PTO EXCHANGE

A PTO TIME BOMB IS COMING. HERE'S WHAT YOU CAN DO ABOUT IT.

Unused PTO is an accounting liability, so employers need to get creative about how employees can use it.

PTO EXCHANGE

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About the Author

Gregg Makuch is CMO at PTO Exchange and is responsible for getting the word out and educating HR and business leaders on how PTO and flexible benefits can be used to attract and retain talent, increase employee engagement and satisfaction, build community and culture, and enhance overall employee well-being.

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INTRODUCTION

Over the last two years, employees have banked a massive surplus of unused vacation time. Between COVID, canceled flights, inflation, and a labor shortage (among other reasons), employees are hoarding their days off, creating a unique challenge for organizations to encourage their employees to use their PTO.

THIS EBOOK WILL GIVE YOU A SENSE OF THE MAGNITUDE OF THE COMING PTO "TIME BOMB" AND PROVIDE CREATIVE SOLUTIONS THAT ORGANIZATIONS CAN USE TO MITIGATE THE IMPACT.

What is the PTO "Time Bomb"?

When COVID hit, employees started to bank a massive surplus of unused vacation time because of on-hold travel plans, among other reasons. Now, with historically high inflation levels and a labor shortage impacting service providers and companies, the amount of unused PTO continues to increase as employees aren't taking as much as they used to.

Hoarded employee time off creates a challenge for employers. Employers have financial skin in the game as unused PTO is considered an accounting liability. This liability is causing HR leaders to look at ways to manage and mitigate this "time bomb." For HR leaders, the goal is to minimize disruptions and provide appropriate support and flexibility for employees. Thus, balancing the needs of the business with the requirements of employees.

While an employee might not be able to step away from their work, that doesn't mean their PTO needs to go to waste. Instead, forward-thinking HR and corporate leaders are looking at creative solutions to encourage employees to use their PTO to benefit them, whether helping them pay off student loans, contributing to their retirement account, or more.

In conjunction with Lighthouse Research & Advisory, a recent study from PTO Exchange found that of 1,000 workers surveyed in North America, 4 in 10 workers use all of their leave each year. At the same time, the other 60% have trouble using it all.

Additionally, 3 out of 4 workers report taking an "unneeded" vacation to avoid losing accrued time, and 1 in 3 workers say they can't take their vacationtime because their job is too demanding.

Yet, 83%of workers would be very or extremely interested in converting some of their paid time off into other financial resources. If given the option, 70% say that having a flexible leave benefit would make them feel like their company values and appreciates them, and 90% of employees would be more likely to stay with their employers.

