



# SELECTING THE RIGHT TIME OFF POLICY FOR YOUR WORKFORCE

REVIEW GLOBAL, TRADITIONAL, AND  
UNLIMITED TIME OFF TRENDS AND POLICIES

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## INTRODUCTION

Determining the right time off policy can be a challenge for many businesses. A long list of considerations play into the decision from a business perspective—the competitive landscape for hiring employees, what kind of workforce you need (full-time versus part-time), overall operating expenses on the P&L—but recent studies show that time off policies should also consider the benefits of happy and balanced workers.

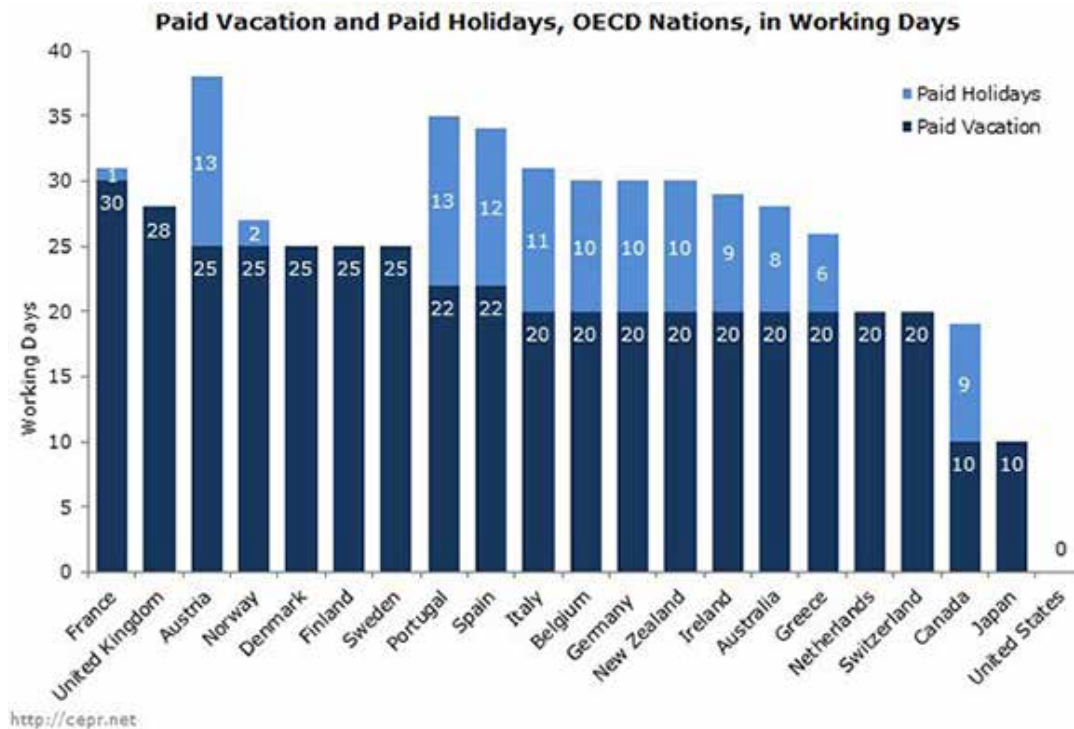
Before selecting or revamping your time off policy, let's look first at global and domestic perspectives on time off, examine the trends occurring within the American workforce, and understand the true worth of time off for employees, employers, and the economy.

With this approach, it's easier to see the benefits and challenges of different time off policies and assess the value of unlimited PTO, a trend that recently has attracted a large amount of interest.

### WHAT IS THE GLOBAL PERSPECTIVE ON TIME OFF?

Here's an eye-opening realization: the U.S. is the only advanced economy in the world that does not require employers to provide paid vacation time.

[The Center for Economic and Policy Research](http://cepr.net) looked at twenty-one of the richest countries in the world, including sixteen European countries, Australia, Canada, Japan, New Zealand, and the United States.



Their discovery: a huge discrepancy exists between how the U.S. and other countries value paid vacation time. Every other country mandated at least ten days of paid vacation time a year, with France holding the highest number at thirty days per year.

