

CRS Report for Congress

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Sick Leave: Usage Rates and Leave Balances for Employees in Major Federal Retirement Systems

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Summary

Full-time federal civilian employees receive 13 days of sick leave each year, and may carry over an unlimited amount of unused sick leave from year to year. At the time of retirement, employees in the Civil Service Retirement System (CSRS) (those hired before 1984) receive credit in the computation of their civil service retirement annuities for any unused sick leave they have at the time of retirement.

In contrast, employees in the Federal Employees Retirement System (FERS) (those hired after 1983 and others who transferred to FERS) generally receive no credit for unused sick leave at the time of retirement. As a result, some believe that FERS employees will use more of their sick leave as they approach retirement (resulting in productivity losses) than their CSRS counterparts. The conference report for the legislation creating FERS in 1986 urged the Office of Personnel Management to examine this issue, but to date the agency has not done so. CRS obtained data from a payroll processing organization for about 500,000 federal employees and determined that FERS retirees and FERS employees in that group who were eligible to retire or approaching eligibility used substantially more sick leave and had much lower sick leave balances than comparable CSRS retirees and employees.

A number of non-federal organizations have developed policies designed to encourage their employees to conserve sick leave. For example, all except five state governments provided some type of compensation to employees for unused sick leave at retirement, usually either as cash payments, service credit in the computation of annuities, or payment of health or life insurance premiums. The states generally limited these payments in some way (e.g., capping the number of hours of sick leave payable).

FERS employees comprise an increasing percentage of the federal workforce, and by 2014 virtually all federal employees will be in FERS. By the year 2010, the number of FERS employees becoming eligible to retire will be roughly the same as in CSRS. The current policy of providing no compensation to FERS employees for unused sick leave may partially explain their higher usage rate and lower leave balances, and if so, may be costing the federal government tens of millions of dollars each year in lost productivity. Granting some form of compensation for unused sick leave, even if entirely paid for by the federal government, might encourage employees to conserve sick leave and cost less than the current policy. Alternatively, agencies could be more stringent in their administration of federal sick leave policies.

This report will be updated when additional or more current data on sick leave use become available, or if changes in federal sick leave policies are contemplated.

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Sick Leave: Usage Rates and Leave Balances for Employees in Major Federal Retirement Systems

Introduction

Pensions for nearly all federal civilian employees are provided through one of two retirement programs — the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS).¹ Most federal civilian workers hired before January 1, 1984, are covered by CSRS, whereas those hired after that date are covered by FERS (as are employees who voluntarily switched from CSRS to FERS during “open seasons” held in 1987 and 1998).

CSRS and FERS are similar in some respects. In both retirement systems, employees’ annuities are a function of age, length of federal service, and final average pay.² The normal retirement age (without reduction of annuity) under both CSRS and FERS is 55 for employees born before 1948 who have at least 30 years of service.³ Both retirement systems also allow retirement at age 60 for employees with 20 or more years of service, and 62 for employees with at least 5 years of service. Also, employees in both systems receive 13 days (104 hours) of sick leave each year, and may carry over an unlimited amount of unused sick leave from year to year. Therefore, an employee who carries over an average of nine days (72 hours) of sick leave each year during a 30-year career would accumulate at least 2,160 hours of unused sick leave by the time he or she is eligible to retire.

One of the many ways in which CSRS and FERS differ is in how accumulated sick leave is accounted for at the time of retirement. In the CSRS system, retiring employees receive service credit in the computation of their annuities for any unused sick leave they had at the time of retirement. For example, a retiring CSRS employee with 30 years of service and one year (2,087 hours) of accumulated sick leave would

¹ Although the federal government has many different retirement plans, CSRS and FERS are by far the largest. In this report, “federal civilian employees” refers to those in the CSRS or FERS plans. For a more thorough discussion of these two plans, see CRS Report 98-810 EPW, *Federal Employees’ Retirement System: Benefits and Financing*, by Patrick Purcell.

² FERS annuities are generally smaller than in CSRS because they are only one component of the system. A more detailed description of the two systems is provided later in this report.

³ The FERS normal retirement age increases for employees born in 1948 or later, and eventually will reach age 57 for employees born in 1970 or later.

be considered to have 31 years of service for purposes of annuity computation.⁴ In sharp contrast, FERS retirees generally receive no service credit or other compensation for their accumulated sick leave.⁵ As a result, some observers believe that FERS employees will use their sick leave more frequently than CSRS employees, particularly as they approach retirement age, resulting in reduced productivity, increased costs, or both.

To discourage this anticipated development, some observers have advocated changing FERS to provide some kind of value for unused sick leave (e.g., allowing full or partial service credit to be used in annuity calculations, or providing full or partial lump-sum cash payments for such leave).⁶ Others believe that the CSRS sick leave benefit is excessively generous, and that FERS should not replicate that generosity. Little is currently known, though, about employees' sick leave usage rates in the two retirement systems and, therefore, whether any problem exists at all.

This report provides data on sick leave usage rates for employees and retirees in CSRS and FERS. It also provides information on unused sick leave policies in private sector and other public sector organizations (e.g., state governments). First, though, the report provides some background information on CSRS and FERS trends and federal sick leave policies in general.

Background

Data from the Office of Personnel Management's (OPM's) central personnel data file (CPDF) indicate that, because all new federal employees within the past 20 years have been put in FERS, the number of FERS employees in the federal workforce has increased substantially, whereas the number of CSRS employees has declined.⁷ (See **Figure 1**.) By 1995 — 11 years after FERS began — more federal employees were in FERS than in CSRS. As of September 30, 2002, more than 1.7 million federal employees were in FERS, compared with fewer than 900,000 in

⁴ The congressionally mandated number of hours in a work year is 2,087. Only full years and months are counted in the annuity computation. For example, if a full-time employee worked 30 years and had 835 hours (four months and 24 days) of accumulated sick leave at the time of retirement, the employee would be credited with 30 years and four months of service; the 24 additional days would be dropped.

