February 28, 2010

MEMORANDUM

TO: Shirley Willihnganz
   Executive Vice President & University Provost

FR: Sam Connally
   Vice President of Human Resources

RE: Shared Leave Program Review & Policy Recommendations

Dear Provost Willihnganz –

The University of Louisville Board of Trustees approved the Shared Leave Program on a three-year pilot basis in 2002 and extended the program for one year in 2005. Because of unexpected turnover in HR, the program evaluation scheduled for 2006 did not occur, but the program has continued to operate under the Board’s 2005 approval.

Human Resources has conducted a year-long assessment of the program in conjunction with the Shared Leave Committee, the Human Resources Advisory Committee, and the Staff Senate. Except where noted, the enclosed recommendations received the unanimous concurrence of the Shared Leave Committee on February 26. Pending final concurrence of the HRAC and the Staff Senate, I am pleased to convey this status report and the enclosed recommendations for policy revisions for your consideration, preparatory to seeking authorization from the Trustees to continue the program as part of our on-going benefits program.

Program Review

From 2002 through 2009, the Shared Leave Program has provided an opportunity for staff employees to voluntarily contribute vacation leave and sick leave to fellow staff employees who are experiencing a personal or family member catastrophic illness. As illustrated in the enclosed shared leave activity summary:

Leave Donations

- Staff employees have donated a total of 25,132 hours of leave with a value of $586,350 – averaging 3,142 hours of leave with a value of $73,294 per year.
Two hundred forty-seven employees made a total of 860 individual leave donations, with an average leave donation of 18.9 hours at an average value of $23.33 per hour.

Leave Withdrawals

- Staff employees have used a total of 22,681 hours of leave with a value of $321,969 – averaging 2,835 hours leave with a value of $40,246 per year.
- One hundred two employees received a total of 302 leave awards, with an average leave award of 54.3 hours at an average value of $14.20 per hour.

Balance Available

- As of January 1, 2010, the shared leave pool has a balance of 2,451 hours of leave available with a value of $57,176.

Economic Cost

From an employee perspective, there is a popular notion that the program is revenue neutral because donated leave already “belongs” to the employees making leave donations and the use of such leave does not require the expenditure of additional funds. The reality is more nuanced, though cost models are not precise.

There is no direct marginal cost to the University to provide the shared leave program – in that employee salaries are budgeted on a full-year basis and no additional appropriation of funds is required to approve shared leave requests. However, there is an obvious indirect cost or “opportunity cost” associated with the program in that employees who might otherwise be placed on leave without pay continue to receive regular base salary (by being able to use shared leave donations) to deal with a personal or family serious health condition. Additionally, it is reasonable to assume that leave donations represent sick leave that would otherwise not be used in the current year by the donor or vacation leave that would otherwise be forfeited by the donor because of maximum vacation leave accumulation limits. Consequently, the existence of the shared leave program does, in fact, increase the consumption of vacation and sick leave in the aggregate which represents a tangible cost to the institution. The following factors would appear relevant to assess net economic cost.

Cost of Leave Consumed

The most direct and conservative cost estimate to the University of continuing the shared leave program would simply be stated in terms of the value of shared leave used.
on an annual basis – discounting entirely the value of leave donations. This cost would be approximately $40,000 per year in the value of shared leave used.

Cost Savings of Leave Donations

**Vacation Leave.** In the University’s financial statements, accrued vacation leave is booked as a current liability (representing a presumed obligation to pay out vacation leave in the following 12 months). Some would offer that the value of vacation leave donations should directly offset the value of vacation leave withdrawals. However, as noted above, if donations of vacation leave are reasonably construed as representing leave that would otherwise be forfeited by donors because of annual accumulation maximums. Consequently, vacation leave donations do not constitute cost savings.

**Sick Leave.** In the University’s financial statements, sick leave is booked as a contingent liability (that is, as a potential future cost, but not as a current financial liability). The extent to which the value of sick leave donations should offset the cost of sick leave consumption depends on the underlying assumptions as to whether (and when) such sick leave would otherwise be used by the employee making the donation. In this instance, there are no clearly established economic models; however, conservative estimates would suggest that of total sick leave accumulations under current policy, only 20-25% of sick leave is ever consumed or paid. The remainder simply constitutes a kind of short-term disability insurance policy for individual employees that has value as a guard against catastrophic illness, but which is never actually consumed.

Thus, it appears reasonable to assume of that total sick leave donations, 20-25% of such sick leave would be consumed by the donor at some point in time and that this portion of sick leave represents a bona fide offsetting savings to the institution. In other words, the shared leave policy might accelerate the use of the “consumable” portion of sick leave donations, but does not increase total sick leave use over time. The value of annual sick leave donations averages $67,000 per year. If we apply the rationale above to the value of sick leave donations, the University would realize a savings of approximately $13,000 to $17,000 per year by reducing “consumable” sick leave balances. This would yield a net effective cost of approximately $23,000 to $27,000 per year for the University to continue the shared leave program.