The gap between paid time off in the U.S. and the rest of the world becomes even more pronounced when legal holidays are included. While U.S. law doesn't guarantee any paid holidays, most other countries provide between five and thirteen days per year.

For U.S. companies in the private sector that do provide employees with paid time off, the sum of the average paid vacation and paid holidays that workers receive equals sixteen days. While that number sounds better than zero, it doesn't meet the minimum number of days required by law in nineteen of the twenty-one rich countries studied.

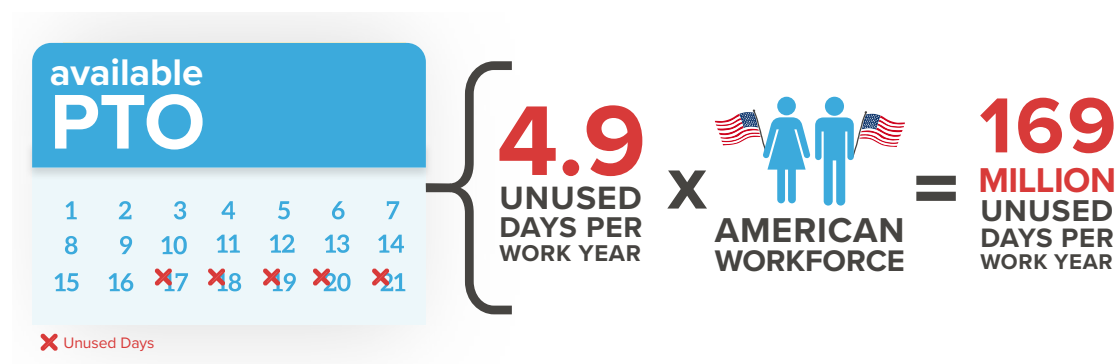
In fact, the CEPR notes the lengths that some countries go to in order to promote time off; five countries go so far as to mandate paying vacationing workers a small premium above their standard pay to offset the cost of taking a vacation.

The study concludes by noting that the lack of paid vacation and paid holidays in the U.S. "is particularly acute for lower-wage and part-time workers and for employees of small businesses." Not only are they less likely to receive PTO, but when they do, the payments are significantly less than the higher-wage, full-time workers who labor for larger employers.

## WHAT'S HAPPENING IN THE U.S.?

The U.S. has a different perspective on time off than the rest of the world. That's not exactly news to anyone. After all, the American workforce has a reputation for being hard workers, driven by a strong work ethic and capitalistic spirit. Anyone can live the American Dream, as long as you work hard, have initiative, stay determined, and—as recent studies demonstrate—put in long hours and take less vacation time.

As a country, American workers are taking less time off than ever before. A study entitled [All Work and No Pay](#) discovered that approximately 4.9 of 21 earned PTO days are unused each year in the U.S.



To put these numbers in perspective, the study found that approximately 169 million days of vacation are forfeited, which is \$52.4 billion in lost benefits. As noted by the authors: "That's more than the total wage and salary income of several U.S. states—Nevada, Arkansas, Mississippi and New Mexico, to name a few."

Why are workers giving up 23% of their hard-earned vacation time?

It hasn't always been this way. In fact, from 1976 to 2000, American workers took an average of 20 days off. Fast forward to 2013, and suddenly Americans are taking almost a week less! The average number of vacation days has dropped from 20 to 16 days.

## WHY AREN'T AMERICAN WORKERS USING ALL OF THEIR VACATION DAYS?

One theory is that the workplace culture is to blame with its emphasis on longer work hours and the lower value placed on free time.

A [Time](#) article notes several key factors that contribute to workers not using their vacation days, namely “fears of keeping your job, being passed over for promotions or lead projects, coming back to a staggering pile of work, or feeling like you’re the only one who can do your job.”

“ANXIETY DISORDER HAS  
INCREASED FROM 2-4% TO 49.5%  
IN A 30 YEAR TIME PERIOD.”