APRIL - JULY 2019

242,000

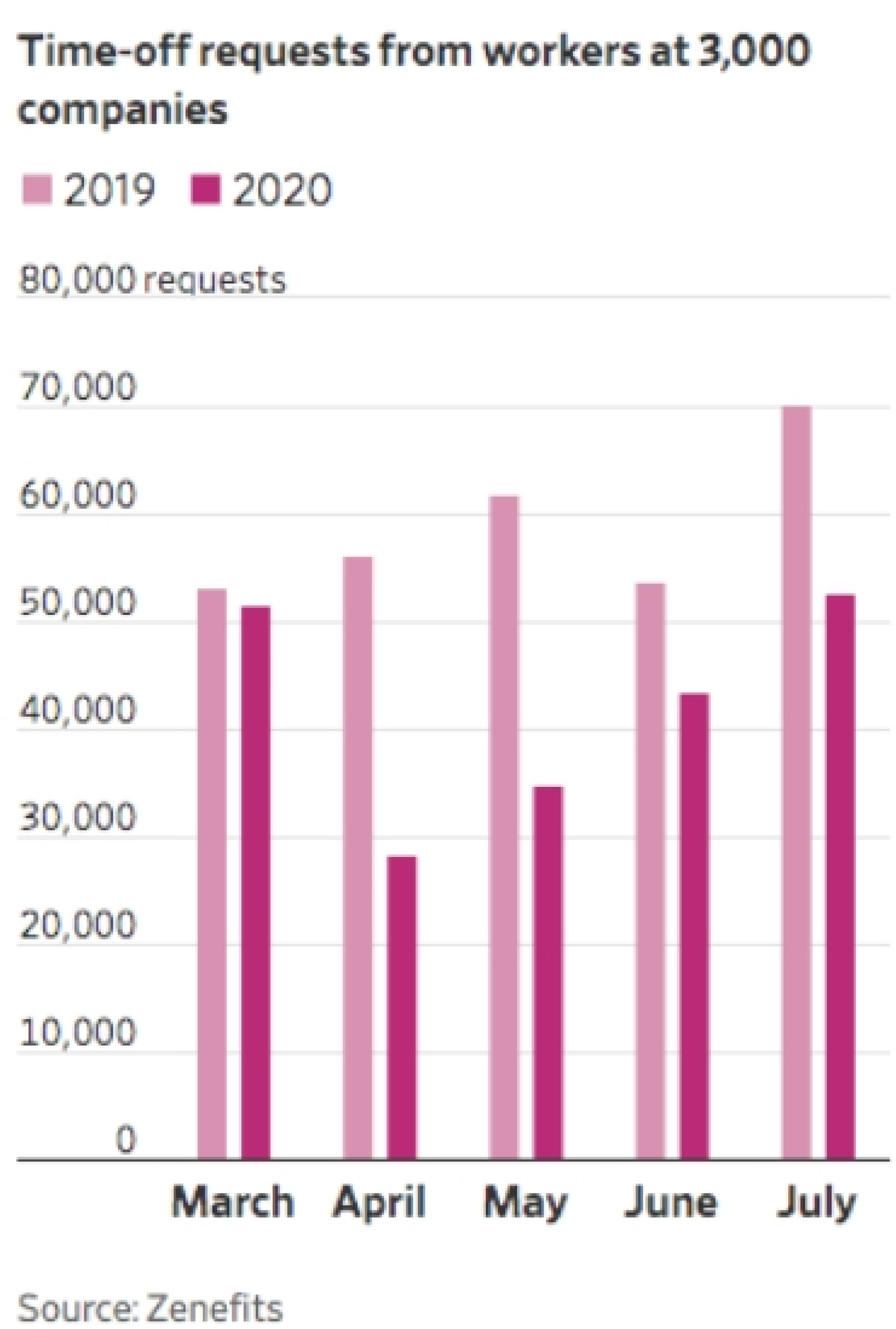
vacation requests

34%

APRIL - JULY 2020

160,000

vacation requests



Industry Examples

INSURANCE

A company that administers other companies' self-funded health plans has seen employees take 25-30% fewer vacation days this year than "normal years."

HEALTH CARE

A 9,000-employee health care provider has over $44 million accrued but unused PTO on the books heading into the second half of the year – a significant increase from 2019.

DEFENSE

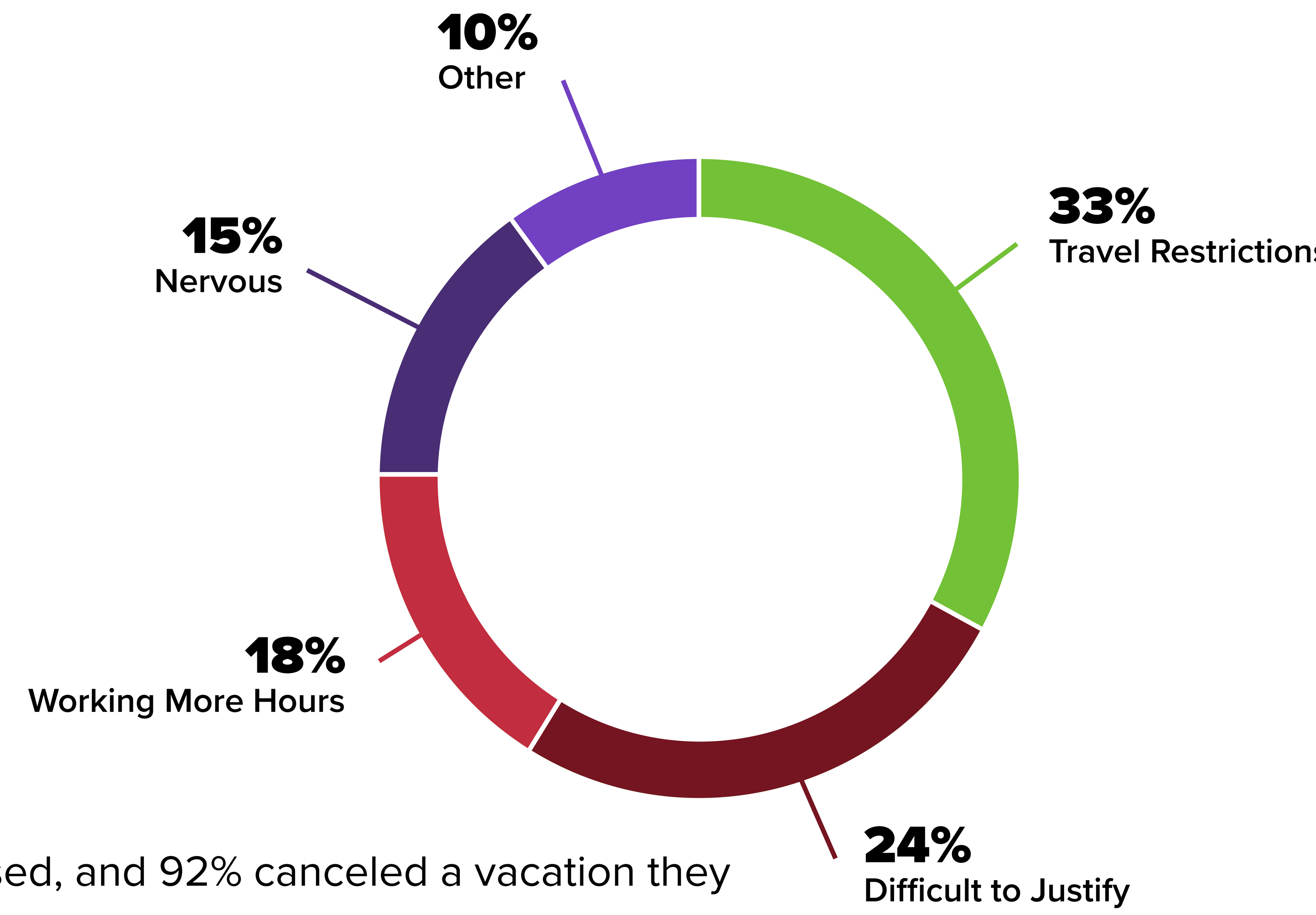
26,000 employees recently participated in a payout, which is atypical, to try to get the PTO liability at a manageable amount. The company is considering changing its standard PTO policy to allow employees to carry over more to maintain employee satisfaction.

