BOSTON COLLEGE Center for Work & Family CARROLL SCHOOL OF MANAGEMENT	**PTO Sell-Back Programs** Compiled by the BCCWF for Allstate April 2018

BACKGROUND

According to the U.S. Bureau of Labor Statistics, vacation days and other forms of paid time off (PTO) is chronically underused by American employees (Would You Trade Vacation Days for Cash? Soon You May Be Able to Do Just That?, *Time Money,* October 2016):

- 57% of Americans carry over sick time into the next year, while 53% carry over vacation time.
- 436 million days are cumulatively carried over each year.
- 222 million vacation days are annually lost.

While unused or lost PTO may reflect negative aspects of the employee's experience ("workaholism," corporate cultures in which time off is discouraged, etc), it is also a burden on employers (The Hidden Costs of Unused Leave, *Project: Time Off*, March 2015):

- According to a study performed by Oxford Economics, there is approximately "$224 billion in liabilities sitting on the balance sheets of American companies due to unused vacation time" as of 2015.
  - Between 2014-2015, the single year growth in unused vacation time was approximately $65.6 billion.
- The average vacation liability per employee is $1,898.
  - For large companies (500+ employees), the average vacation liability per employee increases to $2,609. The typical employee has an average of 5.8 accrued days.
  - For large public companies, the median liability per employee is $3,023.

Outlets for unused time vary among companies. Oxford Economics reported that 53.5% of American employees are able to roll over unused time, while 10% are able to "bank time for things like parental leave or retirement." Twenty-six percent of American employees work under a "Use It or Lose It" PTO policy; 18% "can be paid for unused time**"** (The Hidden Costs of Unused Leave).

PTO SELL BACK PROGRAMS

PTO sell (buy) back programs generally fall under PTO "bank" or "cafeteria" systems that enable employees to purchase additional vacation days when needed and "sell back" unused days at year's end. The type of "currency" used to sell PTO generally falls under two categories: a pre-tax pay increase or credits toward non-taxable benefits, such as medical health flexible spending accounts or dependent care assistance plans. When choosing which strategy is best for a given employer, the Society for Human Resource Management (SHRM) recommends consideration of the following (Paid Time Off: What is a Vacation or PTO Buy/Sell Plan through a Cafeteria Plan and Why Offer It?, *SHRM*, February 2016):

- Whether or not the company wishes to allow employees to buy/sell to accommodate vacation plans that can change over the course of the year
- Whether or not the employer wishes to design the plan to support employees who need PTO for sick time/medical needs while rewarding those who do not use it
- Whether or not the employer wishes to encourage applications to non-cash benefits, such as retirement accounts

While it is still not a ubiquitous practice among American companies, offering employees the option to sell back their unused PTO is gaining traction. Companies may use the previously referenced cash-out option, or they may allow employees to donate their PTO to a communal "bank" for use by other employees for no compensation. The breakdown of such options by plan administration is as follows (2017 Employee Benefits Survey, *SHRM*, 2017):

- For companies that offer traditional vacation leave:
  - Cash-out Option = 14%
  - Donation Option = 11%
  - Neither Option = 68%
- For companies that offer traditional sick leave:
  - Cash-out Option = 5%
  - Donation Option = 7%
  - Neither Option = 40%
- For companies that offer paid personal leave
  - Cash-out Option = 3%
  - Donation Option = 3%
  - Neither Option = 27%
- For companies that offer a PTO bank
  - Cash-out Option = 10%
  - Donation Option = 6%
  - Neither Option = 12%

According to the International Foundation of Employee Benefit Plans (IFEBP), "most policies that allow employees to buy and sell vacation time are set up through the company's Section 125 plan," which can accommodate both the cash option and the use of flex credits for additional benefit selection. When establishing such a program through Section 125, employers must consider (Buying and Selling Vacation Time- Pros, Cons, and Key Considerations, *IFEBP Benefits Magazine*, August 2012):

- Establishing a minimum and maximum number of days that can be bought and sold- A typical plan, although be no means a standard, may set the minimum to one day and the maximum to the equivalent of one week's vacation time. The range of allowable days is generally a function of company size and administrative complexity.
- Buying and selling through additions and reductions in pre-tax salary can be accomplished via payroll, with a number of equal increases/decreases spread out over the plan year.
  - If applicable, deductions to salary cannot bring an employee's pay below minimum wage at any given time.
- If PTO and/or vacation days are sold back to the company, it is considered taxable income. This may have significant tax implications for the employee.
- Increased payroll from PTO that the company has purchased from an employee may have an impact on 401-K contributions and life insurance plans, which may place an additional expense on the employer.
- Establishing clear policy around the applicability of PTO buy/sell programs in the event that the employee is terminated, takes a leave of absence, or reduces his or her hours in such a way that he or she is no longer benefits-eligible