



We are in discussions to possibly change how we calculate/earn vacation time throughout the year. We currently offer vacation after 90 days. Employees earn a percentage of 2 weeks in their first year. If someone starts in January they would be eligible to take vacation as of May 1st and they would receive 1 week of paid vacation that must be used by the end of 2015. We currently pay out vacation if an employee has worked a complete calendar year and then gives & works out a 2 week notice. For example, if someone started in 2013 and just gave us a 2 week notice today they would receive the payout for their unused vacation time.

We are proposing moving to a system where you earn so much vacation for every hour, week or month worked starting in 2016. If an employee would earn 4 weeks and take 2 weeks of vacation in the first quarter of the year and then leave they would have to pay back one week of vacation.

Does anyone use this system or if they have other systems they use? What are your recommendations? Please let me know if you need anything clarified.

Paid Time Off “PTO” Accrual Schedule

<u>Years of Service</u>	<u>Days Accrued</u> <u>Monthly</u>	<u>Maximum Days</u> <u>Accrued Annually</u>
0 – 5 years	1.25 days	15 days
6 – 10 years	1.67 days	20 days
11 plus years	2.08 days	25 days

Scheduled PTO: When you require time off, please obtain approval from your manager in advance. At least 14 days advance notice is requested. Any request for time off received with less than 14 days notice will be considered, at the discretion of your manager. Your manager must ensure there is proper department staffing before any time off can be approved. Submitted requests will be reviewed and approved or disapproved within two (2) working days of submittal.

Unscheduled PTO: If you take time off without prior approval by your manager it will be considered unscheduled PTO leave. Your manager may approve such leave; however, excessive use of unscheduled PTO will be addressed in a prompt and consistent manner through employee counseling.

Newly hired employees may not use PTO during their first 90 days of service.

PTO does not carry over into the next calendar year.

We accrue all vacation time based on the number of hours worked. If an employee is terminated or quits, we pay the vacation time that has been accrued to date.

Our thought is employees earn vacation as they go, and once their anniversary year is up they get credit for the vacation for the year. (We just do it annually – it makes it easier. In the case below, I would just give the vacation for the first year, but know they are earning vacation for year two). Based on our philosophy, we pay out all the vacation that is “on the books” for an employee at the time that employee terminates. If an employee’s anniversary date is July 1, and they quit June 15, they do not get credit for vacation they were earning during the previous 11½ months.

Here is our plan. It works for us.

All full-time employees who have completed one calendar year of service (from a January 1st to December 31st) earn 10 days (80 hours) of paid time off per year, to be taken within the following year.

All full-time employees who have completed five (5) calendar years of service earn 15 days (120 hours) of paid time off per year, to be taken within the following year.

All full-time employees who have completed fifteen (15) calendar years of service earn 20 days (160 hours) of paid time off per year, to be taken within the following year.

Completed length of service	Paid time off	To be taken by
Upon 1 calendar year completed	10 days (80 hours)	12/31 of that year
Upon 5 calendar years completed	15 days (120 hours)	12/31 of that year
Upon 15 calendar years completed	20 days (160 hours)	12/31 of that year

Paid time off (PTO) can be taken in whole hour increments. Part-time employees are not eligible for this benefit.

To schedule time off, submit a PTO request form to your supervisor at least 30 days in advance so that we may schedule workloads. Due to work commitments and previous requests for time off, you may not always receive the specific time period you request, and we reserve the right to schedule PTO based on business necessities.

We encourage our employees to use their PTO benefit, but we know that this is not always possible. Up to one week (40 hours) of unused PTO remaining at the end of the year will be paid. Any remaining unused PTO cannot be carried over into the next calendar year and will not be paid.

We do not have sick time. All time off is under the PTO umbrella.

New employees who started after January 1st will have their PTO time pro-rated for the next calendar year based upon their start date.

If an employee leaves the company, regardless of the reason, unpaid time off will not be paid out.

We give the vacation out at the beginning of the year. Technically, an employee who leaves may owe us if they use up vacation they haven't earned. As our turnover is low, we found the record keeping required to earn vacation every week to be too onerous to track so we just let it go. We looked at it from a cost/benefit standpoint.

Also, are you going to restrict a good employee from taking a long vacation in the beginning of the year? If not, you may need to allow employees to roll over vacation (we do not).

