PTO ACCRUAL POLICY TEMPLATE

Introduction

The benefits you offer your employees can help attract great candidates, keep your employees engaged, and reduce turnover. One of the most valued benefit offerings is paying for time off. Employees need and want time away from the office to attend to personal and family matters as well as opportunities to recharge their batteries.

Although you are not required by law to give compensation to employees when they are not at work (except sick leave—required in some states), if you decide to offer this benefit, you should be prepared to do so in a fair and consistent manner and you should document your policy in writing. In this template, we'll help you determine **which types of paid time off (PTO) you should offer** and **give you a template you can use to create consistent PTO policies across your organization.**

Part 1: Things to Consider When Crafting Your Policy

In our decades of experience, we have seen PTO policies in all shapes and sizes. If you are just beginning to draft a policy, or if you are in need of a policy reset, take a look at these tips.

You can offer different "buckets" of time off, or you can combine them all into one.

By "buckets" we mean you can create separate policies for sick, personal, and vacation time by outlining distinguishing criteria for each. You can also combine these policies into a single policy referred to as Paid Time Off (PTO) or Earned Time Off (ETO).

What are the advantages of each?

- Separate policies allow you to define specific criteria for each. (How much time is allowed? When do you earn the time? When must you use the time? Can it roll over?) Having separate policies also allows you to limit what gets paid out upon termination of employment. In Massachusetts, vacation time is considered "wages" and therefore any accrued, unused vacation time must be paid out upon termination of employment, whereas sick and personal time are not subject to this requirement.

- One combined PTO policy can be a lot easier to manage—there's no need for tracking multiple categories of time off. Employees like the flexibility it offers (they don't need to fake being sick because they can use this time off for any reason). Keep in mind, though, that accrued, unused time would be viewed as "wages" in Massachusetts and would be subject to payout upon termination.

Determine how you want the employees to earn the time off—all at once or accrued in increments over a period of time.

If you allow employees to receive the entire amount all at once, this is an **allotment**. If you want your employees to earn bits of time each pay period, this is referred to as an **accrual**. You can also set the accrual amount to calculate per each hour worked.

For example, your policy can "accrue 40 hours per year" or you can be "allotted 40 hours per year" and these mean very different things.

- If I accrue 40 hours per year, I accrue .7692 hours per week (which I may use as I accrue) and after I have worked 52 weeks (1 year), I will have accrued 40 hours.

- If I accrue 40 hours per year, I accrue .01923 for each hour worked (which I may use as I accrue) and after I have worked 2080 hours (1 year), I will have accrued 40 hours.

- If I am allotted 40 hours per year, I receive 40 hours at the beginning of that year to use immediately and I won't receive any additional time until the beginning of the next year.

You will also want to decide if employees should wait before they accrue or receive these benefits. Companies with a high rate of turnover may want employees to be employed for a period of time (typically 30, 60, or 90 days) before they have access to paid time benefits. You may choose to require a wait before accruing or before being allowed to use any time available. Keep in mind, though, that if an employee has accrued the time and leaves before using it, you may be required by state law to pay out any accrued, unused time.

Your policy should define what you mean by "per year."

There are three ways to define *year* as it relates to HR policy: anniversary, calendar, and fiscal. Be specific in your policy language so that employees understand when their time off will be available to them and when it will renew or expire.

- Anniversary-year policies start on the date of an employee's hire and renew each year on the anniversary date. These policies tend to be easy for employees to understand but can be hard for employers to keep track of, since anniversary dates will be different for all employees.

- Calendar-year policies run from January 1 to December 31 each year. These are fairly easy to administer as every employee has the same "year." There are two potential challenges that these policies face:

  - Prorating in the first year can be confusing to employees—for example, understanding that they get 40 hours per year, but if they start in July, they will only have 20 hours available in the first year.

  - For calendar year policies, you could be faced with everyone asking for the last week of the year off work unless you allow employees to rollover unlimited amounts of time.

- Fiscal year policies run on a calendar year defined by your company. The considerations are the same as with calendar year policies.

Decide if you want to increase the accrual or allotment amount based on length of service.

