

Memo

To: Village Board

Fr: Tracy Flucke, Administrator

Re: Discussion on status of Paid Time off Policy Development

Date: August 1, 2013

The Village Board thru the personnel manual approval process directed staff to develop a PTO policy for implementation in 2014. I have been working with the Human Resources Director from Calumet County to work with us on the development of a policy. Patrick has a great amount of knowledge and expertise on the implementation of PTO programs and was willing to help get us going in the right direction. He does lots of consulting and presentation on PTO and other human resource type activities.

He was in the Village for a presentation on the day of the Hilltop fire and we had to cancel his presentation although he left his presentation which was distributed to the department heads and the personnel manual committee. Since that time we have been trying to reschedule him to come back and do the presentation – we have not been able to do that and he has now taken a different job and is working for Carlson Dettmann Consulting. (The presentation is attached)

Patrick has given me the attached preliminary proposal. I would suggest we contract with Patrick Glynn from Carlson Dettman Consulting to help the Personnel Manual Committee to come up with and implement a new policy. It is a big change and I feel we need a consultant to help us to do it properly and be able to fully answer questions from the board as well as staff. If the board is interested in doing this I would suggest I get a formal proposal from Patrick.

It appears one of the biggest concerns staff has in regard to the implementation of a PTO is the loss of their accumulated sick time. I do not believe the board has ever intended to take away everyone's sick leave when the change is made but wanted to be able to discuss at the meeting and provide at least some preliminary insight to the staff members. In all the PTO programs I have reviewed the sick leave has been retained in some manner, typically in a separate block of time they can use for specific needs. I believe our program can also be set up to retain the sick leave in some manner it just is a matter of how we would do that. Village Board is asked to provide some comments and direction in regard to implementation of a PTO program.

Paid Time Off (PTO) as an Option for Providing Employee Leave Banks ©

Adapted from the WPELRA Webinar of the Same Title

Presenter:
Patrick Glynn, Calumet County

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What Is PTO?

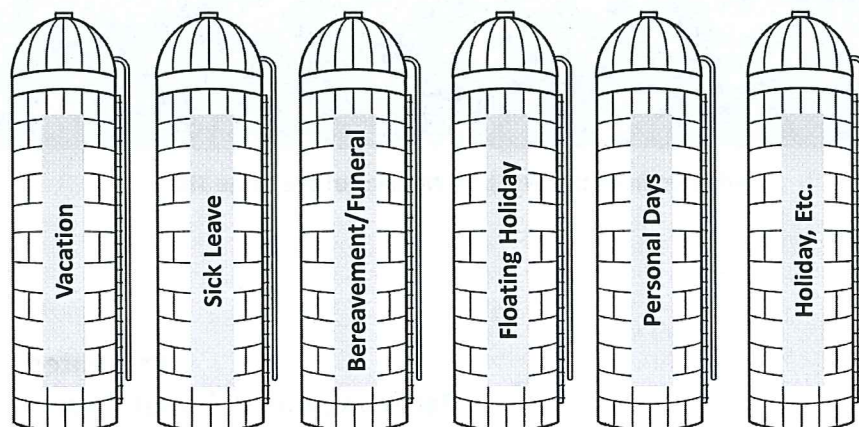
"A design option for paid leave that combines sick, holiday, vacation and personal leave time into one category of available time off that the employee manages with certain employer guidelines."

World@Work Glossary

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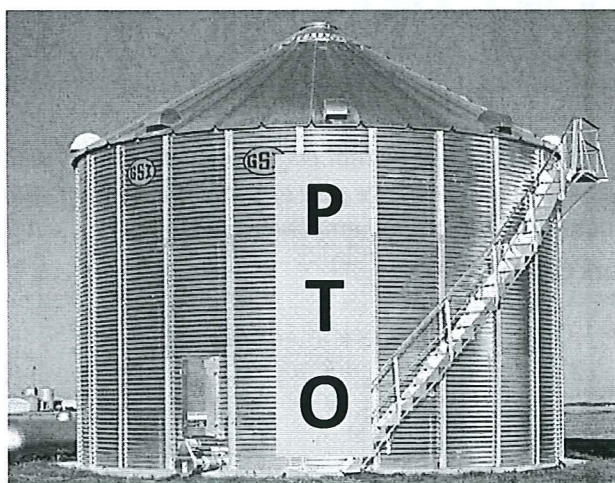
Traditional Leave Banks



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Paid Time Off Plans



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Paid Time Off: Introductory Thoughts

- **Recruitment/Retention:** Newer generations of employees demand more time off, and flexibility with that time
 - 50% of all workers in the nation's top 10 largest cities are willing to sacrifice workplace benefits in exchange for more paid time off (Inspirato Insights Poll).
- **Measure Before You Manage:** Need to know the current costs before the change is made to PTO.
- **One Size Does Not Fit All:** Different work environments, economic situations, motivations, political bodies, etc.
- **Mindset Change:** Shift from being "leave bank czar" to a world where the employee's manage their own leave time.
 - However, this is not a world without rules.
- **Absence Management:** It's simple on paper ... encourage scheduled absences and discourage unscheduled absences.