We use ADP for our payroll. We have our vacation system set up that they earn xx hours of vacation per payroll based on their length of time with the company. ADP adds the hours each payroll to their balance. If the employee terminates, they are paid out the balance of their earned vacation. We went to this system several years ago because employees would terminate, owing us vacation and no hours worked for us to use to pay back the excess vacation used.

Our policy states; an employee receives one week paid vacation after 1 year of employment. If their starting date is March 12, 2015, then on March 12, 2016 they are eligible for one week paid vacation, which would have to be used by Dec. 31, 2016. Vacation benefits start over on Jan. 1. All future vacation is pro-rated, using their starting date.

Any employee who terminates or retires from employment is paid out any remaining vacation at that time. And being they are earning vacation now for next year, that vacation is paid out on a pro-rated basis. For instance, if an employee now has 2 weeks paid vacation & should retire on March 1, they would receive any remaining vacation from the 2 weeks for this year along with a pro-rated for 2016 which would be 1.68 days or 2 days.

This policy works very well for us.

We had stated in our employee handbook that employees "earn" one week of vacation "after" one year's employment. We had an employee leave our employment before one year of employment and demanded his "earned" vacation based on how long he had been working with us. We denied this request. This employee filed with the Illinois Department of Labor. Long story short, the official reviewed our case and we were ordered to pay the employee the vacation that was earned based on the percentage of the year that the employee had worked. The fact that we had stipulated that vacation is earned "after" one year's employment did not stop an employee from earning vacation from day one on a percentage basis. If they work 156 days, they are owed 2.13 days of vacation $(156/365) \times 5 \text{ days} = 2.13$.

We are a smaller company with about 30 employees. I have a spreadsheet where I keep track of each employee's start date, vacation taken, earned vacation to date, and any unused from the previous year. If an employee goes into negative vacation usage; we limit it and have the employee sign a simple form that I have scanned that can be used or modified if anyone cares to use it.

(Editor's note: the form follows on the next page.)

VACATION PAY ACCRUAL AND DEDUCTIONS

I understand that vacation pay is earned and accrued on an annual basis. I also understand that circumstances may arise where the length of my permitted vacation may exceed the vacation rights I have accrued under Company policy.

In the event of my voluntary or involuntary termination from employment, I authorize deduction from my final paycheck of any unearned vacation pay that was received prior to my termination.

Date

Employee Signature

Here's our PTO/Funeral Leave policy.

Paid Time Off

The company grants paid time off to regular full-time employees who are scheduled to work forty hours or more per week. Paid time off must be scheduled and approved by your supervisor two weeks prior to taking the time off. Company requirements and customer demands will be considered when approving the requests for time off. A doctor's statement is required for three or more consecutive sick days, in order to return to work.

1. After the probationary period, employees earn one day of paid time off for each month worked the next nine months. Beginning on the thirteenth month of employment, the employee will earn one week of paid time off every four months. (Paid time off can be taken only after it is earned. For example, if an employee wants to take paid time off during the months of January through April, he needs to have earned it in the prior period.

2. Employees may roll-over paid time off into the next year. The maximum time that an employee may accrue is twenty days. The company will not pay for unused days except as described in paragraph 4.

3. Employees may not "borrow" unearned paid time off, except as approved by management. Employees who borrow PTO must sign an agreement to have equivalent pay deducted from their final paycheck in the event that employment is termination for any reason before PTO is earned.

4. At termination of employment, the terminating employee will automatically receive accrued paid time off up to a maximum of five days if that employee gave the company two weeks notice or was terminated without cause.

Funeral Leave

Employees may take up to two days paid funeral leave to attend the funeral of a direct family member. An additional day may be taken if the services are held outside of the Indianapolis area. A direct family member is defined as a spouse, child, parent, sibling, grandchild or grandparent.

We are exploring options for vacation accruals and eligibility period as well. At present, we prorate the amount of time an employee would be eligible for on January 1 on a monthly basis; i.e employee eligible for 10 days and leaves in the end of May would have accrued 4 days. Any balance would be paid out; they would have to repay any excess taken.

Our employees accrue their vacation time each pay period. If they get 2 weeks vacation per year, they accrue 3.08 hours of vacation each biweekly pay period. They are allowed to use vacation as soon as they have it and can use it in 1 minute increments. In order to take a full day off, they would only have to have worked about 6 weeks. They are encouraged to save it and actually take time off, but generally, most use it up a few hours here and a few hours there. While this isn't ideal for them to get time away and get refreshed, it actually works out very well for production, which doesn't have to deal with an employee missing for extended periods.

