

We are looking to change our vacation accrual method. Currently, we grant employees all of their vacation time up front at the beginning of the year. It's a use it or lose it system within the calendar year. Although employees like having their vacation up front, it is starting to cause issues when employees terminate/retire, etc. We are looking to change our vacation policy where it will be an accrual base method. Meaning the employee will accrue a portion of vacation each pay period. I'm curious to hear how others treat their vacation time, carry over from one year to another, vacation that's in the negative, etc. And, I'd love to hear from anyone who switched their accrual method and any pros/cons we should be aware of when implementing.

(Editor's note: some of you may recall [a similar question](#) from a few years ago. We felt it was time for an update on this issue; also, our question asker this time would especially appreciate some feedback from companies that have switched their policies.)

We changed our policy in 2017. In the past we did pay out for all unused vacation days. It was very common for those leaving the company to leave in early January and per our old policy they would be paid for all vacation hours earned in the prior year.

Currently, our policy is structured with the understanding that vacation days are earned throughout the year.

If you are eligible (based on years of service) for 160 hours of vacation, you can take them at any time. However, we state that hours are earned at each pay period, so over 26 pay periods you are earning 6.15 hours of vacation time. If after 13 pay periods you chose to leave the company, you would have earned 80 hours of vacation. If you had only used 40 hours, we would pay you for the other 40 you earned. If you had taken 120 hours, thereby exceeding your 80 earned hours, we would withhold 40 hours from your last paycheck.

Employees are allowed to carry-over only 2 days from one year to the next.

The conversion to the policy went smoother than I had anticipated. In reality, it only impacts an employee when they leave the company.

It disappointed some long-term employees who were near retirement age because, under the old plan, employees typically retired the first week of January and received their 4 or 5 weeks of paid vacation.

We also do an accrual method for vacation. We allow each employee to carryover the number of hours they are currently accruing. In other words, if someone earns two weeks' vacation they can carry two weeks over to the next year. If they earn three weeks, they can carryover three weeks, and so forth. We do not allow negative vacation balances. However, if you are switching to an accrual method you may want to consider allowing negative balances up to a certain level for the first year.

This is our policy from our handbook.

Paid Time Off

Paid Time Off (PTO) is an all-purpose time-off policy for eligible employees to use for vacation, sick leave, and personal business. It combines these traditional paid days off into one flexible policy. Please note that Holiday and Bereavement pay is separate and not included in the PTO policy.

Unless otherwise agreed upon in writing, full-time regular employees who work at least 30 hours per week are allocated PTO as of their date of hire and then each subsequent January 1st. Employees must complete 60 days of service prior to using any paid time off unless extenuating circumstances arise and management approval is obtained. Part time employees who regularly work at least 20 hours per week, but less than 30 hours per week are allocated PTO in the proportion that his or her regular hours relate to a regular 40-hour work week. PTO is given to all employees at the beginning of each calendar year as a lump sum and can be used throughout the calendar year as the employee requests and receives approval.

There are two types of PTO – unscheduled and scheduled. Unscheduled PTO refers to the traditional “sick” or “personal” day where the employee is unable to attend work due to sickness, injury, or an emergency. Employees who have unscheduled PTO should notify their direct supervisor no later than 1 hour before the scheduled start of their workday and at the start of each subsequent day that they are absent. Employees who are absent from work for three (3) or more consecutive days due to illness or injury must provide a doctor’s note in order to return to work and contact HR to complete leave of absence paperwork.

Scheduled PTO days are planned absence days that must be arranged with the employee’s manager with reasonable advanced notice at a time that causes the least amount of interference with workloads. Requests for PTO may be denied by your manager if another employee has already scheduled PTO at the time of the request or if there are other business conflicts with the requested time. Some PTO date shuffling may be necessary to make sure that the company is adequately staffed at all times. If there is a PTO scheduling conflict, scheduling is determined based on who made the PTO date request first and then by seniority.

