The Hidden Cost of PTO (and the Hidden Savings You Might Find)

How PTO might be costing your company more money than you think and the potential savings you can find by addressing this problem.

When it comes to paid time off (PTO), the most significant cost for companies is their liability. Accrued PTO liabilities can be substantial and grow each year as base compensation levels rise and PTO requests fall. In other words, the less PTO employees use, the more it costs companies.

With PTO requests down 20 percent since the start of 2020, this is becoming more of a challenge for employers each year. PTO liability has grown to over $1 trillion sitting on the books of both public and private companies and organizations (about $7,600 per full-time worker in the US) per year. These costs increase each year as fewer people use their PTO.

Of all the expenses associated with benefits, PTO comprises 24% of the total cost. Many static costs offer little room for maneuverability, but PTO liability is much more flexible than you may think.

What is PTO liability?

PTO liability refers to the amount of PTO an employer owes employees. As employees accrue PTO hours, the employer becomes liable for those hours. With many policies, companies must offer PTO and pay employees for unused days off. There are currently 20 states that require companies to pay out the value of an employee's unused earned time off at termination or separation. As a result, accrued PTO becomes an unpredictable liability for companies, negatively impacting cash flow, weighing down balance sheets, and having a negative effect on credit.

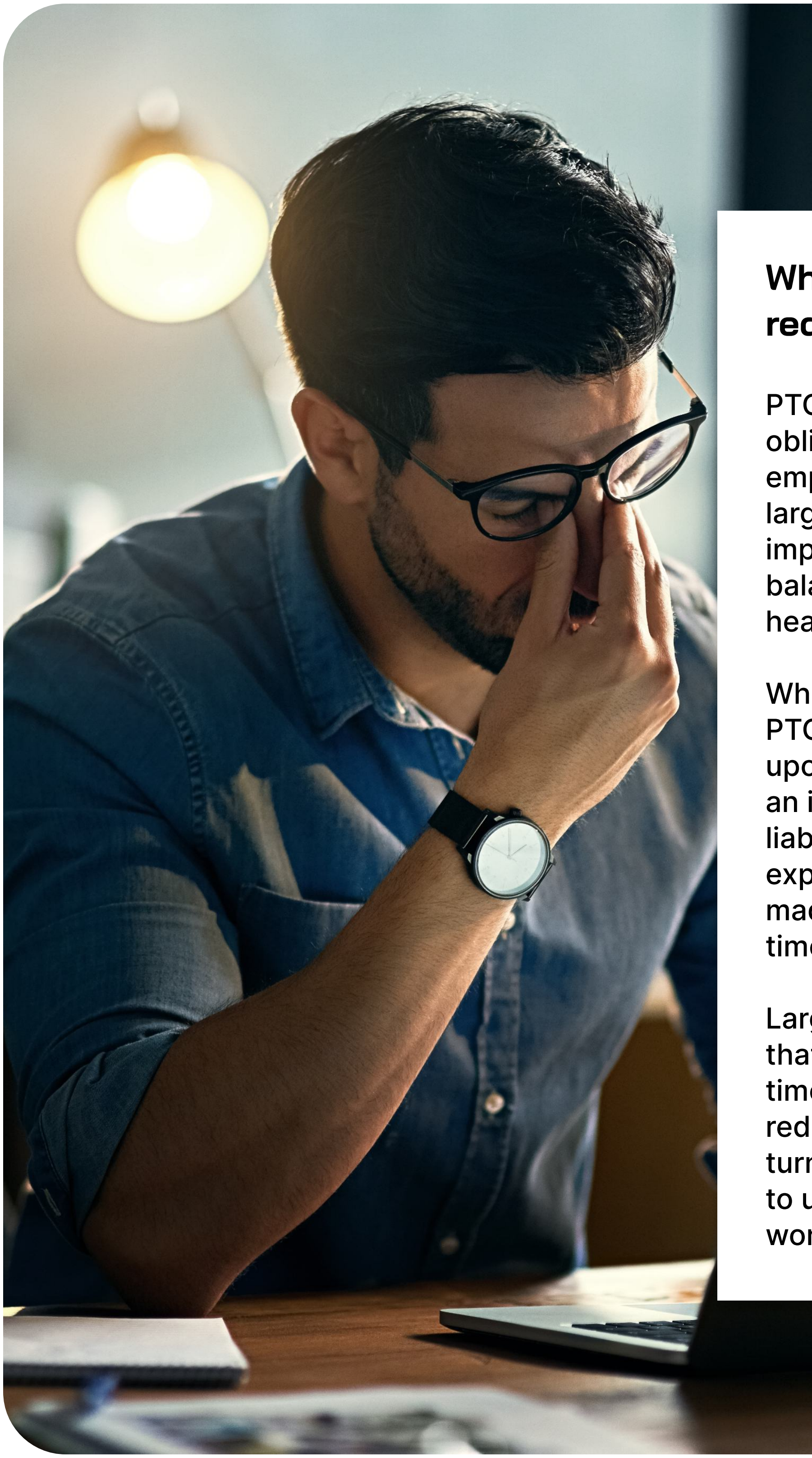
Why PTO liability is an issue

Accounting often views PTO as a benefit you would have to pay, even if the company were to close—hence, why it is seen as a liability. Unlike other plans where sick leave and time off are separated, PTO often rolls these two into one lump sum of hours.

