

How to Create a Paid Time Off Policy (With Downloadable Templates)

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[Paid time off](#) (PTO) plays an instrumental role in the productivity and profitability of a business. While it's considered common practice, many businesses aren't *required* to offer PTO in their employee benefits package. This article discusses the numerous benefits of implementing a PTO policy and the best strategies to create one that works.

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What does a PTO policy mean for employees and businesses?

When it comes to paid time off, [employers](#) must think about what's best for both their companies and their employees. A good paid time off policy is understandable and accessible to everyone. It lets workers know exactly what they're entitled to and shows them how to properly utilize the time-off request system.

What is PTO?

With PTO, hourly or [salaried employees](#) get paid partially or fully for a set amount of time they spend outside of work when on vacation, taking personal time or when using sick days. Some employers offer a specific amount of PTO for each category, while others provide a total lump sum of time that employees can use when they're sick or need a vacation, without any questions asked.

Paid time off is meant to cover a wide range of reasons why an employee may want a break from work except for obligatory situations, such as becoming a parent, bereavement or jury duty. These situations are typically covered under separate employment policies.

How does PTO work?

Some employees may be used to receiving a set number of days for vacation, sick leave and/or personal days when they're hired in new positions. With a PTO policy, each employee periodically accrues a certain number of hours that are held in a PTO bank. Employees can use these hours for [vacation](#) or when they need personal time. The number of hours accrued during each pay period may increase with the employee's tenure. A new hire may only be able to accrue an hour per pay period, whereas someone with five years may accrue three hours per pay period.

Benefits of offering a paid time off policy

The benefits of a company's PTO policy affect more than just the employer and the employee. While employees appreciate the paid time off to spend on vacations and personal time, they also need this time to maintain a healthy [work-life balance](#). Overworking can sometimes increase stress levels, which can have a negative impact on a person's overall health. Allowing your employees to take paid time off may actually benefit their mental and physical health.

While it may seem like employees putting in long hours benefits employers, this can actually have a negative 'boomerang' effect. Employees who work long hours may have increased absenteeism due to unexpected illnesses and injuries, which can cause employers to actually [lose money](#) in the long run.

Types of paid time off policies and procedures

When you're creating a time off policy for your business, there are three basic types of policies to consider.

- **Bank:** The bank model lets employees pool all of their paid time off into a single source from which they can draw whenever they like. Under this policy, employees aren't typically obligated to offer a reason for their desired paid time off. The only common rule is that the employer receives two weeks' notice if the employee is seeking to take off several days in a row.
- **Accrued days:** If you're looking for a PTO policy that allows employees to earn it, the accrued days model does just that. Employees earn time off depending on how much they work. For example, if an employee can accrue four hours of paid time off for every 40 hours worked, this equals one day off every two weeks. Some employers also allow their employees to take PTO in advance without accrued days if they agree to halt the accrued days until the used PTO is replaced.
- **Open:** An open PTO policy is one in which employees are free to accumulate as much PTO as they want. While open PTO policies may seem beneficial for employees, they can affect overall production in the workplace. Without a cap on the amount of PTO an employee can save, they could potentially work for years, then take a whole month off at once. This can hinder production and potentially lead to staffing shortages. Because of this, employers often put caps on how their open PTO accumulation can be taken.

What to consider when creating a paid time off policy

Each business has different demands, strategies and earnings. To determine which policy would work best for your business, consider how you plan to handle holidays, which come every year, regardless of your policy. It's important to determine which holidays employees can take off without using their personal PTO and whether they can combine paid time off with [floating holidays](#). It may be beneficial to offer a program that [automatically tracks employee time off](#).

Additionally, your policy should include instructions for a few unique situations. Imagine if a new hire needed to take a day off after working just two weeks. If they are earning half a day of PTO accrued for every week worked, would you allow that, or would you implement a probationary period first? Additionally, will PTO renew every year, or will it carry over? If it doesn't carry over, you have the option of simply paying out the allocated PTO to the employee.

An unpaid time off policy is typically much easier to manage. Put simply, unpaid time off is when employees take a day off and aren't paid for it. This is most commonly used when the requirements for using PTO aren't met, or when an employee fails to give enough notice before taking the day off. It's sometimes used as a punitive measure, but that's relatively uncommon because it produces limited results regarding productivity as opposed to PTO.

Paid time off policy sample

To best understand what a time off policy may look like, you can explore this sample policy:

PTO guidelines

General Atomics' full-time employees, or those working more than 35 hours a week, can accrue one hour of paid time off for every 10 hours worked. That roughly equals a day off of work every two weeks.

The paid time off hours saved up must be used by the end of the calendar year through the [company's time off request template](#). While hours won't transfer to the next year, any remaining unused PTO hours can be paid out as bonuses.

Advance notice

Additionally, employees must notify management of their plans to take time off at least one hour before their next shift, though it's preferred that employees give a day's notice when possible. Should multiple days in a row be taken off, the employee must provide notice no less than two weeks in advance of the first day off.

Paid holidays

General Atomics operates every business day throughout the year, but employees are free to take the following holidays off without taking from their PTO:

- New Year's Day
- Martin Luther King Jr. Day
- Memorial Day
- [Juneteenth](#)
- Independence Day
- Labor Day
- Thanksgiving
- Christmas Eve
- Christmas
- New Year's Eve

Should employees decide to work on any of the aforementioned holidays, they will receive overtime pay for the hours worked, which is approximately 1.5 times their normal rate.