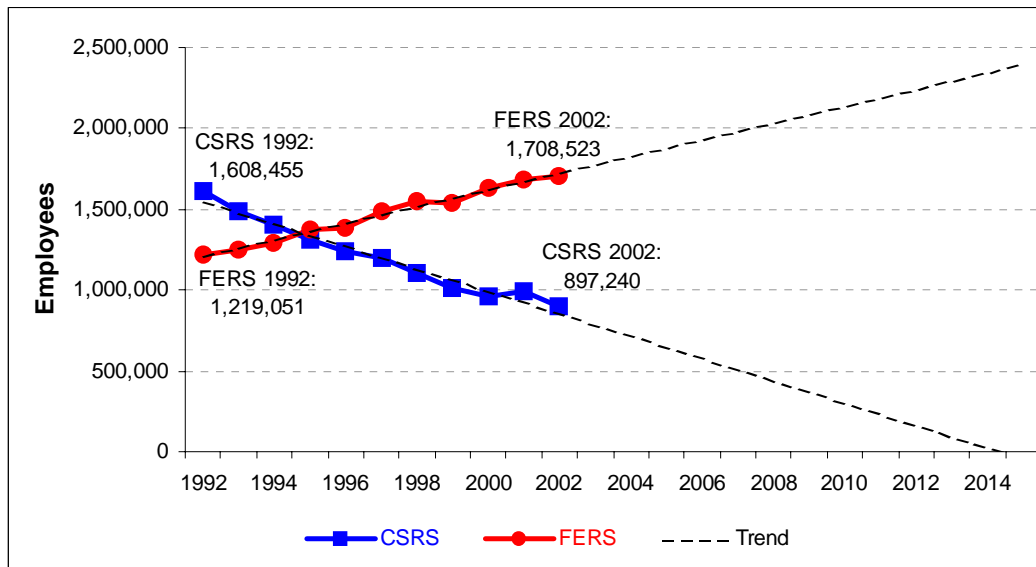
⁵ FERS employees who transferred from CSRS receive credit for sick leave balances at the time of the transfer or at the time of retirement, whichever is smaller.

⁶ For example, in testimony before the Senate Committee on Governmental Affairs on February 4, 2004, the President of the National League of Postmasters said, "We also need to address the issue of sick leave for FERS employees. Currently, they get no credit for unused sick leave at retirement. We need to change this rule so they could sell back sick leave or get credit at retirement."

⁷ The CPDF is a government-wide human resources reporting system. The data come from executive branch agencies who send OPM extracts from their human resources information systems.

CSRS.⁸ At that rate, by 2014, virtually all federal employees are expected to be in FERS.

Figure 1. Number of FERS Employees Is Increasing



Note: The employment projections in this figure are extrapolations from current trends, and end in 2014. At that point, assuming the size of the federal workforce remains relatively constant, the number of FERS employees will level off.

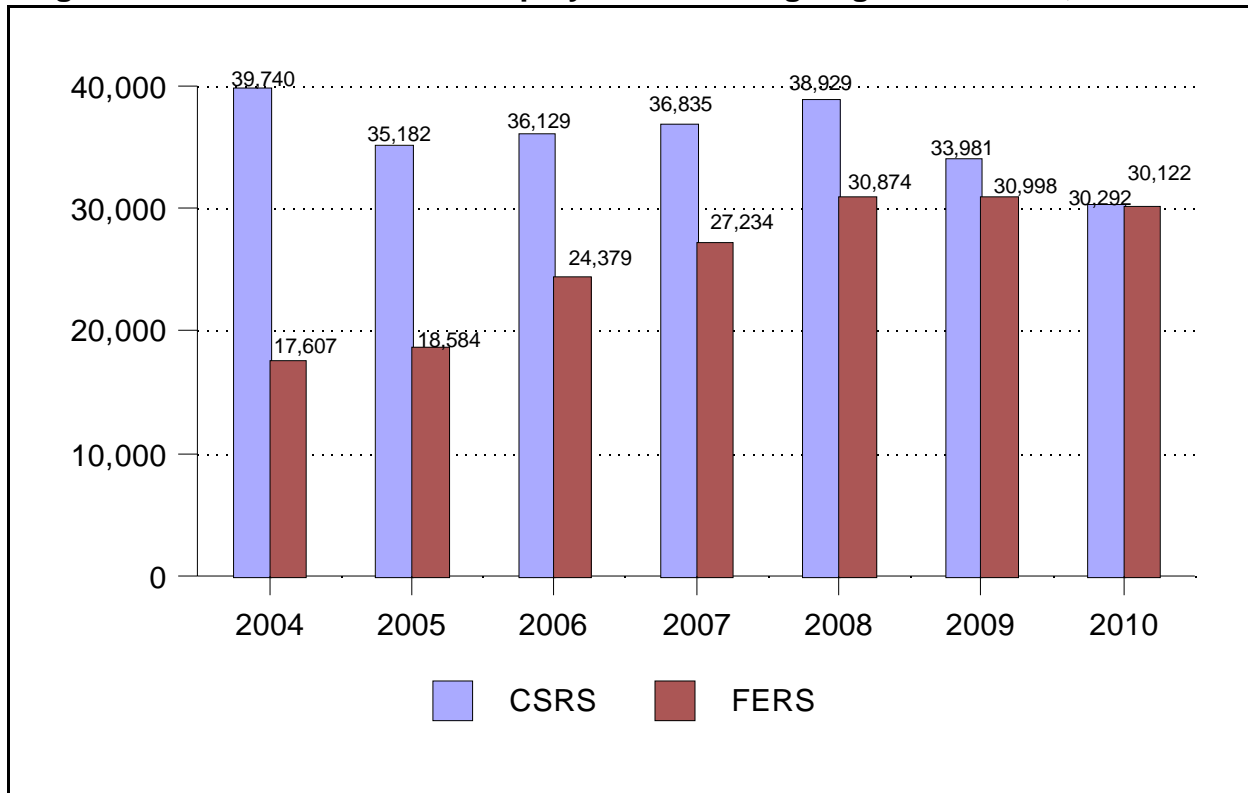
Source: OPM.

The data in **Figure 1** include all federal employees in CSRS and FERS. Excluding part-time and temporary employees and employees in the Postal Service, intelligence agencies, and law enforcement,⁹ as of September 30, 2003, nearly 490,000 career federal civilian employees were in CSRS, compared with more than 1 million employees in FERS. The two retirement systems varied substantially in the proportion of employees eligible for retirement as of that date.¹⁰ Of the nearly 490,000 employees in CSRS, about 133,000 (more than 27%) were eligible to retire as of September 30, 2003. Of the more than 1 million employees in FERS, nearly 42,000 (about 4%) were eligible to retire.

⁸ These data are from the Office of Personnel Management, and include part-time and temporary employees as well as employees in the Postal Service, intelligence agencies, and law enforcement. Data discussed later in this report exclude these types of employees.

⁹ It is appropriate to exclude these employees because some of them have different retirement thresholds than employees not in those categories.

¹⁰ In this report, employees are considered “eligible” to retire if they meet the minimum age and service requirements for an immediate unreduced annuity.

Figure 2. Number of Federal Employees Becoming Eligible to Retire, 2004-2010

Note: Does not include part-time or temporary employees, or employees in the Postal Service, intelligence agencies, or law enforcement.

Source: OPM.

As **Figure 2** shows, the number of CSRS employees who will become eligible to retire each year during the 2004 through 2010 period is expected to decline, whereas the number of new FERS retirement-eligibles is expected to increase. By the end of this period, both systems are expected to have about the same number of new retirement eligibles.