The result of this attitude is a remarkable amount of stress and anxiety for Americans. As reported in the [Huffington Post](#), the American Psychiatric Association performed studies that illustrate a striking increase in the number of Americans who suffer from disabling anxiety. In a thirty-year time period, anxiety disorder has increased from between 2-4 percent in 1980 to 49.5% in 2009. Almost half the population is now afflicted.

What is causing this shift in behavior? Are employees somehow getting more satisfaction or other benefit out of longer work hours? Is the U.S. economy experiencing a global advantage as a result?

## TIME OFF IS A GOOD THING

Actually, studies show that no one benefits from Americans forfeiting their PTO: not employees, not employers, and definitely not the U.S. economy.

Research compiled by the Project: Time Off Coalition—a broad-based group of organizations committed to changing the way Americans think about vacation time—illustrates a strong correlation between time off and numerous health benefits for employees.

Advantages to taking time off include a decreased risk for three big health problems: heart disease, depression, and stress. Research shows that employees who take time off also go back to work healthier and are better colleagues after experiencing a break.

For employers, the upside of employees taking vacation is improved productivity, less burnout, and potential longevity with the organization. An internal study conducted by Ernst & Young discovered that year-end performance ratings improved 8% for each additional ten hours of vacation that employees took. That’s a huge improvement for the equivalent of about a day more vacation each year.

Even better: employees who took frequent vacations were less likely to leave the firm, and stronger workplace morale is seen amongst employees who utilize vacation time, which benefits everyone.

From a macro-perspective, vacation time is also critical to the economy. In a report by the U.S. Travel Association that examines the implications of time off, a key finding illustrates that the U.S. economy would benefit from more than \$160 billion in total business sales and \$21 billion in tax revenues—while supporting 1.2 million jobs in industries such as retail, manufacturing, and transportation—if Americans utilized their time off.

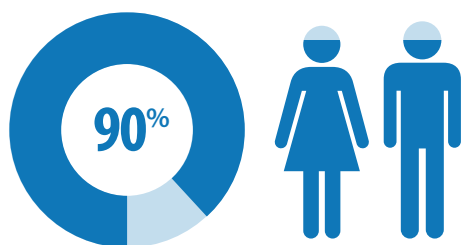
Perhaps the most startling number: if employees take just one additional day of earned leave each year, the result would be \$73 billion in output for the U.S. economy.



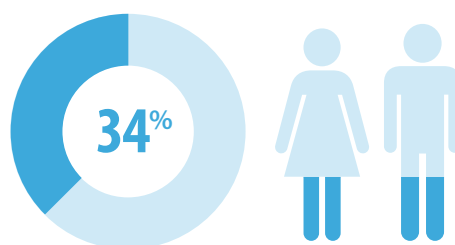
## THE BASICS ABOUT PAID TIME OFF POLICIES

Paid time off (PTO) often refers to a combination of employee's vacation time, sick days, and other leave that is included in an employer's discretionary plan.

According to 2015 numbers from the [Bureau of Labor Statistics](#), more than 90% of full-time employees in private industries receive paid time off, while only 34% of part-time employees are granted paid vacation. Even for qualifying employees, the rules vary widely in terms of how employers determine eligibility, the accrual process, and how vacation time may be used.



**FULL-TIME EMPLOYEES  
WITH PAID TIME OFF**



**PART-TIME EMPLOYEES  
WITH PAID TIME OFF**

### WHAT FEDERAL LAWS GOVERN TIME OFF POLICIES?

As seen in comparison to our international counterparts, federal law does not govern time off policies. The U.S. is the only rich nation surveyed that doesn't require vacation leave or holidays.

However, most employers do provide paid time off to attract good employees and to be competitive within their industry or profession. Sick time is often included as well, although some industries are known for not offering it (such as restaurant work).

## “TWO FEDERAL LAWS DO AFFECT TIME OFF POLICY AND PLANNING...”

Of note: while there are no direct requirements, two federal laws impact time off, namely the Fair Labor Standards Act (FLSA), which covers non-exempt workers, and the Family and Medical Leave Act (FMLA), which requires employers to give covered workers up to twelve weeks of leave per year for serious illnesses or to care for an ill family member or new child. While the job is protected, the time off is unpaid.

