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# What to Consider When Instituting a Vacation Policy

CURT FINCH

**M**any companies ignore paid time off (PTO). They are casual about vacation and sick days, but as they grow, they must be aware that PTO can become a significant expense that must be managed. Here are some things to think about when developing or improving a PTO plan.

## TALENT—HOW TO GET IT

There plenty of people who are willing to work 60 hours per week to become a top wage earner. A recent study by the *Harvard Business Review* found that 52 percent of top wage earners work more than 70 hours per week. Are they going to snap?

In a war for talent plagued by job hopping, employers are being forced into providing vacation plans based not on seniority in the company, but instead on seniority in the industry. If a company wants to attract high calibre people from other firms, it may increasingly have to match the vacation plans they had at those firms. But how can it keep that under control?

Controlling and understanding PTO allows companies to recruit better talent. They can promise and allow people more vacation than competitors if they know that it is controllable. This tips the balance, allowing a company to build a better team than its competitors. It is another way to win. If a company does not want its great teams to burn out, it can use vacation to keep hard-won, talented employees longer than its competitors.

## BURNOUT OR SLACKER?

A company's profitability can be wrecked in two ways: by overwork with its associated burnout, or by too much absenteeism. Everybody needs a vacation once in a while—"workaholism" is unsustainable long term. Sometimes companies must encourage people to "vacate." On the other hand, a few employees with serious absenteeism problems can wreck the morale of good employees. But the law is a company's friend.

## THE LAW AND THE AGREEMENT—HOW TO MAKE IT WORK

The first question businesses need to answer when creating their PTO plans is what to do about employees who quit or are terminated. Many states require that the balance of vacation days be paid when an employee leaves the firm, unless the company has a policy that states otherwise. In some states the default policy is much more employer friendly. Texas is an example of a state that defaults to this policy.

## COST/BENEFIT AND ETHICS

If a company chooses to disallow vacation time to resigning employees and it runs a company of high turnover—a fact of life in certain industries, such as retail or food service—this allows the company to reallocate the PTO that those who leave might have used in favor of those that stick around. In essence, the company can offer more generous PTO packages when recruiting than its more lenient competitors can offer—at no additional cost. And this is arguably more ethical. After all, employees deserve benefits commensurate with their loyalty, do they not? Given that the company has earned their loyalty, how should it accumulate PTO?

## HOW TO ACCUMULATE

Companies have many different formulas for the accumulation of PTO, based on hours worked, seniority, title, and geographic location. Different firms institute different policies to reclaim unused PTO at the end of various time periods (usually the fiscal year, the calendar year, or on the anniversary of the employee's hiring). Plans that allow unused PTO balances to roll over year after year can build up a larger liability, as when the employee takes the vacation long after earning it; after several pay changes, it will be taken at a *higher pay rate* than earned. This is an important financial consideration.

## PTO IS CHANGING

Generalized PTO plans are simpler to understand and administer than plans that separate sick, vacation, and personal days. They also

favor healthy employees. Employees with absenteeism problems often get a better benefit under traditional plans with dedicated sick days.

Healthy workers prefer PTO plans because they can take some of the days that were formerly classified as sick days as vacation instead. And then there's the "honesty dividend." People needn't call in "sick" when they are really going shopping. HR doesn't have to play policeman on employees' reasons for taking time off, or demand a doctor's written excuse for absences.

On the other hand, as a company exceeds 50 employees and falls under the Family and Medical Leave Act (FMLA), it may want to split FMLA accruals from other PTO in order to ease the task of meeting federal reporting requirements. This is where automation becomes very important.

### **AUTOMATE. AUTOMATE. AUTOMATE.**

Many companies—especially small ones with highly skilled workers—have a casual attitude towards PTO. But as a company grows to exceed 50 workers or so, having an *automated system* to help manage this benefit can be beneficial in two ways.

First, it can help curtail the intent of employees who would take more than

their fair share of PTO. Letting an automated system control this makes the job emotionally easier—the employer needn't play the heavy *all* the time.

Second, it can allow a company to have a better understanding of who is not taking time off. Employers probably already know who needs time off. Who's the grumpiest sourpuss in the office right now? How much of their vacation have they used? Send them on a vacation. Keeping workaholics in the office represents a false economy in most cases.

### **DON'T BE STINGY**

There is evidence that the European habit of taking six weeks of vacation every year leads to higher productivity. They work just as hard as Americans, but they know that they're going to get that one month or more where they can really recharge. Guess what? Things don't come to a halt.

The statistics back this up. Contrary to myth, Europe has often outpaced the United States in productivity. In fact, Europe had a higher productivity growth rate in 14 of the 19 years between 1981 and 2000, according to the U.S. Federal Reserve Board.

According to a recent Expedia.com study on U.S. vacation habits, in 2002, a typical American was granted 16 vacation days, but only took 14 days off, handing back more than \$21 billion in unused vacation days to employers. In Europe, by contrast, the average is 30 days. So employers should be generous when they hire. Employees probably will not use it all anyway.

### **CONCLUSION**

Controlling PTO appropriately leads to a smoother operating workforce. It curtails the malingerers and shines a spotlight on the unsustainable workaholics. Picking the right legal structure for PTO plans is a card employers have to play in some states. An automated PTO tracking system makes the PTO management job so much easier. 🌟

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Curt Finch is the CEO of Journyx, a provider of Web-based software located in Austin, TX, that automates billing, payroll, and project accounting by tracking time, expenses, and mileage. He can be reached at [curt@jourmyx.com](mailto:curt@jourmyx.com).