**Reduction in Contingent Liability.** As noted above, over the eight years the program has been in operation, the trend shows that employees who donate leave earn significantly higher salaries than employees who use leave. The average value of leave donations is $23.33 per hour, while the average value of leave used is $14.20 per hour – for a net difference of $9.14 per hour.
This difference is relevant in evaluating the economic impact of the shared leave program, in that the difference in value between leave donations and leave usage reduces the University’s year-over-year contingent liability for leave in our financial statements.

The annual flow-through of donated leave averages 2,835 hours per year, reducing the reducing the contingent liability for accrued leave by $9.14 per hour of leave passed through the program – or an average of approximately $26,000 per year in reduced contingent liability for accrued leave. Though this does not represent actual cost savings, the reduction in contingent liability for accrued leave marginally strengthens the University’s overall financial position as reflected in its financial statements.

**Policy Recommendations**

During the course of its review, the Shared Leave Committee – with the concurrence and support of the Office of Human Resources – has identified a number of policy recommendations for your consideration. Recommendations consist of program enhancements, program limitations and accountability measures, and other technical corrections or clarifications. Program enhancements, program limitations, and accountability measures are highlighted below.

**Program Enhancements**

**Purpose (Item 2)**

The current shared leave policy states that its purpose is simply to “provide additional paid leave” to employees with a serious health condition.

The Shared Leave Committee recommends a broader purpose statement: “The purpose of the Catastrophic Shared Leave Program is to promote a sense of collegiality and community among UofL staff employees by permitting staff employees to voluntarily contribute vacation or sick leave to fellow staff employees who would otherwise suffer a loss of regular income because of a personal or family catastrophic illness.” Such an emphasis in the purpose statement would directly support the University’s Great Places to Work initiative.

**Direct Transfers (Item 4)**

I would particularly invite your attention to the recommendation to permit direct transfers of leave from one individual to another, in addition to donations to the leave pool. This recommendation responds directly to the stated preferences of
many staff employees to be able to direct leave contributions to individuals they know who are in significant need. A number of public shared leave programs include such direct leave transfers and I believe that any privacy or HIPPA concerns may be readily addressed by Human Resources, while affording employees another tool to assist fellow employees in time of need.

Maximum Withdrawals (Item 5)

While leave withdrawals tend toward relatively short-term absences, with an average withdrawal of 54.3 hours, approximately 5-6% of leave recipients experienced catastrophic leave needs in excess of the current program limit of 320 hours per year. I recommend we extend the maximum limit to 480 hours per year to align the shared leave program with the Family Medical Leave program (which provides up to 480 hours, or 12 weeks of leave without pay). Financial impact on the shared leave program would appear to be negligible or moderate.

Program Limitations & Accountability Measures

Some concern has been voiced by members of the Shared Leave Committee that leave awards may have been approved in the past for relatively temporary absences or for situations that did not constitute bona fide “serious health conditions.” Additionally, our statistical review disclosed a limited number of employees that contributed or withdrew leave in excess of stated annual maximums, suggesting a lack of adequate internal controls.

Service Requirement (Item 3)

The Shared Leave Committee recommends we establish a 12-month service requirement for participation in the shared leave program. This would be equivalent to the Family Medical Leave program.

Internal Controls (Item 7)

From 2002-2009, nine employees contributed in excess of annual maximums and six employees received leave awards in excess of annual maximums. Existing controls monitor pay period contribution and award limits, but do not adequately monitor annual contribution and award limits. HR needs to establish internal controls to monitor annual limits.
Limitations & Exclusions (Items 10 & 11)

The Committee recommends that the definition of “serious health condition” (Item 10) include the clarification that the health condition must “prevent the employee from being able to perform work.” If an employee is not able to perform their regular work, but is able to perform alternative work, management may assign alternative duties within the employee’s ability (just as we are able to do with our Workers’ Compensation Program) and the employee would not be eligible for shared leave.

In addition, the Committee recommends that shared leave not apply to absences less than seven consecutive calendar days in duration (Item 11). This is somewhat analogous to the workers’ compensation program (which excludes the first week from compensation, though the 1st week is paid at the end of a WC leave). The intent of excluding absences of less than one week is to encourage employees to save a reasonable period of sick leave for their own use.

Pending your guidance regarding these recommendations, I will submit final recommendations to the Staff Senate and Human Resources Advisory Committee meetings during the next two weeks. Based on feedback HR has received during the current review, I reasonably anticipate final concurrence from these constituent groups and believe we can plan to submit final policy recommendations to the Board of Trustees during its April 2010 meetings.

Please advise if additional information is needed or provide alternative guidance, as appropriate. Thank you.

cc: Shared Leave Committee