

**REPORT OF THE
DEPARTMENT OF PERSONNEL AND TRAINING ON**

**Annual Leave
and
Sick Leave**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 63

**COMMONWEALTH OF VIRGINIA
RICHMOND
1993**



COMMONWEALTH of VIRGINIA

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January 2, 1993

Dear Governor Wilder and Members of the General Assembly:

The 1992 General Assembly, by House Joint Resolution 207, requested the Department of Personnel and Training to study three issues: (1) the uniformity of state agencies' policies on carrying over unused annual leave credits from one calendar year to the next; (2) the impact that changing the annual leave policy would have on the payments made to employees for their accumulated hours of leave when they discontinue their employment with state agencies; and (3) the feasibility of changing the current maximum payment of \$2,500 for unused sick leave credits upon termination from state service.

Enclosed for your review and consideration is the report that has been prepared in response to this Resolution.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Dorthula H. Powell-Woodson'.

Dorthula H. Powell-Woodson

/sew

Enclosure

PREFACE

House Joint Resolution 207 requested the Department of Personnel and Training to study and reevaluate the Commonwealth's policy on annual leave for state employees, and the policy regarding payment for sick leave credits when employees terminate. The Resolution directed the Department to consider: (1) the uniformity of state agencies' policies on carrying over unused annual leave credits from one calendar year to the next; (2) the impact that changing the annual leave policy would have on the payments made to employees for their accumulated hours of leave when they discontinue state employment; and (3) the feasibility of changing the current maximum payment of \$2,500 for unused sick leave credits upon termination from state service. This report presents findings on these issues.

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EXECUTIVE SUMMARY

House Joint Resolution 207 requested the Department of Personnel and Training (DPT) to study three issues: (1) the uniformity of state agencies' policies on carrying over annual leave credits from one calendar year to the next; (2) the impact that changing the annual leave policy would have on the payments made to employees for their accumulated hours of annual leave when they discontinue state employment; and (3) the feasibility of changing the current maximum payment of \$2,500 for unused sick leave credits upon termination from state service.

I. Current Policies on the Carryover and Payment of Annual Leave

Rule 10.6(a) of the Rules for the Administration of the Virginia Personnel Act limits the number of earned but unused annual leave hours that full-time classified employees may carry forward from one calendar year to the next calendar year, and limits the hours for which they may be reimbursed when terminating from state service. Hours in excess of these maximums are forfeited at the end of the calendar year and forfeited when employees terminate from state service. Exceptions to Rule 10.6(a) (as it relates to balances carried forward from year to year) are allowed where agencies cannot permit employees to use their annual leave for substantial periods of time due to agencies' workload demands. No exceptions are permitted regarding the maximum amounts paid for annual leave balances when employees terminate from state service.

II. Uniformity of Agencies' Exceptions to Annual Leave Carryover Policy

A survey of agencies' practices indicates that there is inconsistency in applying the criteria for exceptions to the limit on hours that may be carried over annually. Some agencies do not grant exceptions to the carryover policy at all. Among agencies granting exceptions, the period of time in which employees may use carried over leave varies from agency to agency.

III. The Impact of Changing the Carryover and/or Payment Provisions of the Annual Leave Policy

Elimination of the cap on annual leave hours that may be carried over and/or the limit on annual leave payable upon termination could result in a fiscal impact on the Commonwealth, and could have a detrimental impact on workplace management and productivity. Under current policies, it is estimated that at the end of each calendar year, and when terminating, employees forfeit leave worth a combined total of \$4.6 million. Thus, if the current caps on annual leave were eliminated, the fiscal impact on the Commonwealth could amount to \$4.6 million per year.

Additionally, survey data collected from local governments, private employers, and governments of other states revealed that only 13% of the employers allow an unlimited carryover of annual leave hours from year to year. Among the minority of employers permitting unlimited carryover, a majority of them reported that caps are placed on the amount of reimbursement received at termination.

With respect to the impact on workplace management and productivity, elimination of the annual leave carryover limit could eliminate the mechanism that encourages employees to take annual vacations. This elimination could result in an increase in employee "burn out," and decreased productivity. In addition, it is often more difficult for agencies to accommodate employees' requests to take annual leave for exceptionally long periods of time. Such requests likely would increase were there no cap on the carryover of annual leave.

