

How To Manage Employee Paid Time Off

Attract great employees, increase productivity, keep employees longer and avoid compliance challenges.



01

How To Manage Accruals Tracking

What Are Accruals?

In the HR world, accruals refer to time off, sick leave and vacation time that 'accrues' as an employee works for the organization. For example, a company may offer four days of paid leave per quarter. When the employee has worked six months, they have accrued eight days of paid leave and continue to build up a bank of time.

Paid Time Off (PTO) is time employees take off during normal working hours for which they are paid. Employees either earn PTO as they work their regular schedules or receive a set number of hours at the beginning of the year. Businesses generally measure the time in hours.

Note: Accruals can also refer to unpaid leave that accrues according to FMLA or state family leave laws.





How is PTO Different Than Traditional Paid Leave?



Traditional paid leave is categorized as sick days, personal days, and vacation. In contrast, PTO refers to leave that is uncategorized and employees can use as they choose. Some employers have a combination of PTO and sick time.

What is a PTO Policy?

The foundation for accruals tracking is a carefully-designed PTO policy. *When creating a paid leave policy, consider the following:*

01

**How will leave be awarded?
Accrual, allotment or unlimited?**

- Will you front load a set number of days at the beginning of the year or will they accrue based on time worked?

02

How many employees can be off at a given time?

- Does the number change throughout the year?
- Will there be blackout periods when nobody can take time off?

03

How will employees request time off?

- How will you handle overlapping requests?
- How far in advance do employees need to submit requests?

04

Will unused PTO roll over into the new year?

05

What state or local laws affect your PTO administration?

06

How will your policy affect your financials/balance sheet?





Types of Time Off Policies

Let's look at the most common types of leave structures used by employers:

01

PTO (Paid Time Off) Banks.
Employees can use the time as they choose.

02

Unlimited PTO.
Employees can take as many days as they want.

03

Traditional Leave.
Categories may include:

- Vacation
- Sick Time/FMLA
- Federal or State Holidays
- Floating Holidays
- Jury Duty
- Emergency Leave
- Bereavement Leave

04

PTO Purchase Plan.

- The 'currency' is their regular salary—this type of policy is often included in a cafeteria (or flex) program
- Employees can use pre-tax earnings to purchase benefits which may include PTO, health insurance, life insurance or flex spending accounts

Automated PTO Systems Simplify Leave Management

The method for tracking PTO is as important as the actual policy. Many small businesses don't have an automated tracking method. Some use spreadsheets or Google Calendar. Employees submit requests verbally and it's up to the manager to keep track of them, determine how they impact schedules and approve or deny.

Manual PTO tracking takes a lot of time and persistence to keep track of employee requests, treat everyone fairly, and ensure business operations aren't impacted when employees take time off.

In contrast, automated PTO tracking software makes it easy to manage leave. The most powerful systems sync with Timekeeping, Payroll and Employee Scheduling.



What Are the Benefits of Automated PTO Tracking?

01

Ensures equitable PTO for all employees.

02

Provides a standardized way for employees to request time off.

03

Helps managers keep track of employee vacations.

04

Syncs with timecards and scheduling to avoid shift coverage gaps.

05

Gives employees access to their PTO balance without calling HR.

When researching PTO systems, make sure they can accommodate your policy. If you have anything more involved than a basic policy, you'll need a provider that offers custom scripting and there are few in the small business space.

Accruals Reporting

Another advantage of an automated PTO system is ease of analytics. Employees and administrators can run reports (for any time period) and see accruals by date and which hours have been deducted from the employees' balances. This helps business owners administer leave policies and evaluate their effectiveness.



02

How To Manage Accruals Tracking

Paid Time Off is an important benefit for employees and job seekers. If a generous PTO program helps you attract talent, you need to make sure employees can actually use it once they are hired.

A confusing PTO process, or a culture that discourages vacations can lower morale and contribute to burnout. This decreases productivity, drives turnover and makes your company less desirable to job seekers.