Federal Sick Leave

Sick leave benefits provide paid time off while an employee temporarily cannot work due to a non-work-related illness or injury. As noted previously, all federal civilian employees receive four hours of sick leave each biweekly pay period, for a total of 104 hours (13 days) each year. Employees must request sick leave within such time limits as their agencies may require, and agencies may grant sick leave only when supported by evidence they consider administratively acceptable. For absences in excess of three days, or for a lesser period when determined necessary by the agency, an agency may require a medical certificate or other administratively acceptable evidence before approving sick leave requests.

The federal sick leave program has been expanded several times, allowing the benefit to be used for purposes other than personal medical attention. For example:

- the Federal Employees Family Friendly Leave Act of 1994 (P.L. 103-388) permitted employees to use up to 13 days of sick leave each year to provide medical or personal care to a family member, or to make arrangements for or to attend the funeral of a family member.¹¹
- the Treasury-Postal Service Appropriations Act for FY1995 (P.L. 103-329) permitted the use of sick leave to pursue activities related to the adoption of a child.
- in 2000, the federal sick leave program was again expanded, allowing employees to use up to 12 weeks of sick leave per year to care for family members with a serious health condition.¹²

According to OPM, federal sick-leave usage rates have increased during this period — from an average of 8.59 days of sick leave used per year in 1994 to 9.52 days in 2001. One possible explanation for this increase could have been the above-mentioned changes in policy that allowed additional uses for sick leave. As explained more fully later in this report, though, another possible explanation could be the increasing number of FERS employees who are approaching retirement eligibility.

CSRS and Sick Leave

The Civil Service Retirement Act of 1920 (P.L. 66-215) created CSRS to provide pension benefits to federal employees. CSRS is a “defined benefit” retirement plan in that the benefit is paid as a lifelong annuity based on years of service and average salary in the last few years of employment. CSRS employees accrue benefits equal to 1.5% of their highest three consecutive years of base pay (often called the employee’s “high-three” pay) for their first 5 years of service, 1.75% of their “high-three” pay for each year in years 6 through 10, and 2% of their “high-three” pay for each subsequent year. Therefore, a CSRS employee who retires with 30 years of service would receive an annuity equal to 56.25% of the employee’s “high-three” pay. CSRS annuities are adjusted annually for inflation and are financed by contributions from both employees and the government (although the system is not fully funded).¹³

Until 1969, CSRS employees forfeited any unused sick leave at the time of their retirement. At that time, the Civil Service Commission (now OPM) estimated that

¹¹ The act guaranteed full-time employees the use of five days (40 hours) of sick leave each year to care for family members or for bereavement purposes. Employees wanting to use more than five days were required to maintain a sick leave balance of at least 80 hours. Part-time employees’ benefits were pro-rated.

¹² Office of Personnel Management, “Sick Leave for Family Care Purposes; Final Rule,” 65 *Federal Register* 37234, June 13, 2000. To use the full 12 weeks of leave, employees are required to maintain a sick leave balance of at least 80 hours.

¹³ See CRS Report RL30023, *Federal Employee Retirement Programs: Budget and Trust Fund Issues*, by Patrick Purcell.

about half of all retiring federal employees had zero sick leave balances, and the other half had an average of about 44 days (352 hours) of sick leave that were forfeited at retirement. Also, a House Post Office and Civil Service Committee report noted that retiring employees used an average of 40 days (320 hours) of sick leave during their last year of employment.¹⁴

In 1969, Congress enacted legislation (P.L. 91-93) to permit CSRS employees to receive service credit for unused sick leave in the computation of their retirement annuities. This change in policy made unused sick leave highly valuable. For example, as noted previously, an employee retiring with 30 years of service and a year of unused sick leave would get credit for 31 years of service for purposes of annuity computation. If this employee's "high-three" salary was \$50,000, the additional year of service would increase his or her pre-tax retirement annuity by about \$1,000 per year. Therefore, even before indexing for inflation, if the employee received the annuity for 20 years, the unused sick leave would be worth about \$20,000. To pay for this and other changes in the retirement system, the law increased employee and agency contributions to the civil service retirement fund from 6.5% to 7.0% of pay.

This change in policy was expected to reduce federal employees' use of sick leave and to grant limited recognition to those who prudently utilized their sick leave. In 1986, the General Accounting Office (GAO, now the Government Accountability Office) examined the implementation of this change in policy, and reported that employees who retired in 1984 and 1985 had significantly higher sick leave balances than employees who retired in 1968, before the law was changed.¹⁵ Specifically, the average sick leave balances for employees who retired in 1984 and 1985 were 38% and 46% higher, respectively, than the estimated average balance of 1968 retirees. GAO concluded that the changes made in 1969 had "contributed to reducing the overall usage of sick leave and increasing the unused sick leave balances of retiring federal employees."

FERS and Sick Leave

The Federal Employees' Retirement System Act of 1986 (P.L. 99-335) created FERS with three basic elements — (1) Social Security, (2) a FERS basic annuity, and (3) a thrift savings plan (TSP).

- The Social Security component is based on wages earned while a federal employee. Employees may begin receiving reduced Social Security benefits at age 62, but may receive a portion of that amount in the form of a FERS supplement as early as age 55.

¹⁴ Cited in U.S. General Accounting Office, *Federal Workforce: Retirement Credit Has Contributed to Reduced Sick Leave Usage*, GAO/GGD-86-77BR, June 1986.

¹⁵ GAO/GGD-86-77BR. Specifically, GAO reported that retirees in 1968 had an average of 642 hours of unused sick leave. Retirees in 1984 averaged 884 hours and retirees in 1985 averaged 940 hours — about 38% and 46% higher, respectively, than the average retirees' leave balance in 1968.

- The FERS basic annuity is a defined benefit plan in which employees retiring below age 62 accrue benefits at the rate of 1% of their “high-three” average pay per year of service. Therefore, a FERS employee retiring at age 58 with 30 years of service will accrue a pension benefit equal to 30% of his or her “high-three” average pay.¹⁶ Like CSRS, FERS annuities are funded by contributions from employees and the government, but (unlike CSRS) FERS benefits must be pre-funded according to their full actuarial costs. FERS annuitants over age 62 receive annual cost-of-living adjustments, but those adjustments may be less than the amount of inflation.¹⁷
- The TSP is patterned after the “401(k)” savings plans available in the private sector, and encourages employees to save for retirement by making contributions “pre-tax” and by making interest earned on these contributions non-taxable until they are withdrawn. The government contributes 1% of pay for all FERS participants, and matches up to 5% of pay contributed by FERS employees. The maximum employee contribution in 2004 is 14% of pay (up to \$13,000).¹⁸

In contrast to the approach taken with regard to CSRS employees in 1969, Congress did not authorize FERS employees to receive service credit for unused sick leave (except for leave carried into the system by employees who transferred to FERS from CSRS).¹⁹ The legislative history for the 1986 act creating FERS does not explain why Congress took this approach. However, in the conference report for the act, the conferees noted that FERS employees’ unused sick leave generally could not be used in the computation of their annuities, and urged OPM to examine sick leave usage by FERS employees. The conferees went on to say that they were “concerned that without an incentive to save sick leave, the use of sick leave may substantially increase.”²⁰ OPM representatives told CRS during this review that their office had not conducted the study that the congressional conferees urged the agency to undertake because the CPDF does not contain data that would allow comparison

¹⁶ FERS employees who have at least 20 years of service and who work until at least age 62 earn 1.1% for each year of service. Therefore, an employee who retires at age 62 with 30 years of service will accrue a pension benefit equal to 33% of his or her “high-three” average pay.