An employee’s annual amount of PTO pay is based upon completed calendar years of service with the company, with the service period beginning on the date of hire. During the first calendar year of hire, PTO pay will be prorated based on the new employee’s start date. Example: Start date 3/1/2016. Employee would be employed for 306 of 365 days in 2016 = 84%. 1st year is 80 hours * .84 = 67.2 hours. On 1/1/2017, the employee will receive another 120 hours of PTO. This employee will continue to receive 120 hours of PTO each subsequent Jan 1st until the year he/she will hit their 5th year anniversary. On 1/1/2021, the employee will receive 160 hours of PTO. He/she will continue to receive 160 hours each subsequent Jan 1st until the year he/she will complete 15 years of service. On Jan 1st, 2031, the employee will receive 200 hours of PTO and will continue to receive that amount each Jan 1st going forward. The total amount of PTO a new employee receives during their first year of service will be communicated to the employee at the time of offer. A calendar year is always measured from January 1st until the following December 31st. Annual PTO amounts are as follows:

*Please note that these accrual rates are based on an employee working a 30 hour work week. If an employee works between 20 and 30 hours per week, their PTO amount for the year will be prorated based on their total scheduled hours.

(continued on next page)

Calendar Year of Service	PTO Pay
Year 1	prorated 80 hours
Year 2	120 hours
Year 5	160 hours
Year 15	200 hours

PTO pay may be taken in 1 hour increments.

If all PTO days are not used during the calendar year, a maximum of 160 hours will be carried over and used in the next calendar year. Any additional unused PTO time over 160 hours for the calendar year will not be paid to you at the end of the year and will be forfeited.

Upon termination of employment, an employee must reimburse the company if he/she had used more PTO time than the percentage of the year worked. This will be deducted from the employee's final paycheck.

Employees who resign from the company and provides proper resignation notice will be paid out for any accrued, but unused PTO up to their resignation date. Employees who resign during their first 3 months of employment are not entitled to receive any PTO payout upon termination. Employees who are involuntarily terminated due to gross misconduct from the company will not be paid out for any accrued, but unused PTO.

Our employees receive their vacation time each year on their anniversary date and are allowed to carry over up to 40 hours. We do not allow employees to have a negative balance. If the employee is out of vacation time then they take the time off unpaid.

We grant employees paid time off upfront as well. They are allowed to carryover up to 40 hours each year.

Our policy is based on an accrual basis. We do allow employees to use up to one week ahead of accrued time with the understanding that if they leave or are terminated we will withhold the dollar amount from their last paycheck. At the end of the year any unused vacation time is paid out. We do not allow employees to carry over vacation from one year to another.

We are a union shop and our policy has not changed.

Employees earn vacation during their first year of employment and then can take them in the next year. So if you start on Jan 2, 2018, you work the entire year and then as of Jan 2, 2019, the employee gets their allotted vacation days. The employees are allowed to "dip" into their vacation as long as they have earned those days. So if the contract calls for 2 weeks/10 days vacation in their first year and they have worked 6 full months, they could take 5 days off as paid vacation but not 6. Be aware that the employee will only technically have 5 days left for the next year. This way no one ever owes us for vacation pay taken but not earned if they leave/retire/etc. If the employee were to quit on Jan 2, 2019, we would owe them 2 weeks pay for vacation earned.

We too, have a use it or loss it policy but that is rarely an issue. We let the employees know at the beginning of the contract year how many vacation days they have earned or have remaining if they have "dipped" into their vacation and remind them again mid year.

We used to accrue in one year for use in the next however several years ago we switched to a same year accrual system. Every employee receives hours each paycheck based on the number of weeks they are entitled to. This way they are able to take vacation days in the same year as opposed to having to wait until the next one. The employees like this plan much better. It is a use it or lose it plan. We allow our employees to go up to 40 hours negative but no higher. That way if they do leave we are not losing too much. They have to have a negative balance at some point because they accrue right up to the last paycheck of the year. The drawback for us is that our payroll provider cannot program their system so that if an employee requests a day off and they are already at the -40 mark it would not pay them for that day so it requires a manual process on our part to keep track of it. Other than that it works well.