Finally, as is always the case in the U.S., discrimination based on protected characteristics (race, religion, disability) may not be used.

## WHAT ABOUT STATE REGULATIONS?

Every state has its own unique laws that govern time off, the details of which are accessible on the legal site [Nolo](#). Examples of state laws include time off for dealing with pregnancy, a newborn, a child's school activities, civic duties (voting, serving in the military or on a jury), and incidents such as domestic violence.

One area where state law may get involved is the [accrual of vacation](#). If vacation is considered a form of compensation, then unused days must be paid out when the employee leaves the organization. About half of the states require this payout of unused vacation days.

Laws may also exist to make it illegal for employers to utilize a “use it or lose it” policy to force employees to take vacation in a set time period. Instead, accrual caps may be put in place to stop the unlimited build-up of vacation time.

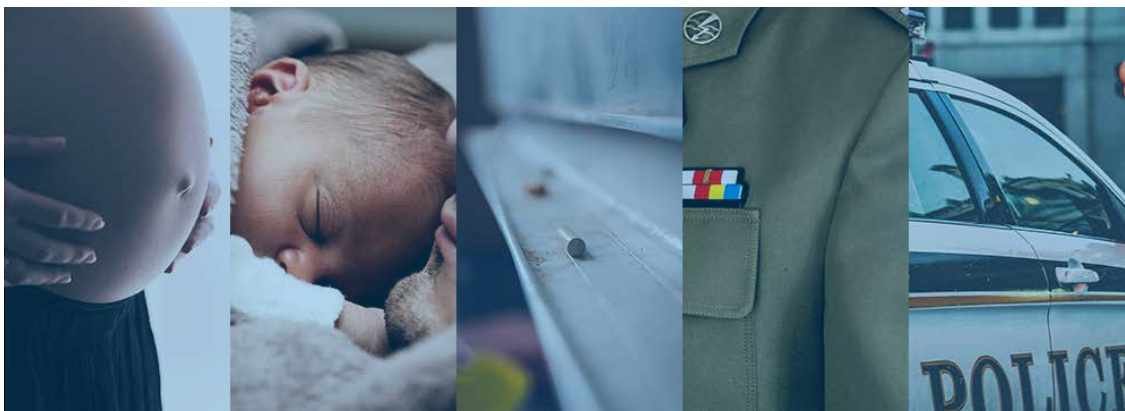
## WHERE DOES THIS LEAVE US?

Because legal requirements don't exist, PTO is dictated by the employer, including how time off is accrued, approved, and structured.

For example, employers can set qualifications around how much tenure at the organization is required before vacation days are earned or can be used, how much notice is needed for PTO approval, how much vacation can be taken at one time, what times of year vacation is not allowed, whether phone calls and emails are expected to be answered while on vacation, etc.

Alternatively, employers can adopt an open policy that allows employees to determine their time off (within reason, of course).

Let's take a look at the two main methods seen today—traditional PTO and unlimited PTO—and discuss some of the pros and cons of each type.



EXAMPLES OF SITUATIONS THAT UNIQUE  
STATE TIME OFF LAWS MAY COVER.

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## HOW MUCH CAN UNUSED VACATION TIME POSSIBLY COST AN EMPLOYER?

[The City of Jacksonville](#) recently learned the hard way, when an executive staffer—who hadn't taken a vacation in five years—announced his retirement and sought payment for unused vacation days. If he gets the cash-out, he will receive \$521,798 in unused vacation since 2011.

## TRADITIONAL PTO

If your organization prefers a more traditional approach to PTO policy, multiple decisions need to be made upfront to determine the parameters that best match your business and workforce.

### TOP CONSIDERATIONS

When you think about a PTO policy, it's important to keep in mind your location, your employees, and the company culture.

First and foremost, the most important thing to do is check state requirements on a site like Nolo. Once you understand all the laws and limitations that your business must comply with, you'll have a better sense of what policy decisions will work best.

But you also want to think about what is best for your workforce and for the culture you either have or would like to have. What will make your employees feel empowered to take time off and to establish a work-life balance?

Logistically, these questions are a good starting point for determining the basics.

