

Unlimited PTO:

A benefit for attracting and retaining highly motivated employees

A growing number of influential companies are allowing employees to take unlimited paid time off (PTO), empowering employees to manage their time as they see fit as long as their job gets done. In this paper, we explore the trend of unlimited PTO in the context of other shifts in employee benefits. We also outline some of the pros and cons of unlimited time off and the factors large employers should consider if they are investigating moving to this model.

table of contents

INTRODUCTION 3

EMERGING EMPLOYEE BENEFIT TRENDS:
Responsibility and Flexibility 8

**EMPLOYER RESPONSES TO MANAGING
EMPLOYEE TIME OFF: Vacation Time &
Sick Time, PTO and Beyond** 9

IS UNLIMITED PTO A GOOD IDEA? 11

**UNLIMITED VACATIONS MAY
REQUIRE LIMITS** 14

**SUGGESTIONS FOR MOVING TO AN
UNLIMITED TIME OFF PROGRAM** 16

Introduction

Four Big Shifts in Employee Benefit Trends:

The employee benefits landscape has changed significantly over the past decade, fueled by difficult economic conditions, legislative imperatives, changing employee demographics, emerging new industries and a growing culture of employee self-accountability.

The culmination of these factors is driving new ideas in the public and private sector. Some of the more noteworthy concepts were identified in a 2012 research study commissioned by the Society for Human Resource Management (SHRM), and in their subsequent publication, *The Employee Benefits Landscape in a Recovering Economy* (a survey of HR professionals representing 297 organizations.)¹

1.

Retirement Benefits

2.

Patient Protection and Affordable Care Act

3.

Leave Benefits

4.

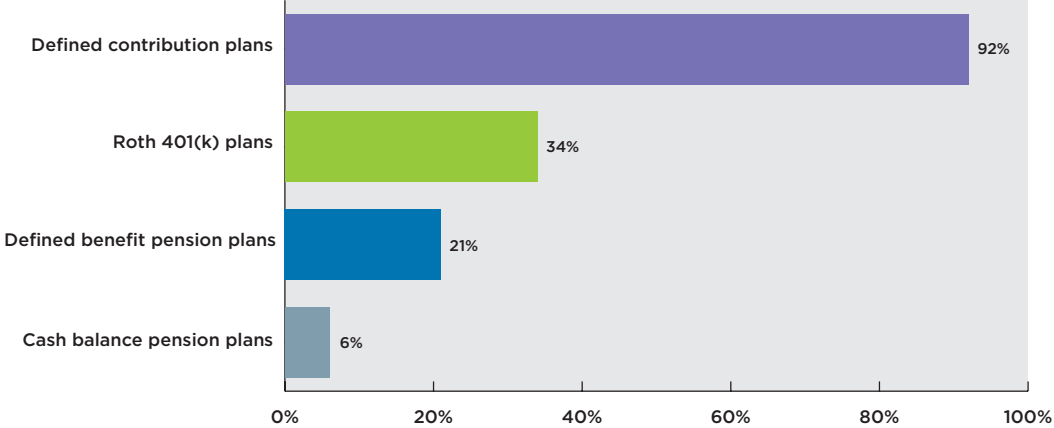
Preventive Health and Wellness

These big shifts in employee benefit trends can be broadly categorized under four headings:

Retirement Benefits

For more than 20 years, employer sponsored retirement plans have been shifting from defined benefit to defined contribution. The SHRM survey found that “defined contribution plans now represent 92% of the offered retirement plans, sometimes in addition to other retirement vehicles including Roth 401(k) plans (34%), traditional defined benefit pension plans (21%), and cash balance pension plans (6%).”¹ Because employees have shared accountability for their retirement benefits, it is only natural that they would be comfortable assuming responsibility for other areas of their benefits.

Employer sponsored retirement plans have been shifting from defined benefit to defined contribution



The Employee Benefits Landscape in a Recovering Economy, SHRM 2012.

Patient Protection and Affordable Care Act (PPACA)

Since PPACA was signed in 2010, HR staffs have been challenged to understand both the short-term and long-term implications of the mandate and are still evaluating their options. “Most HR leaders now fully realize that the PPACA did not address the biggest problem facing most employers — high single digit or low double digit annual cost increases.”¹ Employer decisions on how to shape benefit plans post-PPACA will likely transform all aspects of employee benefits for decades to come and will likely continue to shift some responsibility for making benefit decisions to the employee.



