

**THE BILL BLACKWOOD
LAW ENFORCEMENT MANAGEMENT INSTITUTE OF TEXAS**

Establishing a Paid-Time-Off (PTO) Leave Policy
to Replace an Accumulative Leave Policy

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ABSTRACT

Have you heard these statements around the office: "Sick leave is an entitlement. If I don't use it, I'll lose it. I have some errands around the house that I need to take care of which I've been putting off for quite some time. Why do it on my time, when I can do it on company time." Unfortunately, studies have shown that this is the prevailing attitude. Scary, but it's the truth. This research project exploits some various options organizations can adopt if sick leave abuse is a problem in their organization.

Researchers and economists have looked at the above issue by conducting random surveys and reviewing the sick leave usage by employees. This paper is a review of numerous periodicals from business journals. The researchers and economists have applied various techniques to counter sick leave abuse and increase productivity and morale. Basically, it involves placing sick leave, vacation leave and holiday or personal leave in one pool. The application has taken many different names and models, but for all intents and purposes, this is called a Paid Time Off (PTO) leave plan.

The PTO leave plan has been proven effective and should be applied to organizations where replacement workers are utilized. Why? The answer is simple economics. The cost of replacement workers exceeds the cost of scheduled workers. Let us take a closer look at the PTO plan to determine if it is best suited for your organization.

Introduction

There are numerous employers who offer various types of benefit packages in addition to salary compensation. These range from health benefits to various types of leave. The purpose of this research project is to examine the various sick leave policies within both the private and public sectors of employment.

The issue to be examined will show that employers are offering sick leave compensation packages which range from 5 to 12 days off per year. As time progresses and morale starts to dwindle, employees tend to view sick leave as a right rather than a privilege. Thus, sick leave tends to be abused, especially in the public sector of employment (Price, 5).

This research project will be presented to the command staff of the Dallas Police Department for consideration to implement the material into policy. If approved, the material will be reviewed by the Personnel Department of the City of Dallas and ultimately it will be forwarded to the City Manager's office.

There were two surveys conducted. One of the surveys looks at police departments of similar size and compares their sick leave policies. The second survey looks at the amount of sick leave utilized by Dallas Police Department personnel during the past three years. There were numerous periodicals which have been cited in the bibliography, none of which criticize the Paid Time Off (PTO) policy.

The intended outcome of this policy research project is to encourage various agencies to examine their current sick leave structure and identify if there is any abuse of the leave. If

abuse of sick leave is identified, the employer must look at different options to control this type of behavior or the loss of productivity and monies will be inevitable.

Historical Context

Leave policies known as Paid Time Off (PTO) leave began in the health care industry as far back as 1973, where the need for replacement nursing can be critical and the cost for per diem replacement workers is prohibitive if left un-managed. PTO's are now spreading to other industries (Harvey, 375; Kunde, 1994; Gubitosi, Jones, 50). Although, still a minority practice, one fourth of the PTO banking programs now in place were implemented in 1993 or later. (Gubitosi, Jones, 51) The only employee who suffers in this arrangement is the one who views sick time as an entitlement. Most companies arrive at the PTO formula by using average sick days utilized (nationally, that's about six days a year) (Knude, 1994). Former short-term sick leave maximums were usually higher, but the idea is to balance things more equally between those who take the maximum amount of sick leave and those who take very little (Kunde, 1994).

The problem of the usage of sick leave is not limited to the United States. In England, research undertaken by the Greater Manchester Industrial Mission into the Department of Social Security's annual survey of doctors' certificates shows that, on latest figures, absence from work exceeded half-a-billion days in 1991 and nearly double the annual figure in 1981 (Muir, 29-30).

When it comes to how vacation, personal, and sick days are totaled up, employees unequivocally say they want greater

control. In fact, they rated PTO leave policies as third most important in a list of nontraditional benefits, according to a recent survey by Godwins Booke & Dickenson and Human Resource Strategies (1995). Only wellness coverage and tax-free reimbursement for health care expenses were deemed more important (Carey, 1996). This can make a substantial difference in the morale of employees. "Workers get control of their own destiny, and the company gets cost savings and increased productivity" (Carey, 1996; Training, 1994). Furthermore, cashouts for unused time off are also possible (Carey, 1996). This is evident in the Dear Park, Texas model which will be discussed later.