The Financial Accounting Standards Board (FASB) requires employers to accrue a liability for compensating employees who have earned but not taken paid vacation benefits. This means that employers must be able to pay out any earned, unused PTO. However, the exact requirement only applies to future sick pay, paid holidays, or other similarly compensated absences once employees use those benefits.

PTO liability continues to challenge employers as employees are allocated more days off but take fewer vacations than before. According to our 2021 study with Lighthouse Research, only about 40 percent of American workers use all their PTO annually, resulting in over 765 million unused vacation days.

Not only that, but this liability also increases with time. As employees are promoted or receive salary increases, their associated PTO cost increases too. The longer an employee is tenured, their PTO costs skyrocket as accrued PTO adds up in addition to their pay increases.



Why it's important to reduce PTO liability?

PTO liability represents a financial obligation that the company owes to its employees. If this liability grows too large, it can have significant financial implications, affecting the company's balance sheet and overall financial health.

When employees take their accrued PTO or are paid out for unused PTO upon leaving the company, it results in an immediate cash outflow. Large PTO liabilities can also lead to increased expenses, especially if the payouts are made at a higher rate than when the time was accrued.

Large PTO balances can also indicate that employees are not taking enough time off, which can lead to burnout, reduced productivity, and higher turnover rates. Encouraging employees to use their PTO can enhance overall workforce well-being and productivity.

How to minimize PTO liability?

Each year, finance departments are tasked with finding solutions to reduce PTO liabilities before year over year salary increases and promotions occur, making PTO more expensive.

Most employees don't find a "use it or lose it" PTO policy to be a helpful benefit. Employees have many unique lifestyle needs and challenges, so taking time away from the office might not suit them now. Perhaps they have an emergency expense where the value associated with their time off might be better spent. Essentially, they would have to forfeit that part of their earned compensation at the end of the year if they can't use their accrued PTO.

But there is a more flexible solution that organizations can use. Employers can implement a PTO conversion solution that allows employees to exchange their unused time off to financial and social wellness benefits to reduce the balance sheet liability that PTO causes while also providing a flexible benefit for employees.

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).

As an employee-paid benefit, companies can reduce their PTO liability and pay it at a discounted rate (per IRS requirements) without incurring additional expenses. Reducing that liability before promotions and year over year salary increases kick in reduces the PTO payout when employees are ultimately paid out at termination. This offers a win for the finance department while providing unprecedented benefits and flexibility for employees.

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 can use their PTO instead of losing it or granting a payout, it reduces the liability of PTO on the balance sheet. Additionally, it allows employers to enhance their total rewards offering without introducing additional costs or benefits.

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.

Let's look at this in practice with the same scenario from above:

Let's say that same employee exchanged 15 hours towards their 401(k). Instead of $1,600 in PTO liability, that employee now carries a liability of $850. If all 500 employees did this, the total liability for the company would be $425,000. Now let's say the organization was going to do a cost-of-living adjustment across the organization and everyone's salary was set to increase by 4%.

In the initial example without any PTO conversions, the PTO liability would have increased by $32,000 ($800,000 liability * 4%). But if each employee converts just 15 hours, the PTO liability only increases by $17,000 ($425,000 liability * 4%), effectively saving the company $15,000.