The Principles of PTO Management

How do world-class companies manage time off requests? Number one, they have a transparent, equitable policy and communicate it to their workforce. Number two, they make it easy for employees to monitor their accruals and request PTO. Number three, they train their managers to approve requests where possible, treat everyone fairly, and refrain from contacting their team members when off work. Number four, leadership and managers set a good example by taking vacations and encouraging all employees to do the same.



The Benefits of Automated PTO



An automated PTO system is essential for managing leave effectively. They are most powerful when integrated with employee timekeeping and scheduling.

How Does a PTO System Work?

01

Employees can see available PTO in the timekeeping system—including amount available for any future date.

02

Employees submit a request in their timekeeping portal—just like an email but easier.

03

Managers receive time stamped requests in the time and labor system where they can review in light of shift schedules.

04

Approved PTO is automatically registered in the timekeeping system.

05

Employees can check their balance on a mobile device 24/7, including forecasted balance for any future date.

06

The software updates pending or approved accruals in real time.

Benefits for the Employee

PTO systems provide a transparent, standardized procedure which makes it easier for employees to plan for and use time off. A cloud-based system allows employees to plan vacations at their convenience outside of work hours. With 24/7 online employee self-service, they can do it all without the hassle, delays and risk of paper-based processes.





Accommodate All Personality Types

Not everyone is comfortable asking their manager for time off in a face-to-face conversation. An automated system makes it easy for less-assertive employees to ask for time off. A PTO system with a mobile app lets employees request leave from the familiarity of their smartphone. Mobile-friendly access creates an intuitive, employee-centric work culture.

Ensure PTO Doesn't Trigger Payroll Errors

An automated system also ensures that PTO use doesn't cause payroll errors. Companies with paycheck problems can expect frustrated employees to look for work elsewhere.





A PTO Mix-Up

Mismanaged PTO is a common friction point for small business teams. Consider the following scenario:

In March, team member Kevin asks manager Natalie for the first week off in June to go to his sister's wedding. Natalie tells Kevin, "I'm sure that will be okay, but I will confirm after looking at the schedule and reviewing the June workload."

Natalie makes a mental note to write down Kevin's desired dates in the Google calendar where she keeps PTO requests. Unfortunately, Natalie is pulled away before she makes it back to her office and forgets to write down Kevin's request. A few weeks later, since Natalie hasn't denied the request, Kevin assumes he can take the time off,

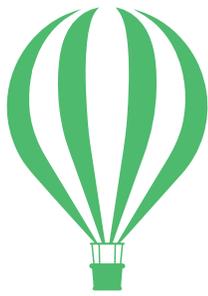
Meanwhile... in April, team member Kelly asks Natalie for the same week off in June to go on a cruise with friends she hasn't seen since college. This time, Natalie remembers to make a note of Kelly's request but doesn't remember that Kevin had asked for the same week off. During a meeting a week before the time off, Kevin says he needs to discuss who will handle his accounts while he is away for his sister's wedding. Kelly is surprised because she had planned to be away for the same week. Since it's a small team, both employees can't be gone at the same time.

What can Natalie do? What if she doesn't remember when Kevin asked for the time off? How does she prioritize the requests? While a wedding is an important event, Kelly's friends have taken time off and the group has put a sizable deposit for the price of the cruise. There is no way Natalie can solve this problem without disappointing either Kevin or Kelly.

Certainly, this type of PTO mix-up can cause resentment and frustration for hard-working employees that want to use a valued benefit.

How can a manager successfully manage time off? The solution is good PTO tracking software and a formal leave policy.





Build a PTO Workflow

01

Define the method employees use to request leave: email, paper form, or automated system.

02

Determine whether unused PTO will roll over into the new year or 'use it or lose it'.

03

Determine how managers will handle overlapping requests.

04

Specify how far in advance employees need to submit requests.

05

If necessary, designate blackout periods when no team members can take leave.

Let the System Do the Calculating

With automated PTO tracking, you don't need to waste time calculating PTO balances for future vacation requests. Instead, balances calculate in real time as employees build a time off request. Employees and managers can rest assured that time off requested is available. Balance calculations include accrual method and rate, PTO already used and pending time off already approved.





Keep Your Business Running

Innovative small businesses use an automated PTO system integrated with timekeeping, scheduling and payroll. This creates efficiencies managers and employees expect while contributing to a positive work culture.