As a group, union hourly employees were reported to have the highest sick day usage--a median of 6.1 days of unscheduled absences annually. The lowest usage is among salaried exempt employees where the median is four days annually (Martinez, 26).

Review of Literature or Practice

A surprising 76% of employed adults surveyed by the Gallup Organization report that they only call in sick to work when they are really sick. Respondents were asked, "In a typical year, how many days do you call in sick to work when you are not really sick?" Almost one in four, 24%, of the respondents said they do call in sick at least once a year when they are not really sick. One in seven, or 15% of respondents, confessed that they call in once or twice a year. Another 9% of those surveyed admit that they "play" sick at least three times a year (Martinez, 20). According to Hewitt Associates, 17% of employers in a recent survey of 360 employers have PTO programs in 1995, which is up

from 61 plans in 1994, and only 31 in 1988. Almost half of those companies reported a drop in unscheduled absenteeism after putting days off in the bank (Kunde, 1995).

There are three *basic* types of leave within the Dallas Police Department; vacation, sick and holiday leave. Personnel are given 96 hours of sick leave per year. Sick leave can be accumulated up to 1440 hours. After 20 years of service and reaching retirement, an officer is paid up to a maximum of 720 hours of sick leave when he retires. Officers nearing retirement, who have over 720 hours of sick leave, tend to utilize sick leave without just cause. The prevailing attitude is "It's my time and they owe me," or "use it or lose it." As a result, administrators must look at alternative means to control sick leave abuse and at the same time provide officers with vacation, sick and holiday leave. The Paid Time Off (PTO) leave policy is one alternative. PTO leave policy allots a certain number of paid days off to employees, allowing employees to determine how they will use their days. Companies typically establish a PTO leave policy to reduce unscheduled absenteeism, reduce costs and give employees more flexibility (Martinez, 26). The PTO leave policy has been instituted by many organizations within the private sector. Abuse of sick leave would become obsolete if a PTO leave policy was instituted in the Dallas Police Department.

Many years ago, the City of Dallas enhanced its competitiveness in the job market by increasing the amount of leave given to its employees. Today, many organizations in the private sector are decreasing the amount of leave given to

employees due to decreasing profits. Numerous organizations operating under the cumulative leave policy have been experiencing an increase usage of sick leave. Abuse of sick leave is often difficult to prove. Additionally, management is often unwilling to support supervisors in confrontations over the legitimacy of sick leave use (Harvey, 374). Today, police administrators are only able to discipline an employee if there is documented abuse of sick leave. Questions arise such as is it fair to require an employee to have a written doctor's excuse for calling in sick for a common flu? The Baxer County Sheriff's Department in Texas, no longer allows supervisors to "bed check" an employee by telephone (Garcia). Many employees view sick leave as a benefit and feel they can take the leave at their leisure, whether sick or not. Sick leave usage is more prevalent among government workers than among those in private industry (Price, 5). Municipalities have been experiencing financial constraints. Police agencies do not have the financial riches they once had when the cumulative leave policy was implemented. Additionally, organizations with financial restrictions require police administrators to maximize officer man-hours in all positions due to increasing work loads with less human resources.

The Dallas Police Department is composed of approximately 2800 sworn officers. The chart in Appendix A shows the increase usage of sick leave during the last three years despite the fact that the number of personnel has remained relatively the same.

Unfortunately, when dealing with personnel issues, large police departments in general are not very innovative when it comes to incorporating new concepts. Programs such as PTO's were

utilized in the private sector first. A survey of police departments comparable in size to Dallas, Texas revealed that PTO leave was not utilized at all (See Appendix B). Once the program is determined successful in the private sector, the public sector follows. It is interesting to note that many employers that convert to a PTO banking arrangement actually allocate fewer days to the bank than they did to the programs before conversion. The average number of sick days dropped was six. In addition, nearly two thirds of employers permit cashout of unused PTO bank days. Most cash out unused days at 100 percent of their current value; however, cashout rates of 50%, 75%, and 80% were also reported (Gubitosi, Jones 52).