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Paid Time Off Plans

For ...

- Reduces Abuse of Time Off
- Reduces Absenteeism Costs
- Less Administration
- Less Micro-Management
- Employee Manage Their Own Leave Banks
- Flexibility for Both the Employees & Employer
- Possible Recruitment and Retention Tool

Against ...

- Possible Increased Utilization
- No Desire for Responsibility or Accountability
- Perceived (or Actual) Loss of Time
- Unfairness to Unhealthy Employees
- Managerial Apprehension
- Transition

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PTO: The Data

- IOMA's Survey on PTO Banks [2009]
- Paid Time Off Programs and Practices - A Survey of WorldatWork Members [2010]
- SHRM Employee Benefits [2012]
- BLS - Employee Benefits In The United States [2012]
- WPELRA PTO Survey [2012]

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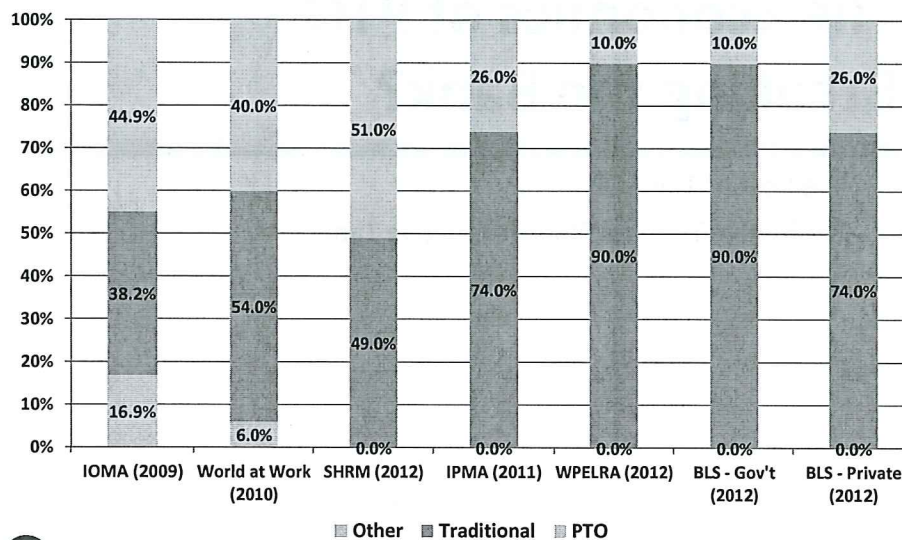
Sources of the Data:

- Institute of Management & Administration "IOMA" is a business publisher of "business management information for experienced senior and middle management professionals".
 - Data From: "IOMA's 2009 Survey on PTO Banks"
 - IOMA's subscribers include "nearly every Fortune 1000 company".
- WorldatWork is a professional organization "focused on global human resources issues including compensation, benefits, work-life and integrated total rewards".
 - Data From: "Paid Time Off Programs and Practices - A Survey of WorldatWork Members"
 - WorldatWork's membership tends to be senior-level HR professionals from mid-to-large size companies.
- The BLS data contains a much broader cross-section of employers.
 - Data From: "Employee Benefits In The United States"
 - The BLS survey represents the responses of 5,258,153 private sector locations and 219,381 public sector locations.
 - The BLS survey covers 102,630,000 private sector workers and 18,919,300 public sector workers.

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Prevalence of Plan Types



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Private Sector PTO Designs:

- **Typical Banks Included in PTO:** Vacation; Personal Days; Sick Leave; Volunteer or Community Service Leave
- **Typical Banks NOT Included in PTO :** Holidays; Bereavement; Jury Duty
- **Frequency of Accrual is Typically During the Year** (Bi-weekly most prevalent)
- **PTO is Usually Capped, But the Caps Vary**
 - 1X to 2X Annual Accrual (World@Work)
 - 21 Days to >31 Days = 49.6% (IOMA)
- **PTO is Usually Allowed to be Carried-Forward in Some Form**

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The Economics of PTO: Breaking the Bank?

