Balancing Sheets, Boosting Profits: A Guide to PTO Conversion Programs

Implement a PTO conversion program to boost employee morale while reducing balance sheet liability

Paid time off (PTO) conversion programs are an innovative solution that meets the evolving demands of today's workforce. As employees increasingly seek personalized benefits, the disconnect between employer perceptions and employee satisfaction highlights the need for strategic alternatives.

PTO conversion programs address the underutilization of PTO, allowing employees to convert accrued time into benefits that support their financial and social well-being goals, including getting emergency cash, 401(k) contributions, student loan payments, and charitable donations.

Beyond empowering employees to craft personalized benefits packages, these programs help organizations reduce balance sheet liabilities, cater to diverse generational needs, attract and retain talent, and enhance employee satisfaction.

Employees want better (and more flexible) benefits

Over the last few years, there has been an increase in the demand for flexible and personalized benefits to meet a wide range of diverse needs. According to MetLife's 2023 Employee Benefits Trends Study, **70% of employees are interested in customizable benefits**, up from 67% pre-pandemic.

That said, employees are asking for better benefits to meet their needs. Only 61% of employees say their employer provides various benefits that meet their personal and household needs.

Moreover, there is a significant disconnect in employer-employee perception regarding benefits satisfaction. 83% of employers say their employees are satisfied with the benefits, when in reality, only 62% of employees say they are satisfied with the benefits their companies offer.

HR leaders are quickly responding with inflation-driven cost control and diverse and equitable benefits to retain and recruit more employees, which includes non-traditional benefits (unconventional benefits companies can offer employees, such as pet insurance, convertible PTO, etc.). 37% of employees plan to add non-traditional benefits to attract new employees.

One of the most flexible benefits that employees have is PTO. However, most of it goes unused. According to the report conducted by Lighthouse Research, 4 in 10 employees don't use all of their PTO every year—the average employee has 9.5 days of unused PTO each year.

Since the beginning of 2020, PTO requests have been down more than 34%. While some of this is due to the lingering effects of the pandemic, remote and hybrid work has led to a backlog of accrued PTO on the books. Over $1 trillion of accrued PTO goes to waste every year in the United States, with 75% of employees taking an unneeded vacation to avoid losing the time they've accrued. Not only that, this accrued PTO costs companies billions of dollars in payouts.

What can companies do to save costs and help employees unlock the value of their PTO? One solution is implementing a PTO conversion program.

PTO conversions: An emerging PTO trend

What is a PTO conversion program?

PTO conversion programs allow companies to convert vacation time to cash, 401(k) or HSA contributions, student loan payments, and charitable contributions (including donating days to other employees).

PTO conversion programs can only be applied to lumpsum or accrued PTO, as these are the two types of PTO tracked by companies and, therefore, have a specific value attached to those days. PTO conversion programs don’t work with unlimited PTO policies because there’s no way to track the amount of PTO employees have or the value attached to that PTO.

Organizations shouldn’t think of PTO as solely time to take off, but rather monetary value that’s a part of employees’ overall compensation, like currency. So, instead of accruing PTO and letting it go to waste at the end of the year, PTO conversion programs allow employees to extract more value from their PTO while they’re still at the company.

Rather than waiting until employees leave a company to cash out their unused PTO, they can get value from this already-accounted-for benefit while they’re still there by converting it to benefits they can use in real time. When employees don’t use their hard-earned time—whether taking it off or converting it—they leave their hard-earned time and money on the table. Employees have already earned this benefit, so it should be up to them to decide how they want to use it.

Our 2021 survey found that 83% of employees would be interested in convertible benefits. This aligns with the 2021 EBRI Workplace Wellness Study results, which found that 25% of employees said a PTO conversion plan would be a valuable improvement to their employer’s benefits program.

PTO conversion programs shouldn't replace taking time off

It's worth noting that a PTO conversion program is not a replacement for actually taking PTO. Employers should consider the potential loss of work-life balance when they allow PTO conversions. Employers should encourage employees to utilize a portion of their allotted vacation time to prevent stress and loss of productivity due to emotional burnout.

In other words, converting PTO won't fix the problem of taking time off; it simply provides a solution to allow employees to use their PTO to fit their lifestyle needs while reducing the balance sheet liability.