¹⁷ For example, if the amount of inflation is more than 3%, the annuitant would receive an adjustment equal to the amount of inflation minus 1 percentage point.

¹⁸ CSRS employees can also contribute to the TSP, but their contributions are capped at 9% and they receive no government matching contribution.

¹⁹ Retiring employees who transferred to FERS receive service credit for the amount of unused sick leave they had at the time of transfer or the time of retirement, whichever is less.

²⁰ Committee on Post Office and Civil Service, U.S. House of Representatives, Committee Print 99-8, 99th Congress Second Session June 12, 1986, p. 127.

of sick leave usage rates or sick leave balances by employees in different retirement plans.²¹

Indications of Greater Sick Leave Use by FERS Employees

There have been some indications that FERS employees may be using sick leave more often than their CSRS counterparts, particularly as they approach retirement. As noted previously, average sick-leave usage rates for all federal employees increased by more than 10% from 1994 to 2001 (rising from 8.59 days per year in 1994 to 9.52 days per year in 2001). One possible explanation for this increase in the use of sick leave is the additional uses for sick leave that were allowed during that period (e.g., to care for sick family members or to adopt a child). However, another explanation could be the increasing numbers of FERS employees and the fact that they receive no benefit for accrued sick leave at retirement. The percentage of federal civilian employees in FERS increased from 48% in 1994 to more than 63% in 2001.

Also, a May 2004 survey suggested that FERS employees may be more likely to use sick leave in the future than their CSRS counterparts. FPMI Solutions, Inc., a human resources services, staffing, and training company primarily for federal agencies, conducted an unscientific online poll of its subscribers (current and retired federal employees) regarding sick leave usage. Of the more than 2,300 participants in the poll, 51% said they were under CSRS and 49% said they were under FERS. Although both groups of participants said they were strongly in favor of sick leave conservation, the groups diverged regarding sick leave use in the last year before retirement. Whereas nearly 85% of CSRS employees and retirees said they would or did conserve as much sick leave as possible, more than 75% of FERS employees and retirees said they planned to use as much sick leave as possible during their last year before retirement. One respondent said that there is “a huge incentive for CSRS and offset employees to conserve sick leave and a very large disincentive for FERS employees to do the same.”²² Another respondent said that this incentive structure causes “a lot of productivity to go down the drain.” Other respondents said that, this incentive structure notwithstanding, the use of sick leave when not sick was morally “the wrong thing to do.”

²¹ Telephone discussions with the Confidential Assistant to the Director and Chief, Administration, Office of Congressional Relations, OPM, May-June 2004.

²² CSRS “offset” retirement generally applies to employees who had a break in service that exceeded one year and ended after 1983, and had five years of creditable civilian service on January 1, 1987. When these employees become eligible for Social Security benefits, their annuities will be offset by the value of the Social Security Benefit earned during CSRS offset service.

FERS Employees Appear to Use More Sick Leave Than Their CSRS Counterparts

Although the CPDF does not contain data on sick leave usage rates by employees in different retirement systems, those data are available from each federal agency or, more centrally, through organizations that administer payroll functions for multiple federal agencies. For example, the Defense Finance and Accounting Service (DFAS) administers payroll functions for nearly 700,000 civilian employees in the Department of Defense and the Executive Office of the President.

We requested data from DFAS on sick leave usage rates and sick leave balances for employees and retirees in the agencies they service. We focused on full-time, permanent employees in General Schedule (GS) and Wage Grade (WG) (or equivalent) pay systems, which included more than 500,000 employees in CSRS and FERS — about one-third of the full-time permanent workforce outside of the Postal Service, intelligence agencies, and law enforcement.²³ Our data request was essentially in two parts. First, for employees who did not retire during the one-year period from June 1, 2003, through May 29, 2004, we requested the average number of sick leave days used during that period and average sick leave balances as of the end of that period for the following categories:

- employees in CSRS and (separately) employees in FERS who were “eligible to retire” without penalty as of June 1, 2003 (i.e., at least 55 years of age and with at least 30 years of service, or at least 60 years of age and 20 years of service, or 62 years of age and 10 years of service).
- employees in CSRS and (separately) employees in FERS who were eligible to retire and “almost eligible to retire” (defined as being within two years of retirement eligibility in terms of any combination of age or service — e.g., an employee who is 53 with 30 years of service or 55 with 28 years of service, or an employee who is 58 with 20 years of service or 60 with 18 years of service).
- employees in CSRS and (separately) employees in FERS who were eligible to retire and “nearing eligibility to retire” (defined as being within five years of retirement eligibility in terms of any combination of age or service — e.g., an employee who is 50 with 30 years of service or 55 with 25 years of service, or an employee who is 55 with 20 years of service or 60 with 15 years of service).

Second, for employees who did retire during the June 1, 2003, through May 29, 2004, period, we asked for the average number of sick leave days used per pay period when they were working and their average sick leave balance as of their date of retirement.

²³ The GS and WG pay systems are the major white-collar and blue-collar pay systems, respectively, in the federal government.

Differences in Sick Leave Usage and Balances

The Defense Manpower Data Center acted as DFAS's agent to generate the sick leave information that we requested.²⁴ As **Table 1** shows, the data indicated that FERS employees in the agencies that DFAS supports who were eligible to retire or approaching eligibility generally used more sick leave than their CSRS counterparts during the one-year period ending May 29, 2004. The differences between the two groups were greatest for GS employees as they approached or achieved retirement eligibility. For example, whereas FERS employees in the GS pay system who were either eligible to retire or were within five years of retirement eligibility used only slightly more sick leave during the year than comparable CSRS employees (89 hours versus 85 hours, respectively), FERS employees who were eligible to retire or within two years of eligibility used 25% more sick leave than their CSRS counterparts (105 hours versus 84 hours, respectively). FERS employees who were eligible to retire used nearly 35% more sick leave than comparable CSRS employees (119 hours versus 89 hours, respectively). FERS employees in the WG pay system who were eligible to retire or were within two years of eligibility also used somewhat more sick leave than their CSRS counterparts (e.g., 139 hours versus 127 hours in the "eligible to retire" category), but the differences between FERS and CSRS employees were not as significant as in the GS pay system.²⁵

Table 1. FERS Employees Used More Sick Leave Than CSRS Employees As They Approached Retirement Eligibility

Status as of May 2004	Average Hours of Sick Leave Used in Previous Year			
	GS/Equivalent Employees in		WG/Equivalent Employees in	
	CSRS	FERS	CSRS	FERS
Eligible to retire	89	119	127	139
Eligible or within two years of retirement eligibility	84	105	114	119
Eligible or within five years of retirement eligibility	85	89	110	102

Source: DFAS.

