



# PTO Balances: Three Steps for the Fourth Quarter



With so many variations, paid time off (PTO) plans are almost as unique as snowflakes. But one thing is universal: The start of the fourth quarter, before the actual snowflakes begin to fall, is a prime time to assess PTO balances. Assessing PTO balances before the end of the year can help ensure payroll, tax and plan compliance. And it's a good way to enhance employee performance.

To get started, follow these three steps:

Step 1. Review plan terms.

Step 2. Research benefits legislation.

Step 3. Remind employees to use their PTO.

## Step 1. Review plan terms

Check your plan for its exact terms on PTO balances.

- Does your plan provide an annual allotment of time off, or does PTO accrue by hour or paycheck from time of hire?
- Do employees forfeit unused PTO after December 31?
- Can PTO be rolled over into next year and, if so, is there a rollover limit?
- Are employees allowed to cash out unused time at the end of the year?

The answers to these questions will inform plan administration regarding payroll, funding and compliance. If your review uncovers certain trends that could be problematic — for example, potential cash flow issues from too many employees saving PTO to cash out as a year-end bonus — now would be the time to talk to leadership about amending the plan for future years.

**Important note:** Always adhere to current plan terms and communicate changes before they occur.

## Step 2. Research benefits legislation

Benefits laws continually evolve at federal, state and sometime even local levels. There is currently no federal or state law requiring employers to provide vacation benefits. However, once an employer does offer PTO, there may be state laws regulating the plan.

In June 2021, the Colorado Supreme Court ruled that the Colorado Wage Claim Act prohibits use-it-or-lose-it vacation policies in which employees forfeit accrued but unused PTO — even if that policy is written into the plan. Similar restrictions exist in California, Montana and Nebraska.

**Important note:** Stay up to date on laws in every state in which you provide benefits. Ask a plan adviser or legal counsel to regularly review local, state and federal requirements that could impact your plan.

## Step 3. Remind employees to use their PTO

Even when it's allowed by law, forfeiture of PTO can negatively impact employees and organizations. Data presented in Psychology Today suggests that employees who use their PTO are more engaged, creative and productive. And a 2018 report by the American Psychological Association revealed that employees tend to find greater and longer-lasting enjoyment from vacations when workplace culture encourages the use of time off.

As you enter the fourth quarter, remind employees to check their balances and plan their PTO through the end of the year. Being proactive about PTO can help encourage employees to take needed breaks and avoid staffing issues that occur when too many employees have overlapping vacation requests.

**Important note:** In your reminders, direct staff to the employee handbook. Share the exact pages of your PTO policy, but encourage a thorough reading of the entire handbook. On top of understanding their PTO, employees may discover other important benefits that lead to greater usage and appreciation of your overall benefits package.

Now is also a good time to talk to your broker or adviser about other opportunities for your plan.

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**Pano Constantine**

(516) 473-0801  
pconstantine@acumenins.com

**Acumen Solutions Group**

600 Broadhollow Road, Suite 200  
Melville, NY 11747



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