- The Cost of Time Off
- Productive Time vs. Non-Productive Time

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Time Off Is Expensive: Example

Description	Amount
Number of FTE	400
Average Hours of Paid Leave	275
Average Hours Worked	2,080
Average Hourly Wage	\$25.00
Annual Cost of Paid Leave [FTE * Paid Leave * Hourly Wage]	\$2,750,000
FTE Lost to Paid Leave [(FTE * Paid Leave) / Hours Worked]	52.9
% of FTE Lost of Paid Leave	13.2%

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Does NOT include Comp Time

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Cost of a Day Off

- Not just the employee's pay & roll-ups
- Who does the work when the employee is not there?
 - If it just piles up, is there overtime later?
- Replacement costs?
 - The indirect costs of unscheduled absence outweigh direct costs by almost a 3:1 margin.
 - Payroll inflation, overtime, hiring and training of replacements, customer satisfaction issues, lost productivity, lost revenue, disruption of the workforce, and misuse management's time.
- Unscheduled absences are the most costly of ALL absences

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Current Value/Usage of Sick Leave

- What is the "book value" of your current sick leave?
- What strings are attached to sick leave?
 - Cash value at termination/retirement
 - OPEB liabilities
 - Other (e.g. PEHP)
- What are employees actually using?
 - Many provide 12 sick days per year, but actual usage is likely to be much smaller.

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Eight Key Calculations

- Costs of Unscheduled Absences
 - Percentage of Unscheduled Absences
 - Costs of Unscheduled Absences Per Worker
 - Cost of One Sick Day for All Workers
-
- Cost Impact of Adding Traditional Sick Time in PTO and CAT Accounts
 - Cost Impact of Granting Some Unused, Earned Sick Time Upon Conversion to PTO
 - Cost Impact of Cashing-Out Unused, Earned PTO Time
 - Projected Annual Savings from PTO

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Source: Paid Time Off Banks (M. Michael Markowich, D.P.A.)

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Productive Time vs. Non-Productive Time

Assumptions For Calculations	2012 Base Year		2013 Year One
Weighted Average Hourly Rate	\$25.59	0.00%	\$25.59
Total Base Hours	465,649.1	ATB	465,649.1
Full-Time Equivalents	234.76		234.76
Average Base Hours (Total Base Hours / FTE)	1,983.51		1,983.51
Wgtd Avg Paid Time Off (Non-Productive)	261.44	2.62%	268.30
Net Base (Productive) Hours	1,722.1	-0.40%	1,715.2
Wages, Salaries, Overtime & Paid Leave			
Estimated Non-Productive Payroll	\$1,528,542	2.66%	\$1,569,194
Estimated Productive Payroll	\$10,387,503	0.39%	\$10,346,852
Overtime Wages	\$342,228	0.00%	\$342,228
Estimated Base Payroll	\$12,258,273	0.00%	\$12,258,273

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Breaking It Down

Average Hourly Cost Per FTE:	\$36.73	\$36.75
Average Hourly Cost Per FTE (Productive):	\$42.31	\$42.50
Average Hourly Cost Per FTE (Non-Productive):	\$5.58	\$5.75
Employee Benefits as a % of Total Compensation Costs:	37.3%	37.5%
Productive Wages/Salary Per Employee:	\$44,068	\$43,892
Non-Productive Wages/Salary Per Employee:	\$6,690	\$6,866
Total Annual Benefit Dollars Per Employee:	\$20,636	\$20,672
Total Annual Compensation Per Employee:	\$72,852	\$72,888

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Will PTO Save Money? [Example]

Pre-PTO

Data	Description
400	Employees
96	Annual Hours of Sick Leave
\$25	Employee Hourly Rate
\$960,000	"Book Value" of Sick Leave
5.4	Unscheduled Absence Days Per Employee
\$432,000	Cost of Unscheduled Absences

Post-PTO

Data	Description
400	Employees
80	Annual Hours of Sick Leave Built Into PTO
\$25	Employee Hourly Rate
\$800,000	"Book Value" of Sick Leave Built Into PTO
4.0	Unscheduled Absence Days Per Employee
\$320,000	Cost of Unscheduled Absences

But ...