IV. Feasibility of Changing The Amount Paid for Sick Leave When Employees Terminate

The payment of sick leave balances is governed by Rule 10.13 of the Rules for the Administration of the Virginia Personnel Act. This Rule directs that employees with five or more years of continuous state service be paid 25% of their sick leave balances, up to a maximum of \$2500 upon their termination. If Rule 10.13 were changed to require payment of all sick leave hours accrued to all terminating employees, the additional cost to the Commonwealth is estimated to be approximately \$35 million annually. Also, survey data from local governments, private employers, and governments of other states revealed that only 20% of the responding employers reimburse employees any portion of their sick leave balances when those employees terminate employment.

V. Conclusion

To eliminate inconsistencies among agencies in granting exceptions to the carryover of annual leave, it is recommended that DPT direct all agencies to review all requests for excess annual leave hours to be carried over, pursuant to the criteria previously established by DPT. The agencies will also be required to document the reasons for granting or denying any such requests. This documentation will then be audited, as necessary. Furthermore, DPT will reiterate the criteria for approving excess annual leave carryover, and require all agencies to comply accordingly.

Because of the fiscal impact and the potential detrimental affect on workplace productivity, it is recommended that the rules governing the amount of annual leave that may be carried over be retained. Due to the potential fiscal impact, it is also recommended that the current rules governing the amount of payment for sick leave balances not be altered substantially.

I. INTRODUCTION

House Joint Resolution (HJR) 207 stated that "in the majority of state agencies, employees are not permitted to carry over into the following year any balances of accrued annual leave exceeding a certain amount" (see Appendix A). Thus, HJR 207 maintained that "the ability for all annual leave accumulated by state employees to be carried over into the next year would be an added benefit that would boost employee morale without any additional costs to the Commonwealth."

Accordingly, HJR 207 directed the Department of Personnel and Training (DPT) to study:

1. the uniformity of state agencies' policies on carrying over annual leave credits from one calendar year to the next;
2. the impact that changing the annual leave policy would have on the payments made to employees for their accumulated hours of annual leave when they discontinue state employment; and
3. the feasibility of changing the current maximum payment of \$2,500 for unused sick leave credits upon termination from state service.

II. BACKGROUND ON CURRENT ANNUAL AND SICK LEAVE POLICIES

A. Accrual, Carryover, and Payment Provisions of the Annual Leave Policy

Rule 10.6(a) of the Rules for the Administration of the Virginia Personnel Act governs annual leave accruals and carryover. Under Rule 10.6(a), employees are permitted to accumulate annual leave credits and carry forward these credits, up to certain maximums, based on the number of years of state service. Upon termination from state service, employees receive payment for all unused annual leave credits, up to the maximum carryover allowed. These maximums range from 192 hours (24 days) to 336 hours (42 days), as noted in Table 1 below.

Table 1
Maximum Leave Carryover Allowed

Years Of Service	Annual Leave Hours Accrued Per Year	Maximum Annual Leave Carryover Permitted
Up To 5 Years	96 Hours	192 Hours
5-9 Years	120 Hours	240 Hours
10-19 Years	144 Hours	288 Hours
20+ Years	168 Hours	336 Hours

While Rule 10.6(a) currently limits annual leave carryover, agencies may request exceptions to the carryover provisions from the Director of DPT when unusual circumstances arise. A few agencies (approximately 30) have decentralization agreements with DPT which permit, among other things, their respective agency heads to grant exceptions to the annual leave carryover provision.

In October of 1991, the Director of DPT issued a memorandum to all agencies which provided guidance on requesting and granting exceptions to Rule 10.6(a) (see Appendix B). This memorandum states, in relevant part:

Exceptions to Rule 10.6(a) should be granted only where there are special, extenuating circumstances. Agencies should evaluate an employee's request to exceed the maximum hours to be carried over based on the opportunity the employee had to use the excess annual leave hours prior to

the end of the year. In general, exceptions are warranted only when the employee is unable to use the excess leave hours prior to the end of the year due to the agency's demands (e.g., not approving requests for annual leave, or unusual work demands) over a substantial period of time.

B. Accrual and Payment Provisions of the Sick Leave Policy

Rule 10.4 of the Rules for the Administration of the Virginia Personnel Act governs the accrual and carryover of sick leave credits. Employees accrue 60 hours (15 days) of sick leave annually, and there is no limit on the number of unused sick leave hours which they may carry forward from year to year. However, Rule 10.13 limits the payments employees may receive for unused sick leave credits when they terminate from state service. Terminating employees with less than five years of continuous state service cannot receive any compensation for unused sick leave. Terminating employees with five or more years of continuous state service receive payments equal to 25% of their unused sick leave credits, not to exceed a maximum of \$2,500.

