Abstract: Many businesses find themselves short-staffed from Thanksgiving through December 31 as employees use, rather than lose, their remaining paid time off (PTO). One way to curtail this dilemma is a PTO contribution arrangement, whereby unused vacation hours are converted to retirement plan contributions. This brief article describes how such an arrangement might work.

Is a PTO contribution arrangement right for your business?

Many businesses find themselves short-staffed from Thanksgiving through December 31 as workers scramble to use, rather than lose, their remaining time off. Indeed, your workplace may resemble a ghost town if you limit how many vacation days employees can roll over to the new year. A paid time off (PTO) contribution arrangement may be the solution.

A PTO contribution program 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.

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

To offer a PTO contribution arrangement, simply amend your 401(k) plan. However, you must still follow the plan document’s eligibility, vesting, rollover, distribution and loan terms. Additional rules may apply. To learn more about PTO contribution arrangements, including their tax implications, please contact us.