A large stack of open binders filled with numerous papers, some with red thread binding, is positioned on the right side of the image, angled towards the center. The background is a soft-focus gradient from dark blue on the left to light green on the right.

The Hidden Costs of Unused Leave:

Balancing Employee Needs
with Business Liabilities

Introduction

There's a hidden cost lurking on the balance sheets of American companies. It is nearly half the size of the current federal deficit,¹ larger than the Gross State Product of half of U.S. states,² and 24 times the annual revenue of the NFL.³

The source may surprise many U.S. companies. In an analysis conducted on behalf of Project: Time Off, Oxford Economics discovered **\$224 billion in liability sitting on the balance sheets of American companies due to unused vacation time**. This liability has been amassed over years of employees rolling over unused paid time off (PTO). It does not include sick or personal leave.

America's vacation liability is massive—and it grew by \$65.6 billion in the last year alone.

Methodology

Oxford Economics completed a review of Form 10-K financial statements filed with the Securities and Exchange Commission (SEC) by 114 public companies employing 377,000 private sector workers. The financial statements reported the total cash value of accrued paid vacation time and the number of employees for each firm.

Oxford Economics used additional survey work to extrapolate the 10-K analysis to the broader private sector economy. The additional research included a 2014 GfK Public Affairs-Oxford Economics survey of 1,303 respondents to assess the amount of vacation time earned, used, rolled over, or lost due to constraints such as caps on or expiration of banked days. Oxford Economics conducted a second survey in 2014 to corroborate estimates of vacation earned, used, rolled over, and banked for later.

What Happens to Unused Paid Vacation



\$224 Billion and Growing

America's 24/7, always on, hard-charging culture has created a nation of work martyrs—the type that take few vacation days, come into the office sick, and pride themselves on being seen at a desk. But work martyrs are costing their companies—big time. According to Oxford's analysis, the average vacation liability per employee totals \$1,898, and in some companies studied is more than \$12,000 per employee. Because workers have steadily earned these vacation days over the years, these are liabilities employers must pay out to employees when they retire or leave the company.

The \$224 billion figure is only going up. In just the last year, U.S. companies carried \$65.6 billion in accrued PTO costs forward.

It is no wonder. An October 2014 Project: Time Off study revealed that Americans are taking less vacation time than ever before. From 2000 to 2013, the average worker has steadily taken fewer and fewer vacation days, from 20.9 days per year to just 16.⁴ As a result, either employees forfeit their earned benefits or companies see more unused vacation days wind up on their balance sheets.

No Winners When Vacation is Left Unused

Vacation liability is not a \$224 billion bill coming due for American companies tomorrow. But in the near-term, it represents a potential and perhaps unnecessary burden on a business' financial health and outlook. For this reason, some companies are actively encouraging employees to use vacation time.



Average vacation liability per employee



Accrued PTO costs carried forward from 2014 to 2015



Decrease in vacation days used since 2000

Beyond the \$224 billion vacation liability companies are shouldering, employees are also losing. While many unused days are carried over for future use or payout at the employee's separation, about a third of paid vacation days are simply lost due to "Use it or Lose it" policies, caps on banked days, or expiration of those days. Project: Time Off also discovered that employees are forfeiting \$52.4 billion in earned benefits each year.⁵

Size Matters: Mid-Sized and Large Companies Carry Biggest Vacation Liability

U.S. firms started this year with an average of 5.7 days of accrued vacation per employee, but there are interesting distinctions based on company size:

- Larger companies with more than 500 employees are in line with the average at 5.8 accrued days per employee.
- Mid-sized companies with 100-499 employees have a higher number of accrued days per employee at 7.6.
- Smaller companies are below average. Those with five to 99 employees range between 4.6 and 4.9 days per employee, while those with fewer than five employees have just 2.6 days of accrued vacation per employee.

While the average vacation liability per employee is \$1,898, at large companies with more than 500 employees, the liability per employee is much higher: \$2,609. Further, if looking exclusively at the 114 public companies reviewed for this report, the median liability is \$3,023 per employee.



75% of HR professionals report that employees who take most of their vacation perform better than those who take less.



74% of employees who work for organizations that encourage the use of time off are “extremely” or “very” happy with their personal relationships.



Happy employees are more likely to stay in their jobs, helping employers keep talent in place and turnover costs down.

These numbers are just the start of what American companies and employees are losing. The true costs of unused time off go beyond the balance sheet, and while harder to measure, are just as concerning.

The Double Bottom Line

When employees do not use their PTO, it affects their happiness, health, performance, and productivity, all of which can undermine company success.