01

See clearly how time off impacts shifts.

02

Alerts make managers aware of each pending request in shift context and who else is on leave.

03

No more short staffing or missing skill sets due to lack of PTO visibility.

04

Approved PTO instantly appears on schedules, whether published or still being built.

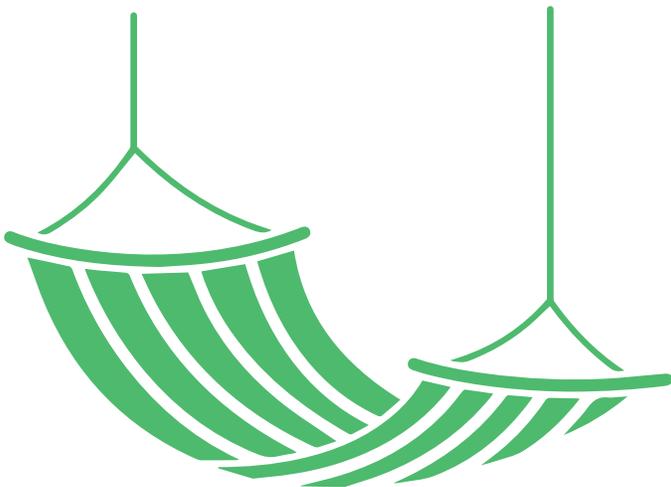
05

Schedulers have all the information needed to adjust schedules for full shift coverage while employees use leave.

06

Timecards reflect PTO, ensuring accurate payroll processing.

Effective PTO management improves productivity and engagement while lowering turnover.



03

How To Manage PTO Approvals

No small business should limp along with a paper-based leave approval process.

Why?

First off, it is a time drain for the manager who already has a lot on their plate.

Secondly, manual processes are vulnerable to error.

Thirdly, it detracts from the overall employee experience and culture.

Lastly, it puts your organization at risk of compliance issues.

Automate PTO Approvals

In today's workplace, inexpensive software can replace sticky notes and spreadsheets. PTO management systems integrate with timekeeping, payroll and scheduling for a unified solution.

Let's recap the benefits of PTO automation:

01

Saves time.

02

Prevents errors and mistakes.

03

Simplifies compliance.

04

Is more efficient for managers and employees.

05

Helps managers approve leave fairly and equitably.





How Do You Build a PTO Workflow?

01

Employees use a standard form to submit requests electronically.

- The employee can see available PTO hours in the system as well as projected accruals balances for future dates

02

Pending and approved time off appear in the shift scheduling calendar in real time.

- The scheduling tool alerts the manager if they attempt to schedule a team member during upcoming PTO

03

The manager:

- Sees all time-stamped requests in the timekeeping system
- Has the option to view requests on the scheduling calendar, making it easy to identify overlapping requests
- Can generate PTO reports for any employee group or timeframe

04

When a manager approves or denies a PTO request, the system instantly alerts the employee.

05

The employee's PTO request triggers an email alert to the manager.





Create a Detailed PTO Policy

If the leave approval process creates problems, it lowers morale for managers, employees and the HR team. Employees expect a transparent and intuitive digital process as user-friendly as their favorite phone app.

Your policy is as important as the technology you use to administer it.

When building a policy, address the following:

01

How will leave be awarded? Accrual, allotment or unlimited?

- For example, will you frontload a set number of days at the beginning of the year or will they kick in quarterly?
- Will unused PTO roll over into the new year?

02

How many employees can be off at a given time?

- Does the number change throughout the year?
- Will there be blackout periods when nobody can take time off?

03

How will employees request time off?

- How far in advance do employees need to submit requests?
- How will managers handle overlapping requests?

04

What state laws affect PTO?

Ways To Streamline PTO Management

Once you've built your policy, review it often and adjust it if necessary.

Also, remember to:

01

Track time for both hourly, salaried, mobile, and remote employees.

02

Calculate the time-off balance for each employee under federal rules based on hours (part-time, full-time), hire date, and usage.

03

Understand state/local employee leave laws for every state in which you have employees and check frequently for changes.