We are using a similar system and we are considering changes for the same reasons. We are on a Use It or Lose It system where employees start accruing so many hours per week, and must use it by the end of the calendar year. They can use more than they have accrued, but must sign a loan document if their PTO hours go negative. If an employee has a negative balance and does not give two weeks notice, the employer can end up holding the bag. The loan document is only good if the employer wants to legally pursue the matter. Most of the time it is not enough money to justify pursuing. We would be interested in any suggestions.

We accrue hours on the last day of every month. You can use the hours as you accrue them. We do allow rollover of hours every year, however, if we feel you have too many hours rolled over, we will ask you to take a vacation. We do not allow an employee to go negative.

We just made this switch due to the same issue that you are having. It was not easy. Employees were ticked off even though we gave them the vacation that they had already earned prior to the change. They are worried about starting the year with nothing even though we are allowing a negative balance. Managers are worried that everyone will be trying to cram all their vacation time into the last few months of the year. New CFO though and there was no getting around it. Here is how we handled it:

The following vacation policy will become effective on January 1, 2019. Employees will retain all accrued vacation earned through and including April 15, 2018 under the Company's former vacation policy. All such accrued vacation must be used by December 31, 2018 unless the vacation use is postponed at the request of the Company. An active employee will not be paid for or allowed to carry over any unused vacation remaining at the end of 2018 unless state law prohibits forfeiture in which case carry over will be allowed.

Eligible employees earn paid vacation hours each pay period worked. New hires will begin to accrue and be able to use vacation pay immediately upon earning. The longer the employee works for the Company, the more vacation hours are earned. The Company permits employees to take up to five (5) days or forty (40) hours of advanced vacation prior to accruing vacation hours. An employee, who takes vacation prior to accrual, incurs a negative leave balance that is reduced as the employee continues to accrue vacation. If an employee leaves the Company before he or she accrues sufficient vacation time to correct this negative leave balance, the amount of the unearned vacation time will be deducted from the employee's final pay.

Additional vacation pay is awarded on an employee's 5th and 15th service anniversary according to the following schedule:

Years of Service	Days Earned per Year	Hours Earned per Pay Period
0 - 4	Up to 10	3.08
5 - 14	Up to 15	4.62
15+	Up to 20	6.15

Supervisors and managers earn an additional five (5) days of paid vacation each calendar year. When an employee is promoted into a supervisor or manager position, he or she will begin immediately accruing vacation at the increased rate.

Years of Service	Days Earned per Year	Hours Earned per Pay Period
0 - 4	Up to 15	4.62
5 - 14	Up to 20	6.15
15+	Up to 25	7.69

When an employee's work classification changes from part-time to full-time, the employee will be eligible for vacation pay based on their original hire date and the above schedules. When an employee's work classification changes from full-time to part-time, the employee may use any vacation earned as a full-time employee in the manner and at the time provided herein, but will no longer earn vacation from the date the change occurs.

(continued on next page)

For the first ninety (90) days that an employee is on leave of absence, he or she will continue to earn vacation. Once an employee is on leave for more than ninety (90) days, the employee will no longer earn vacation until he or she returns to work.

When an employee is rehired and the break in service is less than one (1) year, the employee's original hire date will be used for calculating the rate at which paid vacation is earned.

Vacation is paid at an employee's regular rate of pay. One vacation day equals eight (8) hours of pay. Paid vacation days may be used in minimum increments of one-half (1/2) day and maximum increments of ten (10) days. To take paid vacation time, an employee must request advance approval from his or her manager. Requests will be reviewed and approved based on business needs and staffing requirements.

If a paid holiday falls within an employee's vacation period, it is paid as holiday pay rather than vacation pay. No allowance will be made for sickness occurring during a scheduled vacation.

Vacation time must be used within the calendar year unless the vacation use was postponed at the request of the Company. An active employee will not be paid for or allowed to carry over any unused vacation remaining at the end of the year during which the vacation pay was to be used unless state law prohibits forfeiture in which case carry over will be allowed.