²⁴ According to its website (<http://www.dmdc.osd.mil/about.html>), the Defense Manpower Data Center supports the information requirements of the Office of the Under Secretary of Defense for Personnel & Readiness and other members of the Department's manpower, personnel, and training communities.

²⁵ The number of WG employees in each of these categories was also significantly smaller than the number of GS employees. For example, there were more than 33,000 CSRS employees in the GS system who were eligible to retire, compared to about 5,500 WG employees in that category.

Differences between CSRS and FERS employees were even more pronounced when considering their average sick leave balances as of May 2004. As **Table 2** shows, FERS employees' sick leave balances in all three retirement eligibility categories were only about half as large as their CSRS counterparts (and in some cases were less than half as large). The differences between FERS and CSRS employees were about the same in both the GS and WG pay systems.

Table 2. FERS Employees Had Lower Sick Leave Balances Than CSRS Employees

Status as of May 2004	Average Sick Leave Balance (in Hours) as of May 2004			
	GS/Equivalent Employees		WG/Equivalent Employees	
	CSRS	FERS	CSRS	FERS
Eligible to retire	1,364	715	804	438
Eligible or within two years of retirement eligibility	1,222	540	761	323
Eligible or within five years of retirement eligibility	934	463	604	331

Source: DFAS.

As **Table 3** shows, for employees who retired from June 2003 through May 2004, FERS retirees' sick leave balances at the time of retirement were significantly smaller than the sick leave balances of CSRS retirees. CSRS retirees (particularly within the GS pay system) also had lower average days of sick leave used per pay period prior to their retirement than their FERS counterparts.

Table 3. FERS Retirees Had Lower Sick Leave Balances Than CSRS Retirees

	GS/Equivalent Retirees		WG/Equivalent Retirees	
	CSRS	FERS	CSRS	FERS
Sick Leave Balance (in Hours) at Retirement	1,029	313	537	119
Average Hours of Sick Leave Used Per Pay Period Before Retirement	7.4	9.9	10.4	10.6

Source: DFAS.

Some (and perhaps most) of the differences in leave balances between employees in CSRS and FERS may be due to differences in length of service rather than their retirement systems. For example, the DFAS data indicated that CSRS employees who were eligible to retire had an average of nearly 34 years of service, compared with nearly 24 years of service for FERS employees. Similarly, CSRS employees who retired averaged nearly 32 years of service, compared with nearly 24 years of service for employees in FERS. However, differences in longevity between these groups do not explain why FERS employees' use of sick leave and FERS retirees' use of sick leave just before retirement was greater than their CSRS counterparts.

Sick Leave Policies in Other Organizations

According to the Bureau of Labor Statistics (BLS), 56% of full-time employees in medium and large private establishments in 1997 received paid sick leave — down from 69% in 1988.²⁶ That figure rose to 73% for employees in professional, technical, and related occupations as well as clerical and sales occupations, but fell to 38% for blue-collar and service employees.²⁷ Most of these employers' sick leave plans specified a fixed number of sick days allowable per year (known as “annual” plans), but a few (in what are known as “as needed” plans) did not place a limit on the number of days that can be used. Where a fixed number of days was specified, most plans provided the same sick leave benefits for all employees, but some allowed benefits to increase with seniority. Most of the sick leave plans that allowed employees to accumulate unused sick leave placed a cap on the amount of leave that could be carried over from year to year. Other studies have indicated that the absence of sick leave can have a wide range of negative effects on family members and coworkers.²⁸

The BLS data indicated that 53% of full-time employees with paid sick leave in medium and large private establishments in 1997 were allowed to carry over unused sick leave from year to year.²⁹ Seventeen percent were allowed to obtain cash in exchange for unused sick days. Where a cash-in provision was provided, roughly half (9%) also had a provision in their plan allowing leave to be carried over from year to year. For 36% of employees, neither carrying over nor cashing in of unused sick leave was allowed; any leave not used in the year it was earned was forfeited.

²⁶ U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Private Establishments, 1997*, Bulletin 2517 (Sept. 1999).

²⁷ Citing the lack of sick leave provided by many employers, legislation was introduced in the 108th Congress (H.R. 4575 and S. 2520) to require employers with at least 15 employees to give full-time workers seven days of paid sick leave per year.

²⁸ Institute for Women's Policy Research, *No Time to Be Sick: Why Everyone Suffers When Workers Don't Have Paid Sick Leave*, Washington, D.C., June 2004.

²⁹ Of the employees who were allowed to carry over unused leave, nearly 80% faced some type of limit on the amount of leave that could be carried over, with the precise amount varying from fewer than 10 days to more than 130 days.

BLS indicated that almost all (96%) full-time employees in state and local government were provided sick leave in 1997.³⁰ Virtually all (99%) of these employees received a fixed number of days per year, with the exact amount ranging from 12 days to 15 days. State and local employees with sick leave were much more likely than their private sector counterparts to be able to carry over unused sick leave from year to year (94% versus 53% in medium and large private sector establishments), with about 12% of state and local employees able to both carry over sick leave and receive cash payments (compared to 9% in medium-to-large private sector firms). Only 3% of state and local employees forfeited any unused sick leave at the end of the leave year (compared to 36% in the private sector).

Unused Sick Leave. The BLS data did not include specific information on how unused sick leave was treated at retirement in either the public or private sectors. However, some surveys of public sector organizations' personnel policies did contain that information. For example, according to a 2002 survey of 428 agency members of the International Personnel Management Association, 58% of the agencies cashed out sick leave at retirement, 45% offered cash for unused sick leave, 11% converted sick leave to vacation time, 9% converted sick leave to insurance at retirement, and 3% converted sick leave to disability insurance.³¹ In some cases, though, the agencies limited the amount of sick leave that employees could carry over from year to year or limited the amount payable at retirement.³²

Federal regulations sometimes provide compensation for unused sick leave at retirement for non-federal employees. For example, employees in federal Fishery Management Councils may accumulate unused sick leave without limit (with Council approval), and "distributions of accumulated funds for unused sick leave may be made to employees upon his or her retirement, or to his or her estate upon his or her death, as established by the Council."³³ Police officers, firefighters, and teachers in the District of Columbia who retire on an immediate annuity receive service credit for unused sick leave.³⁴

³⁰ U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in State and Local Governments, 1998*, Bulletin 2531 (Dec. 2000).