Here is an excerpt from our company's policy. Please note that if an employee quits and has used more vacation than he/she earned, it can be legally withheld with the employee's written permission only, and cannot be deducted if the employee has not authorized the deduction. We send a letter to the employee requesting they pay back the money, but rarely do they pay it back.

Vacation days are earned during the calendar year in which they are received. For example, an eligible employee with two years of service will receive two weeks equivalent to his or her standard workweek that may be used, and are earned, during that calendar year. Vacation is earned on a monthly basis, and a person must be employed by the company for at least 15 days of each month for vacation to be earned in that month. For instance, an employee with 5-14 years of service whose standard workweek is 40 hours will earn 1.25 (15 days/12 months) vacation days per month. If the employee leaves the company as of the 12th of a given month, no vacation will be earned for that month. Earned vacation will always be rounded up to the nearest number of full days for use by an employee. (This is not the case when calculating vacation to be paid out upon separation.) During an approved leave of absence, employees will continue to earn vacation for up to 4 months, provided they return to active employment. After 4 months, they will no longer earn vacation until they return to active employment.

New employees will not earn any vacation days during the first six months of employment or re-employment. Eligible employees will receive, after completing 6 months of service, a pro-rated amount of vacation days based upon the number of months remaining in the calendar year. For example, an employee hired February 1 whose standard workweek is five days per week will receive on August 1, after completing 6 months of service, 5 vacation days that will be earned, and should be taken in the last five months of the calendar year ($10/12 \times 5 = 4.17$ rounded up to 5 whole days). The employee will be eligible for 10 days vacation during his or her second calendar year of employment. Another example: an employee hired October 1 with this same standard workweek will receive on April 1, after completing 6 months of service, 8 vacation days that will be earned, and should be taken during the last 9 months of the calendar year ($10/12 \times 9 = 7.50$ days rounded up to 8 whole days). The employee will be eligible for the full complement of 10 days vacation during his or her next calendar year of employment.

Vacation may not be carried over from one calendar year to another or borrowed from future years.

Here is an excerpt from our PTO policy on how it is prorated for new hires and then upon termination:

While PTO is earned at 1/12 of the benefit each month, an employee may use his/her Paid Time Off allotment at any point during the calendar year. New employees are eligible to use Paid Time Off following 90 days of employment (waived for employees hired after September 1st). An employee must be actively working to earn Paid Time Off; no time is earned during a leave of absence.

If an employee should leave the company, the balance of his/her earned but unused Paid Time Off allotment will be paid out upon termination. We will attempt to reconcile any overpaid PTO at time of employee's final pay.

I have two PTO plans running at the moment. One in Chicago in which employees earn PTO on their anniversary date in a lump sum. The other is in another city, where a city ordinance for sick time ends up causing us to calculate earned time per hour worked. I like the Chicago model better— one, it is simple for everyone to understand and administer and two, because we are required to keep a year-end financial reserve for earned but not taken PTO on our financial statements. Earning PTO in one lump sum reduces that reserve and allows HR to contribute to the bottom line in a meaningful way.

Nonetheless, looks like sick time will be a requirement for all businesses in the next few years – ie – Congress' Healthy Families Act. In that one and the other city ordinance, companies have the option of allowing current PTO plans to be used for sick time and adjusting your plan to the requirements of the regulation (like how time is earned, carried over, etc) or you can add the required amount of sick time in addition to the PTO benefit already offered. I chose in that city to make the PTO comply with the sick time ordinance over adding more days off for everyone.

However way you decide, I think you should consider the potential impact of sick day legislation. Hope this is helpful.

We do not offer personal days or any type of discretionary time off. Employees accrue PTO time monthly and can only use what is accrued. Employees are allowed to use 16 hours of unearned PTO time but that is it. New employees earn two weeks of PTO time per year. At the third year employees start earning three weeks of PTO time per year.

We don't accrue our vacation throughout the year. All employees get their full allotment of hours on 1/1 of every year to use as they need to. Employees can roll over a max of 104 hours from year to year.

We implemented a very similar system 2 years ago.

