

How to choose a PTO policy for your business

Even the most dedicated employees need a break sometimes. Paid time off is an essential component of your employee benefits and compensation package. As such, your PTO policy will be one of your most important company policies.

Having a solid PTO policy will make administering paid time off easier on human resources and simpler to use for employees. There are a lot of factors to take into consideration when creating a solid paid time off policy, so we've outlined them here to help you through the process.

Types of PTO

The primary categories of paid time off are.

Sick leave

Sick leave provides a bank of days off for health-related matters such as an illness or injury. Sick leave is often used for unscheduled absences when an employee wakes up sick and is unable to go into work. They can also be scheduled in advance if an employee needs time off for a doctor's appointment or medical procedure.

Vacation

Vacation time is provided to allow employees to take time off for vacations, personal days, and any non-health-related time off that they would like to request.

These are generally planned absences, so it's a good idea to include vacation request procedures in your vacation policy. Let employees know how vacation is accrued when it's available for use (there is often a 90 day waiting period), and how to request a vacation.

Holidays

Holidays are paid days off that do not come from either of the above-mentioned PTO banks. There are generally federal holidays like Christmas, the 4th of July, Thanksgiving, and New Years Day. The exact list of holidays recognized can vary by employer. A list of paid holidays should be included in the employee handbook.

It's also becoming increasingly popular to offer "floaters" or floating holidays that can be used on a day of the employee's choice. They're meant to allow an extra paid day off for significant days such as birthdays, anniversaries, religious or culturally significant dates, and other significant dates. Some employers also just have a paid day off offered for the employee's own birthday rather than leaving it open-ended.



Separate vs combined PTO balances

Many companies combine vacation and sick pay into one all-encompassing PTO bank. However, it's more common to have vacation PTO and sick leave listed separately. Each type of policy has its own benefits.

Combining them gives employees more flexibility in how they use their PTO, as some employees may not find themselves needing to take many sick days throughout the year and may prefer to repurpose those as vacation days. It can also be easier to track PTO usage with one combined bank. No need to worry about whether a day off counted as sick leave or vacation.

However, you do run the risk of having employees roll their sick days into a longer vacation and coming back to a depleted combined PTO bank. If they get sick and do not have paid time off to cover it, they may come into work sick and possibly infect other staff members. It could also create an administrative hassle if the employee is unable to come in and does not have an adequate amount of sick time to cover the absence - we'll get into your options for handling this scenario further down.

It's also important to research whether you are legally required to pay out unused vacation at the time of termination. This varies by state. Some states view vacation pay as part of an employee's wages and require that all earned time be paid out upon termination of employment. Sick leave is often not included under these laws, so keeping them separate may be advantageous for your company if you operate in any states requiring vacation payout.

How much PTO to give?

There are a number of ways to determine how much paid time off to grant each employee. Sick leave is often consistent across the board, but vacation varies.

Some companies increase annual vacation allowance by years of service. New employees all receive a week or two off per year and extra vacation days or weeks are earned at set intervals such as 5 years of service, 10 years of service, etc.

Management and executives often receive a higher number of PTO days than other staff due to the increased stress and demand of their roles.

Alternatively, some companies do allow candidates to negotiate additional vacation time as part of their salary negotiations. This may lead to a less equitable disbursement of paid vacation among staff members. However, it's a great option for small businesses that have limited budgets. Providing additional vacation time in lieu of additional pay can help you compromise with the talent without compromising your overall budget for the role.

Another option is to offer an unlimited PTO policy.

Should you offer an unlimited PTO plan?

Unlimited PTO doesn't always translate to more PTO taken

Many employers fear that offering unlimited PTO will result in a huge increase in absences. This is often not the case, however. HR vendor, [Namely](#) conducted research that indicated that employees with unlimited PTO actually end up taking fewer vacation days than their counterparts with limited PTO (13 days versus 15 days). So in some cases, offering unlimited paid time off can actually result in employees taking less time off.

However, it's important to understand that while having fewer absences seems like it would be better for productivity and company operations, this isn't necessarily the case. I don't recommend moving to an unlimited PTO program with the primary goal in mind of cutting down on vacation usage or call-outs.

Some employees may end up taking more time off, and it's likely because they need more time off. Allowing each employee the time off that they need to be able to come back to work energized, motivated, and refreshed is good. Many employees are burned out, especially as many people canceled vacations due to the pandemic.

Burnout hurts employee productivity, creativity, engagement, and retention. Discouraging PTO usage under an unlimited PTO plan is counterproductive. Plus, if we've learned anything over the past year, it's that keeping our distance from others while sick is a good thing, so let them call out when needed. If you notice excessive absenteeism, you can speak to the employee

PTO won't have to be paid out on termination

As mentioned above, some states require employers to pay out unused accrued vacation at termination. Unlimited vacation policies generally do not require any form of payout.

