The Hidden Cost of PTO
...and The Hidden Savings You Might Find

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Executive Summary

Paid Time Off (PTO) is widely recognized as a critical employee benefit, yet its financial implications are often overlooked. Accrued PTO represents a growing liability on company balance sheets, costing organizations more than anticipated—especially as employees take less time off. This whitepaper explores the hidden costs of PTO, the risks of growing liabilities, and practical strategies to reduce these costs while enhancing employee wellbeing and productivity.

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1. The Rising Cost of PTO

PTO liabilities are becoming a significant financial challenge for companies. When employees do not use their PTO, the accrued hours increase the company's financial obligations. Since 2020, PTO usage has dropped by approximately **20%**, causing liabilities to swell. According to the U.S. Bureau of Labor Statistics, accrued vacation balances now exceed **$1 trillion** across U.S. companies, equating to roughly **$7,600 per full-time worker annually**.

Among employee benefits, PTO accounts for nearly **24% of total compensation costs**, and unlike fixed benefits such as healthcare or retirement contributions, PTO liability grows dynamically as pay levels rise. Without intervention, this growing balance can become a financial strain—especially for organizations with low vacation usage or high employee tenure.

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2. Understanding PTO Liability

PTO liability refers to the financial obligation a company owes employees for accrued but unused time off. Many states require employers to pay out unused vacation at separation—**20 states** currently enforce this by law. Under **FASB ASC 710**, employers must record accrued vacation as a liability for earned but unused time, which grows as employees accrue more PTO and receive salary increases.

From a financial perspective, PTO liability is a *silent accrual* that compounds each month, affecting balance sheets, cash flow, and even credit ratings. When employees delay or skip taking time off, that liability becomes more expensive to settle—especially during layoffs, mergers, or salary adjustments.

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3. The Productivity Paradox: When Skipping Vacation Costs More

While employees may believe they're helping the company by working more and taking fewer days off, research shows the opposite. According to **Harvard Business Review**, employees who take regular vacations are **30% more productive** and report **burnout rates 70% lower** than those who do not.

Companies where workers "bank" PTO often see higher healthcare costs, increased absenteeism, and reduced engagement. The **U.S. Travel Association** found that employees who take all their earned time off are **more likely to receive promotions and raises**—a reflection of refreshed creativity and performance. The hidden cost of unused PTO is not only financial—it's operational, showing up in lost innovation, slower execution, and higher turnover.

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4. Cultural and Managerial Barriers to Taking Time Off

Despite the availability of PTO, cultural and managerial signals often discourage its use. Surveys by **Glassdoor** reveal that **55% of U.S. employees do not use all their paid vacation**, largely due to workload pressure or fear of falling behind. Nearly **one in four workers** worry they'll be seen as less committed if they take time off.

In organizations with "always-on" cultures, this dynamic leads to chronic stress and declining morale. The irony is clear: while PTO is meant to be a recovery tool, it often becomes an unused perk—benefiting neither employee nor employer. Addressing this requires leadership modeling, clear coverage planning, and wellness-aligned policies that normalize taking time away.

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5. The Financial Ripple Effect on Engagement and Retention

Employees who consistently skip PTO are at higher risk of burnout and attrition. **Gallup** estimates that disengaged employees cost U.S. companies over **$1.9 trillion annually** in lost productivity. Conversely, organizations that promote time off experience up to **25% lower turnover** and **17% higher employee satisfaction**, according to **SHRM**.

Unused PTO is therefore a key engagement signal—when employees don't feel empowered to rest, it indicates cultural and operational misalignment. By treating PTO usage as a strategic workforce metric, companies can improve retention, reduce recruiting costs, and strengthen loyalty.

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6. Turning PTO Into a Strategic Advantage

Forward-thinking organizations are reframing PTO from a passive liability into an active part of their total rewards and wellness strategies. Finance and HR leaders are finding ways to reduce liabilities while increasing employee satisfaction:

- **Encourage PTO Usage:** Incentivizing employees to take vacations directly reduces liabilities and supports overall wellbeing.
- **Flexible PTO Policies:** “Use-it-or-lose-it” frameworks can backfire; flexible accrual or partial cash-out systems help balance cost control and employee autonomy.
- **Vacation Savings Programs:** Innovative solutions like **401(play)** accounts allow employees to save for travel through payroll deductions, making time off more attainable and purposeful.
- **Travel as a Benefit:** Companies that integrate travel planning or funding into their benefits see measurable returns—lower burnout, stronger engagement, and reduced medical claims.

When employees take their time off, companies realize savings through improved productivity, lower healthcare costs, and reduced turnover.

Conclusion

Unused PTO represents both a hidden cost and an untapped opportunity. By encouraging employees to take time off and providing tools to plan and afford meaningful experiences, organizations can reduce liabilities, improve wellbeing, and boost productivity. Strategic management of PTO turns a significant financial obligation into a tangible asset for both employees and the company.

About 401Play

At 401(play), we're addressing a growing issue: employees aren't taking their much-needed vacations. Every year, millions of vacation days go unused, leading to burnout and decreased productivity. Our mission is simple: help employees prioritize rest by making vacation planning and saving easier than ever.

We created 401(play) to empower employees with a company-backed Vacation Funding Account, where they can set aside savings for their next dream getaway. This innovative benefit not only promotes health and well-being but also strengthens company culture by showing employees they are truly valued.

401(play) combines FDIC-insured savings with an intuitive planning platform, allowing employees to budget, plan, and book trips in one place. By prioritizing travel, companies build a happier, more productive workforce.

Learn more at www.401play.com.

Sources

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