- ▶ **PTO by type:** do you want to track PTO by sick days, vacation, holidays, etc. or offer one PTO policy with a set number of time off days, regardless of reason?
- ▶ **Time period:** should PTO be tracked individually for employees based on start date/anniversary, or by calendar year?
- ▶ **Granted vs. accrued:** do employees receive the PTO days in a lump every year, or are the PTO hours earned every paycheck?
- ▶ **Allotments:** how do you determine how many PTO hours are given to each employee—by role, by tenure, or by some other calculation?
- ▶ **Unused PTO:** can employees carry over days year-to-year, and is there a cap on the number of days?

### PROS

Traditional PTO policies have been in place for years. Numerous examples exist that you can utilize to craft the right approach for your organization, and state laws will likely answer several of the questions above to help determine your policy.

Because employers decide everything not set by the state(s) in which they operate, a lot of power exists in the creation of the PTO policy. Based on size and culture, you can determine what's best for the business—financially, competitively, and personnel-wise—and craft a policy to match.

### CONS

Depending on your state, the financial burden to pay out unused PTO at the end of an employee's tenure can be challenging, especially if your business is required to keep those funds in the bank. This financial liability is especially hard for organizations that run lean, are trying to reinvest in their business, or have lower profit margins.

With any PTO policy where time off is tracked, careful accounting must be done to make sure that the policies created match the state requirements, that all employees are handled equally and fairly, that time off is calculated and accrued correctly, and that the policy remains compliant over time.



## UNLIMITED PTO

No matter what name is used—“permissive time off,” “flex time off,” “discretionary time off”—the main thrust of this trend is that vacation time is unlimited for employees, assuming manager approval and completed work, and PTO days are not tracked by HR or in payroll systems.

Unlimited PTO has been buzz-worthy in recent years as high-tech companies and startups forged the way and adopted this policy, including companies like Netflix, LinkedIn, VMWare, and Workday.

However, as noted by the [Washington Post](#), “unlimited vacation policies are still rare in Corporate America—just 1 to 2 percent of companies offer the benefit, according to the Society for Human Resource Management (SHRM)—the perk is starting to seep into industries outside Silicon Valley, where it first became popular.”

### INITIAL RESULTS AND FEEDBACK

If a culture of trust and results is what you’re aiming to create, unlimited vacation policies boast early successes.

As one executive at [ZenPayroll](#) describes it, “We feel that our flexible vacation policy helps build an ownership mentality. We want our employees to think like owners and consider what’s best for both themselves and the company. Letting them figure out their own vacation time shows that we trust and respect them, which in turn strengthens their commitment to the company.”

Another executive, whose employees cite unlimited PTO as one of their most valued benefits, explains in [Fast Company](#), “We liked the idea of a policy that conveyed trust in our employees, supported their lives and families, and reduced red tape.”

An interesting discovery—which is replicated by other organizations with this policy—is that “employees took roughly the same number of vacation days under our unlimited policy as they did the year before, when we accrued paid time off (PTO) in a more traditional system.”



SOME COMPANIES THAT HAVE EMBRACED  
UNLIMITED PAID TIME OFF POLICIES.

## PROS

From an employee perspective, commonly mentioned upsides to unlimited PTO include:

- ▶ Accountability around outcomes rather than hours spent in the office
- ▶ An ownership mentality that comes from being granted freedom and responsibility
- ▶ Increased loyalty for the company and heightened morale

For employers, the biggest advantage is financial. As reported in [Time](#), “(A) major benefit of doing away with set vacation time comes from no longer needing to pay out employees for unused days if they quit or get laid off or simply don’t use them all by year end.”

According to [Project:Time Off](#), companies can see cost savings equivalent to the average vacation liability of \$1,898 per employee. In fact, due to the infrequency with which American workers take PTO, U.S. companies carried forward \$65.6 billion in accrued paid time off costs in 2014. Imagine all the ways that money could be better utilized for other business activities.