Less administrative work

Tracking PTO balances and usage takes time. If you're a small business and don't have a dedicated HR or Payroll department to keep track of PTO usage, unlimited PTO can ease the administrative strain. It can also save time for People Managers throughout the company who may be able to avoid lengthy PTO approval processes, tracking down Doctors notes or absence documentation, and tracking their employee's PTO usage. Ask.com implemented an unlimited PTO policy and calculated that they saved [52 hours of administrative time](#) in one year.

Attractive to potential recruits

Perks like unlimited PTO packages can help you edge out your competition in recruiting top talent. Work-life balance is important to today's candidates. In an increasingly competitive job market, having policies that show that your company values work-life balance and flexibility can make the difference.

Other PTO considerations

How to administer your PTO program

Most businesses choose to administer PTO on an accrual basis. Employees accrue a set amount of PTO hours per paycheck or per a certain number of hours worked.

The easiest way to set the accrual rate for full-time staff is to divide the total annual PTO that the employee should earn by the number of pay periods and add that amount to the PTO balance each pay period. If employees see the same number of hours added on each paycheck, it is easy for them to calculate future PTO balances if they are saving up hours to take a vacation.

Part-time employees may be ineligible for vacation days or paid time off. If you do decide to offer PTO to part-time staff, setting the accrual rate based on hours worked is a good method. For example, an employee may accrue 1.54 hours for every 40 hours worked. This would add up to 2 weeks off per year for a full-time employee or 1 week off per year for an employee averaging 20 hours per week.

On the other hand, some employers skip the accrual process and simply provide an annual lump sum of PTO to employees. They often add the full amount to each employee's PTO bank at the beginning of the year and let them work through it however they desire. If your company has low turnover, this may be a fine option. It gives employees greater flexibility in when they use their time off.

However, if you have high turnover, I do not recommend this approach. The start of a new year is a popular time to job hunt. If you pay out unused PTO, you may end up paying out the full annual balance to an employee quitting in January or February. Under an accrual method, they would not have earned most of that balance. Even if you do not plan to or have to payout the balance, employees will often try to empty it prior to leaving.

Unused PTO

As discussed above, some states require certain types of paid time off to be paid out upon termination of employment. Check the state laws for each state in which you have employees to verify what is required in terms of payout on unused PTO days.

Another consideration for unused PTO is whether you will allow unused PTO to be carried over to the next calendar year. You can operate under a use-it-or-lose-it approach. However, it is common to allow a limited amount of PTO time to carry over into the next year.

PTO requests

It's a good idea to include PTO request procedures in your PTO policy. Let employees know how far in advance they should request approval for planned absences and who to submit the request to.

Be sure to also include how employees should handle unplanned absences. If they need to call out before the business is open, who is their contact? What is the followup procedure if that contact doesn't answer or they have to leave a message. Setting clear expectations and procedures takes the stress out of sick days for employees and helps managers and human resources track absences.

Additional time off

Sometimes employees need more time off than they have accrued. Consider how you will handle this problem if it arises. Of course, if you choose to have an unlimited paid time off policy this won't apply.

One option is to allow employees to go into the negative or use time that they have not yet accrued but will

accrue. Don't make a habit of this one though. If the employee is missing a few hours of PTO, and will accrue enough to even out the advance in the next pay period, it's not a large concern. However, advancing large amounts of PTO can be tricky. You may or may not be able to deduct a negative PTO balance from an employee's last check if they leave or are let go before they get caught up. Check your local laws to verify. It also means that they will have no PTO balance going forward for some time, and they could end up needing more time off, causing the negative balance to grow. If you do allow this, have a clear written policy, and consider having the employee sign a PTO advance agreement that they understand that the balance will be deducted from future PTO accruals.

Some workplaces allow employees to donate PTO to other employees. Employees that have accrued time off and not used it can give it to another staff member to use or to a general PTO fund for employees in need.

You can also allow employees to simply take unpaid time off.

Always check your company's applicable leave policies if an employee has exacerbated their PTO balance and needs to take more time off. If an employee is taking a lot of time off due to a medical condition or caring for a family member, they may qualify for FMLA leave. The Family Medical Leave Act allows for up to 12 weeks of job-protected unpaid leave per year for the purposes of caring for your own health condition or caring for a family member. This leave can be broken up throughout the year.

Additional resource: Updating your handbooks and company policies? Check our guide to [employee handbooks](#).