In 1983, the Garden Valley Telephone Company radically restructured its policy on sick leave. The new sick leave plan reduced the amount of basic sick leave time from 12 days to 5 days each year. In exchange for this concession, by employees, the company implemented provisions for paying extended sick leave and bereavement leave for funerals of close family members. (Howe, 67) During the past 13 years the plan has been in effect, the company has met all of its objectives. The plan was successful in reducing absenteeism, containing costs, eliminating liabilities for accumulated benefits, and redirecting sick leave resources to achieve maximum disability income protection for eligible company employees (Howe, 67).

Daughters of Charity National Health System in St. Louis, with 34 hospitals nationwide, was looking for a way to rein in the cost of employee sick days. The prescription: replace the traditional fixed number of vacation and sick days with a time

bank leave. Under the old system, workers were allotted up to 12 sick days and, on average, used 6.5 days. Now, 5 extra days are added on to their vacation/holidays package, and sick time, per se, is eliminated. Employees appreciate the guaranteed extra week off, and the hospitals shave 1.5 days off average usage. Everyone wins, according to Dale Wilder, Director of Benefit Services (Cahill, 19).

As mentioned earlier, PTO leave is a redesign of traditional time-off benefits. Rather than granting time off separately for vacation, personal and sick time, PTO leave lumps time off into two categories, "time bank" and "catastrophic" (CAT) (Markowich, 19). Once a determined number of days is established to be given to the employee, the employee can take the time at his/her leisure. Employee absences are charged against available PTO leave. Lengthy illnesses (usually defined as ones involving at least five consecutive work days) are charged against available CAT time. This rearrangement enables management to control costs and discourage abuse of sick time, and gives employees protection in the event of periodic or extended illnesses (Markowich, 19). By limiting the number of sick days in the PTO bank, an employee who abuses sick time is eventually forced to use the equivalent of vacation or holiday time for an illness. Few employees are inclined to use vacation or holiday time to compensate for abusing sick time (Markowich, 19). Employees who abuse time bank leave essentially take time that would have been paid to them anyway, either in time off or payment upon resignation. Compare this to the "use it or lose it" mind set of a traditional sick leave program in which employees feel victorious by using sick

time illegitimately (Markowich, 19).

An overwhelming percentage of employers (86%) report that their PTO bank has been effective in meeting their objectives. Furthermore, nearly half of employers with PTO banks experienced a decrease in unscheduled absenteeism, while only 2% reported an increase (Martinez, 26; Gubitosi, Jones, 52).

Survey results indicate that most employers with PTO banks include vacation and sick days in their banks. Two out of three programs include holidays and/or personal days (Gubitosi, Jones, 51).

Discussion of Relevant Issues

Absences planned in advance do not necessarily cause the employer undue problems with regard to organization of work. The real problem comes when the absences occur and may be of indeterminate length. These situations throw a great strain on the agency and tax managerial resources in trying to provide work coverage at very short notice and often at considerable extra cost (Muir, 29-30). This is evident in the Dear Park, Texas model. In the case of an officer calling in on a sick day, the police department is mandated to have a fixed number of officers on the street. Therefore, the Dear Park Police Department is required to call in an officer on overtime status to fill the vacancy of the ill officer (Valdez). (The overtime rate in Dear Park, Texas is regular time + 1/2) If ten officers call in sick during their regular scheduled work hours, the cost of replacement would be approximately \$1,000. Overtime due to absenteeism can have a snowball effect by causing employees who worked overtime to reward themselves with a sick day for a

nonreality illness, which causes still more overtime (Harvey, 374). It is easy to visualize the total expense over a one year period. Productivity will increase since personnel are working and not absent or "sick" if PTO is utilized (Markowich, 19).

It is important to note that "the illness threshold differs quite markedly from some people to others, so that some will come to work while others will rate themselves sufficiently unwell to stay at home. While employers have to be flexible in accommodating different types of employees, in regards to self-perception of the seriousness of the illness, no employer can afford to let an unacceptable level of absence continue" (Muir, 29-30).

Despite this apparent support for PTO banking, there are still many issues and concerns that organizations considering this approach must evaluate. The cost of unscheduled absences is a key consideration. If employee absences do not result in "hard" costs--either in terms of lost productivity or replacement labor--the opportunity for savings may be lessened (Gubitosi, Jones, 52). Policies for "grandfathering" existing accruals under the current program, or for establishing accruals under the new program, must be carefully structured and coordinated with applicable state law and city charters (Gubitosi, Jones, 52).