Carol Sladek, Partner, Aon Strategic Advisory, Work-Life Consulting Leader

"Lots of companies have said [that] we're worried about employees because nobody is taking vacation."

Why Are Employees Not Taking Time Off?

According to a 2020 study by Zenefits, a human resources software company, workers at roughly 3000 companies submitted approximately 160,000 vacation requests from April through July of 2020. By comparison, about 242,000 requests were submitted during the same period of 2019, a decline of almost 34%.



In 2020, employees left 33% of their vacation days unused, and 92% canceled a vacation they had planned, according to the U.S. Travel Association. Even pre-pandemic, nearly 768 million days of vacation time went unused. While travel is picking back up, employees are still cautious about hitting the road: 30% say they are foregoing vacation.

Outside of travel, working from home or remotely significantly impacts time off. Others include added responsibility at work and the volatility of the job market.

According to a 2020 study from Zapier, 1 in 4 employees find it difficult to justify taking time off when they are already working from home. Additionally, 18% say they take less PTO due to working more hours due to COVID, and 15% of workers say they are nervous about taking time off in a volatile job market.

All of this constant work is leading to a higher burnout among employees. This concern fuels an obvious need for employees to take PTO:

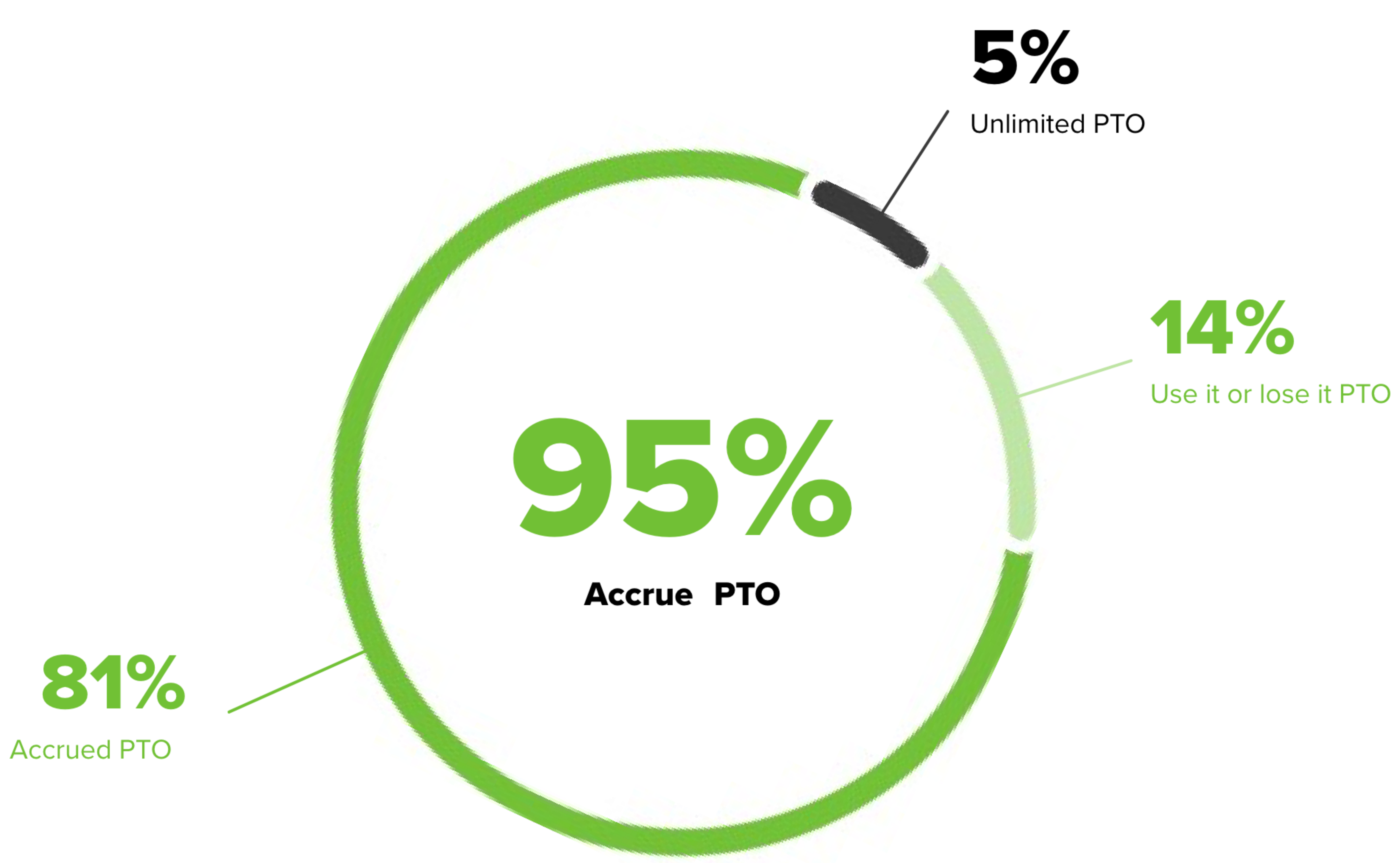
- 23% feel like they're working 24/7 because they're working from home.
- 22% are currently experiencing job burnout.
- 20% feel more burned out at work than usual.
- 32% say stress caused by the global pandemic has negatively impacted their mental health.
- 22% say their mental health has been negatively affected by drastic company changes such as layoffs or restructuring.

