

White Paper

Innovative Solutions in Employee Leave Benefits

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The Case for Change

Today Electric Cooperatives are faced with an ever-changing competitive environment. Our members pressure us to reduce costs, and at the same time our employees are demanding more regarding benefits. By changing the way we structure paid leave, you may be able to reduce costs, and provide greater flexibility to your employees. Combining paid leave programs into a single Paid Time Off or “PTO” program has been shown to be a proven technique for reducing costs, absenteeism, and administrative burden.

Strategic Examination of Benefits

Before consideration of any changes in your benefits package, you should examine your entire package from a strategic point of view. For every single benefit you offer you should subject to three tests:

- Is it legally required?
- Is it making a contribution to the accomplishment of business plan goals?
- Is it neither legally required nor making required contributions to business plan goals?

If it is legally required, your course of action is obvious; you must keep this particular benefit. In addition you should make sure you are in compliance with whichever regulations are requiring it. Examples include: Social Security Contributions; ; Unemployment Insurance; Workers Compensation;

With regards to contributing to goals, there are three main objectives of your compensation package. A benefit or compensation practice should support at least one of these objectives. The objectives are to attract; retain, or motivate employees.

After applying the first two tests, the final step is to determine if it is not doing either one, fulfilling a compliance requirement or supporting your business. If it is not required by law and your employees don’t want it or are not using it. Ask yourself why are you keeping it? Benefits like this are likely an unnecessary expense that could be cut from your budget.

Objectives of Total Compensation

As stated earlier total compensation should serve three objectives: attracting, retaining and motivating employees. Base salary and benefits are the primary determinants for employees deciding on an employer. After getting them in the door, benefits and to a much lesser extent salary keep them on board. When it comes to actually motivating employees, this is done primarily through programs that provide a Work-Life Balance. This is achieved through your benefits program and your employment policies.

Considerations for Designing a Leave Program

Whenever you design any benefit program you are going to have several interest parties who have expectations regarding the program. When it comes to leave the basic interest parties are; the employees, managers, and your members. Employees want time off, and flexibility in how they use leave. Members want your employees on the job when they need them. Members also want you to spend the money they are paying for service in a prudent manner, and lower costs when possible. Your Manager's want adequate workforce coverage, and reduced administrative burden.

Traditional Leave Model

In the traditional model of paid leave, we usually see very tight usage guidelines. Leave can only be used at specific times, for specific purposes, and usually require advance approval.

Annual leave accruals are usually based on years of service, which benefit long time employees. Younger employees with only a few years of service receive a greatly reduced benefit from these programs.

Sick Leave is usually reserved only for personal illness or non-job related injury. Some cooperatives do allow the usage of sick leave for illness of a family member. Many organizations have no accrual limit for sick leave, and employees are allowed to amass very large balances. In many organizations, sick leave is the only disability protection an employee has other than disability retirement. Another disadvantage of this type program is that it fosters an entitlement mentality in the employees. Many feel that sick leave is "owed" to them and they will use it as soon as it accrued. The unlimited accrual presents an accounting problem. In order to comply with accounting rules, sick leave balances must be treated as a liability on your balance sheet. For large to medium organizations with long-term employees, this could be a very significant offset to the bottom line. Sick leave policies can also inadvertently contribute to health care costs. If you have a policy that requires a doctor's note for an absence, employees may make unnecessary doctor visits, just to comply with policy.

Having two or more leave types for employees also increases the administrative burden for your managers and supervisors. It requires them to know all the rules and how they are administered to properly account for leave of their direct reports.

Paid Time Off (PTO Model)

In the PTO model you only have one Leave Pool to track and account for. Leave is utilized at the employee's discretion with some less restrictive managerial controls. By not having unlimited accrual on sick leave you have more control over paid absences. A PTO program is easier for employees and supervisors to understand and apply, because you only have one set of rules. It is easier to administer, because you now only have one leave pool to account for. By eliminating unlimited accrual of sick leave, and replacing it with disability insurance, you reduce the financial liability of the cooperative. By increasing the flexibility in the way employees use leave, you may also reduce absenteeism

A Typical PTO Plan will include two components; base time off and disability insurance protection. A typical plan may look as follow:

Base PTO

First year of employment, 12 to 15 days of leave accrual per year
(Negative balance allowed under certain condition)

After first year, additional day of accrual for each year of employment

Short term disability provided after one full week of absence
Provides 66 2/3% of base salary

Long Term Disability provided after 26 weeks of absence
Provides 50% of base salary.