While employees may feel compelled to prove their status as high performers through face time, their feelings may not reflect reality. Senior leaders and human resource managers believe that time away from the office is a critical tool for sustaining employee productivity. A 2013 Society for Human Resource Management (SHRM) study found that 75 percent of HR professionals report that employees who take most or all of their vacation time perform better than those who take less.⁶

A positive company culture around time off also contributes to a happy home life. Project: Time Off’s “Overwhelmed America” report found that nearly three-quarters (74%) of employees who work for organizations that encourage employees to use their time off state they are “extremely” or “very” happy with their personal relationships with family and friends.⁷

Happy employees are more likely to stay in their jobs, helping employers keep talent in place and turnover costs down. SHRM’s “Retaining Talent” guide estimates that “direct replacement costs can reach as high as 50%-60% of an employee’s annual salary, with total costs associated with turnover ranging from 90% to 200% of annual salary.”⁸ SHRM also found that a strong majority (78%) of human resource directors report that employees who take advantage of available vacation time enjoy higher job satisfaction.⁹



Vacation liability is not a requisite expense for American businesses. Many companies have found innovative ways to manage costs and achieve greater productivity and creativity from their employees.

Questions Every Senior Executive Should Be Asking

 What is my company's vacation liability?

 What does that vacation liability mean for my employees' happiness, productivity, and retention?

 Are there steps we can take to encourage employees to take time off or policy considerations we should think about?

Three Innovative Approaches to Encourage PTO Use and Reduce Vacation Liability

Employers are right to be concerned about their share of the American private sector's \$224 billion vacation liability. Beyond the financial implications, it shows how much time employees are giving up at the expense of their health, happiness, productivity, and creativity.

According to the SHRM, a combined 98 percent of employers offer PTO or paid vacation.¹⁰ The details of policies vary widely, but according to Oxford Economics' analysis, more than half of employees (53.5%) are able to roll over time, more than 18 percent can be paid for unused time, and another nearly 10 percent are able to bank time for things like parental leave or retirement.

Many companies are moving to "Use it or Lose it" policies—in fact, Oxford Economics found that it is now the policy for more than one-quarter (26%) of all U.S. employers. Under this policy, any unused vacation days are forfeited by the employee at the end of the year. Employees in these companies are dramatically more likely to use all their earned vacation time. Eighty-four percent of employees under a "Use it or Lose it" structure take all their earned time off, compared to just 48 percent of employees who have the option to roll over, bank, or be paid out for unused time.¹¹

Regardless of the policy, regular communication is essential to encourage employees to use more of their vacation time. Research by Project: Time Off found that 80 percent of workers said they would use more of their PTO if their boss encouraged them to do so. The same study also found that two-thirds of employees hear negative or mixed messages—and, most frequently, nothing at all—about using vacation time, despite 91 percent of senior business leaders agreeing that time off from work delivers benefits to their employees and companies.¹²

There are some businesses that are getting it right. They have implemented innovative approaches to vacation policy and instilled company cultures that encourage employees to use their time. Best of all, it's working—for employees and for the business.

"That's not heroic," Lorang says of an employee's feeling that no one else can do his or her job. "That's a single point of failure. It's not good for the employee or the company."

-Bart Lorang, CEO, FullContact

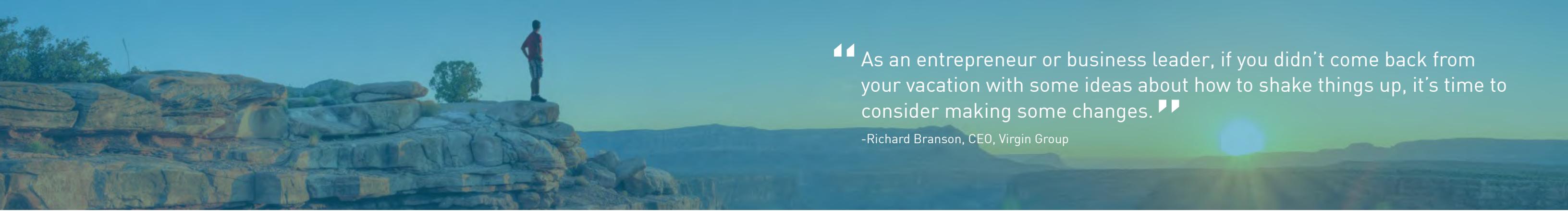
1 Where Taking Vacation Pays

Because having a vacation policy on paper is not enough, some companies offer incentives to encourage employees to use their PTO. The incentives vary, but the goals are similar: lowering vacation liability while improving the quality of life for employees and attracting top talent.