Employers can limit the number of hours converted yearly to encourage their employees to take PTO. Most companies set the limit to 40 hours of PTO that they can convert. Another solution is requiring employees to use a certain number of PTO days each year, with most requiring their employees to take at least 10 days off annually. There are a variety of ways to introduce a PTO conversion plan, while protecting employees' wellbeing.

How PTO conversion works?

If a company wants to implement a PTO conversion program, it should partner with a third party to manage and administer it. Typically, these platforms integrate with a company's payroll software and can be customized to a company's preferences. Once implemented, employees can log into the platform, make an election, and see their updated balances and transactions in real-time.

Depending on how a company sets up its PTO conversion program, employees can make conversions throughout the year or during specific time windows, such as just before the summer or winter holidays. It's up to the client to set up and customize the platform in a way that's best for their organization and employees. Any type of time off policy is eligible, although most companies do not make sick time suitable for conversion. The specific setup is up to the company as to what buckets of time they want to make available for conversion.

Companies can customize the PTO conversion program to drive certain employee behaviors. Standard policy settings require employees to maintain a minimum PTO balance before converting or limiting the number of hours employees can exchange each calendar year. These third-party platforms also have policy settings that require employees to take a certain amount of "traditional" PTO before they are eligible to exchange.

Fitness & Exercise

Gym memberships
Yoga classes
Athletic wear
Workout equipment

Retirement Planning

401(k)
Roth 401(k)
Financial counseling

Student Loan & Education

Loan payments
Tuition
College savings plans

Charitable Giving

Donations
501(3)(c) entities
Other approved organizations

Emergency Fund

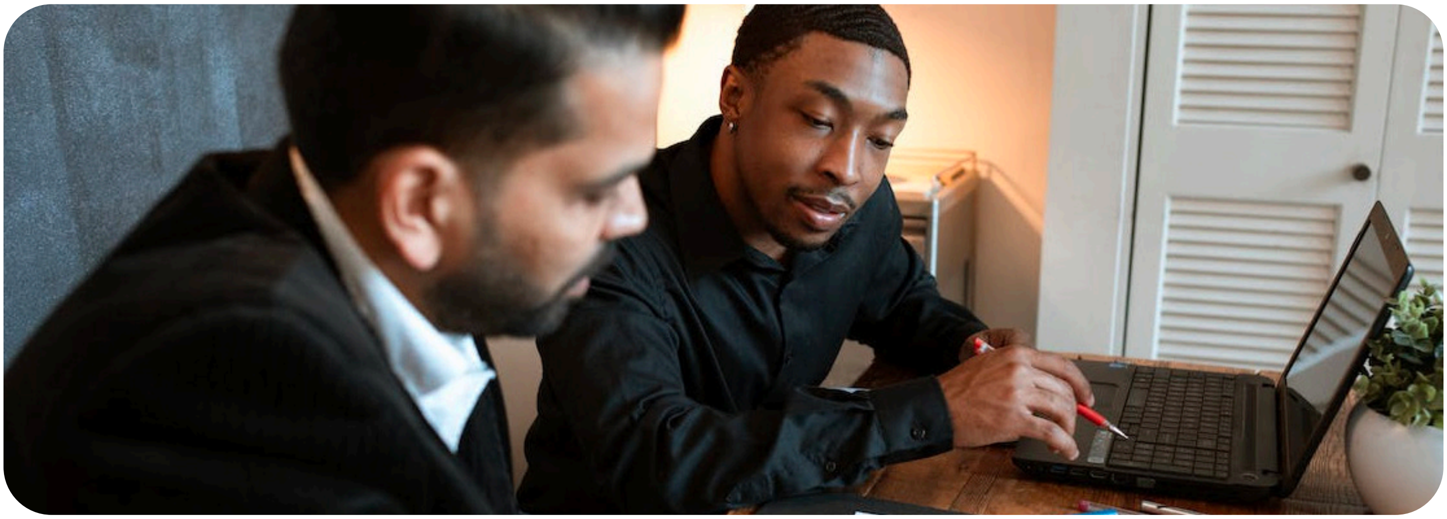
Hardship
Emergency cash
Approved eligible expenses

Health Expense

HSA
Nutritional counseling
Supplements

PTO Exchange is one PTO conversion program platform used by dozens of companies across several different industries. The platform allows employees to self-direct the value of unused PTO for goods, services, and benefits that matter to them. The program creates choice and flexibility for employees with an already accounted-for benefit while reducing balance sheet liability caused by excess PTO. Additionally, PTO Exchange allows employees to receive a non-traditional benefit to support and retain talent. Employers can allow their employees to convert their unused PTO into several types of benefits, including retirement, education, cash out, giving, travel, healthcare, and sharing.