III. APPLICATION OF THE ANNUAL LEAVE POLICY'S CARRYOVER AND PAYMENT PROVISIONS

HJR 207 refers to potential inconsistencies among agencies in the implementation of current annual leave carryover policies. It also identifies a potential need to change the current policies regarding annual leave carryover as a means of improving employee benefits.

This section addresses: (1) state agencies' current annual leave carryover practices, (2) the uniformity of these practices, and (3) the potential impact of changing annual leave payments made to terminating employees.

To gather data for this section, the Department of Personnel and Training (DPT) surveyed 126 Executive Branch agencies (see Appendix C). Ninety-eight, or 77.8%, of the agencies responded to the survey.

A. Application of the Annual Leave Policy's Carryover Provision

Surveyed agencies were asked to provide information on: (1) the number of annual leave hours in excess of the maximum amounts set forth in Rule 10.6(a), which employees had at the end of calendar year 1991, (2) the number of such excess annual leave hours which employees were permitted to carry forward at the end of calendar year 1991, (3) the length of time these employees were permitted to retain these excess leave credits, (4) the reasons agencies permitted annual leave carryover, and (5) the number of excess annual leave hours these employees eventually lost because the leave was not taken within the prescribed period.

The responding agencies indicated that for calendar year 1991, .7% of full-time, classified employees were permitted to carry forward annual leave credits which exceeded the maximums specified in Rule 10.6(a). On the average, these employees were permitted to carry forward 57.6 hours of excess annual leave. The total value of this excess annual leave carryover was approximately \$460,644 based on the total state workforce.

Where exceptions were granted, most agencies cited "workload demand" for the justification and the excess annual leave hours typically could be retained for six months, or until June 30th of the following year. Most of the employees who were permitted to carry over leave used the excess leave hours during the prescribed period. Those who did not, lost an average of 8.7 hours.

B. Uniformity of Application of the Annual Leave Policy Carryover Provision

Although DPT provided detailed guidance to agencies in 1991 on permitting exceptions to the annual leave carryover rule (see Appendix B), survey results indicate that there is some variation among the agencies in adhering to this policy. Twenty percent of responding agencies do not permit employees to carry forward excess annual leave credits, regardless of the circumstances. In addition, among those agencies that do permit exceptions to the annual leave carryover amount, there is inconsistency in the period of time in which employees must use the excess carryover amount.

C. Impact of Changing the Carryover and/or Payment Provisions of the Annual Leave Policy

Changing the annual leave policy provisions for carryover and/or payment upon termination could create a significant fiscal impact on the Commonwealth, and could have a negative impact on workplace management and productivity. With respect to the fiscal impact, responding agencies indicated that 7.4% of the employees terminating in calendar year 1991 lost annual leave hours, with the typical employee losing an average of 41.5 hours. Based on the total state workforce, it is estimated that employees statewide forfeit annual leave worth approximately \$421,000 when terminating each year. Responding agencies also reported that 8.7% of their employees had excess annual leave hours at the end of calendar year 1991. These agencies reported that the average amount of excess annual leave hours each employee had at the end of 1991 was 42.1 hours. Based on the total state workforce, it is estimated that terminating employees forfeit annual leave worth approximately \$4.1 million each year. Thus, the Commonwealth could potentially spend an estimated combined total of \$4.6 million annually if there were no caps on the accrual and payment of annual leave credits.

Survey data collected from 30 local governments, private employers, and governments of other states, revealed that only 13% of the employers allow an unlimited carryover of annual leave hours from year to year. Among the minority of employers permitting unlimited carryover, a majority of them reported that caps are placed on the amount of reimbursement received at termination.

With respect to the impact on workplace management and productivity, removal of annual leave carryover caps could eliminate an incentive for employees to use their annual leave every year, and thus, more employees may be inclined not to take annual vacations. This practice would be contrary to the generally recognized principal that employee productivity and satisfaction are enhanced by regular, periodic absences from the workplace, such as when employees take annual vacations.

No carryover caps also could result in an employee accumulating a large number of annual leave hours and attempting to use them at one time for an extended vacation. This practice not only could result in the interruption of productivity while the employee is away, but a disruption of productivity when the employee returns, because of new projects instituted during the lengthy absence.

D. Conclusion

As HJR 207 suggests, there are inconsistencies among agencies in administering annual leave carryover. It is recommended, therefore, that DPT prohibit agencies from enforcing blanket prohibitions against annual leave carryover. DPT should also direct all agencies to review all requests for excess annual leave hours to be carried over, pursuant to the criteria previously established by DPT. The agencies will also be required to document the reasons for granting or denying such requests. This documentation then will be audited, as necessary. Employees should not be penalized by the loss of their annual leave when agencies, because of the workload, give them no opportunity to take it.