Full-time Employee Owners Full-time employee owners accrue vacation for each pay period worked during the calendar year, on a pro-rata basis. During the calendar year, employee owners will be allowed to use their vacation prior to accruing it. (See Termination of Employment below.) Full-time employee owners can accrue the following vacation benefits during the current calendar year:

- 1 st full year 80 hours effective January 1 or 90 days from hire date, whichever is later.
- 2nd thru 4th years 80 hours per year, effective Jan. 1.
- 5th thru 14th year 120 hours per year, effective on Jan. 1 of the year the employee owner completes his/her 5th year of employment.
- 15th thru 20th year 160 hours per year, effective Jan. 1 of the year the employee owner completes his/her 15th year of employment.
- 21st thru 24th year An additional 8 hours per year effective on Jan. 1.
- 25th year/beyond 200 hours per year, effective Jan.1 of the 25th year.

Example: John started full-time employment on Wednesday, January 16th. He will be eligible to begin taking vacation on April 15th. Provided he remains employed the entire year, he will be eligible to take 77 hours from April 15th through December 31st . Calculation: 80 hours/26 pay periods = 3.08 hours per pay period 3.08 hours per pay period * 25 pay periods (the number of pay periods John would work during the calendar year) = 77 hours

Termination of Employment If an employee owner terminates employment, the amount of accrued vacation, less any taken vacation, will be paid out. If an employee owner has taken more vacation than what he/she has accrued at the time of termination, the overage will be deducted from the employee owner's last paycheck. This provision applies to all employee owners.

Example: Suzy has six years of service. Had she worked the entire year, she would've accrued 120 hours. She terminated on June 30th. At that time she had accrued 60 hours. A. She took 40 hours of vacation. She will be paid out 20 hours of vacation. B. She took 80 hours of vacation. 20 hours of vacation will be deducted from her last paycheck. If an employee owner terminates prior to completing one full year of employment, vacation pay will not be paid out, but overage will be deducted from the final paycheck.

We use a similar accrual method. Our employees earn so much per week. They receive one week paid vacation after their initial 60 days for the first year. They earn .93 hrs per week. At one year they receive two weeks or 1.54 hrs per week. At ten years they receive three weeks or 2.31 hrs per week and so on. At the end of the year, the employee can roll over whatever level they are currently earning. So, if they are at the two week level they can roll 80 hours over to the next year. This way the employee can, in theory, always have vacation time available if they plan accordingly.

We have the policy in place that you are considering. Every employee earns their vacation and we do let them take more vacation than earned to avoid having the entire company taking time off at the end of the year. However if a person takes more time off than earned and leaves the company we do withhold that amount from their final check.

On every paycheck there is a spot that shows the employee how many days of vacation they have earned

We have an accrual-based PTO plan that this member may find very useful. See below.

The Company encourages employees to take available time off and allows time off to be used for any reason. If all time is used for leisure nothing will be left to protect an employee's income against unexpected absences. Employees are encouraged to use this benefit to ensure a good personal balance between leisure and those unexpected absences which affect us all. PTO should be scheduled to interfere as little as possible with the normal operation of business and to avoid excessive workloads for other employees.

PTO is available to Full-Time employees working at least 30 hours per week. Full-Time employees begin earning PTO immediately.

Active employees will not be paid out accrued PTO at any time during the year.

PTO must be taken in no less than 1-hour increments and is paid at the employee's base rate at the time of absence. It does not include overtime. If a Company paid holiday falls during PTO, the holiday will not be counted as PTO taken.

PTO is not earned during Family Medical Leave, Short Term Disability, or any leave of absence that exceeds 15 calendar days. Employees on any leave of absence will be required to use PTO.

If more than one employee in a department requests PTO for the same time period, final approval will be determined by the manager. The Company reserves the right to decline a time off request based on the needs of the business and/or the lack of a qualified substitute.

PTO is earned weekly, according to the following schedule.

Length of Service Completed

Hours That Can Be Earned Weekly (Accrual based on years of service on January 1 of each year)

< 6 years

2 week rate (3.69 hrs per pay period)

1.85 hrs. weekly to a max of 96 a year

6–13 years

3 week rate (5.23 hrs per pay period)

2.62 hrs. weekly to a max of 136 a year

14+ years

4 week rate (6.77 hrs per pay period)

3.38 hrs. weekly to a max of 176 a year

Carry Over - PTO may be carried over with the following limits: During the year, PTO banks are capped at 1 year's accrual (96, 136, 176 hours) plus 40 hours. Once an employee's available balance reaches 1 year's accrual plus 40 hours, they will not accrue any additional PTO until they begin using the annual accrual plus 40 carry over.