Additional benefits for employers include:

- ▶ [Easier recruiting](#) with the ability to set the organization apart from other businesses in the same space
- ▶ [Retention](#) of talent with employees who feel trusted and valued
- ▶ Streamlined accounting, payroll, and HR practices

## CONS

Challenges can arise if unlimited PTO is not implemented in a manner that is understandable and fair to the employees it impacts.

Some downsides to unlimited PTO include:

- ▶ Confusion around what is an acceptable amount of time off to take
- ▶ Unfair situations for employees with less accommodating managers
- ▶ Employees taking less time off than under traditional PTO policies

“EMPLOYEES STRUGGLED TO  
BALANCE THE PERK WITHOUT  
THE IMPRESSION OF ABUSING IT.”

To this last point, [Kickstarter](#) decided against keeping unlimited PTO because employees were taking less time off as a result of the policy. Employees struggled to figure out how to find a balance between maximizing the perk without giving the impression of abusing it or being a lazy worker.

Another big challenge comes during the implementation when organizations shift from traditional PTO to unlimited vacation and mishandle the situation. As [Fortune](#) reports, Tribune Publishing’s employees threatened to sue when accumulated PTO was not paid out at the time the unlimited PTO policy was implemented.

## LEARNINGS

Unlimited PTO can be a great policy if implemented correctly. To quell employer fears of abuse, a [common finding](#) is that employees are taking the same number of days that they did under the traditional PTO policy. Interestingly, one observation is that employees seem to take time off in spurts—a couple of days at a time—rather than in weeks.

## “SPELLING OUT HOW TO USE THE VACATION POLICY MAKES IT MORE LIKELY TO BE USED.”

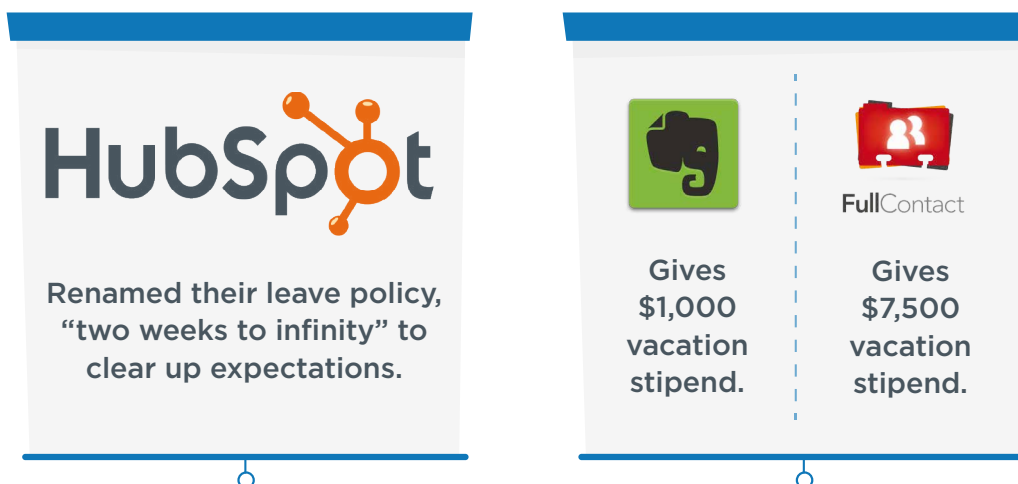
Different companies have adopted strategies to encourage employees to utilize their unlimited PTO. One example is HubSpot, which renamed their policy “[two weeks to infinity](#)” to emphasize the expectation that employees take at least two weeks off. Giving this type of directive helps eliminate the uncertainty and set expectations for employees. Spelling out how to use the vacation policy—i.e. providing any rules, guidelines, or suggested usage—is more likely to result in its actual usage.

Another strategy follows the European example noted earlier: giving employees money to spend on vacation. As reported in [Entrepreneur](#), Evernote gives employees \$1,000, and FullContact doles out \$7,500, with the caveat that the money must be spent on vacation.

For companies that are shifting from traditional PTO to unlimited, it’s important to handle properly the previously accrued PTO and either pay out the accrued time or set up a time period in which employees must use it. The good news is that, once completed, the organization no longer needs to carry PTO days on the books or pay out employees when they leave.