Because of the potential fiscal impact, and the potential impact on workplace management and productivity, it is recommended that the current caps on the carryover and payment of annual leave not be eliminated.

IV. APPLICATION OF THE SICK LEAVE POLICY'S PAYMENT LIMIT

A. Application of the Payment Limit

This section addresses the impact of Rule 10.13 of the Rules for the Administration of the Virginia Personnel Act regarding payment for unused sick leave credits when employees terminate employment. To assess the impact of the current policy, data was analyzed from the 98 agencies that responded to DPT's survey.

Each agency was asked for (1) hourly rates of compensation, (2) sick leave balances, (3) hours of sick leave reimbursed, and (4) hours of sick leave not reimbursed, for employees who terminated from state service during FY 1991-92.

Responding agencies indicated that the typical employee who terminated had an average of 14.7 years of state service. Sixty-one percent of the employees who terminated during FY 1991-92 had at least five years of continuous state service, making them eligible to receive reimbursement for a portion of their sick leave balances. The average amount of sick leave balances was 635.67 hours.

B. The Impact of Removing the Sick Leave Payment Limit

Table 2 displays the survey results related to the average amount of compensation received for unused sick leave credits. This data includes employees who did not receive any reimbursement for unused sick leave.

Table 2

Profile of Typical Employee Terminating From State Service*			
Sick Leave Balance	Amount of Reimbursement	Sick Leave Hours Reimbursed	Sick Leave Credits Lost
635.7 hours	\$ 916.23	66.1 hours	501.0 hours

*Figures represent averages calculated from survey data.

Applying this survey information to the statewide workforce, it is estimated that employees forfeit to the Commonwealth sick leave worth approximately \$35 million annually. Accordingly, if the policy governing sick leave payout were changed so that all employees would be compensated for all sick leave credits accrued, the potential fiscal impact to the Commonwealth is estimated at \$35 million annually.

Survey data from 30 local governments, private employers, and governments of other states revealed that only 20% of these employers reimburse employees for any sick leave when those employees terminate employment. This statistic is consistent with the view that sick leave is a type of short-term disability insurance policy, rather than an entitlement to a terminating employee. Accordingly, payments at termination (if made

at all) likely are intended more as a deterrent to unwarranted use of sick leave during the period of employment, than as a "benefit" to employees.

C. Conclusion

Because it appears from the survey of employers that the vast majority of employers provide no payment for sick leave at termination, and because of the potential fiscal impact, it is recommended that the current restrictions on the payment of sick leave credits not be altered substantially. However, if alterations are deemed warranted, depending on the level of fiscal impact which may be deemed appropriate, the current policy could be modified in any manner (e.g., elimination or reduction of the 5 year state employment requirement, increase in the 25% or the \$2500 cap) to accommodate any additional spending desired.

GENERAL ASSEMBLY OF VIRGINIA--1992 SESSION
HOUSE JOINT RESOLUTION NO. 207

Requesting the Department of Personnel and Training to study and reevaluate its policy on annual leave time for state employees.

Agreed to by the House of Delegates, March 5, 1992

Agreed to by the Senate, March 4, 1992

WHEREAS, in the majority of state agencies, employees are not permitted to carry over into the following year any balances of accrued annual leave exceeding a certain amount; and

WHEREAS, over the past two years, state employees have had to endure no increase in pay, neither cost of living nor merit increases; and

WHEREAS, the ability for all annual leave accumulated by state employees to be carried over into the next year would be an added benefit that would boost employee morale without any additional costs to the Commonwealth; and

WHEREAS, state employees should not be penalized for the poor economic state of the Commonwealth; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Department of Personnel and Training be requested to study and reevaluate its policy on annual leave time. Among other issues, the Department shall consider (i) investigating the uniformity of all state agencies' policies on annual leave; (ii) assessing the impact such a change in policy would have on the payment made to workers discontinuing their employment with a state agency, for their accumulated hours of leave; and (iii) reevaluating the maximum amount, \$2,500, paid to an employee, when leaving employment with the state, in compensation for his or her accumulated sick leave. The Department is requested to complete its work in time to submit its findings and recommendations to the Governor and the 1993 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.



COMMONWEALTH of VIRGINIA

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October 8, 1991

MEMORANDUM

TO: All Human Resource Officers

FROM: Dorthula H. Powell-Woodson *DHPW*

SUBJECT: Rule 10.6(a) - Carry-over of Annual Leave

This Department has received a number of requests from agencies to permit employees to carry over annual leave from one calendar year to the next in excess of the maximum number of hours set forth in Rule 10.6(a) of the Rules for the Administration of the Virginia Personnel Act. This memorandum is intended to clarify when exceptions to this Rule are appropriate.

