**PTO: When vacation and sick leave are combined – ASHHRA (January 2011)**

Many employers offer paid vacation and paid sick leave as separate benefits. Obviously, vacation is for planned absences, while sick leave is typically used when the employee is unable to work. While this policy structure is common, it does have a few problems.

One problem is that some employees rarely take sick leave while others use all of their available time. In many cases, employees who take sick leave are using the time as extra vacation days. Their absences can burden their co-workers who must “cover” for those absences, and can create resentment among those who do not abuse their sick leave.

One solution is to pay out unused sick time at the end of the year. If employees are paid out for unused time rather than losing it, they may be less likely to abuse it. However, some employees will still use their sick leave because they prefer to have the “extra” time off.

Another solution is to allow sick leave to accrue from year to year. Over time, employees might earn weeks or months of sick leave for use during extended absences, such as FMLA leave. To minimize abuse, employers with these policies often limit the number of “unscheduled” sick days. For instance, employees might earn ten days of sick leave per year (to a maximum of 90 days), but more than five unscheduled sick days per year would be subject to discipline.

**Pros and cons of combining**

A third solution is to combine vacation and sick leave into a single bank of hours, usually called paid time off (PTO). Under a PTO policy, the time can be used as either vacation or sick leave. This helps minimize abuse because employees who call in for a sick day are reducing the amount of vacation available in the future.

There are some downsides to combining vacation and sick leave, depending on state laws. Many states define earned vacation as a “wage” that cannot be taken from employees. While some states permit “use it or lose it” vacation policies (where earned time is lost if not used by a defined deadline), other states prohibit these policies and require payout of earned time when an employee leaves the company, even if the employee was terminated for cause.

Most states that define vacation as a wage do not consider paid sick leave to be a wage, and do not provide any rights for employees to claim that time (it can be taken away). The problem is that the law only recognizes two types of benefits: vacation and sick leave. If a PTO policy does not distinguish between them, all of the earned time is counted as vacation. For example, if you offer ten days of vacation and five days of sick leave, and combine them by offering 15 days of PTO that can be used for any purpose, all of those days may be considered “vacation” under state law and would have to be paid out to departing employees.

While there are advantages to replacing vacation and sick leave policies with a single PTO policy, be sure to check your state law so you understand the impact this may have on your ability to take away the time.