The hidden benefits of reducing PTO liability

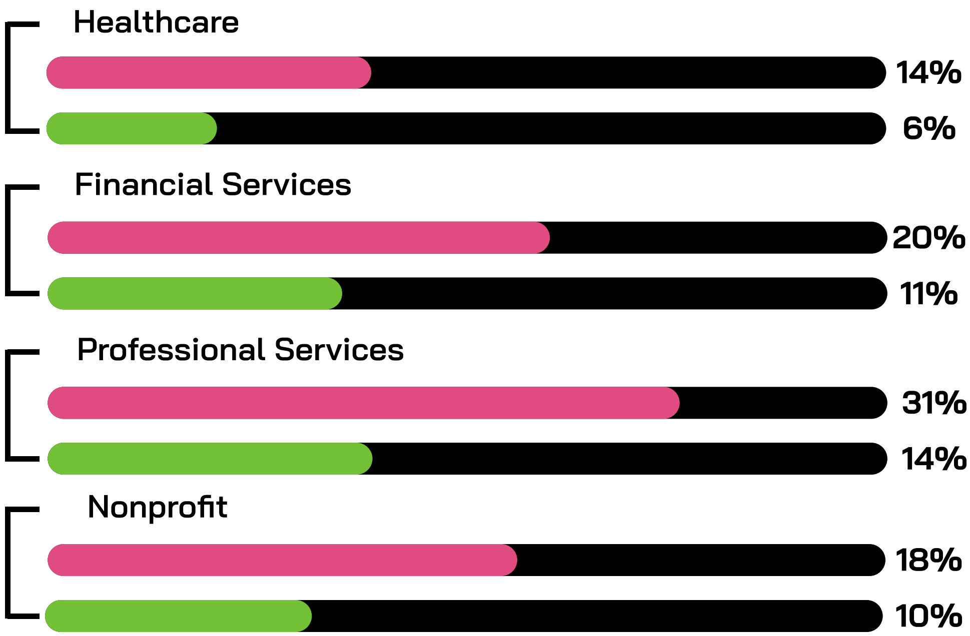
Beyond just the hard dollar savings, there are several additional benefits for reducing PTO liability with a PTO conversion program, including employee engagement, reduced turnover, and cost savings.

Employees can use their unused PTO to their advantage, creating more personalized benefits packages that meet their current needs, resulting in a more engaged and satisfied workforce.

A recent Gallup poll shows that an engaged workflow is 17-22% more productive than one that's not engaged. The more engaged employees are, the lower the turnover rate —engaged employees can lower turnover by up to 59%.

Client Industry	Reduction in Turnover for PTOx Users	50% of Annual Wages	Annual Savings in Replacement Costs
Hospital & Healthcare	58.63%	$42,325	$17,977,590
Financial Services	44.89%	$42,423	$5,447,227
Professional Services	54.52%	$49,155	$2,808,341
Nonprofit	44.75%	$30,275	$645,878
Average Reduction	54.68%	Total Savings	$27,714,810

Turnover Rates - PTOx Users vs. Non-Users



We've seen this with our clients. On average – regardless of size or industry type – we're seeing a decrease in the turnover rate of 54.7% for employees using a PTO conversion program.

One notable client in the healthcare industry client has already experienced savings of $11.3 million by implementing a PTO conversion program through PTO Exchange. Turnover has decreased by over 60% for employees who have used PTO Exchange in one calendar year. As you can see, these are huge savings and turnover reduction numbers that can come about by implementing a total rewards strategy that considers flexibility and financial wellbeing.

How can you minimize PTO liability?

PTO liability and utilization rates on our platform typically go hand-in-hand. By understanding your company's projected utilization rate, you can have a better idea of the impact PTO Exchange can have on your overall PTO liability. The more your employees utilize PTO, the more you can reduce your liability.

Utilization rates are typically dependent on the PTO conversion plans that our clients enable. While other factors (minimum balance to exchange, required use of PTO before becoming eligible, etc.) can impact utilization, the most significant factor is the plan options.

We see the typical utilization structure from our clients:

- Cash Out + Other Plans: ~22% utilization of available PTO
- Financial/Social Wellness Plans but No Cash Out: 12-16% utilization of available PTO
- Social Wellness (Giving and Leave Sharing) Only: <4% utilization of available PTO

There are two things to keep in mind when it comes to PTO utilization:

1. Minimum Balance for Eligibility. Most clients require employees to maintain certain protected hours to be eligible for exchange. This eliminates concerns about employees burning through their balance and helps maintain compliance in states that have mandatory sick leave laws. The most common policy setting is 40 protected hours.

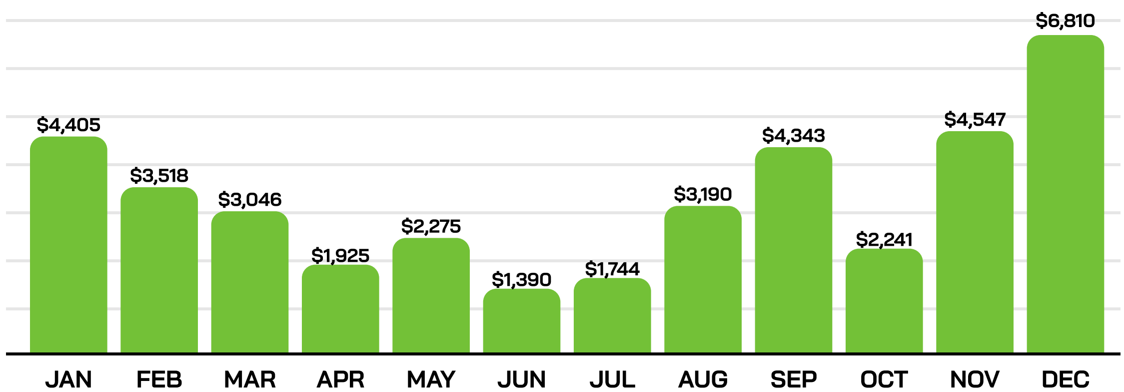
2. Maximum Annual Limit. Most clients set a limit on the number of hours that employees can exchange in a given year. This can apply to an aggregate amount across all plans, or clients can structure individual limits for select plans. The most common policy setting is 80-120 hours per year.