³¹ Reported in "Sick Leave Abuse: A Chronic Workplace Ill?," *Public Management*, 84 (June 1, 2002), p. 32.

³² Surveys conducted by other organizations confirm these findings. For example, a 1995 survey of more than 2,600 cities and nearly 900 counties conducted by the International City-County Management Association indicated that nearly half of the local governments (49.6%) paid employees for unused sick leave, and 13.3% permitted conversion of sick leave to vacation leave. See E.R. Moulder and G. Hall, *Employee Benefits in Local Government, Special Data Issue* (Washington, D.C: International City and County Management Association, 1995), reported by Soonhee Kim, "Administering Family Leave Benefits and New Challenges for Public Personnel Management: The New York State Experience," *Review of Public Personnel Administration*, 18 (Summer 1998), pp. 42-57.

³³ 50 CFR 600.120(d). Fishery Management Councils were created by the Magnuson-Stevens Fishery Conservation and Management Act to manage living marine resources up to 200 miles offshore.

³⁴ Department of the Treasury, "Federal Benefit Payments Under Certain District of (continued...)

Sick Leave Policies in State Governments

In one of the most comprehensive assessments of employee benefits in state governments, Workplace Economics, Inc., reported that as of January 1, 2004, most states provided their employees with a fixed number of sick days per year (most commonly between 12 and 15 days), but in several states the amount of sick leave accrual was tied to years of service, date of hire, or both. For example, in Hawaii, state employees hired before July 2, 2001, accrue 21 days of sick leave per year, but employees hired after that date accrue 15 days per year for the first nine years of employment and 21 days per year thereafter. Most states placed no limit on the amount of sick leave that could be accumulated; those that did (nine states) most often limited accumulated leave to between 90 and 150 days.

The study also indicated that 45 states provided some form of compensation for unused sick leave at retirement.³⁵ These states' compensation plans generally fell into three categories:

- states that provided employees with a cash payment for some portion of their unused sick leave,
- states that provided service credit for the leave in the computation of retirement annuity, or
- states that used the unused sick leave to fund some type of health or life insurance for retirees.

The type and amount of compensation provided varied substantially within these three categories, and in some cases the states provided employees with options across the categories (e.g., allowing employees to choose either service credit for annuities or health insurance payments), or provided more than one form of compensation. For example, in Nevada, employees were paid for unused sick leave over 30 days to a maximum of \$8,000. In addition, Nevada state employees could receive compensation for 50% of the hours in a special sick leave account as either a lump sum payment, advanced payment of an insurance premium, or to purchase additional service credit.³⁶

Cash Payment Plans. In 28 states, retirees were provided a cash payment for a portion of their unused sick leave. In each of these states, the size of the payment was limited in some way — for example, paying employees for a percentage

³⁴ (...continued)

Columbia Retirement Plans," 65 *Federal Register* 77500, 77503, Dec. 12, 2000.

³⁵ The five states that generally provided no compensation for unused sick leave were Alaska, Indiana, Maine, Oregon, and Vermont. In Vermont, though, a limited number of employees are covered by a retirement plan in which 50% of unused sick leave is added to an employee's average final compensation.

³⁶ After accruing 90 days of sick leave, Nevada state employees could carry over 50% of unused sick leave each year in a special account to be used for long-term illnesses.

of their final sick leave balance (most commonly 25% or 50%), capping the number of days or hours of sick leave payable or the size of the payment itself, or calculating the size of the payment based on a formula. In many cases, the states used a combination of these or other factors in determining the amount payable. For example:

- In Virginia, state employees were paid for 25% of their unused sick leave, with the amount of the payment capped at \$5,000.
- In New Hampshire, employees were paid for 33% of their unused sick leave, up to 40 days.
- Arkansas used a combination of a formula and a cap on the size of the payment: employees with less than 50 days of unused sick leave on the date at retirement received no payment, employees with 50 to 59 days were paid for 50% of their sick days at 50% of their salary, with the scale gradually rising to where employees with 80 to 120 days of unused sick leave received payment for 80% of their sick days at 80% of their salary. The maximum payment for unused sick leave was \$7,500.

In some states, other limits were placed on whether and, if so, how much compensation would be provided to their employees for unused sick leave. For example, in Illinois, unused sick leave earned by state employees from January 1, 1984, through December 31, 1997, was paid at 50% of its value at separation. In Michigan, only retiring employees hired before October 1, 1980, were compensated; they received payment for 50% of their unused sick leave based on their last rate of pay.

Service Credit Plans. In 14 states, employees received service credit for unused sick leave in computing retirement benefits (as is currently done for CSRS employees in the federal government), but several states placed conditions or limits on the use of sick leave in this manner. For example, in Georgia, unused sick leave could be used to compute retirement benefits only if the combined balance of sick and annual leave at retirement totaled 120 hours. In Oklahoma, a maximum of one year service credit was allowed, but any credited service of six months or more was rounded up to a full year. In South Carolina, employees could convert up to 90 days of sick leave to retirement service credits, thereby adding up to 4.5 months of service time in calculating the size of their annuity.

Insurance Plans. In seven states, the value of some portion of unused sick leave could be credited toward retiree health or life insurance premiums. For example, in Utah, retirees could use unused sick leave to purchase health insurance, with eight hours of sick leave equal to one month of individual coverage. As in the previous categories of compensation, states often placed limits on the use of sick leave in this manner. For example, in Idaho, half of the monetary value of unused sick leave earned since July 1, 1976, or 600 hours (whichever is smaller), could be used to pay the retiree's premiums for group health programs.

Policy Options

When Congress established FERS in 1986, it urged OPM to examine sick leave usage by FERS employees. The data presented in this report indicate that FERS employees (at least those serviced by DFAS) are using more sick leave than their CSRS counterparts, particularly as they approach retirement. Although higher sick leave balances for CSRS retirees, retirement eligibles, and near eligibles may be partially a function of longevity, the differences in average usage rates between employees in the two retirement systems lends credence to a longstanding hypothesis — that FERS employees, who get no value for their unused sick leave, will use that leave rather than simply forfeiting it back to the government at retirement.