THE DATA INDICATES THAT EMPLOYERS AND HR LEADERS HAVE SIGNIFICANT WORK TO NUDGE EMPLOYEES TO TAKE TIME OFF, OR THEY NEED TO FIND OTHER WAYS TO REDUCE THE PTO TIME BOMB.

Most Employers Accrue PTO

Brian Alcala, an employment attorney with Nixon Peabody, told the Chicago Tribune that "As people get back to the office there could be a PTO bomb whereby everyone will want to take their PTO by year's end."

This makes sense since the vast majority of companies allow employees to accrue PTO. According to a 2019 WorldatWork research study, about 95% of private companies accrue PTO, with only 5% having "unlimited" plans. Fourteen percent have "use it or lose it" plans, while 81% — allow some form of carryover from year to year. Unused vacation is logged as an accounting liability on corporate balance sheets, so companies notice when it adds up.



So most employers are impacted by the growing PTO time bomb.

ACROSS ALL INDUSTRIES, IF CURRENT TRENDS CONTINUE, COMPANIES ENTERED 2022 WITH AN INCREASE OF ABOUT $60B IN PTO LIABILITIES.

PTO Policy Changes

Employers are taking notice and a significant number of them (30-40%) are actively considering changes to their PTO policies for 2020 and beyond, according to recent surveys by leading HR advisory and services firms.

42%

have made or are planning to make changes to PTO

Willis Towers Watson

33%

of employers were allowing more vacation days to roll over and more time to use them

AON

39%

Of employers that allow carryover will change or are considering changes

alight®

5 WAYS TO ADDRESS THE PTO SURPLUS

Employers have five options for dealing with the PTO time bomb:

1. **Brute Force:** Creates a mandatory policy for employees to take PTO.
2. **Truth / Soft Encouragement:** Encourages PTO without any formal change to policies.
3. **Short-Term Incentives:** Alters the existing PTO policy to encourage employees to take PTO now instead of in the future.
4. **Kick the Can:** Changes to the PTO policy in light of current conditions, such as allowing PTO to roll over or pausing the "use-it-or-lose-it" policy.
5. **Get Proactive:** Implements new ways employees can utilize their surplus PTO based on their individual needs and priorities.

There is also the Do Nothing approach, which keeps the existing PTO policy as-is. We'll look at each of these individually to understand potential benefits, efficacy, and risks.

Brute Force Method

The Brute Force scenario is a more forceful approach that some organizations may consider due to financial stress. The communication may be, “we may not be able to afford this when business picks up again; you may end up losing a portion of your PTO.”

Benefits:

- **Clear call to action** to use PTO.
- **No disruption** for HR and HR systems.

Risks:

- **Resentment** from employees.
- **Empty threats** that may not have any legal backing.
- **A surge of PTO requests** at year-end.
- **Coverage issues** if multiple employees in the same department take off simultaneously.
- **Productivity loss** due to several employees being out at the same time.
- **Extreme employee dissatisfaction** by forcing PTO.