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Absence Management:

- Incentives & Disincentives
- CCH Unscheduled Absence Survey [1995 & 2007]
- Survey on the Total Financial Impact of Employee Absences [Mercer 2010]
- Unscheduled Absences

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Unintended Consequences

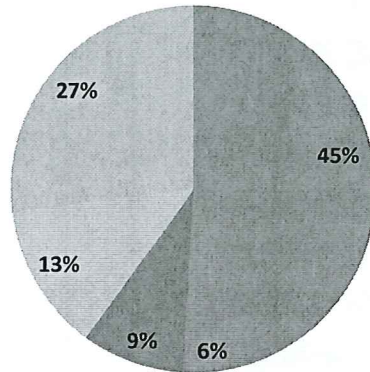
- Use-it-or-lose-it or Entitlement mentality.
 - Granting "x" days per year
 - Time not used is lost
- Loopholes
 - Flying under the disciplinary radar.
 - If "x" points equates to disciplinary action, you will find employees who consistently have "x -1" points.
 - The best of intentions ... when incentives become disincentives
 - Providing "wellness day" for not using sick leave in a year. But, employees taking just two "random" unscheduled sick days get a greater bonus.

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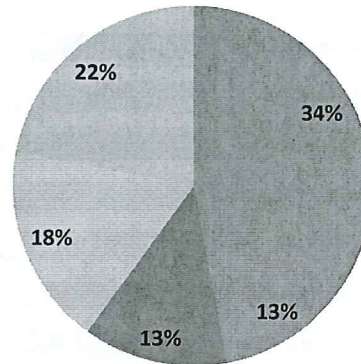
Reasons for Unscheduled Absences

1995 Survey



■ Personal Illness ■ Stress
 ■ Entitlement Mentality ■ Personal Needs
 ■ Family Issues

2007 Survey



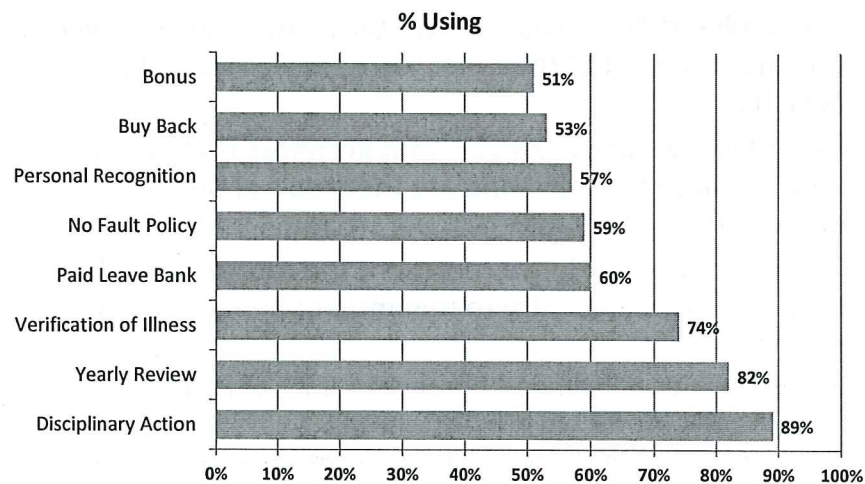
■ Personal Illness ■ Stress
 ■ Entitlement Mentality ■ Personal Needs
 ■ Family Issues

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Source: CCH Unscheduled Absence Survey

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Use of Absence Control Programs: Percent of Companies Reporting Use in 2007

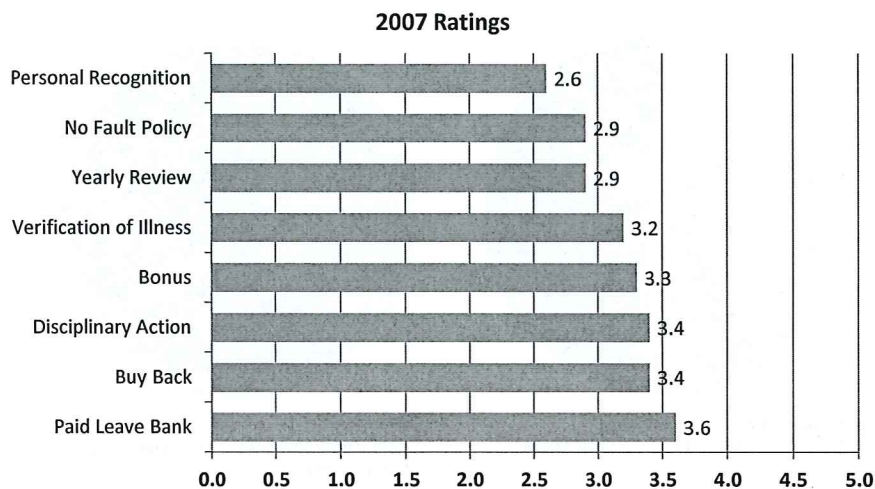


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Source: 2007 CCH Unscheduled Absence Survey