More Stringent Enforcement of Sick Leave Policies

As noted previously, federal agencies may grant sick leave only when supported by evidence that they consider administratively acceptable (e.g., a medical certificate). Therefore, if policy makers decide to address this issue, one approach to the apparent greater use of sick leave by FERS employees as they approach retirement would be to enforce existing regulations more stringently — requiring some type of evidence to support the use of sick leave for more than a certain number of days within a particular period of time. The advantage of this approach is that it could reduce sick leave productivity losses without incurring other costs. However, the success of this approach in encouraging the use of sick leave only when needed would depend on how rigorously it was implemented by the agencies. Also, if employees are able to produce the required documentation easily (e.g., convincing their doctors to provide some evidence of medical treatment or condition), its success in reducing sick leave use may be limited.

Providing an Incentive to Conserve Sick Leave

Another general approach would be to provide FERS employees an incentive to conserve their sick leave. The previous discussion about state sick leave policies suggests that several options are available within this approach. One such option would be to allow FERS employees to use unused sick leave in the computation of their annuity. The experience of GS employees when they were offered service credit suggests that doing so would have the desired effect. However, FERS annuities are generally much smaller than their CSRS counterparts (because they are only one part of the FERS retirement package), and each additional year of service has less value in FERS than in CSRS (1% instead of 2%). Also, this alternative could prove to be more expensive than other options over the long term, as larger annuities are payable for as long as the retiree receives a pension.

Another option would be to provide employees with a cash payment for their unused sick leave. The experience of the states suggests that this payment be limited in some way — for example, paying employees for 25% or 50% of their final sick leave balance, capping the number of days or hours of sick leave payable or the size of the payment itself, or calculating the size of the payment based on a formula. From the employees' standpoint, cash payments are likely to have the added appeal of immediacy when compared to the annuity-based incentive, allowing employees

to see a more immediate benefit to reserving their sick leave. Formula-based systems are more complicated, but can have the advantage of building in additional incentives to save sick leave. For example, a system that pays for 50% of sick leave over a certain level (e.g., 500 hours) avoids de minimus payments while encouraging employees to maintain a roughly three-month cushion of sick leave for longer-term disabilities. Many other formula-based or graduated cash payment systems could also be devised.

Finally, the experiences of the states suggest that federal policymakers could permit the use of unused sick leave to help pay for health, life, or other insurance in retirement. Again, the amount of the payment could be capped either in terms of the proportion of sick leave convertible to this purpose or by a fixed dollar amount. This option was least common in state governments, and may have the least appeal to retiring employees (who could use a cash payment to pay for insurance or any other purpose).

A Comparison of Costs

Any of these options to provide value for unused sick leave would likely be viewed by retiring FERS employees as advantageous compared to the current policy of providing no value for unused sick leave. Should Congress decide to adopt one of these approaches, the Federal Employees' Retirement System Act requires that FERS benefits be pre-funded according to their full actuarial costs. Therefore, some increase would likely be needed in the employees' contribution to FERS, the federal government's contribution, or both. Even considering the additional contribution, though, a change in policy of this type could provide a net benefit to the government, given the costs associated with current rate of sick leave use by FERS employees.

For example, the data we obtained from DFAS indicated that, on average, FERS employees who were eligible to retire used about 30 more hours of sick leave in the one-year period ending May 29, 2004, than their CSRS counterparts. FERS employees who were eligible to retire as of that date were paid an average of nearly \$60,000 per year, or nearly \$30 per hour. Therefore, the nearly 30 additional hours of sick leave used by FERS eligibles cost the federal government about \$900 per employee in that year (30 hours times \$30/hour) in lost productivity.³⁷ CPDF data indicate that there were about 42,000 FERS eligibles as of October 2003. Therefore, assuming the DFAS data can be extrapolated to the rest of the government, the total lost-productivity cost in that year of the additional sick leave for all FERS eligibles was nearly \$38 million (\$900 times 42,000 employees). Including sick leave costs for employees who were within two years of eligibility (21 hours of additional sick leave at \$30 per hour times about 35,000 FERS employees within two years of retirement) adds another \$22 million in estimated lost productivity costs for that year. Taken together, then, the additional hours of sick leave used by FERS employees who were eligible or nearly eligible to retire cost the federal government nearly \$60 million in lost productivity from June 2003 through May 2004. If agencies are hiring

³⁷ These costs are presented as productivity losses because agencies pay their employees the same amount whether they are on sick leave or in regular duty status.

additional workers to make up for these productivity losses, the overall cost of the current policy regarding FERS employees would be even higher.

The cost of providing FERS employees with some value for unused sick leave could be substantially less than these costs, thereby yielding a net saving to the government, even if the full cost of this additional value was paid by the government. For example, FERS employees could be paid for a percentage of sick leave over a certain threshold (e.g., 25% of unused sick leave hours over 1,000 hours). Doing so could both encourage employees to have at least six months of sick leave available for longer-term illnesses and give them an incentive to conserve sick leave beyond that level. In such a system, a FERS employee with a sick leave balance equivalent to that of the average CSRS employee who is eligible to retire (1,364 hours) would receive a cash payment for 91 hours of sick leave (25% of 364 hours) at \$30 per hour, or \$2,730 before taxes.

Even if 10,000 FERS employees retired each year, the cost of this payment (about \$27 million) would still be less than the estimated costs associated with the current system that appears to encourage sick leave use (nearly \$60 million).³⁸ Furthermore, this incentive would be a one-time payment for unused sick leave; in contrast, costs associated with additional sick leave use by FERS employees occur year after year. One possible disadvantage of this particular approach is that employees with sick leave balances of less than 1,000 hours would still receive no credit, thereby continuing the current disincentive to use sick leave prudently. Also, in the above example, some may consider a cash payment of less than \$3,000 to be a poor trade-off for nearly eight months of sick leave (with a lost-productivity value of as much as \$80,000).

Therefore, an almost infinite variety of other options could be considered to have the desired effect within budget constraints. Each approach appears to have certain advantages and disadvantages. For example, FERS employees could be provided a cash payment for a percentage of their total sick leave balance, perhaps with a cap in the total payment — for example, 25% of sick leave, to a maximum of 400 hours. In this scenario, if an employee with an “high three” average salary of \$30 per hour had a sick leave balance of 1,361 hours, he or she would receive a cash payment of \$3,000 (\$30 per hour times 400 hours times 0.25). Although this approach could provide certain employees with the desired incentive to conserve sick leave, employees with sizable sick leave balances (i.e., more than 400 hours) would still be encouraged to reduce that balance to the maximum number of payable hours, which could defeat the purpose of the change in policy.

A threshold question for Congress, however, is whether any change is needed in the current policy regarding FERS employees’ unused sick leave. It could direct OPM to undertake a comprehensive study of the issue or take other steps short of initiating a new policy.

³⁸ The cost of this one-time payment of \$2,700 for FERS employees would also be substantially less than the benefits currently payable to CSRS employees retiring with a sick leave balance of 1,364 hours. At a “high-three average” of \$60,000 per year, that balance would add about \$700 per year to the employee’s annuity, making the total payout over a 20-year retirement about \$14,000.