Truth / Soft Encouragement

The Truth / Soft Encouragement approach involves encouraging employees to take PTO without formal policy changes. First and foremost is a candid expression of the situation and an honest request from leadership to take PTO days. Messaging could be as simple as, "It would help us to take it now because we are hurting."

Other forms include senior leadership "leading by example," HR promoting "mental health days," "staycation," employee gifts, and more to encourage people to take PTO.

Benefits:

- **Build trust and reinforce culture** through truth and transparency.
- **Potential reduction** in surplus PTO.
- **A clear understanding of current policies** amongst employees.
- **No disruption** for HR and HR systems.

Risks:

- **A surge of PTO requests** at year-end.
- **Coverage issues** if multiple employees in the same department take off simultaneously.
- **Productivity loss** due to several employees being out at the same time.
- **Awkward conversations around PTO** when it may not be convenient or desired by employees.
- **Alienating employees** by "forcing" them to take PTO when they don't want or need to.

Short Term Incentives

The Short Term Incentive approach involves temporarily changing the PTO policy to motivate employees to take PTO now instead of in the future. This policy could handle several forms, such as offering to provide some extra PTO in the future in exchange for taking some minimum amount now (for example, offering 1.5 days in 2023 for every day taken in 2022).

Another option is to do a one-time PTO cash-out in the current year, allowing employees to cash out vacation days this year and reduce the PTO liability.

Benefits:

- **Potential reduction** in surplus PTO.
- **Increase employee goodwill** by giving them something in return for using their PTO.
- **Minimize business disruptions** across HR and other departments.

Risks:

- **Build up PTO liability** in future years.
- **Immediate cash expense** if the cash-out option is chosen.
- **Employee confusion** around receiving cash-outs.

Kicking the Can

The Kicking the Can approach temporarily changes the PTO policy given current conditions. These policy changes can take many forms, including but not limited to allowing PTO to be carried over into the next year, raising the accrual limit, extending the time allowed to use carryover PTO, and pausing “use-it-or-lose-it” policies.

Benefits:

- **Obtain goodwill and support** from employees.
- **Minimize business disruptions** across departments

Risks:

- **PTO surplus needs to be addressed,** even if moved to the future.
- **Potentially even bigger PTO surplus** in the next year.
- **Disruption** for HR and HR systems
- **Harder to ensure understanding and comprehension** of revised policies among employees.
- **Communication and management** of policy modifications.

Get Proactive

The Get Proactive approach involves implementing new ways employees can utilize their surplus PTO based on their individual needs and priorities. PTO Exchange, for example, is a technology platform that allows employees to convert their unused leave into other things they value – retirement contributions, student loans, tuition payments, healthcare savings accounts (HSAs), donations, leave-sharing, charitable causes, and more.

Benefits:

- **Reduction** in surplus PTO.
- **Increase employee engagement, affinity and loyalty** in the company.
- **Unique and differentiated** benefit.
- **Seamless integration** with existing HR systems.
- **Emphasizes financial wellbeing** initiatives.
- **Extends current benefits** for little or no cost.

Risks:

- **Potential reduction in PTO forfeiture** by employees.
- **Increased cash costs** depend on how employees decide to utilize surplus PTO.

Do Nothing

The Do Nothing approach is also known as maintaining the status quo. Keep PTO policies as they are, including rollover limits and periods to exercise rollovers.

Benefits:

- **A clear understanding of policies** amongst employees of current policies.
- **Consistency** instead of confusion.
- **No disruption** for HR and HR systems.

Risks:

- **A surge of PTO requests** at year-end.
- **Coverage issues** if employees leave or use their PTO before it expires.
- **Productivity loss** if employees aren't encouraged to take PTO and, as a result, burnout.
- **Extreme employee dissatisfaction,** especially if the company has a "use-it-or-lose-it" policy.
- **Potential loss of talent** if employees are looking for more or more flexible use of PTO.
- **Alienating employees** through limiting policies.

FREQUENTLY ASKED QUESTIONS ABOUT USING PTO

Questions and Answers

1. **Are any employers considering paying out unused days for salaried employees?**
   Vice President, Total Rewards, CPG Company

   A: Many employers pay out unused days for salaried employees, especially when they allow carry over. It's actually less expensive to pay out the days vs. carry them over.

2. **Are any employers planning to allow additional vacation carry over into 2021?**
   Vice President, Total Rewards, CPG Company

   A: Due to COVID, many employees have been unable to use their PTO in 2020. Many companies that allow carry over are letting employees carry over additional PTO this year to make up for it.

3. **Are employers allowing "off the books" agreements between managers and employees?**
   Vice President, Total Rewards, CPG Company

   A: It's our experience that this is a common practice in companies with use-it-or-lose-it policies.