PTO exceptions

Religious holidays, jury duty, military leave, disability and bereavement are covered under separate policies and do not take from an employee's PTO.

Family Medical Leave Act

Circumstances covered by the [Family Medical Leave Act](#), such as the birth or adoption of a child or caring for a sick relative, do not take from an employee's PTO.

Frequently asked questions about paid time off and PTO policies

What does negative PTO mean?

Negative PTO means that the employee takes time off before accruing it. This usually happens when the employer loans the employee the necessary paid leave time. The employee can pay back this loan by accruing the necessary time until the loan is covered, or the employer can deduct the time through a voluntary wage deduction until the equivalent amount is paid back.

Are PTO policies required for all employers?

There is no federal mandate for PTO, so employers aren't required to offer it. However, some employers have a PTO policy in place, and some states do address how PTO is observed by law. For example, certain states don't permit companies to implement "use it or lose it" PTO policies, while others do allow it under certain conditions.

Are PTO and sick time considered the same thing?

While some employers offer single PTO policies that include sick days, certain states require that PTO and sick days are separate. For example, under California law, sick days are considered a separate form of PTO that must be guaranteed.

What is considered a 'normal' amount of PTO after one year?

PTO days granted after a year can vary, depending on specific PTO policies offered by the company. However, on average, private industry employees typically receive between 10 and 14 days of PTO after one year of service.

How to Create a Paid Time Off Policy Templates for PDF & Word

Download these paid time off policy templates to help set clear expectations for your employees regarding PTO.

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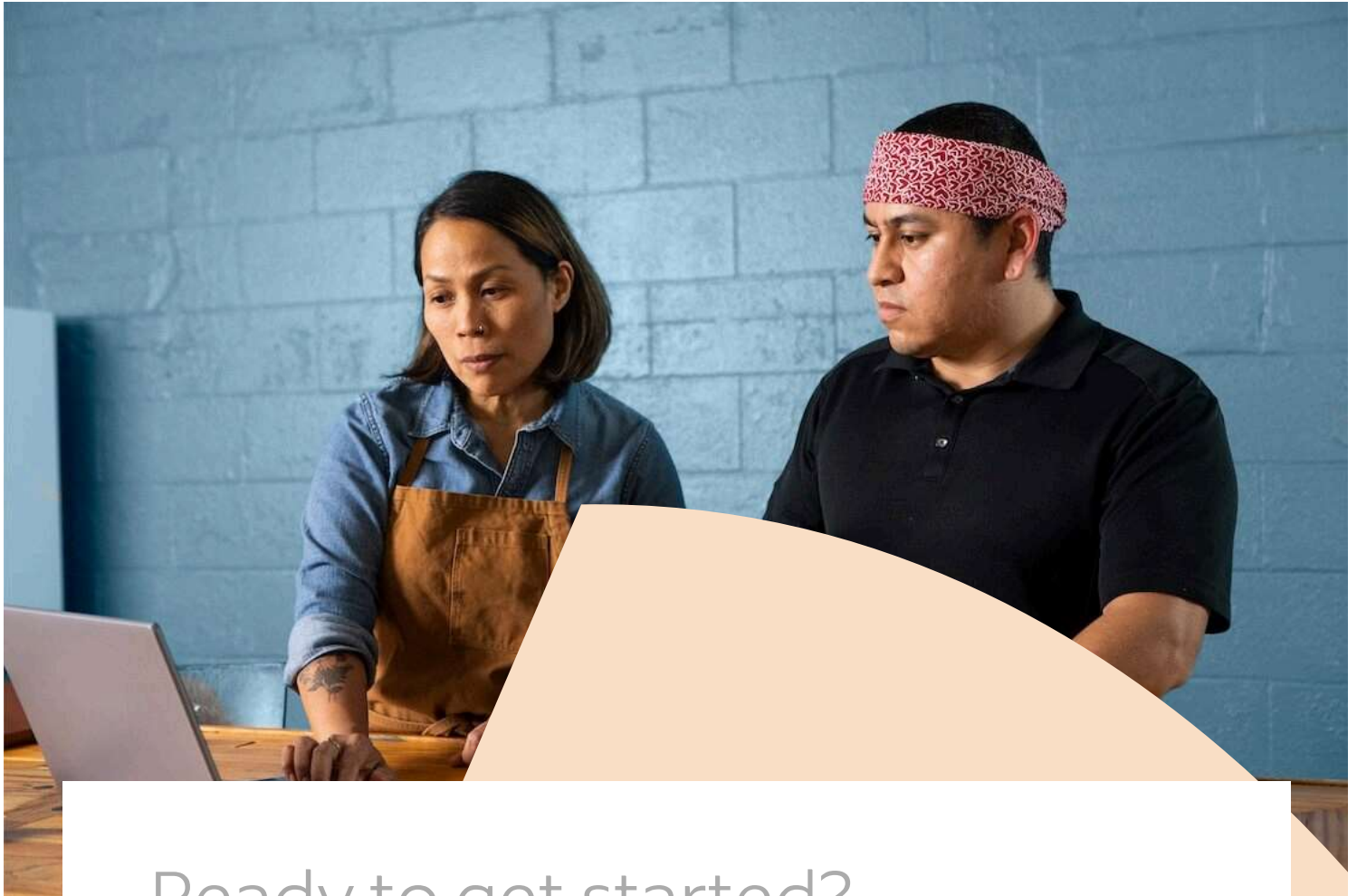
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