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Effectiveness of Absence Control Programs (2007)



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Source: 2007 CCH Unscheduled Absence Survey

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Total Financial Impact of Employee Absences

- **Unscheduled Absences:** Shorter term absences that were not known ahead of time, nor were they approved in advance.
- **Extended Absences:** Longer term absences that are also unscheduled (typically) and are the result of disability and/or qualifying leave.
- These two types of leave represent the categories of “lost time” that employers try to minimize or at least manage carefully.
 - **Unscheduled + Extended Absences = 8.7% of Payroll**
 - More than half the cost of health care!
 - e.g. FMLA administration, Absence control programs, etc.

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Source: Survey on the Total Financial Impact of Employee Absences (Mercer 2010)

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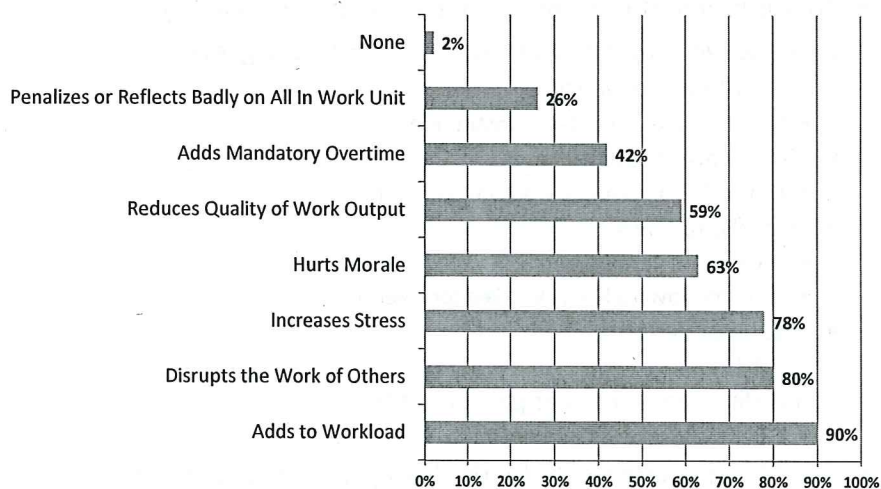
Mercer Survey by the Numbers

- The number of incidental unplanned absence days per employee per year averaged
 - 5.4 days across all employee classes
 - 3.9 for exempts
 - 4.9 for nonexempt salaried
 - 5.8 for nonunion hourly
 - 7.3 for union hourly.
- To help manage incidental unplanned absences ... participants have PTO banks
 - 44% ... for nonunion hourly workers
 - 42% ... for exempt employees
 - 39% ... for nonexempt salaried
 - 28% ... for union hourly
- No paid time off for incidental absences ...
 - 14% ... for nonunion hourly workers
 - 13% ... for union hourly

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Other Impacts of Absence



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Source: Survey on the Total Financial Impact of Employee Absences (Mercer 2010)

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Planning a PTO Plan: Building the Bank

- Legal Considerations
- Method of Accrual
- Maximums
- Sick Leave
- Payouts
- Carryover
- What is Fair?

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Legal Considerations of Time Off

- No requirement to provide paid leave (In most cases).
- If paid leave is offered, certain laws may be triggered ...
 - FMLA / State Leave Laws
 - Mandatory vs. Voluntary Substitution
 - ADA / State Disability Laws
 - Time off as a reasonable accommodation
 - Wage/Hour Laws
 - Payout(s) at Termination
 - Counting Toward Hours Worked for Overtime
 - Vesting of Benefits
 - Sick Leave
 - Coordination with other paid benefits
 - LTD, STD, Worker's Compensation, PEHP, etc.
- Good legal advice might be the best prevention and cure.

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Method and Amount of Accrual

- Method of Accrual
 - Options are open
 - What can your system(s) handle?
- Amount of Accrual
 - Same for everyone or multiple plans
 - “All-for-one, one-for-all” vs. “membership has its privileges”
 - Recommendation:
 - Current Vacation Schedule + (Current Sick Leave – Reduction Factor)
 - Consider marketplace (and political environment) for multiple accrual schedules
 - e.g. Is the market the same for a Truck Driver as it is a master’s level Mental Health Professional or a Department/Division head?

