

Cut absenteeism costs with a paid-time-off plan

Issue: Paid-time-off (PTO) plans combine sick leave, vacation time and personal days into a single leave-time bank.

Benefits: A PTO plan can reduce sick leave abuse and trim your absentee costs.

Action: Determine if a PTO is right for your organization, then review these four tips to maximize the benefits.

Instead of giving employees a separate batch of days to use for sick leave, vacations and personal days, a paid-time-off (PTO) policy creates a single time bank that employees can tap as they see fit.

The payoff: While the average employer spends 14.6 percent of payroll on absentee costs, organizations with PTOs spend only 8.7 percent, according to the National Center for Policy Analysis.

PTOs do have potential downsides. In states where employers must pay out unused vacation time at termination, they would have to pay out any unused PTO time, too, because PTOs don't distinguish between sick leave and vacation. Also, identifying serious health conditions covered under the Family and Medical Leave Act (FMLA) can be complicated. And some employees may be tempted to use all their PTO time on vacation, only to face unpaid leave when a short-term illness strikes.

Here are four ways to avoid those pitfalls and maximize PTO plan benefits:

1. Analyze what time off is really costing your organization. Before suggesting the switch to your boss, calculate the average annual number of sick days taken per employee and compare it to industry averages. If your organization's sick leave seems excessive, chances are that many employees use sick days for reasons other than illness or they just view sick leave as a "use it or lose it" entitlement. Calculate the real cost of time off by looking beyond the dollar amount paid to employees on leave. Add indirect costs, such as temps and overtime caused by other employees' picking up the slack.
2. Clarify how PTO leave will be scheduled to reduce last-minute leave. Most PTO plans require employees to request permission from their supervisors for PTO leave extending a week or more. Even better: Ask employees to give 24 hours' or more notice to take a day or partial day off, except in emergencies.
3. Retain the right to ask for information about leave taken for illness. To avoid FMLA recordkeeping issues, ask for medical certification if an employee uses more than three days' of PTO time for illness. That lets you determine if the illness should count toward FMLA leave.
4. Roll unused PTO time into a short-term disability bank at the end of the year. Here's one way around state laws mandating payment of unused vacation time upon termination: Limit the amount of unused PTO time that employees can carry over to the next calendar year. Then, let them roll the rest over into a short-term disability time bank that they can use for illnesses that occur after they've used up their PTO in the next calendar year.

Average PTO days

Number of paid-time-off days offered to employees who have been with the organization:

Less than 1 year 13.2 days

1 to less than 2 years 16.6

2 to less than 3 years 17.4

3 to less than 5 years 18.5

5 to less than 10 years 22.0

10 or more years 25.3

Source: Society for Human Resource Management