

# Understanding PTO Policies

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# Presented by:

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# Seminar Outline

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We will discuss:

- n Regulations that govern vacation, sick, holiday, & paid time off (PTO) policies
- n Basic policy guidelines
- n Potential pitfalls
- n The financial impact of vacation, sick and PTO plans
- n The impact on recruitment & retention

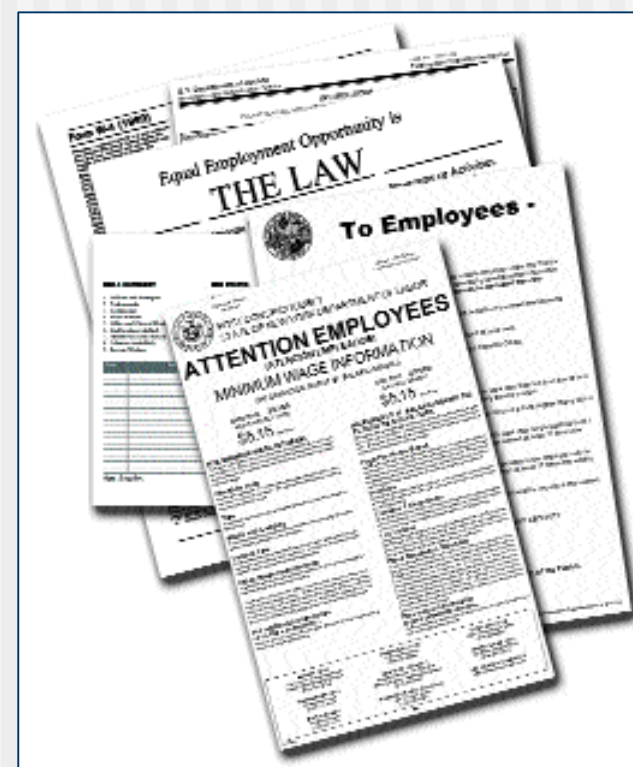
# Vacation Overview

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- n Vacation is not required under Federal or State statutes
- n Vacation is contractual in nature (e.g. employer policy), therefore, many states impose restrictions regarding the policies

# Vacation in California

- n Vacation is considered a vested, earned benefit
- n Vacation must accrue
- n Vacation must be paid out at time of termination
- n Vacation may not be forfeited, no “use it or lose it” policy
- n Employer may impose a reasonable cap



# Accrual Methods

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- n Employer may have a waiting period before vacation accrues
- n Vacation accrual rate cannot decrease from one year to the next (accelerated rate)
- n Vacation can accrue by hours worked, days worked or by pay period

# Reasonable Cap

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- n DLSE has determined that an employee must have at least nine months after the accrual of the vacation within which to take the vacation before a cap is effective

# Sick Pay

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- n Sick pay is not required under Federal or State statutes; however, there are a number of localities passing measures requiring employers to provide sick pay to their employees



# Sick Pay (continued)

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- n Must be used for a sickness
- n Sick does not need to accrue nor vest
- n Employers can be creative with sick policy
- n Not required to pay out sick leave at termination

# Sick Pay (continued)

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- n Can have a “use it or lose it” policy
- n Employer must allow for half of sick leave to be used for Kin Care

# Paid Time Off (PTO)

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- n Combination of vacation, sick, holidays, etc.
- n Labor Commissioner treats PTO the same as vacation
- n Must be taken into consideration regarding Kin Care
- n Must accrue and vest
- n Must be paid out at termination
- n Half of PTO may be used for Kin Care purposes

# Holidays...

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- n Holiday pay is not treated as vacation when the employer conditions it on the “happening of an event” (e.g. birthday, observed holiday, etc).
- n The DLSE recognizes that holiday policies may provide that a holiday can be taken within the pay period following the date the event occurs in order to accommodate the employer’s business or the employee’s preferences.

# Floating Holidays...

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- n The DLSE takes the position that “personal day” and “floating holiday” policies that allow employees to take paid days for whatever purpose they wish are subject to the same rules concerning proration, vesting, and non-forfeiture as apply to more conventional vacation programs.
- n Employers, can however, impose a reasonable cap on the number of personal or floating holidays that accrue.

# Policy Guidelines

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- n** Develop a clear written policy
- n** Policy should include:
  - n** Employee status that receive benefits
  - n** Specific accrual rates and tenure
  - n** Restrictions (e.g. blackout periods, when to request, etc.)
  - n** Maximum Caps, if any
  - n** Pay-out or no pay-out at termination
- n** Policy should be applied consistently



# Potential Pitfalls

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- n Vague policy
- n Policy not applied consistently
- n Invalid policy
- n PTO may be administratively difficult to track
- n "Use it or lose it" sick policy may result higher levels of absenteeism at the end of the year
- n May result in reduced SDI benefits for employee

# Financial Impact

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- n PTO has a greater financial impact than a separate vacation and sick policy
- n Vacation/PTO policy may result in large payouts at termination
- n “Cash out” policies may result in unexpected financial burden



# Recruitment and Retention

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**n** CalChamber survey showed that:

**n** 97% of employers offer vacation benefits

- 32% of those offer PTO plans

**n** In the survey, the most frequent simple vacation policies included:

- Two weeks after one year
- Three weeks after five years
- Four weeks after eleven years

# Recruitment and Retention

- n In the survey, the most frequent PTO policy included:
  - n Fifteen days after one year
  - n Twenty days after three years
  - n Twenty-one through twenty-five days after ten years
  - n Twenty-five days after fifteen years



# Recruitment & Retention

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- n Employers provided between five to ten sick days per year
- n Employers provided between six to nine holidays per year

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## August Seminar "Progressive Discipline"

Presented by:

Linda Robinson, PHR  
Training Manager

Thursday, August 26, 2010

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