Can a PTO arrangement help your employees

As the year winds to a close, most businesses see employees taking a lot of vacation time. After all, it's the holiday season, and workers want to enjoy it. Some businesses, however, find themselves particularly short-staffed in December because they don't allow unused paid time off (PTO) to be rolled over to the new year, or they allow only very limited rollovers.

There are good business reasons to limit PTO rollovers. Fortunately, there's a way to reduce the year-end PTO vortex without having to allow unlimited rollovers: a PTO contribution arrangement.

Retirement saving with a twist

A PTO contribution arrangement allows employees with unused vacation hours to elect to convert them to retirement plan contributions. If the plan has a 401(k) feature, it can treat these amounts as a pretax benefit, similar to normal employee deferrals. Alternatively, the plan can treat the amounts as employer profit sharing, converting excess PTO amounts to employer contributions.

This can be appealing to any employees who end up with a lot of PTO left at the end of the year and don't want to lose it. But it can be especially valued by employees who are concerned about their level of retirement saving or who simply value money more than time off of work.

Good for the business

Of course the biggest benefit to your business may simply be that it's easier to ensure you have sufficient staffing at the end of the year. But you could reap that same benefit by allowing PTO rollovers (or, if you allow some rollover, increasing the rollover limit).

A PTO contribution arrangement can be a better option than increasing the number of days employees can roll over. Why? Larger rollover limits can result in employees building up large balances that create a significant liability on your books.

Also, a PTO contribution arrangement might help you improve recruiting and retention, because of its appeal to employees who want to save more for retirement or don't care about having a lot of PTO.

Set-up is simple

To offer a PTO contribution arrangement, simply amend your retirement plan. However, you must still follow the plan document's eligibility, vesting, rollover, distribution and loan terms. Additional rules apply.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.