4. **Are employers allowing their exempt staff to carry over PTO or is it limited to certain job grades?**
   Benefits Analyst, Food Wholesaler

   A: Many companies allow exempt staff to carry over PTO. It's a very common practice. We would caution against having policies that vary by pay grade. An arrangement like that could invalidate your PTO plan. You should check with your benefit plan attorney.

5. **Are other employers allowing more rollover than they normally would due to COVID?**
   Benefits Analyst, Enterprise Information Management Company

   A: Due to COVID, many employees have been unable to use their PTO. Many companies that allow carry over are letting employees carry over additional PTO this year to make up for it.

6. Can a company mandate the use of PTO during a "shutdown"?

Actuarial Director, Diversified Insurance Company

A: It depends on your particular circumstances. We would advise you to check with your benefit plan attorney.

7. Did anyone allow employees to go into the negative, and if so, how are they recouping that if they leave the organization?

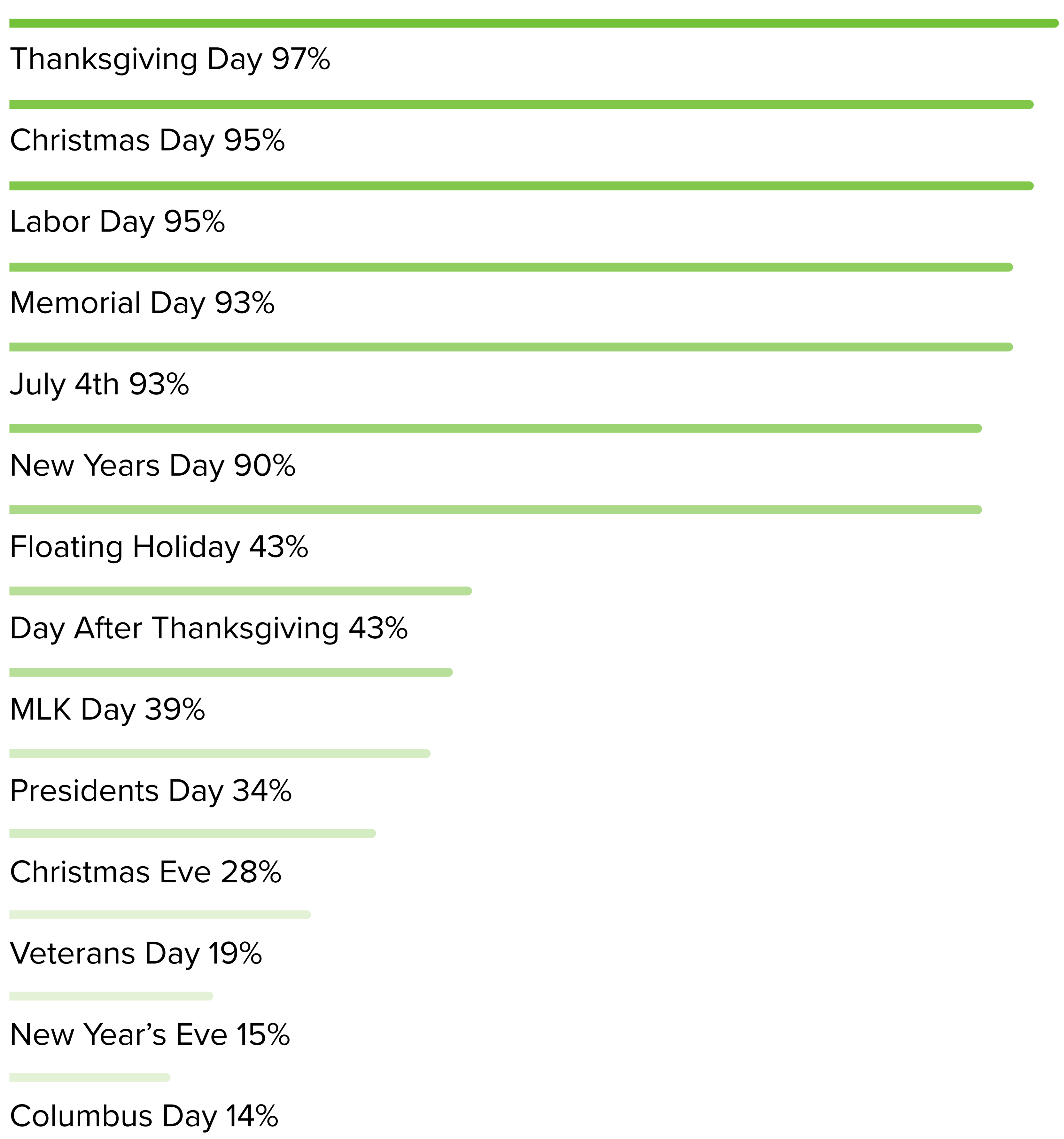
Director of Benefits, Healthcare / Hospital Organization

A: Due to COVID, many employees have been unable to use their PTO. Many companies that allow carry over are letting employees carry over additional PTO this year to make up for it.