If an employee is on leave of absence and the employee has not returned to work by year-end, any unused vacation balance will be paid to the employee on the last payroll of the year.

An employee will be paid for all unused accrued vacation upon termination of employment.

New employees who are offered employment after April 16, 2018 but before January 1, 2019 will be awarded five (5) days of vacation pay after ninety (90) days of service. All of above stipulations will then apply as appropriate. All such accrued vacation must be used by December 31, 2018.

The conversion was not as clean as I would have liked it to be but we did the best we could. The change gave employees an extra week or so to use up this year. We also lowered our cap from 25 to 20 days but added some additional paid holidays to help offset it.

We do the accrual method primarily to avoid having an issue with an employee leaving our employment and having used vacation days before they were earned. We do let vacation days "roll over" to the next year but will let employees know if they start building "too many" days in their account. This seems to work for us. I would warn others; our handbook stated that all vacation days were earned at the end of a year, so the vacation days earned for the first year were not eligible to be taken until the second year. This was changed because the State of Illinois counts all vacation as accrued no matter what your handbook states.

The *Company's* PTO policy is structured on a calendar year basis to simplify its administration. **The *Company* will allow you to use PTO before it is accrued with the understanding that PTO is owed to the *Company* until it is earned.**

Unused PTO will expire at the end of each calendar year and not carry over into the next calendar year unless otherwise mandated by state and/or local law.

Full-time Award Schedule: Full-time employees will accrue paid time off in accordance with the schedule listed below.

Newly hired employees will begin to earn paid time off the first month in which you are actively present on the 15th of that month.

calendar year will accrue pro-rated paid time off according to their regularly scheduled hours, (e.g., if an employee regularly works 20 hours a week, paid time off will be prorated to seven and a half days, or 60 hours on a calendar basis).

Paid Time Off Accrual Schedule Years of Service	Days Accrued Monthly	Maximum Days Accrued Annually
0 – 5 years	1.25 days	15 days
6 – 10 years	1.67 days	20 days
11 plus years	2.08 days	25 days

Part-time Award Schedule: **After one year of employment**, eligible part-time employees will accrue paid time off. A part-time employee who works a minimum of 1,000 hours in a calendar year will accrue pro-rated paid time off according to their regularly scheduled hours, (e.g., if an employee regularly works 20 hours a week, paid time off will be prorated to seven and a half days, or 60 hours on a calendar basis).

Scheduled PTO: When you require time off, please obtain approval from your manager in advance. At least 48 hours advance notice is requested. Any request for time off received with less than a 48 hour 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 24 working hours of submittal.

Unscheduled PTO: If you take time off without prior approval by your manager it will be considered an unscheduled absence; however, it is still expected that you contact your manager at least one (1) hour in advance of your scheduled start time to report your absence. Should an employee's poor attendance or tardiness continue, he or she will be subject to corrective action, up to and including termination (Please refer to the Attendance and Dependability Policy for guidance).

Paid Time Off Pay: PTO time will be calculated based on your regular rate of pay (i.e., excluding any overtime, bonuses, commissions, etc.). PTO may only be taken in either four (4) or eight (8) hour increments and can only be applied toward scheduled work days. PTO hours used does not count as actual hours worked when calculating overtime for the week. Accrued PTO must be exhausted before unpaid time off would be granted.

(continued on next page)

Coordination with Leaves of Absence: If you are absent from work on an approved leave of absence, you should consult the appropriate leave policy regarding paid time off and your service date for purposes of this policy.

Record Keeping: Your manager will receive a record of paid time off earned and used throughout the year at the beginning of every other month, beginning in January each year, from the Human Resources Department.

Termination of Employment: Upon termination, accrued, unused PTO days awarded to an employee will be paid out on the employee's final paycheck from the *Company*. The *Company* will consider a rehired employee's previous years of service when calculating eligibility for paid time off.

We do the accrual (ex 1.54hr per period, etc) method. We do not allow employees to go negative unless pre-approved. After year one, it's not generally an issue. We allow employees to carry up to 80 hours over from one year to the next. Anything over 80 hours at the end of a calendar year is paid out to the employee, to keep the accrual from getting out of hand.