Milestones can be used as a way to reward longevity. Some companies will offer increased amounts of PTO to individuals after they achieve a certain length of tenure. Depending on your starting accrual amount, milestones can offer a nice incentive for your employees to stay long term. An example of this is a company that offers two weeks vacation for the first two years, and three weeks vacation after that.

Be clear about what happens to any time left at the end of the year.

Since time-off policies are a liability on your books (your way of ensuring you meet your obligation to pay), you will likely want to limit how much time employees can carry forward (aka "rollover") from year to year. Employers typically want and expect their employees to use their time off each year and the way to ensure that is to limit the amount of time that an employee can carry from one year to the next.

- Policies that don't allow any rollover are essentially "use it or lose it" policies. While this achieves the goal of making sure employees use their time, it may encourage them to take unplanned time off to prevent losing time they feel "entitled to." It may also create resentment if an employee loses time at the end of the year because work was too busy to allow for the time off. These policies need to be monitored closely to avoid those pitfalls.

- Allowing a rollover of any amount typically reduces the unplanned time off issue as well as the resentment. You now have a company liability to pay this time as well as any additional accrued/allotted time in this next year— something you should be comfortable with before enacting a policy allowing time to rollover into the next year.

- Watch for state laws here as well. Although you are not required by any state to offer vacation or personal time (some states do require sick time), if you do offer these time-off policies, you might have an obligation in some states to allow time to rollover from year to year.

Part Two: Create Your Policy Definitions

To get started documenting your policies, answer the questions in this section. They will help you define eligibility criteria as well as set boundaries for using time off. This exercise needs to be completed only once to set definitions for all paid time offerings.

1. Define full time (FT) and part time (PT).

- Full-time employees need to work a minimum of ____ hours per week.
- Part-time employees need to work a minimum of ____ hours per week and a maximum of ____ hours per week.

2. Define rehiring practices.

If an employee leaves your company and then comes back, do they earn PTO starting from the beginning (as if they were a new employee) or from where they left off? A rehire threshold can help you gauge this: If you come back within three months, for example, you get to stay "where you were" before you left.

- Does the accrual restart from year one?

  ☐ Yes   ☐ No

- If no, is there a rehire threshold?

  ☐ No   ☐ 3 Months   ☐ 6 Months   ☐ 12 Months   ☐ Other _____

- If there is a waiting period, does the rehire go through the waiting period again?

  ☐ Yes   ☐ No

3. Define absences for exempt & non-exempt employees.

This section helps you define the amount of time employees are required to take off depending on if they are classified as exempt or non-exempt. Increments of time are allowed. *Genesis recommends half-day or full-day increments for exempt employees and one-hour increments for non-exempt employees.*

Exempt   _____

Non-Exempt   _____

4. Approval process

Do employees need written notice of approval to take time off? If so, how much advance notice is required?

☐   Yes, require written notice

       If yes, what amount of time is required?   _____

☐   No

Part 3: Determine Your Policy Specifics With PTO Accrual Policy Templates

You can print out and use as many of these templates as necessary to create one for each type of accrual policy your company has.

Printable Policy Template Starts on Next Page

PTO Accrual Policy Template

Name Of This Accrual Policy (i.e., Vacation Full Time): _____

Does this policy apply to all groups of employees? Specify who this policy applies to.

☐ Yes

☐ No

    If no, list exclusions (Class or group, i.e., part-time or executives)   _____

1. Time Off Accrual Defined (Check One)

Select the type of accrual you want to use for this template.

☐ Vacation

☐ Sick

☐ Personal

☐ PTO

☐ Other (sabbatical, community service, floater, etc.)   _____

2. Accrual Year Cap Defined (Check One)

Does this policy cap hours at the end of the calendar year, fiscal year, or the employee's hiring anniversary?

☐ Calendar Year

☐ Anniversary Year

☐ Fiscal Year

    Define Fiscal Year   _____

3. Accrual Year Milestone Defined (Check One)

This is when an employee accrual may change. When do you want to look at these milestones? *Genesis recommendation: Reviewing by calendar year works better with allotments than accruals.*

☐ Calendar Year

☐ Anniversary Year

3a. Do you want to define milestones based on months or years?