8. Do you have any benchmark on the most common holidays companies have as paid time off, such as Martin Luther King Day, Good Friday, etc.

Senior Manager of North American Total Rewards, Global Auto Manufacturer

A: List of most common paid holidays:



*** Over the last few years, Juneteenth (or observance of Juneteenth) is also starting to become a paid company holiday.**

9. How are companies deciding whether or not to allow carryover?

Director of Shared Services, Office Supply Company

A: For most companies, it's in recognition of the fact that, due to business circumstances beyond the control of the employee, they are unable to use all the PTO they have accrued. There are also many US states that no longer allow use-it-or-lose-it PTO plans. In these states, accrued PTO is considered earned compensation and cannot be taken away.

10. How many companies offer PTO purchase programs?

Director, Rewards Solutions, Electronic Manufacturing Company

A: PTO purchase plans used to be more common than they are today. Essentially, a PTO purchase plan simply allows the employee to give up some level of future compensation for additional PTO. Companies that offer this type of plan typically only see a 1-2% participation rate.

11. If an employer allows employees to cash out their accrued time off, are they required to pay them dollar-for-dollar? In other words, can an employer buy back at a discount?

SVP, Chief Human Resource Officer, Regional Bank

A: You are not required to pay out dollar-for-dollar. In fact, depending on your plan, the IRS will require it to be paid at a discount. The level of discount of up to the employer. We know of companies that require as little as 7.5% and those that pay out at a 30%+ discount.

12. I'm interested to hear if there's any expected temporary relief from the IRS on the constructive receipt issue if a mid-year cash-out election opportunity is offered. If not, what is the typical discount that an employer would apply (e.g. 80 cents on the dollar)?

Head of Total Rewards & Shared Services, Health Insurance Company

A: We have not heard of any discussion at the IRS regarding temporary relief of constructive receipt rules. While we know the IRS has approved discounts as low as 5-6% in certain circumstances, at PTO Exchange we do not allow companies to go below 7.5%. The typical haircut we see is 10-15%.

13. In cases where employers entitle their associates based on an accrual rate per each hour worked, how are they taking into consideration time missed due to furloughs?

Director of Benefits, Major Retailer

A: Most furlough situations we've seen do not allow accrual during furlough. We would advise you to check with your benefit plan attorney.

14. What options an employer can consider to help retain employees? For example, if quarantine caused an employee to use vacation leave when they were saving it to roll over into the next year to take off for a special event.

A: PTO sharing among employees has been very well-received. Employees who have lost PTO due to quarantine can request time from a pool of leave donated by other employees. PTO Exchange manages sharing pools for many companies. Another method we've seen is to amend your PTO policy to add a COVID PTO plan that gives every employee two weeks of PTO if required to quarantine.

15. Have any companies implemented a PTO donation program and if so, what were the lessons learned and pros of the program?

Senior Benefits Analyst, Financial Services Company

A: The key to a successful PTO sharing plan is to have a well-defined written policy. Key decision points for setting up a successful sharing plan policy include:

Sharing Pools

- What kind of sharing pools will be allowed?
  - Medical emergency and/or
  - Federal disaster

Recipients

- What specific criteria must be met to receive hours from a sharing pool?
  - Employee must submit a signed request form stating the reason they need additional PTO. The form should have a check list of acceptable reasons.

- Does the employee have to have already used all/most of their accrued PTO before receiving additional PTO? Examples:
  - Employee must have exhausted all accrued PTO hours
  - Employee must have a current balance of 8 hours or less

- Is there a maximum number of hours that an employee may receive from a sharing pool annually?

Donors

- Are there any employees/groups that should NOT be allowed to donate PTO?
- What is the maximum number of PTO hours that someone may donate annually?
- What is the minimum number of PTO hours someone must always keep on the books?
  - E.g. - An employee must always have 40 hours and cannot make a donation that will put them below that number

Non-negotiables – These are IRS rules and must be stated in the policy

- Donors may not designate the recipient of their donated hours
- PTO must be distributed in the form of hours. Recipients may not receive cash in lieu of hours
- A statement of how the donated hours will be disposed of if/when the sharing pool ends.