We pay vacation based on the prior year. We do not allow any vacation time to roll over. We do not pay out unused vacation. Use it or lose it. We do pay out unused sick days.

We also give employees vacation at the beginning of the year. We are small with low turnover; sometimes we get burned, but such is the nature of the beast.

We have a bi-weekly accrual for PTO. However, we allow the employee to use the amount they would accrue for the year so basically, we pre-fund the PTO. If the employee leaves during the year, their account is then prorated on the amount of time they worked and adjusted accordingly

We have accrual PTO. They can carry over 80 hours at this time and the rest they have to take it or lose it before their anniversary date.

We allow employees to accrue on a monthly basis:

10 days - .8333 days per month

15 days – 1.25 days per month

20 days – 1.66 days per month

We also have a use-it-or lose it policy and to make matters more complicated, some employee have a black-out period where no vacation can be taken at all – 4th Quarter. These employees are authorized to “overdraw” their vacation prior to 4th Quarter. All others, pending approval, may request to take up to 5 non-accrued vacation days. However if an employee leaves and has taken more vacation than accrued, they are expected to reimburse the company.

We use up-front after the first complete year of employment. After Full Year #1 they are vested annually in the prior year and so the time is their's to take. We do not permit taking more PTO than earned, however, so their hours cannot "go negative." All unpaid/unused PTO is forfeited upon notice of separation - a policy which MUST be in writing in your employee handbook order to be enforced. Moreover, you MUST have a signed notice that the employee has (1) received, (2) read, and (3) understands the policies in the employee handbook or the policies may be debated and not upholdable in unemployment court or EEOC hearing.

Longer than I have been alive...since the beginning of the company in the 1960's the staff has earned vacation after they have worked each year so I can't comment on the effect of changing the accrual method. We do have a nice policy that employees can carry over vacation up to 40 hours and gets paid out the remainder. It does help when an employee terminates that they do not receive any portion of their vacation until after their anniversary date. The downside is that some staff stay just to get their earned vacation and would be better off leaving earlier. We have created an addendum that staff who have been with us over 25 years get pro-rated vacation when they leave if they have not made it to their anniversary.

Years of Service Schedule

Employees are granted a specific allotment of paid personal time each calendar year based upon their employment status and their length of service with the company.

All eligible employees will accrue PTO days on a pro-rata basis for use in the current calendar year as set forth in the schedule below.

<u>Years of Service (at the time of January 1)</u>	<u>PTO Accrued Per Year / Month</u>
Fewer than 5 years	15 days / 10 hours
5 years, but fewer than 10 years	20 days / 13.33 hours
10 years or more	25 days / 16.67 hours

Individuals who begin full-time employment mid-year will receive a pro-rated portion of the yearly accrual for the remainder of that calendar year.

Use and Approval of Paid Time Off

An employee may use his or her full PTO allotment at any point during the calendar year; however, PTO Time is actually earned monthly on the last day of each month at a rate of one-twelfth (1/12) of the employee's total PTO time allotment for that calendar year. Paylocity, our record keeping system, will show you your full annual balance in order to easily keep track of your balance and schedule future dates. Additionally, PTO days will be forfeited without pay at the end of each calendar year if they are not taken. There will be no carryover of PTO days for use in the next calendar year unless authorized by state law or approved in advance by the Company President.

PTO Day Balances and Payout Upon Termination

All employees eligible to accrue PTO days will be paid their accrued but unused PTO time at the time of their separation from employment regardless of the reason for separation.

Should an employee separate from his or her employment (voluntarily or involuntarily) with a negative PTO balance, the Company will deduct from the employee's final compensation the value of any such negative balance when permitted by state law.

California Employees

The following variations in the above policy have been implemented due to restrictions present in California state law.

Employees in the state of California will follow the above policy however, will not lose any accrued PTO time at the end of each calendar year. Should a California employee have more than 2 days of PTO time present at the end of each calendar year, they will stop accruing PTO time until those days are taken.