

## Executive Briefing #26 – The Continuing Shift To Paid Time Off (PTO)

### Does Your Current Sick Policy Punish Your Best Employees?

According to a 2016 study done by Careerbuilder.com, 38%<sup>1</sup> of all employee sick time is taken fraudulently. This behavior drives other unintended consequences, often impacting the responsible employees who show up for work every day. Your most dedicated employees are left to pick up the slack, work large amounts of overtime, and spend exorbitant amounts of time away from their families. For this group of employees, your current sick policy may actually be a punishment. It is not to say that great employees do not get sick – of course they do. But what are companies doing to make strides in the right direction?

#### The Growth in PTO Popularity

Every year WorldAtWork does a comprehensive study on Paid Time Off Programs and Practices<sup>2</sup> and there are clear trends in the adoption of this strategy. PTO includes categories like vacations, holidays, and sick time. According to the study, since 2002 there has been a dramatic drop (from 71% to 52%) in the “traditional” vacation, sick time, and holiday individual groupings. During this same period, PTO strategies have risen from 28% to 43%. This large increase is the result of several deficiencies associated with the traditional methods.

#### Converting Sick and Vacation Time to PTO

Moving to a PTO allows for many improvements. These include minimizing abuse, decreasing the liability of so many potential paid days off, and better notifications of absences for management. Though migrating to a PTO strategy does not completely solve all challenges, it will drive behavioral improvements while allowing great employees some additional rest.

1. **Minimize Abuse** – Stop the “excuse game” and create a no-fault environment where employees can take some short-notice absences without penalty. This will have the impact (on average) of an increased benefit for great employees who took no sick days traditionally, and a decrease in paid time off for those who have historically been a problem.
2. **Decrease the Liability** – When combining vacation benefits and sick benefits, do not simply add the two numbers together. If you currently offer 5 sick days and 15 vacation days, the conversion would typically be 18 PTO days, not 20. Sick days were never designed to all be used every year. Offer 18 PTO days where 5 can be taken with little to

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#### **John Frehse**

Managing Partner  
212.534.0539  
jfrehse@corepractice.com

#### **Ethan Franklin**

Managing Partner  
312.255.1646  
efranklin@corepractice.com

<sup>1</sup>Careerbuilder.com Annual Study, 2015

<http://www.careerbuilder.com/share/aboutus/pressreleasesdetail.aspx?ed=12%2F31%2F2015&id=pr917&sd=10%2F15%2F2015>

<sup>2</sup>WorldAtWork “Paid Time Off Programs and Strategies” June, 2016

<https://www.worldatwork.org/adimLink?id=80292>

no notice. This will still allow for the realities of occasional illnesses. This conversion also removes the challenge for companies allowing sick days to accrue every year with no limits. They can add up to months of paid time off showing up as a liability in your financial statements.

3. **Get Notified Earlier** – If an employee knows they will be missing work in two weeks, but only have sick days left, they wait until the day of the shift and call off. This creates a crisis for management teams racing to find replacements, or worse, shutting down part of the operation. If an employee has PTO, they can take that day and give management teams the time they need to plan for replacements.

### **What About Holidays?**

Although many companies group holidays into this category as well, this is a more circumstance based decision. It is important to consider whether the business operates on holidays or has the ability to allow those days to float. If your company operates on all holidays, lumping this benefit into PTO can make a lot of sense. This does not preclude paying premium time on these days, but if holidays become “floating holidays,” putting them in the PTO bucket will simplify the process and improve employee satisfaction due to increased flexibility for them.

None of these strategies will solve policy abuse. However, minimizing the impact of suboptimal behaviors is almost always worth the effort. Although cost is an important consideration, improving the morale of your best employees may be the largest benefit impacting your company.

Strategic thinking is a priority in a world of shrinking talent pools and more highly educated employees. Focusing on the problems sometimes causes a lack of focus on the great employees. If we engage them, they stay. If we understand where the challenges are, we can fix them. The right labor strategies can make this a reality. If any of this topic interests you, we can help. To find out how we can actively help your organization navigate the WFM landscape, contact Core Practice at 212-534-0539.

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