RAND Corporation, a nonprofit, nonpartisan research organization headquartered in San Francisco, CA, has what it calls "sabbatic pay." In line with what the company describes as a "strong belief that employees should take time off to ensure their health and well-being," RAND offers three percent of monthly base salary for every vacation day taken. Employees who take all 20 days offered are given an additional five percent of their annual base salary.¹³

Bart Lorang, CEO of Denver, CO-based software provider FullContact, has a photo hanging in his office as a reminder of the importance of vacationing with purpose. The photo shows Lorang and his fiancé riding camels with the Egyptian pyramids in the background—but instead of taking in one of the wonders of the world, Lorang is checking email on his phone. After seeing this photo, he resolved he would not miss out again, nor would his employees.¹⁴

Lorang introduced "paid paid vacation." The policy provides \$7,500 to workers to take their time off and requires them to disconnect. Lorang believes that while disconnecting is difficult for many employees, it helps correct what he calls a "misguided hero syndrome." "That's not heroic," Lorang says of an employee's feeling that no one else can do his or her job. "That's a single point of failure. It's not good for the employee or the company."¹⁵



“As an entrepreneur or business leader, if you didn’t come back from your vacation with some ideas about how to shake things up, it’s time to consider making some changes.”

-Richard Branson, CEO, Virgin Group

Motley Fool, a financial advisory company, agrees with Lorang. The Alexandria, VA-based business has what it calls the “Fool’s Errand,” where once a month an employee is selected at random to take two weeks off from work within the next month.¹⁶

It’s not just a great perk, it’s a way to strengthen the business, ensuring that employees are cross-trained and have the opportunity to learn and stretch their capabilities. “When you suddenly take two weeks off, you need to make sure that other people around you understand what you do so that the company doesn’t come to a screeching halt if you’re gone,” Motley Fool’s Alison Southwick told *Fast Company*.¹⁷

The Fool’s Errand is a companion incentive to unlimited vacation, a policy Motley Fool has offered since its founding in 1993. CEO Tom Gardner summarized the thinking of many companies that have embraced unlimited vacation, “A culture built on trust and respect will pay for itself several times over.”¹⁸

Incentive programs can also tie directly to business objectives. Travelzoo, an online publisher of travel and entertainment deals based in New York, NY, has offered its employees a \$1,500 stipend and three additional vacation days since 2008. CEO Chris Loughlin wrote on LinkedIn that Travelzoo has invested more than \$5 million into the program and employees have collectively taken more than 5,000 trips.¹⁹

The investment has paid off in several ways, from being able to attract great talent to retaining happy employees, but he also underscores the business case for the program. He believes that Travelzoo employees know more about their deals than any of their

competitors because they have “literally been everywhere in the past 10 years.” Having employees on the ground has generated exceptional digital content for the company, including videos shot with the company’s drone, and has even won Travelzoo new business.²⁰

“As our Deal Experts travel to places like Ecuador or Peru, we are uncovering hotels, ground operators and travel companies that we had never heard of,” writes Loughlin. “We then open up conversations and help these companies enter into our core markets. If we didn’t go, we wouldn’t know.”²¹

2 Unlimited Vacation: The Biggest Trend That’s Not Trending

Unlimited vacation policies have been in the spotlight recently. In September 2014, Virgin Group’s larger-than-life CEO Richard Branson announced that the London-based company’s salaried employees would enjoy unlimited vacation going forward. His daughter gave him the idea when she shared that a friend’s company had moved to unlimited vacation and “experienced a marked upward spike in everything—morale, creativity and productivity have all gone through the roof.”²²

The idea resonated with Branson. As he wrote in Entrepreneur a year before changing the policy, “As an entrepreneur or business leader, if you didn’t come back from your vacation with some ideas about how to shake things up, it’s time to consider making some changes.”²³

“When you suddenly take two weeks off, you need to make sure that other people around you understand what you do so that the company doesn’t come to a screeching halt if you’re gone.”

-Alison Southwick, Motley Fool

In fact, some services Americans use every day are products of vacation's power to stimulate innovative thinking and new ideas. Instagram founder Kevin Systrom was walking the beaches of Mexico when he came up with the idea for the photo platform. Similarly, Drew Houston dreamed up Dropbox while traveling. According to the global consulting firm Sandler Training, in a survey of 1,000 small business owners, one-in-five startup ideas come to entrepreneurs while on vacation.²⁴

Today's businesses crave innovation, so it is no wonder that unlimited vacation gets so much buzz. But the media frenzy around unlimited PTO belies the reality. According to SHRM, unlimited vacation or unlimited PTO is offered by less than two percent of firms—and less than one percent have plans to offer it in the next year.²⁵

But those numbers may start to change if the broader business community embraces the concept like entrepreneurs have. A commanding 60 to 80 percent of startups in the San Francisco Bay Area offer unlimited PTO plans, according to Brian Helmick, a co-founder of Algentis, a human resources company that specializes in tech firms.²⁶ Companies that have embraced the policy include Gilt Groupe, TIBO Software, Zynga, Nerd Wallet, and Stash Hotel Rewards.