  Options:

  - Balance of donations will be distributed back to donors on a pro-rated basis
  - Balance of donations will be donated to registered 501c3 nonprofit

References:

https://bit.ly/39lQShg

https://zapier.com/blog/time-off-report-part-1/

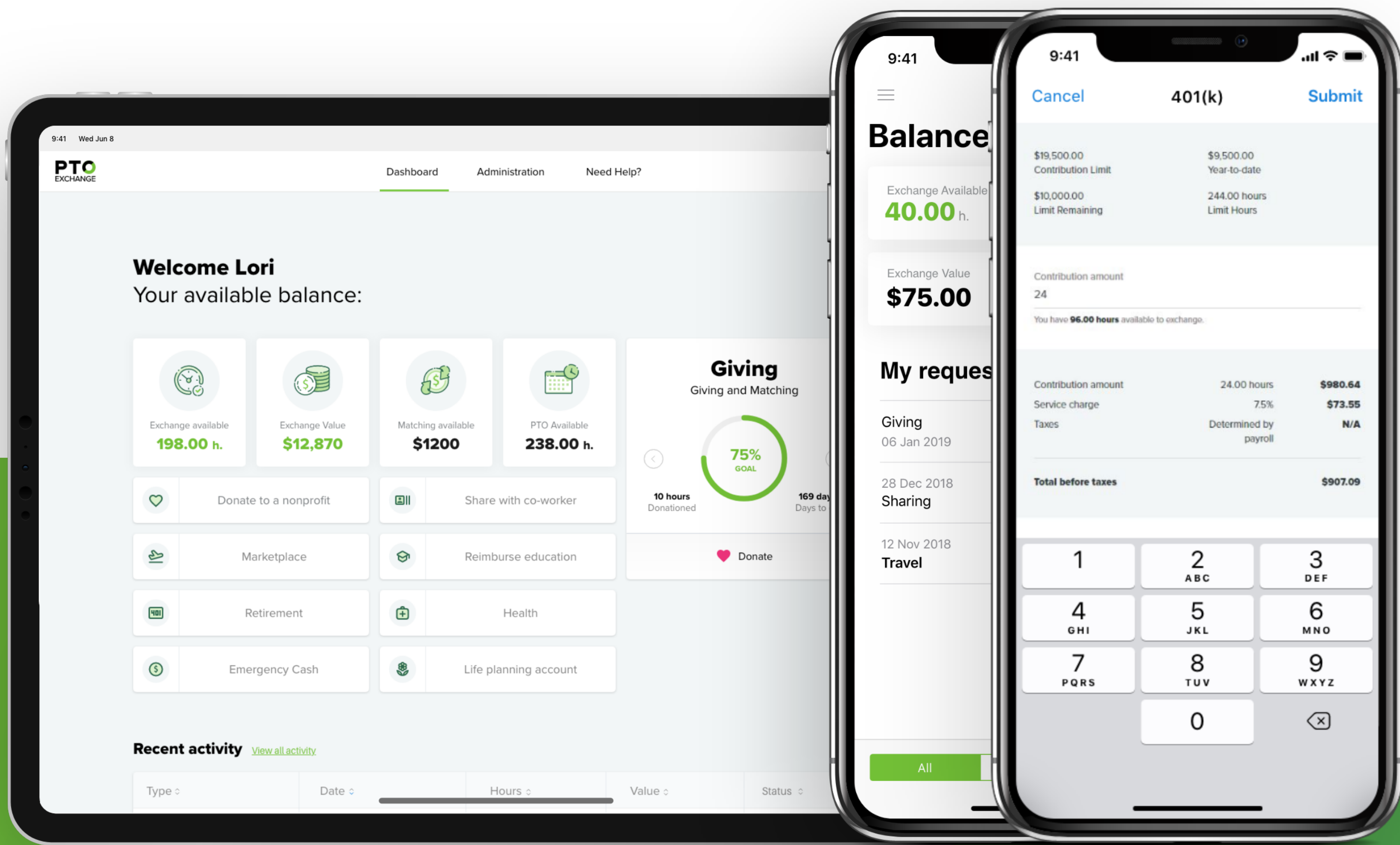
https://www.benefitnews.com/news/why-getting-your-employees-to-take-vacation-is-good-for-business

https://worldatwork.org/

GET STARTED NOW TO REDUCE YOUR PTO SURPLUS

PTO Exchange is a benefits platform that turns unused paid time off (PTO) hours into liquid assets that can be converted into things employees value – retirement contributions, student loan payments, donations, leave-sharing, charitable causes and more…

This is a notable time with many companies making bold adjustments to their PTO strategy and trying to find new ways to help their employee community bridge the changes that are affecting their lives.



Want to learn more?

Schedule a discovery call

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is a benefits platform that turns unused paid time off (PTO) hours into liquid assets that can be converted into things employees value – retirement contributions, student loan payments, donations, leave-sharing, charitable causes, and more.

With PTO Exchange, you can:

- Extend your Total Rewards program
- Attract and retain talent
- Reduce balance sheet PTO liabilities
- Works with your existing systems

Leave Sharing

PTO Giving

Cash-Out & Emergency Cash

Retirement

Student Loans

Travel & Marketplace