Leave Benefits

In addition to the PPACA, federal and state leave laws add to absence management complexity (e.g., compliance, tracking, communications, training, etc.). They also are driving greater awareness of employee work life balance issues. Many organizations are examining their leave of absence benefits and, recognizing that employees may need flexibility in their leave benefits, are increasingly allowing for leaves (both paid and unpaid) that expand beyond federal and state mandates. Twenty-six percent of respondents offer some type of paid personal leaves separate from accrued sick or vacation time. Even though federal law does not require FMLA leave to be paid (some states have additional requirements), “24% of organizations surveyed do offer paid family leave. Eighteen percent report offering family leave time above and beyond state and federal mandates.”¹

Preventive Health and Wellness

As medical plan costs continue to increase, employers are looking to drive behavioral shifts to improve employee population health as a way to drive down cost while improving employee productivity and engagement. The SHRM survey found that 77% of responding companies offer at least some type of wellness information, which was further confirmed in the 2013 research study conducted by the Disability Management Employer Coalition (DMEC) and Pacific Resources.² Of course, wellness initiatives differ greatly within organizations and include providing wellness resources and information, health screenings, health improvement programs, on-site fitness centers and on-site clinics. Slightly more than one third of the respondents offer a bonus incentive program for participation in wellness programs and, increasingly, organizations are using the “stick” approach to drive behavior. This shifts the responsibility for making personal wellness decisions to the employee and essentially forces employees to change their behavior or penalizes them when they do not.

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Emerging Employee Benefit Trends:

Responsibility and Flexibility

Much of the above points to a broader trend that the SHRM study and a number of other studies have identified: a growing movement toward increased employee self-responsibility and flexibility. Looking at multiple factors — those identified above, limited HR staff to address a number of challenges and employee demographic shifts — it is clear that a “one size fits all” approach to benefits no longer fits. Additionally, as the cost of benefits continues to rise and employees experience reduced annual pay increases and bonuses, one way employers can reward and retain employees is to respond to these shifting personal needs in new and creative ways.

“It is clear that a ‘one size fits all’ approach to benefits no longer fits”

Employer Responses to Managing Employee Time Off: Vacation Time & Sick Time, PTO and Beyond

The vast majority of employers offer some type of vacation time and sick time to full-time employees. Traditionally, these programs have existed in separate allocated banks, designated for specific types of use (i.e., vacation, sick time, personal days). Most often, at least some amount of vacation is allowed to be carried over into future years, and is paid out upon employee separation.

A 2010 publication by *WorldatWork* was one of the first comprehensive studies of a new way to address accumulated time off benefits — the concept of PTO. PTO banks give employees a cumulative number of paid days off to use as they wish for sick days, vacation and/or other personal needs.³ Like other benefit programs, PTO can vary by organization, but it typically combines vacation time, sick leave (to be used prior to STD/LTD programs) and personal days into one comprehensive block of days, to be used as the employee chooses. PTO is usually an accrued benefit as the year progresses.

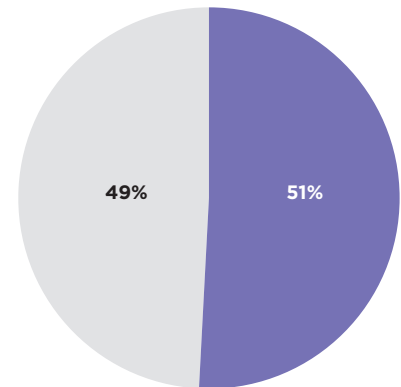
One financial reason why PTO looks attractive to organizations is that in many states it does

not need to be paid out at termination, the way more traditional vacation plans do. However, data shows that at the current time 88% of employers pay out PTO balances at employee separation.³

The *WorldatWork* study found that the prevalence of PTO programs was on the increase, from 27% of surveyed companies in 2002 to 40% of companies in 2010, as the more traditional approach of separate buckets of time off by type was decreasing. The more recent 2012 SHRM study reports that 51% of employers are using a PTO approach.¹

PTO programs are on the rise

51% of employers are using a PTO approach



The Employee Benefits Landscape in a Recovering Economy, SHRM 2012.

