Paid Leave: How to Get Started

What is paid leave?

Paid leave is a formal policy granting your employees time away from work—during which they continue to receive pay—for a range of events including medical, parental (maternity/paternity), sick, vacation, holiday, temporary disability, and bereavement, among others. Local, state, and federal laws govern leave policies. All workers are guaranteed by law at least some time away from work—though often unpaid—for specific events like military service, voting, jury duty, and religious observances. Extending the option of paid leave for personal reasons, such as the birth of a child or caring for a sick family member, can improve your operations and employee retention in numerous ways.

How do I set up a paid leave program?

First, find out what's required under law

At the national level, under the Family and Medical Leave Act (FMLA), businesses with 50 or more employees are required to offer leave to employees to take care of their own health or that of a family member, including a new baby. However, the law does not require that employees continue to receive pay while on leave. State and local laws in certain places—like California, New Jersey, Rhode Island, Washington, and New York—have established paid leave programs in which businesses must offer compensated time off for employees to care for a newborn baby, newly adopted child, or sick family member. To make sure you're complying with the requirements of paid leave in your area, business owners are encouraged to consult with a legal expert. The guidance below can help you keep track of major regulations:

- **Federal laws.** The U.S. Department of Labor (DOL) offers an employer guide for FMLA, which includes information about requirements to follow and options available in administering leave programs. The DOL also offers additional information on federal legislation governing personal and sick leave.
- **State and local laws.** Many cities and states have mandated leave policies. To stay informed about local laws that might affect your business, check out the National Conference of State Legislature, which provides an overview of family medical leave laws by state. For city and county laws, see this guidance provided by the National Partnership

for Women & Families

Think through your goals

Determine what you hope to accomplish with a leave policy. Whether your goal is to attract and keep talented employees, to promote a healthier workplace, to track employees' days off more systematically, or something else, knowing the intent behind your policy will help you decide which types of leave to build into it. For instance, if your aim is to promote healthy workers, you might consider prioritizing paid sick days over vacation time.

If you don't want to lose employees likely to have children, creating a parental leave policy might take center stage in your planning. If you're interested in a simple, standalone policy that helps your workers schedule time away from work in advance, setting up a Paid Time Off (PTO) policy might be a good option.

Helpful Resource: Assessing Costs

Get a more precise look at what a long-term leave policy could cost you with this free financial modeling template by Optimizely, which helps businesses estimate annual costs for a parental leave policy.
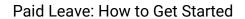
Financial modeling template

Weigh the benefits and costs

When deciding whether paid leave policies make financial sense for your business, remember that denying employees compensation for necessary time off might cost you valuable workers, or add unanticipated costs in the form of absenteeism or poor job performance. While costs vary across industries and business types, the U.S. Bureau of Labor Statistics found that the average cost of paid leave per employee in 2017 was about 7 percent of employee compensation for private companies (including businesses of all sizes).

Decide on the type of leave you can offer

You can implement separate policies regarding paid leave for vacations, illness, and other common events, but many business owners choose to simplify their systems by adopting a single PTO policy.

While not a comprehensive list, some of the most common options can be found in the table below:

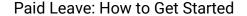| TYPE OF LEAVE	DESCRIPTION	RELATED RESOURCES
PAID TIME OFF (PTO)	PTO generally wraps all vacation, personal, and sick days into one, and allows employees to accrue hours over time to take off of work without penalty. PTO policies grant employees flexibility to use their hours as needed, while decreasing the need for employer or manager oversight. They do not include accommodations for parental leave or longer-term medical or personal issues.	To learn more and set up your own PTO policy, check out Fit Small Business's article, "How to Create a Paid Time Off (PTO) Policy." For an example of a PTO policy, see this Sample Paid Time Off Policy from The Balance.

TYPE OF LEAVE	DESCRIPTION	RELATED RESOURCES
SEPARATE SICK, VACATION, AND PERSONAL LEAVE	Some businesses choose to offer separate benefits for sick, vacation, and/or personal leave, rather than one "catch-all" PTO policy. While they can be harder to manage, offering separate "pools" of paid leave can minimize misuse of time off. Under some PTO policies, for example, employees will continue to come into work when they're sick rather than lose a day that could be spent on vacation. Establishing separate allotments of time off designated for different types of leave can help circumvent this issue. Business owners are advised to work with an HR specialist or legal advisor in drafting their own policy, but in general, independent leave policies should include information regarding: Compliance with local, state, and federal laws; Qualifications for employee eligibility; How time off will be accrued (or, if preferred, a description of a "lump sum" policy, in which eligible employees are allotted a set amount of days off no matter how long they've worked at the business. This option tends to be easier to manage, but runs the risk that employees will use all their leave immediately rather than having to earn days off over time); and The process by which employees may request and receive approval for time off.	For more detailed guidance on setting up separate leave policies, see "Drafting Paid Sick Leave Policies" from Lexis Practice Advisor Journal. Additionally, "Vacation Policies and Time Off," from HR Simple has guidance and sample policies you can use as models when drafting your own policy. Finally, the post from FitSmallBusiness.com, "Which Vacation Accrual Rate to Use," offers advice on deciding between different ways employees can earn time off.