Here's an example of how PTO utilization and liability work together in our Liability Reduction Calculator. We designed the Utilization Calculator to estimate the potential savings a company might achieve using PTO Exchange. The numbers you see below are from an anonymous PTO Exchange client.

An advanced calculation can show the potential liability reduction as it correlates with PTO utilization. As this calculation indicated, the more PTO that gets utilized, the more the company's PTO liability is reduced over time.

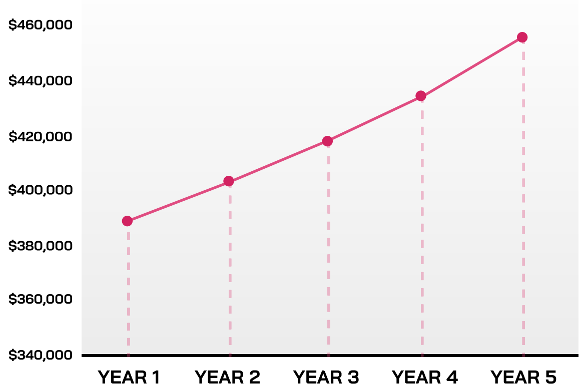
Annual Utilization	$39,434
40 Pro | 80 Max	$34,240
40 Pro | 120 Max	$39,434
80 Pro | 40 Max	$11,646
80 Pro | 80 Max	$16,839

ESTIMATED USAGE OVER TIME

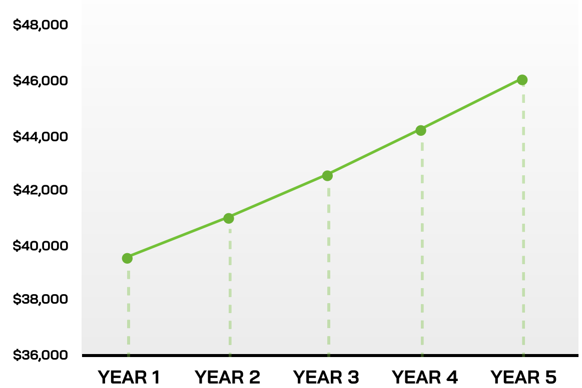


PTO Liability	
Current	$386,812
Above 40 Hours	$190,384
Above 80 Hours	$87,682
Above 120 Hours	$34,747

TOTAL PTO LIABILITY



REDUCTION OVER TIME



Inputs

Plan Options	All Plans On
Minimum Protected Hours	40
Annual Maximum Exchange Limits	120
Average YoY Salary Increase	4%
Eligible/Max Hours	40
	80
	120

Anticipated Utilization

All Plans On	22%
All Except Cash Out	14%

PTO Exchange
Powered by BNFT

WHITEPAPER

Reduce PTO's impact on the balance sheet

Each year, Finance departments are tasked with finding additional savings and solutions to reduce liabilities. PTO Exchange can help address both those concerns. Additionally, it allows employers to enhance their total rewards offering without introducing additional costs.

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.

Interested in trying out this calculator for your own organization? Schedule a quick 15-min call with one of our experts and they'll show you how PTO Exchange can start reducing your PTO liability today!

GRIFFIN CAPITAL
guardians of wealth

"This is about as easy as it gets! I was able to exchange my PTO faster than my newborn spits up formula - which is FAST! Also, I was holding my newborn when I did it, which shows exactly how fast and easy it is."

Howard Brown Health

"I benefitted from donated PTO many years ago, which was so helpful for my family and me. I was blessed that my coworkers wanted to assist when my family members were significantly injured in an auto accident."

PTO Exchange is a comprehensive benefits platform for employees to unlock the full flexibility and value of their total rewards while providing HR teams with a low cost and easy to use tool. PTO Exchange and LPA Exchange are powered by BNFT, which brings innovative solutions via one platform. Companies will have the flexibility to design cost-effective benefits while also empowering their employees to choose the benefits that support them through their transitions. PTO Exchange is SOC 2-certified and trusted by Fairway Mortgage, Howard Brown. Health, Agile Defense, UCare, Praxis Engineering, STRATACACHE, and others.

AICPA SOC
SOC 1 Type 2 & SOC 2 Type 2
CERTIFIED

STAR LEVEL ONE
CLOUD SECURITY ALLIANCE

Let's transform your employee benefits, one PTO day at a time.

Contact us today to learn more about PTO Exchange and schedule a personalized demonstration

Request a demo