PTO or LOA?

When considering implementing an unlimited paid time off policy, an employer needs to differentiate between vacation time and leaves of absence. Some questions to consider include:

- Is it okay to take unlimited time off for an illness, or just for vacation?
- After what time period does PTO become a leave of absence?
- When an employee is out on an unlimited basis, what happens to benefits coverage? How does this affect insurance plans? How do you process claims?

Proponents of PTO say that it reduces the administrative burden of having to track separate uses of time and empowers employees to use their time as desired. PTO banks can save the organization money since, on average, PTO banks provide less time in aggregate than do separate banks.

A very small percentage of companies (estimated to be 1%-2% currently) have taken an even bolder step in allowing employees to manage personal PTO, with the emergence of “unlimited PTO.”

Is Unlimited PTO a Good Idea?

The latest discussions about PTO policies now include acknowledgement that a small but influential group of companies (Netflix, Virgin Group, Evernote, Citrix, ZocDoc, Social Strata, etc.) are empowering employees to not just manage within a PTO bank, but to manage their time in any way they see fit as long as their job gets done. That's right, a company policy that allows employees to use as much vacation time, sick time and personal days as needed, without an old fashioned accrual system and limitations! (It is worth noting that even in unlimited time off environments, time off is frequently tracked and a period of time off in excess of a few consecutive weeks often requires approval.)

A small but influential group of companies are empowering employees to not just manage within a PTO bank, but to manage their time in any way they see fit as long as their job gets done.

Giving employees maximum control over how they use their time is connected to the concept that if you have the right employees who are dedicated and passionate about their work, and you have the right performance standards and management in place, employees can be trusted

to work when, where and how they choose, as long as they do their work.

Every single full-time employee at Social Strata, a Seattle-based software development company, has unlimited time off. As one of the earliest adopters of unlimited time off, co-founder Rosemary O'Neill cites seminal business leadership books such as *Good to Great*,⁵ which suggests that a "Culture of Discipline" is a pillar for empowering employees to "own" their time off.

O'Neill says:

"We decided that if we have the 'right people on the bus,' i.e., people who are passionate about what they are doing, we don't need to set artificial limits on the amount of time they can take off, or why they can take time off. Disciplined people will ensure that their responsibilities are handled, and still be able to recharge their batteries with time off. Undisciplined people who take advantage of the system will reveal themselves and will be naturally sorted out. I feel that sort of culture will result in amazing service, from the inside out."⁶

Trouble in Paradise

Unlimited vacation time is not the right decision for everyone. Tribune Publishing, for example, implemented a “discretionary time off” policy for salaried, non-union employees and rescinded that policy one week later in response to negative employee feedback,⁸ highlighting the need to truly understand your employee base before making such a monumental change.

Skeptics point out that even in the best organizations, there is a small group of employees who will abuse this level of flexibility, putting strain on other employees and product delivery. Supervisory oversight is not always textbook perfect and, in many organizations, professional work is not easily measured.

A different side of the unlimited PTO coin is that in highly motivated work groups, the standard of how much unlimited time off is enough will not be set by “disciplined people who engage in disciplined thoughts who take disciplined action” as Ms. O’Neill asserts, but rather by “compulsive workaholics ... who happily engage in 70 hour work weeks. The disciplined worker who devotes 40 excellent work hours each week and would like to take two weeks’ vacation in the summer will always appear to be the slacker (in that environment).”⁷ In fact, there have been some organizations that, when trying to institute an unlimited paid time off program, have experienced significant resistance from their employees who view unlimited time off, with no set number of days that can be taken freely, as the equivalent of “no time off.”

Unlimited Vacations May Require Limits

In their article *Unlimited Vacation Policies Gaining Traction*, Daniel J. McCoy and Dan Ko Obuhanych, posit that “unlimited” vacation will need some limits.⁹

Some considerations for companies contemplating a move to unlimited time off:

- Unlimited PTO seems to best apply to exempt employees who are paid for results as opposed to actual hours worked.
- There may be financial benefits to companies who adopt an unlimited PTO policy. Since these are not accrued benefits, there may not be the need for employers to accrue a liability for unused vacation time that they have earned but have not yet taken, as detailed in FASB standards. Employers are cautioned to consult their legal team.
- Employers who are moving from a traditional time off platform to PTO or unlimited PTO need to be conscious of any legal obligations that will trigger costly payouts of previously accrued benefits and any state laws (like California) that dictate how vacation time is handled.
- Although several of the employers who offer unlimited PTO offer it as paid time, employers need to determine how the length of payment will be handled — especially for long PTO durations.