☐ Month

☐ Year

4. Accrual Basis Defined (Check One)

How do employees accrue time? (i.e., earning fraction of time per hour worked, etc.) *Genesis recommendation: An accrual based on hours worked is better suited for part-time employees, as it self-prorates.*

☐ Per Pay Period

   Will this accrual continue while an employee is on leave?

   ☐ Yes   ☐ No

☐ Allotment

☐ Hours Worked

   If Hours Worked, select the following earnings codes (check all that apply):

   ☐ Regular ☐ Overtime ☐ Holiday ☐ PTO ☐ Vacation ☐ Sick

   ☐ Floater Personel ☐ Jury Duty ☐ Bereavement

   ☐ Other _____

5. Accrual Rate/Milestone Periods Defined

Define milestones and what you earn.

Example 1: Accrual - Pay Period Accrual For Vacation Time

Milestone #	Beginning From Month	Pay Period Accrual Amount	Max Per Year	Accrual Stop Balance	Maximum Carryover
1	0	4.62	120	136	16
2	120	6.15	160	176	16

Example 2: Accrual - Hours Worked (By Months) For Vacation Time

Milestone #	Beginning From Month	Accrue Per Hour Worked	Max Per Week	Max Per Year	Accrual Stop Balance	Maximum Carryover
1	0	.04615	1.84	96	136	40
2	36	.06923	2.77	144	184	40
3	132	.0923	3.69	192	232	40

Example 3: Flat Amount For Vacation Time

Milestone #	Beginning From Month	Allotment Amount	Accrual Stop Balance	Maximum Carryover
1	0	120	136	16
2	120	160	176	16

6. Waiting Period/Probationary Period Defined

Do employees go through a waiting period before accruing PTO? Do you want them to **not accrue** until a certain time has passed?

☐ Yes

      If yes, how long?

      ☐ 1 month   ☐ 60 days   ☐ 90 days

☐ No

6b. Is there a waiting period before employees are <u>eligible to take</u> accrued time?

Genesis recommendation: Employees can accrue right away, but they must wait a certain period to take the time.

☐ Yes

      If yes, how long? _____

☐ No

7. Is borrowing time allowed?

If you allow borrowing, be consistent. Make sure your handbook contains language clearly stating the employer takes back any unaccrued balances upon termination. *Genesis recommends allowing borrowing up to a certain amount. Try to keep the borrowed time limited to the amount an employee could pay back in a pay period if their employment was terminated (i.e., weekly payroll 40 hours; biweekly 80 hours).*

☐ Yes

      If yes, up to how much time?_____

☐ No

8. Can employees carry forward balances into next plan year?

At the end of a defined year, whether it's a calendar year, fiscal year, or hiring anniversary, do employees get to carry any amount of time over? If so, how much? *Genesis recommendation: Calendar anniversaries can be more difficult because if everyone carries over at the same time, employees may all request the same time off.*

☐ Yes

       If yes, how many hours is the limit? _____

       If **yes** AND **no limit**, what is the cap on the accrual (number of hours)? _____

☐ No

9. Are there any differences in accrual between part time and full time?

Genesis recommendation: Most clients want to have smaller accrual rates for employees who work less than 40 hours. An hours-worked accrual basis takes care of this situation; if you don't use hours worked, you should differentiate.

☐ Yes

       If yes, define part-time accrual: _____

☐ No

10. Is cashing out vacation time for money allowed?

Genesis recommendation: Don't allow cash out (giving money in lieu of taking time). The goal of vacation is to have employees return to work refreshed from their time away.

☐ Yes

If yes, is there a limit to how many hours? _____

If yes, when does cash out occur? _____

☐ No

Notes:

_____

_____

_____

_____

_____

_____

_____

_____

Remember This

Any benefit you give should be **given consistently** and **be clearly stated in your company's handbook**. If you're consistent in how you provide the benefit, you can defend it and it will be understood among your employees.

Have a question about paid time off or benefits we didn't answer? We're here to help. To learn more about best practices for paid time off and building successful benefit strategies, give us a call or contact us.