What PTO conversions look like in practice with PTO Exchange



For an employee who makes $25/hour and exchanges 8 hours for a 401(k) contribution, the exchange would look like this:

- **8 hours * $25/hour = $200**
- **$200 minus a 7.5% service charge = $185**

The employee would see a $185 earning and corresponding deduction on their next paycheck. $185 will flow into their 401(k) account, and 8 hours will be deducted from their PTO balance.

If the exchange were a PTO cash out, the exchange would look like this:

- **8 hours * $25/hour - $200**
- **$200 minus the 7.5% service charge = $185**

The employee would see an additional $185 in gross wages on their next paycheck. The cashout amount would be treated like normal W-2 wages and taxed appropriately, and the net amount would fall into their earnings.

How companies benefit from a PTO conversion program

PTO conversions can satisfy employees' needs for flexible benefits, increase productivity, and reduce the reliance on overtime for industries where this is challenging. Additionally, it also saves the company money in annual PTO payouts.

Reduce balance sheet liabilities

Beyond empowering employees to craft personalized benefits packages, these programs help organizations reduce balance sheet liabilities, cater to diverse generational needs, attract and retain talent, and enhance employee satisfaction. So, instead of accruing PTO and letting it go to waste at the end of the year, PTO conversion programs allow employees to extract more value from their PTO to meet their diverse needs.

PTO conversions will certainly satisfy employees' needs for flexible benefits, increase productivity, and reduce the reliance on overtime for industries where it's challenging. But there are also several other downstream benefits to the HR and finance departments that are worth noting.

Meet a wide range of workplace generations

With up to five generations in the workplace, HR teams must provide benefits packages catering to its diverse workforce's needs. To offer an inclusive workplace, HR leaders need to address the individual concerns of their employees. This means offering flexible benefits that appeal to all generations.

Flexible benefits show an organization's commitment to diversity, equity, and inclusion (DEI) as they cater to the individualized needs of diverse workforces. A Lighthouse Research & Advisory survey asked employees of different demographic groups how they would prefer to use the value of their PTO:

Low Income: 40% of workers making less than $49k would like emergency cash

High Income: Employees earning more than $125k would be most interested in HSA contributions

Gender: Women are 33% more likely than men to want emergency funds for unexpected expenses

Older Workers: 30% of workers aged 54+ want to use PTO funds for 401(k) contributions, which is 4x higher than workers aged 18-24

Younger Workers: 20% of workers ages 18-24 want to use funds for student loan repayments

Attract and retain employees

PTO conversions can help drive employee engagement and loyalty. Nine out of 10 employees agree that having the ability to exchange their PTO would make them more likely to stay with their employers. Offering non-traditional benefits like PTO conversions can give organizations a competitive advantage and reduce turnover.

Turnover is not only a morale killer but also costly for organizations. Many organizations know that their top-tier talent, often the same subset of employees who don't take all their PTO, is at risk. PTO conversion programs can help companies save millions annually in replacement costs, and studies have shown they decrease employee turnover by as much as 50%.

Higher employee satisfaction

If employees treat PTO like a currency with a value attached to it, employees are more likely to feel satisfied because they can use it in a way that benefits them. In fact, 70% of employees say that having a flexible leave benefit would make them feel like their company values and appreciates them.

How employees can use PTO conversions to build personalized benefits packages

PTO conversion programs allow employees to convert their PTO into benefits they find valuable and can use immediately. This will enable them to craft personalized benefits packages that meet their and their families' needs. PTO conversion programs can help support an employee's financial wellness and social wellbeing goals.

Financial wellness

A 2022 Workplace Benefits Report showed that 97% of employers feel responsible for their employees' financial wellness, while 80% of employees also think their employers have a role in their financial wellness. A PTO conversion program can help employees meet their top financial goals and priorities:

- Retirement planning and savings
- Investing
- Increasing emergency savings
- Paying off credit card debt
- Paying off a mortgage
- Buying a home
- Paying off student loans
- Paying healthcare expenses
- Financial planning and education

Here are just a few ways employees can use PTO conversions to support their financial wellness:

Retirement: Employees can catch up or make additional contributions to their 401(k), 403(b), or 457 retirement plans.