Implementing Paid Time Off

Implementation of a PTO program can be accomplished through the following action steps:

1. Environmental Scan
2. Establish Objectives
3. Determine the Baseline
4. Determine Transition Alternatives
5. Develop Plan Specifics
6. Develop Communication Plan
7. Communicate
8. Implement
9. Fine Tune

1. Environmental Scan: First determine what your internal and external operating environment is. What do your employees actually want with regards to leave? Have you conducted an employee satisfaction survey either formally or

informally? What can you afford to do? Even if your employees are requesting enhanced benefits, you may not be able to afford it without cutting something else. Also either formally through survey or informally find out what other employers in the area are doing. If most of your employee's spouses have PTO, you are going to have more of a demand for it.

2. Next establish objectives for the program. Don't just change for the sake of change, have specific business goals in mind. Some objectives may be to: be competitive with other employers; increase employee flexibility; reduce administrative burden; reduce financial liability; or to reduce absenteeism.
3. Once you have decided to transition to PTO you must establish what your base leave grant will be. To determine the base grant you will combine your sick and annual leave grants into one pool.

For annual leave the best place to start is to examine what you are granting now. In general you should not reduce the amount of vacation granted to start with.

With regards to sick leave, since we are no longer using it for disability protection, we look at utilization rates. Look at the average sick leave usage for your organization. If you feel it is high and there is evidence of misuse, take the average utilization and reduce it by a day or two. If you feel your utilization rates are normal, take the average utilization and add a day for cushion. Example: Average utilization rate is 4 sick days per year for each employee. This is relatively low utilization rate. You would probably want to add five days to your annual leave grant.

4. Now that you have established the particulars of your PTO plan, you must decide what to do with the old one. You may want to consider one or more of the following:

Maintain dual systems until balances exhausted. This presents the greatest administrative burden, as you may be running two systems for several years. Using this method, you would "grandfather" leave earned under the old plan. Existing employees would then earn additional PTO, and new employees would have the PTO plan only.

Cash Payout. With this method you give a cash grant for hours in excess of your PTO limits. This can be granted either as a lump sum, or paid out over a few years.

Establish leave bank with restricted use. Using this method, you place all hours in excess of your PTO limits in another account. Hours in this account can only be used for restricted purposes, such as supplementing income in case of disability.

Fund retiree health premiums Employer paid retiree health is fast becoming too

burdensome for most cooperatives to provide. To mitigate this the dollar value of leave balances can be placed in a trust to pay for retiree health premiums.

5. Plan Specifics Now that you have the details worked out in general, it is time to develop the plan specifics. You will need to make a final decision on the following items: What you are going to give as a base grant. What will be your schedules for adders for years of services? What will the cap be for accumulation of hours? What are your procedures for hitting the cap? How do you structure your short and long term disability insurance to provide protection to your employees.
6. Plan Administration Once the specifics are worked out you will need to establish some documented procedures and business processes. You will need a written policy outlining usage rules and documentation requirements. You will also need to either modify your existing leave tracking system or develop a new one.
7. Communication Plan Now is the time for the most critical, and probably most difficult step, communicating to your employees. With careful planning of your message and maintaining open communications, you can avoid many employee relations issues. First of all you want to sell the advantages to your employees. You want to especially emphasize that this program is not a “take away” Sell the advantages of the program; greater flexibility, and greater protection for new employees. Be especially sensitive in how you communicate what will be done with existing balances, and the rationale for your decisions.
8. Implement The next to last step is to actually implement the plan. You should select an implementation date that minimizes financial system turbulence usually this is January 1 or the first day of the fiscal year.
9. Fine Tune After the plan has been in place for a year it is time to fine tune the program. Has absenteeism improved? Are employees satisfied with the program. Are your managers satisfied, and are they implementing it as intended.

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