In 2004, Netflix became a pioneer in the unlimited vacation space when it issued its "Freedom and Responsibility" company culture document—which Facebook's Chief Operating Officer, Sheryl Sandberg, said "may well be the most important document ever to come out of the Valley"—and proved that going without a policy can work.²⁷

Before 2004, the Los Angeles, CA-based Netflix did not have a formal PTO tracking system; however, when it went public, Sarbanes-Oxley compliance required record keeping. Rather than shift to a formal system, CEO Reed Hastings opted against having a vacation policy and investing the man-hours it takes to track employees' PTO. As the Netflix culture document posits, while there is no vacation policy or tracking, "there is also no clothing policy at Netflix, but no one comes to work naked."²⁸

“There is also no clothing policy at Netflix, but no one comes to work naked.”

-Reed Hastings, CEO, Netflix

“The majority of our managers, due to the nature of our industry, work long days and holidays. They need to take time off to maintain their productivity.”

-Michelle DiTondo, Senior Vice President, Human Resources, MGM Resorts

The company is outspoken about its trust in employees, clarifying that high performance is still required. As Hastings explained in *Harvard Business Review*, "Adequate performance gets a generous severance package."²⁹

MGM Resorts International is a recent convert to unlimited vacation. The company implemented what it calls "flex time" in 2014 for its 3,000-plus managers.

The new policy has been particularly important to the company's growth. As MGM has acquired companies, its human resources and payroll departments have struggled to keep the various vacation policies straight. Implementing the flex time policy streamlined the process and, according to MGM's Senior Vice President of Human Resources Michelle DiTondo, it has been "very well received" and there have been "very few issues of people abusing the policy."³⁰

"The majority of our managers, due to the nature of our industry, work long days and holidays," DiTondo told *VEGAS INC*. "They need to take time off to maintain their productivity."³¹

3 What's Good for the Team is Good for Business

Without the right mix of company culture and regular communication, unlimited vacation policies can make employees fearful of taking time off. The lack of prescribed boundaries can lead to workers ultimately using less time than they would under a more formal structure. To address this, some companies have turned to mandatory vacation policies.

HubSpot, a developer of inbound marketing software based in Cambridge, MA, shifted to an unlimited vacation policy in 2010, and then took it a step further by mandating a minimum of two weeks of vacation a year. To reinforce the company's commitment to time off, HubSpot allows employees to reduce sales quotas twice a year to make it easier to take a vacation.³² In the four years since instituting vacation minimums, the company has seen revenues grow from \$15.6 million to \$77.6 million and has been the number two fastest-growing software company on the Inc. 500.³³

HubSpot CEO Brian Halligan made the change because he believed the work environment warranted it. First, Halligan acknowledged the nine to five workday as a relic of the past, with technological advances keeping workers plugged in long after they leave the office. Second, as Halligan explains, because the company doesn't track weekend days worked as credit, it was unfair to do so for weekdays. And third, he emphasizes that HubSpot hires "very smart people who are very focused on contributing to the growth of our company" and that he trusts that "folks will use common sense."³⁴

Job search website Authentic Jobs, based in Sarasota, FL, had an unlimited vacation policy initially, but moved to a mandatory minimum of 15 vacation days to ensure employees were taking advantage of the benefit. Founder Cameron Moll said that running a job site tuned him in to the importance of perks, specifically vacation. He recognized that a good policy can help you find and retain talent: "It does make for a good sell with potential candidates," Moll told *Think Progress*. "It just sounds awesome."³⁵



In the four years since instituting vacation minimums, HubSpot has seen revenues grow from **\$15.6 million** to **\$77.6 million** and has been the number two fastest-growing software company on the Inc. 500.

"What's good for the team is good for business."

-June Cohen, Executive Producer, TED

Some businesses have established mandatory vacations by closing the office, mitigating the fear that work will pile up while employees are away. Closures around the holidays are common; SHRM found that about 12 percent of companies close their offices between Christmas and New Year's Day.³⁶ But some have realized the benefits of full-office shutdowns and are taking it a step further.

TED, the New York, NY-based idea-generating non-profit made famous by its short video talks, has been closing for two weeks every summer since 2009, going so far as to shut down phones, email, and even the office Wi-Fi. "Our shared vacation time is a little hack that solves the problem of an office full of Type-A's with raging FOMO," Editor Emily McManus writes on TED.com. "We avoid the fear of missing out by making sure that very little is going on."³⁷

"We all return feeling rested and invigorated," said June Cohen, TED's executive producer. "What's good for the team is good for business."³⁸

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Project: Time Off is an initiative from the U.S. Travel Association to prove the personal, business, social, and economic benefits that taking earned time off can deliver. We aim to shift culture so that using personal time off is not considered frivolous, but essential to strengthening families and improving personal health; a business investment with proven returns; and an economic necessity. Learn more at ProjectTimeOff.com.