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Key Decision: Sick Leave

- FACT: Big sick leave banks are a public sector phenomenon.
- What to do?
 - Reduce the sick leave in the PTO accrual
 - Create a very limited standalone policy
 - Use it or lose it?
 - Convert to an extended leave bank (aka CAT account) to be used in limited situations (e.g. FMLA)
 - Replace sick leave altogether (e.g. short-term disability; WRS income continuation; etc.)
 - Potentially complex and cumbersome

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Other Leave Banks (Recommendation)

- Include banks of time that are individual to and controlled by the employee:
 - Personal Leave
 - Vacation
 - Floating Holiday
 - Volunteer/Community Leave
- Review on a case-by-case basis:
 - Holiday
 - Funeral
- Probably not:
 - Jury Duty / Subpoenaed Witness

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Other Matters

- Maximum Accrual Caps
 - What do the top-level earners accrue annually?
 - What's being "taken off the top"? (e.g. Holidays)
 - What's financially feasible?
- End-of-Year
 - Carryover, Conversion, Use-it-or-lose-it, or ALL OF THE ABOVE
 - Some options might provide increased productivity by allowing for decreased leave usage.
- Future Interaction with Other Benefits
 - Post-Employment Health Plan, Retiree Health Insurance, Disability Policies
 - Adds complexity, but opens up doors for additional savings

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Transitional Issues

- Current Balances/Accruals
 - It is difficult, if not impossible, to sell this program to employees if they are losing what is already earned.
 - Payout or conversion to PTO (or ELB) is much preferred to loss of time.
- Recommended Process:
 - Convert *unused, earned* vacation time to PTO
 - Convert *accrued, unearned* vacation time to PTO
 - Convert all unused Personal (Floating Holiday) hours to PTO
 - Convert unused, earned sick leave to Extended Leave Bank
 - Look at potential losses with any retirement calculations and review a temporary make whole policy.

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Key Provisions

Policy Area	Detail
Accrual	Per Pay Period: Hours Paid (Less Overtime)
Part-Time Employee Accrual	>50% FTE in a Pay Period to be Eligible to Accrue PTO
# of "Multiplier" Tables	One for all Work Schedules
PTO Max.	325 Hours (All Employees)
Sick Leave	ELB (1,250 hr Max Accrual)
ELB Usage	After 3 Days Medical (or FMLA)

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Key Provisions (continued)

Policy Area	Detail
Newly Hired Employees	PTO Upon Hire @ Multiplier Level [<i>6 pay period waiting period</i>]
Annual "Pay-Out" Options	Max. Conversion to <u>PEHP</u> of 75 hrs.
Annual ELB Transfer	Max. of 200 hrs.
Holidays	Included in Accrual ... Required Use on County Holidays
Leave Donation	Not Allowed
Retirement	ELB Converted at Fixed Amount to PEHP

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Multiplier

Years of Service	Multiplier
Less than 2 Years	0.099
After 2 Years	0.118
After 6 Years	0.138
After 14 Years	0.157
After 21 Years	0.176

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Final Thoughts

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Remember

- Know what you're trying to accomplish before you begin work:
 - Lower costs
 - Competitive benefits
 - Shifting responsibility
 - Addressing problems/abuses
- Good work takes time
- Hope for the best, but expect the worst
- If it's worth doing, it's worth doing right

Tracy Flucke

From: Patrick Glynn <glynnhrconsultant@gmail.com>
Sent: Tuesday, July 30, 2013 4:48 PM
To: Tracy Flucke
Cc: Charlie Carlson
Subject: Allouez PTO Proposal

Importance: High

Tracy,

Charlie and I reviewed the project scope and came up with an initial estimate of \$7,400 for the base project. *However, since you're willing to be the pilot (aka "guinea pig"), we are willing to provide a significant reduction in cost.* For a fee of \$5,400, the following scope of work will be accomplished for the Village of Allouez by Carlson Dettmann Consulting:

- Review contracts, policies, etc.
- Summary costing of existing leave benefits
- Consensus building and readiness assessment
- Policy development
- Internal review
- Summary costing of PTO benefits and comparison
- Legislative adoption
- Employee orientations to new policy

If the Village desires a more comprehensive approach as it relates to a costing methodology, or linkage to other benefits (I.E. retiree health insurance, short term disability, etc.), we can provide an estimate as a project add-on.

Please let me know if this is an avenue you wish to pursue and we can draft an agreement for your review and approval. Contact me at your earliest convenience with any questions.

Thanks!

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