04

Train your HR team, managers, and employees on company policies and laws.

Another measure of the effectiveness of your PTO policy is whether employees use the benefit. Generate quarterly reports in your PTO system to see how paid leave usage changes over time. Determine if an increase in usage improves retention, employee satisfaction (measured through surveys), or productivity.



04

How To Manage Leave Deductions

Tracking leave deductions accurately is tricky for many employers. If you are doing this by hand there are lots of opportunities to create compliance issues.

For example, if you don't accrue appropriately, employees could have a case against you for not providing the right amount of time off based on published policy.

Automated systems take care of this for you. An automated system accrues hours based on your policy. When an employee requests time off, the system will show how much time is available. When the manager approves the request, the system will earmark those hours for use. When the employee uses the hours, the system will automatically deduct them from the employee's account.

An automated system can track any type of PTO:



Holiday



Paid Family Leave



Paid Sick Leave



Holiday



Paid Bereavement Leave



Personal



PTO



COVID



Parental Leave

An automated PTO system synced with timekeeping and payroll tracks leave accurately according to company policy and applicable laws.



PTO and Small Business Compliance



Leave management impacts compliance in several ways:

01

Employers must track qualifying FMLA separately.

02

23 states have laws that regulate PTO payout upon separation.

03

4 states restrict use-it-or-lose-it PTO policies.

04

Employers that fail to grant leave requests equitably risk a discrimination challenge.

The foundation for all wage and hour compliance is proper recordkeeping. A PTO/Timekeeping/Scheduling system automatically tracks accruals as employees clock in for shifts. Most systems only support basic accruals policies, however. Because we offer custom scripting, our PTO system can administer any accruals structure.

Employees Can See Accruals 24/7

It's impossible to overstate the benefits of employee self-service when it comes to anything related to time and labor. With our PTO solution, employees can view their accruals on their phones through our timekeeping mobile app. This includes forecasted balances.

Anytime, anywhere access to timecard information helps employees plan how to use their time off. No more requests for unearned time. No more errors in computation. And no more strained relationships due to PTO mix-ups.





Make Life Easier for Administrators



Your managers and HR team have better things to do than respond to employee emails and calls about PTO. Modern small businesses provide employee self-service time and attendance. This includes timecards, pay stubs, shift schedules, and accruals.

How Does Paid Leave Affect the Balance Sheet?

Let's discuss PTO in light of finances and accounting. In most cases, PTO is an accrued liability as employees earn it. If an employee leaves the employer, many states require the company to compensate employees for unused paid leave. With a front-loaded system, there is full liability on the balance sheet the day the employees are given the PTO. If an employee leaves, then the employer will usually cash out the unused PTO to the employee. In contrast, with unlimited time off policies, there's no accrued liability on the balance sheet and therefore no cash-out obligation upon separation.

If you are required to pay out unused PTO, and an employee receives a raise between the time the PTO is earned and when they separate, consult your accountant about which wage on which to base the payout. In most circumstances, the employer must use the wage at the time of separation.





Beware of Cash-in-Lieu

Perhaps you are considering a cash-in-lieu policy. This allows an employee to trade earned paid leave for cash. In the past two years, this has become more common because millions of employees haven't used their PTO due to pandemic-related issues.

Before you adopt such a plan, beware of the tax implications.

The problem with these plans is they create unintended tax consequences due to an arcane tax concept called the constructive receipt doctrine. In short, this doctrine taxes income, whether or not received, if the taxpayer has an unrestricted right to such income and may draw upon it at any time.

Daniel Mayo, Jeremias Ramos "Unintended Tax Consequences of PTO Buyback Programs"

Again, consult your accountant to make sure you withhold accurately for cash in lieu policies.

What if an Employee Requests Leave Which Includes a Paid Holiday?

The best practice for this situation is not to count the paid holiday(s) toward an employee's PTO. For example, suppose an employee requests the first week of July off and July 4th lands on a Thursday. If your company provides July 4th as a paid holiday, the employee should not have the hours deducted from their PTO balance.



In Conclusion

Small businesses that aren't managing leave with an automated system are missing out on key benefits.

We provide complete PTO management within our timekeeping solution.



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