Policies must be integrated with PTO banking to include guidelines related to selling of vacation time in a flex program and disciplinary processes for excessive absences must also be staffed and approved.

Companies with 1,000 or more employees saw costs jump 36 percent over last year, from \$687,000 to \$934,000 (Shelly, 24).

Based on the total number of sick leave hours utilized by sworn police department employees, the Dallas Police Department paid out \$2,403,386 in sick pay for 1995. The average sick pay per employee was \$874, or 5.75 days.

The Daughters of Charity National Health System mentioned earlier has resulted in savings of 15-30 percent (Cahill, 19). Some firms, such as Nike Inc., in Beaverton, Oregon, which switched to a PTO leave bank in 1994 claim the results are better, but it is too soon to measure exact savings (Cahill, 19). Additionally, a survey by Commerce Clearing House (CCH) Inc., of Chicago, Illinois found that absenteeism cost companies an average of \$505 per employee in 1994, up from \$487 in 1993. According to CCH, companies can cut costs by reducing the number of sick days placed in the time bank for immediate use. Employers also say the programs replace the typical "use it or lose it" attitude toward sick days with a "use it when necessary" outlook, CCH says (HR Focus, 9).

The CCH survey also found that costs associated with unscheduled absences varied according to the size of the business, ranging from \$247 per employee per year at small companies to \$534 per employee at large firms. Respondents from all sectors agreed that unscheduled absences had a negative impact in three critical areas: productivity, customer service, and cost control (Shelly, 24).

Conclusion/Recommendations

It is important for organizations to reengineer their leave policies in order to meet the demands of productivity, costs and efficiency. Police organizations should be especially critical

of sick leave policies due to the increased demands from our society. Organizations with financial restrictions require police administrators to maximize officer man-hours in all positions due to increasing work loads with less human resources.

Absences planned in advance do not necessarily cause the employer undue problems with regard to organization of work. The real problem comes when the absences occur and may be of indeterminate length (Muir, 29-30). Additionally, by providing workers with more latitude, gratification results, due to a sense of control (Crumrine, 82).

Unscheduled absences can cost an employer with 1,000 employees more than \$500,000 per year, based on a 1993 Commerce Clearing House study on unscheduled absences (Markowich, 12). Morale suffers because hard workers with good attendance records end up completing the work not done by the abusers of sick time (Markowich, 12). Abusers appear to strive to maintain a reputation that the company does not desire, and they find ways to take advantage of traditional sick-pay policies (Markowich, 12). These costs make it clear why organizations, both public and private, no longer can exempt traditional sick leave policies from review and change (Markowich, 12).

Police agencies, and more specifically, the Dallas Police Department should consider adopting the following:

- Replace sick and vacation leave with a PTO and CAT system.
- Pay employees up to 720 hours of CAT upon retirement with 20 years of service or more. (same as present system)
- Pay employees up to 480 hours of PTO leave upon termination of employment. (same as present system)

- Employees can take CAT leave for major illnesses only after they exhaust 3 days of PTO.

Replacing the traditional fixed number of vacation and sick days with a PTO bank, from which workers draw time for vacation, illness, or personal reasons, has helped firms reduce unscheduled absenteeism, reduce costs, and give employees more flexibility and responsibility (Cahill, 19).

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Lieutenant Jesse Valdez. Personal Interview. July 31, 1996

Appendix A

Dallas Police Department Sick Leave Usage Sworn Employees

Year	# of Officers	# of Sick Hours	% Change
1994	2787	113,118	
1995	2787	126,494	+10.5
1996	2841	137,049*	+7.7

* Denotes Jan. - Oct. of 1996. Nov. & Dec. 1996 added in based on 1995 figures. Will be adjusted prior to arrival at Module III.

Appendix B

Cities of Similar Size Based on Population* With PTO Programs

City	Population	PTO Policy
San Diego, CA	1,110,554	No
Phoenix, AZ	983,403	No
Detroit, MI	1,027,974	No
San Antonio, TX	935,393	No
Philadelphia, PA	1,585,577	No

* Figures based on 1990 census.