Education: Employees can convert unused PTO to help pay off their student loans, pay for tuition, or contribute to their 529 college plans.

Cash Out: Employees can get emergency cash to help pay for unexpected expenses and reduce loans from retirement plans or predatory lenders.

Healthcare: Employees can make additional pre-tax contributions to health savings accounts (HSAs) or flexible spending accounts (FSAs).

Emergency relief funds: PTO conversions give companies another method for donating to emergency relief funds that can help employees cope with unexpected hardships that place financial stress on them or their families, such as natural disasters or personal difficulties

Social wellbeing

In addition to financial wellness, employees can use PTO conversions to support social wellbeing through charitable contributions, donating days to co-workers in need, travel, and life planning accounts (LPAs).

Leave sharing

Another way employees can donate their unused PTO is through a leave-sharing program. A leave-sharing program allows employees to give their unused PTO to a fellow employee in need who may need extra time off. Employers can set up a shared pool or leave bank of donated PTO days from employees. Then, employees can request additional time off that is pulled from the share pool. Once approved, the hours are added to the employee's leave balance and reflected on the pay stub, eliminating the need to take unpaid leave.

Travel

Employees can use their accrued unused PTO to help them save money and take the vacation of their dreams. They can use PTO to take their vacation and convert unused days to purchase discounted hotels, car rentals, and airfare.

Charitable contributions

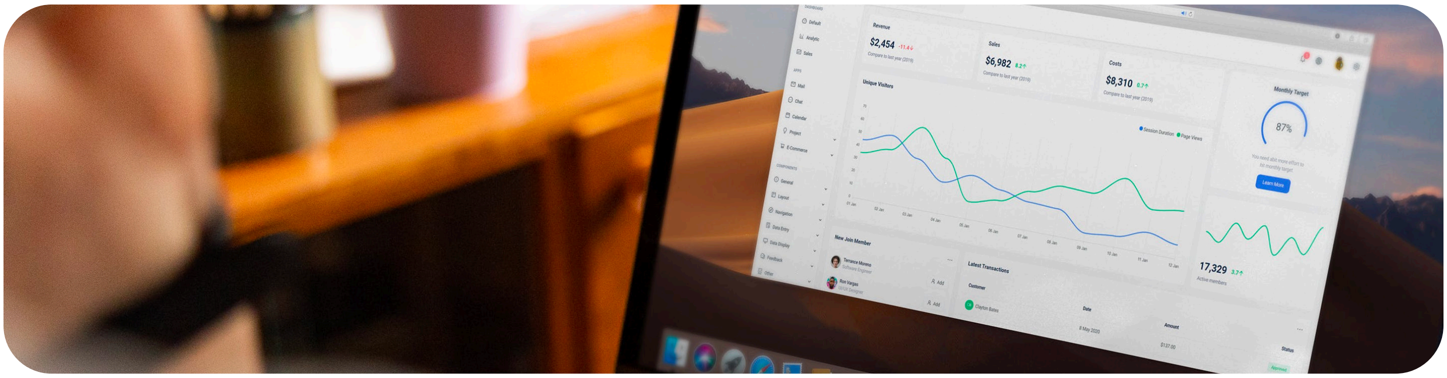
Employees can donate the value of their unused PTO to over 1.7 million charitable causes and non-profits. Companies can also match these donations and offer employees volunteer time on behalf of community organizations.

Life planning accounts (LPAs)

PTO conversions can also support a third type of employee spending accounts, life planning accounts (LPAs). LPAs are a means for companies to help employees support their employees by offering benefits around the four pillars of wellbeing: physical, emotional, social, and financial. These accounts are funded by employers with money taxable as income to employees when they spend it, unlike HSAs and FSAs.

Typically, companies use LPAs to provide additional health and wellness services, such as gym memberships, nutrition coaching, etc. Employers can decide how employees can spend their LPA funds with acceptable product and service categories. Still, these can be customized based on the company to include anything its employees might benefit from.

How to measure the success of a PTO conversion program



There are several ways organizations can measure the success of their PTO conversion program, including:

Turnover rate: The rate at which employees leave the company before versus after implementing the program. This can help gauge how well the program is helping retain employees.

