last) *Public*

Address (Mailing Address) *1234 MAIN STREET*

E-Mail Address *NA*

Dates Requested *June 12 - July 1*

APPROVED

Grade	12345	Area Telephone	1234-567
Mobile phone	8	Area Telephone	1234-567

Department _____
Bachelor's Or General Education (GED) Test Passed? Yes No
Credits Earned _____
Other _____



Questions & Answers

Appendix

Resources

There are several sources available to assist in providing documented guidance for developing paid time off programs, such as:

- Society For Human Resource Management (SHRM)
- National Business Group on Health
- Disability Management Employer Coalition (DMEC)
- Work@Work Survey
- Mercer Annual Survey

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