From practical experience:

Hurdle #1 – From an employee’s viewpoint, is vacation a benefit or an entitlement? I would be willing to bet that most employees feel “entitled” when in reality it is a discretionary benefit.

Hurdle #2 – Do you allow a payout of unused time? In other words, do seasoned employees really need time off or would they prefer cash?

Hurdle #3 – Do you earn vacation every year or does your years of service entitle you to the time? This is really Hurdle #1 defined down to individual employees.

Hurdle #4 – If you change it, how do you define it clearly to all employees? You have to make it simple, consistent, and unbreakable.

Hurdle #5 – Most of us have Salaried, Hourly, and Commission personnel – is there a difference? Under Federal (and most State law) a salaried employee earns so much in a pay period limiting an employee’s ability to change the pay rate of a salaried employee is highly restricted – especially after the fact.

Hurdle #6 – Benefit must be consistently applied over all classes of employees.

Hurdle #7 - No change in benefit or entitlement is well received no matter how it is packaged.

Here was our solution during the tumult of 2008/2009 we implemented the following calculation – Maximum Hours of Vacation Time X Hours Worked/ 2,080 (52 week x 40 hours). We went a step forward and substituted Hours Paid (for Hours Worked) because all Hours paid (Vacation, Holiday, Sick time, and Work time) are on an employee’s check. To an employee there is no “black magic” in the calculation as the hours are easily discovered and presented to them when paid. By the way, we have no intention to return to a methodology where employees could dig a vacation hole.

A couple examples might help:

Employee A is paid 1,667 hours for the year and has a maximum benefit of 160 hours, they will earn 128.0 hours of Vacation Pay. (Note – we always round to the Employee’s advantage.

Employee B is paid 2,400 hours for the year and has a maximum benefit of 160 hours, they will earn 160.0 of Vacation pay.

How often do we calculate Earned Vacation? Every payroll.

Do we advance “earned” vacation? At the beginning of the year, we will advance up to 40.0 hours as we pay bi-weekly and have a one week holdback.

How many employees disqualify for full vacation benefit? Less than 5%.

New employees – must work six months to receive 40.0 hours of vacation benefit. After the next 6 months, they can earn additional time as if they were full time (to a maximum of 80.0 Hours) based on when their one year anniversary comes up. The calculation is as follows – Number of Months left in calendar year x 80.0 hours/12. Examples:

Employee Y - Began employment 3-1-14. On 9-1-14, they earn 40.0 hours and on 3-1-15 they would earn – 9 months x 80.0 hours/ 12 = 60.0 hours and would round up to 64.0 hours. This employee can carryover or use his 2014 allotment if they choose.

Employee X - Began employment 9-1-14. On 3-1-15, they earn 40.0 hours and on 9-1-15 they would earn an additional – 4 months x 80.0/12 = 26.66 and we would round down to 24.0 hours.

SECTION 3. EMPLOYEE BENEFITS

Paid Time Off

Full-time and part-time permanent non-exempt employees whom have completed the introductory employment period are eligible to earn paid time off (PTO) on their regularly scheduled hours.

PTO will be computed as follows:

- 1-6 years of continuous service 125 hours/year
(3.93 minutes earned/hour worked)
- 7-16 years of continuous service 165 hours/year
(5.30 minutes earned/hour worked)
- 17- or more years of continuous service 205 hours/year
(6.73 minutes earned/hour worked)

PTO can be used in one-hour increments and can be used for vacation leave, sick leave, and personal appointments. Vacation leave and personal appointments require prior approval from one's supervisor. If earned PTO is not used upon year end, employees may either carry up to 50% of their PTO towards the following year or they can choose to have the company buy back the remaining PTO at 75% of the employee's regular hourly pay rate. Employees who terminate their employment in good standing will receive their regular hourly wage for each unused earned PTO hour in his/her account.

Employees may take vacation leave at such time as can be arranged with their department head. Management reserves its right to change requested vacation dates. Length of service with the Company will be considered when scheduling vacations. Some departments of the Company have pre-set procedures for scheduling vacation leave, so it is imperative to check with your supervisor prior to deciding upon your vacation. Paid time off will be forfeited if employee is terminated for misconduct.