PTO utilization: Track PTO days before and after implementing the conversion program. Higher utilization rates indicate that employees are taking advantage of the program.

Balance sheet liability: See how much money the company saves in PTO payouts before versus after implementing a PTO conversion program.

Employee replacement costs: Track how much it costs to replace employees before and after implementing the program.

Employee satisfaction: Conduct regular surveys to gather employee feedback on the PTO conversion program to see how employees use it and if they find it beneficial.

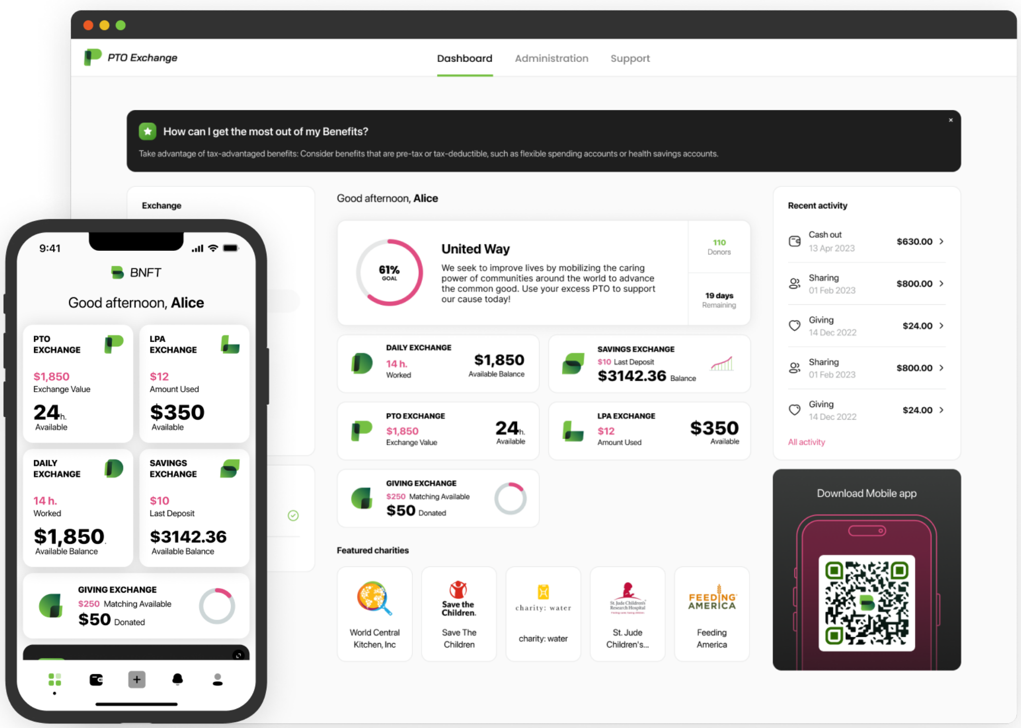
Employee productivity: Assess the impact on attendance and productivity by comparing data before and after the implementation of the PTO conversion program. Analyze whether there are noticeable changes in absenteeism or presenteeism.

Employee health and well-being: Consider employee health and well-being factors, such as reduced stress levels and improved mental health. Encourage employees to share their experiences regarding stress reduction or improved work-life balance.

The future of PTO is here

As employees continue to accumulate PTO days, companies are looking for unique solutions to combat the surplus that benefits both the company's bottom line and employee wellbeing. PTO conversion programs are a non-traditional benefit that companies can implement to attract and retain employees while reducing balance sheet liability. It's a low-cost solution that uses a benefit already allocated.

PTO Exchange is the first benefits platform that allows employees to self-direct the value of their unused paid time off (PTO) for personal needs and causes. Employees can self-direct the value of their unused PTO toward options that are meaningful to them personally, such as life planning (retirement funds), education (student loans), philanthropy (offering days to a co-worker or non-profits), and more.



PTO Exchange helps companies increase employee engagement, staff retention, and loyalty while reducing balance sheet liabilities and reinforcing a positive culture. PTO Exchange is SOC 2-certified and trusted by STRATACACHE, Howard Brown Health, UCare, Centre College, Griffin Capital, 4 Wall Entertainment, and others. Request a demo at www.ptoexchange.com.