TYPE OF LEAVE	DESCRIPTION	RELATED RESOURCES
MATERNITY/PATERNITY AND FAMILY LEAVE	Under the FMLA, businesses with 50 or more employees must offer unpaid, job- protected leave of at least 12 weeks for the birth and/or care of a child in its first year. While this law does not apply to most small businesses, Small Business Majority and the Center for American Progress' research found that most small businesses support paid family leave programs and 66% of small businesses are already offering parental leave.	Fit Small Business offers free, downloadable templates and legal guidance for establishing maternity and paternity policies, as well as advice on managing parental leave requests.

Determine the amount of leave you can offer

As the business owner, you must determine the number of days off to give your workers, and—if you prefer—the rate at which they can accrue those days off. As a reference point, consider the following small business statistics:

- According to the Bureau of Labor Statistics, as of March 2017, the most common leave policies offered by businesses with fewer than 50 workers included 6 paid days off for holidays. By contrast, only 1 percent of small business workers reported receiving 13 days or more of paid holiday leave, and only 2 percent received more than two weeks of paid sick leave.
- The Bureau of Labor Statistics also reported that 28 percent of small business (<50 employees) workers with access to paid leave were offered a consolidated— or PTO—plan, ranging from 12 to 20 total days off depending on the length of employment. The other 72 percent of small business workers received separate pools of leave for different purposes, ranging from 7 to 15 total days off depending on the length of employment.

Determine the rules that will shape your policy

Beyond complying with laws in your area, you have the flexibility to design the policy that best accommodates and incentives your workers. In addition to determining how many hours or days your employees can take off of work and—if applicable—at what rate that time will be earned, you can also decide whether and how much paid leave time can "roll over" from one year to the next, and if employees can "cash out" on unused paid leave upon leaving the

company. (It's critical to know the laws that apply to you, as some states require that employees be compensated for unused paid leave when they leave a job.)

Remember that your policy can be flexible

To cut down on costs, you could consider taking a flexible approach with your paid leave policy. Options include offering the benefit only to full-time and not part-time employees, or extending it to employees once they've been with the company for a certain amount of time. You can also pro-rate leave allowances for part-time employees. For example, if a part-time employee works 20 hours per week, compared to full-time employees who work 40, that part-time worker can access or accrue paid leave at 50 percent of the rate at which full-time workers access or accrue it. (Again, just make sure you're compliant with local laws; part-time employees in California, for instance, are eligible for the same sick leave as full-time employees.)

Simplify administration with benefits software and online platforms

Technological solutions designed to help business owners manage employee benefits have made setup and administration of paid leave policies much simpler. Online and software platforms like Justworks, Gusto, and Quickbooks, among others, can help you design your policy, offer it to employees, and manage time off requests.

How do I ensure the policy is effective and less subject to abuse?

Consider implementing separate leave policies rather than generalized PTO

As stated above, while general PTO policies can be easier for you to manage and keep track of, policies that don't distinguish between sick and vacation time can inadvertently encourage employees to come into work while sick. Based on your business needs, determine whether it makes more sense to have a separate "pool" of time off for sick leave.

Prepare in advance for employees taking longer leaves of absence

To ensure that losing an employee for a week or two each year does not leave your business in jeopardy, this guide includes resources for managing leaves of absence, including specific guidance for managing an employee's FMLA leave. Suggestions include:

- **Cross-training employees.** By training your staff in multiple roles and skillsets, employees

will be able to fill in for one another when someone misses a day of work or takes an extended leave of absence, protecting your business against losses in productivity. Read more about how to cross-train your staff in the Hiring, Training, and Professional Development section of this toolkit.

- **Encouraging ambitious workers to step up.** One employee's leave of absence is another employee's opportunity. When a staff member—especially a mid-level employee or a manager—takes long-term leave, allow others to take on more responsibility and learn new skills by filling the role for the duration of the absence. To avoid any conflict, make sure that all employees involved are fully aware of the situation, and develop a plan for reintegrating employees into their normal roles when the leave period ends.

Offer a combination of options

The best types of paid leave, especially when it comes to parental and sick leave, include a flexible range of options that make the situation easier on both the business and the employee. Consider offering unpaid leave for a few weeks in addition to paid weeks off, and allowing full-time employees to ease back into work by working only part-time for the first few weeks back on the job. If possible, you could even allow employees to work from home before returning to work full-time.

Have a written policy that you share with employees

Make sure that your staff is fully aware of the rules surrounding your leave policy—and the penalties of violating those rules—by providing each employee with a copy of your written policy.

Require prior approval for time off

While no one can plan for when they'll be sick, employees can reasonably be expected to notify their managers about taking other types of leave. Business owners are encouraged to require advance notice for employees going on vacation or taking leave for a personal or family event.

Check in periodically with employees on extended leave

Keeping in touch with workers who are away for parental or long-term medical leave is a good way to maintain a positive relationship with the employee while they're absent, and to ensure the employee is on track to return to work at the designated time. For more advice and best practices, see "Eight Ways to Reduce Abuse of Leave Policies" from ADP. If you sense that an

employee is abusing their time off, check out "Abuse of Sick Leave: A Chronic Workplace Ill?" from The Balance, which includes a list of tips on how to respond.

COVID-19 Resources

Tailored resources to help you make decisions around paid sick leave at your small business, help you reopen safely, and your employees build resilience in the midst of COVID-19.

COVID-19 Resources

Helpful Resources

Finding temporary workers

Staffing agencies can help you find temporary contractors to fill in for employees on leave. You can find highly rated staffing services, searchable by industry, on Best of Staffing.