Agencies with decentralization agreements with the Department of Personnel and Training (DPT) have the authority to grant exceptions to Rule 10.6(a), subject to any applicable guidelines established by this Department. In all other agencies, requests to carry over annual leave must be submitted to this Department for approval. The guidance provided by this memorandum applies to employees from both types of agencies.

Exceptions to Rule 10.6(a) should be granted only where there are special, extenuating circumstances. Agencies should evaluate an employee's request to exceed the maximum hours to be carried over based on the opportunity the employee had to use the excess annual leave hours prior to the end of the year. In general, exceptions are warranted only when the employee is unable to use the excess leave hours prior to the end of the year due to the agency's demands (e.g., not approving requests for annual leave, or unusual work demands) over a substantial period of time.

Agencies with decentralized authority are required to maintain detailed documentation justifying any exceptions to Rule 10.6(a) which are granted. All other agencies are required to set forth, in detail, the facts warranting an exception to the Rule, when requesting an exception from this Department. Whenever an exception is granted, the "excess" hours must be used by June 30th of the new year into which they are carried, or the hours will be forfeited at that time. If an employee who has

All Human Resource Officers
October 8, 1991
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been granted an exception terminates from state service, he/she will not be paid for any of the excess hours carried over.

If you have any questions regarding this correspondence, please contact me.

/sew

cc: DPT Policy Section



COMMONWEALTH of VIRGINIA

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COMMONWEALTH OF VIRGINIA DATA COLLECTION FOR LEGISLATIVE STUDIES JULY 13, 1992

The Virginia General Assembly has directed the Department of Personnel and Training to conduct three legislative studies for the upcoming legislative session. The studies are as follows:

- HB 637 - This legislation was not enacted but would have amended the Code of Virginia to provide voluntary leaves of absence to state employees with at least seven years of service. The patron has requested that DPT provide information on the feasibility of reintroducing this legislation during the 1993 General Assembly Session.
- HJR 96 - Requests DPT to study the feasibility of creating a sick leave bank for state employees.
- HJR 207 - Requests DPT to study and reevaluate its policy on annual leave for state employees.

In order to complete these studies, this Department needs you to provide the information requested on the following pages. Also, please attach a copy of your agency's U018 Report, Leave Accounting Annual Leave Lost, from the Department of Accounts, for calendar year 1991. Please send your responses to Karen Chappell by August 14, 1992. Any questions regarding the survey should be referred to Karen at (804) 225-3463.

LEGISLATIVE STUDY DATA

Name: _____ **Title:** _____

Agency: _____ **Agency Code:** _____ **Agency MEL:** _____

1. Indicate the effects, if any, budget reductions have had on your agency. (Circle all numbers that apply)

- Budget reductions have not had an effect on agency staff 1
- Existing employees have been assigned additional duties 2
- Existing employees are working longer hours 3
- Existing employees are working longer hours and earning overtime and compensatory time 4
- Additional wage employees have been hires 5
- Existing wage employees are working longer hours 6
- Other (Specify): _____ ... 7

2. For each employee who was placed on leave without pay (LWOP) for personal illness during fiscal year 1991-92, please indicate the number of hours of LWOP in the space provided below. (If you need additional space, you may Xerox this page and attach additional copies to your completed survey.)

<u>Employee SSN</u>	<u>Hours on LWOP</u>
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

3. In the matrix below, please provide the information requested on employees from your agency who terminated state service during the fiscal year of 1991-92. "Hours Compensated" refers to the number of accrued sick leave hours for which the employee received monetary compensation at the time of termination. "Hours Lost" refers to the number of accrued sick leave hours which were lost in accordance with Rule 10.13, Disposition of Leave Balances.

Employee's SSN	Hourly Pay Rate	Total Years of Service	Sick Leave Balance at Termination	Hours Compensated	Hours Lost

3. Does your agency have decentralized authority granted by DPT? (Circle the appropriate number)

Yes 1
No 2

4. In the matrix on the next page, please provide the requested information on employees in your agency who were permitted to carryover excess annual leave credits. The "Carryover Period" represents the length of time (number of months) which your agency permits employees to carry these leave hours. "Hours Lost" represents the number of carried over hours which were lost at the end of the carryover period.

Employee's SSN	Hourly Pay Rate	Annual Leave Carried Over	Carryover Reason	Carryover Period	Hours Lost