On a final note, companies are encouraged from a legal perspective to have a written policy that explains how federal and state laws around FMLA, FLSA, parental leave, state-mandated paid sick days, and other absences are handled. In addition, the policy should spell out how managers can provide equitable treatment to their employees to avoid discrimination claims. Fair application of the policy is critical to its success, as is clear communication.

## HOW SOME COMPANIES ENCOURAGE EMPLOYEES TO USE TIME OFF



## HOW TO SELECT THE RIGHT POLICY FOR YOUR BUSINESS

Now that these options have been explored, the question is: what is the best time off policy for your organization?

### QUESTIONS TO CONSIDER

To create a policy that will be successful and have the intended effect, it's important to ask yourself these questions:

- ▣ What's the goal of your PTO policy?
- ▣ What's the culture within your organization?
- ▣ Do your workers value freedom of choice, or do they want to be guided?
- ▣ What policy will best encourage your workers to find balance between their work and personal lives?

**NO MATTER WHAT POLICY YOU END UP IMPLEMENTING, IT SHOULD ALIGN WITH YOUR COMPANY CULTURE AND BE COMMUNICATED CLEARLY.**

1

**EXPLAIN THE VALUE.** Make sure your PTO policy is discussed in terms that illustrate the value to the people using it. Talk about why it was selected, what it means for each of them, and how it impacts the company positively to have its employees take time off.

2

**PROVIDE CLEAR GUIDELINES.** Make sure everyone understands exactly what the policy means, how it should be used, when it's appropriate to take time off, and how the approval process works.

3

**EMPHASIZE WORK-LIFE BALANCE.** Give workers peace of mind. They are encouraged to work hard but also to spend time away from work. Balance is important.

4

**LEAD BY EXAMPLE.** If management takes vacation and frames it in a positive light, then employees will feel more comfortable doing the same.

## CONCLUSION

Time off is an important and valuable benefit that can have a huge impact on your workforce's productivity, happiness, and longevity. The good news is that the positive outcomes of taking PTO are aligned for businesses and employees, which means company culture can help determine the right policy for your workplace.

Traditional PTO and Unlimited PTO policies both have their benefits and challenges. The best approach is to understand your goals, your workforce, and the outcomes you are looking to achieve and then pick the policy that matches your organization.

As we've seen, a major contributing factor to employee productivity is not only the ability to take time off from work but also the mental security to do so. Leadership should make sure that every employee understands how the organization feels about PTO and promote its usage.

After all, the vitality of your workforce is essential to the health of your business.

### TAKEAWAYS

- ▶ The U.S. is the only rich country that doesn't mandate paid time off. However, state laws and regulations do exist and need to be adhered to when creating a PTO policy.
- ▶ As a country, we are losing out on the benefits of paid vacation from an employee, employer, and economic perspective.
- ▶ Traditional PTO policies are used by over 98% of companies in the U.S. today and have a myriad of options on how they can be constructed.
- ▶ The downside to Traditional PTO is the financial liability that companies face in order to pay out employees at the end of their tenure.
- ▶ Unlimited PTO is still nascent but has seen early successes with companies that encourage employees to take time off.
- ▶ One challenge for implementing Unlimited PTO is how to handle any current accumulated PTO in a fair and equitable manner.
- ▶ Selecting the right PTO policy comes down to organizational goals, company culture, and following the state regulations where the company operates.
- ▶ Don't forget to communicate your new policy to employees and encourage them to take time off!

### ABOUT REPLICON

[Replicon](#) provides award-winning products that make it easy to manage your workforce. With complete solution sets for client billing, project costing, and time and attendance management, Replicon enables the capture, administration, and optimization of your most underutilized and important asset: time.

Cloud-based products and world-class mobile applications make our diverse customer base successful every day. From start-up organizations to Fortune 500 companies, Replicon customers experience boosts in productivity, improved project visibility, decreased revenue leakage, and adherence to labor compliance laws.

We support thousands of customers across 70 countries and span the globe with over 500 Replicon employees in the United States, Canada, India, Australia, and the United Kingdom. To learn more, visit [www.replicon.com](http://www.replicon.com).





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