“If you have the right employees ... and you have the right performance standards and management in place, employees can be trusted to work when, where and how they choose.”

This excerpt from the article by McCoy and Obuhanych sums it up well:

“A challenge with respect to unlimited vacation policies is coordination with other paid and unpaid leave benefits. In addition to vacation, most employers offer and/or are subject to a number of leave benefits, including sick leave, family and medical leave, military leave, pregnancy or maternity/paternity leave, which often overlap.

An employer must consider in advance and clearly set forth how it will deal with lengthy leaves of absence in terms of which policies will be impacted, how long the employee will be entitled to paid leave benefits, and whether and to what extent paid leave benefits will be coordinated with other forms of wage replacement benefits (e.g., disability benefits or sick leave). In other words, ‘unlimited’ vacation will likely need some limits.”⁹

Suggestions for Moving to an Unlimited Time Off Program

Thought leaders on the topic of moving from traditional time off plans to either accrued PTO or unlimited PTO also offer a variety of helpful items to consider:

- **Start with an honest evaluation of your company's culture.** Does the company have an established track record of managing by objectives and/or function as a results only oriented workplace?¹⁰ Do supervisors and managers currently hold employees accountable for results? How is work measured? While some roles are metric based, many exempt positions are harder to measure and assess.
- **Anticipate how employees will react to the changes in paid leave.** "Important variables to assess include how workers use and carry over paid time off and the size of your long-term staff. People who have worked for the same firm for many years may resent being placed on the same PTO playing field as new employees."¹⁰
- **Consult with your HR team and employment attorney** to understand state and federal wage and hour compliance.
- **Clearly define what Unlimited PTO means.** Will time be reported and tracked? Do employees need to request permission, especially for long amounts of time away? Is time paid or unpaid?

1.

What's your company's culture?

2.

How will employees react?

3.

Is it compliant?

4.

What does Unlimited PTO mean?

While unlimited PTO may lead to maximizing employee engagement and productivity, and potentially improving the balance sheet, it is a significant policy and culture change that may not be a good fit for all organizations or employee populations. Employers who are exploring this option should consider all these factors, study those organizations that have gone before them and talk to experts before making the leap.

For more information about Pacific Resources' absence management and employee productivity solutions, contact Patricia Purdy, VP, Global Employer Benefits Solutions at pat.purdy@pacresbenefits.

cited sources

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¹ SHRM 2012 Employee Benefits Survey Results. *The Employee Benefits Landscape in a Recovering Economy*.

² Disability Management Employer Coalition (DMEC) and Pacific Resources. *Impacts of the Patient Protection and Affordable Care Act on Absence and Disability Policies and Benefits*. August 2013.

³ *WorldatWork* Member Survey. *Paid Time off Programs and Practices*. May 2010.

⁴ Salemi, Vicki. *Get This: Some Companies Offer Unlimited Personal Time Off! Here's the Catch: Survey Says Perk is Among Minority of Employers*. MediaBistro.com. May 2013.

⁵ Collins, Jim. *Good to Great: Why Some Companies Make the Leap...And Others Don't*. HarperCollins. 2001.

⁶ Rosemary O'Neill's Blog Post. *Unlimited Paid Leave - Oh Yes!* www.socialstrata.com/blog. January 2010.

⁷ Anonymous blog post response to Rosemary O'Neill's post referenced above. www.socialstrata.com/blog. January 2010.

⁸ Tribune reverses course on unlimited vacation policy <http://money.cnn.com/2014/11/24/pf/tribune-vacation-policy>. CNNMoney (New York) November 24, 2014.

⁹ McCoy, Daniel; Obuhanvch Ko, Dan; Fenwick and West LLP. *Unlimited Vacation Policies Gaining Traction*. Bloomberg Law Reports 2011.

¹⁰ Harnett, Carol. *Creating an Unlimited Paid Time Off Policy*. Human Resource Executive Online. September 2012.