Appendix A: State Sick Leave Policies

The following information on sick leave policies in state government are drawn from the *2004 State Employee Benefits Survey*, published by Workplace Economics, Inc. The data are as of January 1, 2004. Where more than one accrual rate or maximum accumulation is listed, the rate depends on length of service or other factors. An asterisk (*) indicates that there are additional or qualifying details in the survey. For example, in Colorado, employees are generally limited to 45 days maximum leave accumulation, but employees hired before July 1, 1988, are limited to their accrual as of that date plus 45 days.

Table 4. Sick Leave Policies in State Governments

State	Annual Accrual Rate	Maximum Accumulation	Payment for Unused Sick Leave at Retirement
Alabama	13 days	150 days	Cash payment for 50% of leave balance.
Alaska	15 days	No limit	None.
Arizona	12 days	No limit	Retiree may select cash payment or deposit funds into fund to pay future health premiums as follows: 25% of hourly rate for 500 to 749 hours; 33% of hourly rate for 750 to 999 hours; 50% hourly rate for 1,000 to 1,500 hours.
Arkansas	12 days	120 days	Cash payment, to a maximum of \$7,500, as follows: less than 50 days, no payment; 50-59 days, 50% of days at 50% of salary; 60-69 days, 60% of days at 60% of salary; 70-79 days, 70% of days at 70% of salary; 80-120 days, 80% of days at 80% of salary.
California	12 days	No limit	Service credit used to determine retirement benefits.
Colorado	80 hours	45 days*	Cash payment for 25% of leave balance.
Connecticut	15 days	No limit	Cash payment for 25% of leave balance, not to exceed 60 days' pay.
Delaware	15 days	No limit	Cash payment for 50% of leave balance, up to 90 days.

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State	Annual Accrual Rate	Maximum Accumulation	Payment for Unused Sick Leave at Retirement
Florida	13 days	No limit	Cash payment for 25% of leave balance.
Georgia	15 days	90 days	Service credit used to determine retirement benefits, but only if 120 days of combined unused sick leave and forfeited sick and annual leave.
Hawaii	15 days/ 21 days*	No limit	Service credit used to determine retirement benefits.
Idaho	12 days	No limit	Value of 50% of sick leave used to pay retiree's premiums for group health insurance.
Illinois	12 days	No limit	Cash payment for 50% of sick leave, but only if earned from 1/1/84 through 12/31/97.
Indiana	9 days	No limit	None.
Iowa	18 days	No limit	Cash payment to maximum of \$2,000.
Kansas	12 days	No limit	Cash payment as follows: 8 years of service and 100 days accumulated, 30 days pay; 15 years and 125 days, 45 days pay; 25 years and 150 days, 60 days pay.
Kentucky	12 days/ 22 days/ 32 days	No limit	Service credit used to determine retirement benefits.
Louisiana		No limit	Partial payment based on actuarial calculation.
Maine	12 days	120 days	None.
Maryland	15 days	No limit	Service credit used to determine retirement benefits.
Massachusetts	15 days	No limit	Cash payment for 20% of sick leave.
Michigan	13 days	No limit	Cash payment for 50% of sick leave, but only if hired before 10/1/80.

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State	Annual Accrual Rate	Maximum Accumulation	Payment for Unused Sick Leave at Retirement
Minnesota	13 days	No limit	Cash payment for 40% of sick leave, but only for mandatory retirement or employees with 10 years of service or age 65 or older.
Mississippi	12 days/ 10.5 days/ 7.5 days	No limit	Service credit used to determine retirement benefits.
Missouri	15 days	No limit	Service credit used to determine retirement benefits (with every 168 hours credited as one additional month of service).
Montana	12 days	No limit	Cash payment for 25% of sick leave.
Nebraska	12 days/ 14 days/ 18 days	No limit	Cash payment for 25% of sick leave.
Nevada	15 days	No limit*	Cash payment for excess over 30 days to a maximum of \$8,000. Also, any leave in special leave account may be taken as cash payment, insurance payment, or to purchase service credit.
New Hampshire	15 days	90 days/ 105 days/ 120 days	Cash payment for 33% of sick leave, up to 40 days.
New Jersey	15 days	No limit	Cash payment for 50% of sick leave, up to \$15,000.
New Mexico	12 days	No limit	Cash payment for up to 400 hours of sick leave if hours previously cashed in on annual basis exceeds 600 hours.
New York	8 days/ 10 days/ 13 days	200 days/ 1,500 days	Up to 165 days may be used as service credit to determine retirement benefits, and up to 200 days may be used to pay for health insurance during retirement.
North Carolina	12 days	No limit	Service credit used to determine retirement benefits.

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State	Annual Accrual Rate	Maximum Accumulation	Payment for Unused Sick Leave at Retirement
North Dakota	12 days	No limit	Cash payment for 10% of sick leave after 10 continuous years of service.
Ohio	10 days	No limit	Cash payment for 50% of sick leave.
Oklahoma	15 days	No limit	Service credit used to determine retirement benefits. A maximum of one year credit is allowed, with six months or more rounded up to one year.
Oregon	12 days	No limit	None.
Pennsylvania	13 days	300 days	Cash payment for up to 163 days of sick leave, paid under certain full retirement situations.
Rhode Island	104 hours	125 days	Cash payment for 40-hour employees as follows: 50% of total from 468 hours to 720 hours; 75% of total from 721 hours to 1,000 hours. For 35-hour or non-standard employees, 50% of total from 390 hours to 630 hours; 75% of total for 631 hours to 875 hours
South Carolina	15 days	195 days	Service credit used to determine retirement benefits. A maximum of 90 days (4.5 months service time) credit is allowed.
South Dakota	14 days	No limit	Cash payment for 25% of sick leave (for those with 7 years of service) to a maximum of 480 hours.
Tennessee	12 days	No limit	Service credit used to determine retirement benefits, with one month of service credit for every 20 days of sick leave.
Texas	12 days	No limit	Service credit used to determine retirement benefits, with one month of service credit for every 160 hours (or fraction thereof) of sick leave.

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State	Annual Accrual Rate	Maximum Accumulation	Payment for Unused Sick Leave at Retirement
Utah	13 days	No limit	Retiree may use 25% of sick leave to purchase health insurance (eight hours sick leave buys one month of individual coverage)
Vermont	6 days/ 12 days/ 18 days/ 21 days	No limit	Generally none, although a limited number of employees are covered by a contributory retirement plan in which 50% of unused sick leave is added to their average final compensation.
Virginia	8 days/ 10 days/ 15 days	No limit	Cash payment for 25% of sick leave (for those with 5 years of service) to a maximum of \$5,000.
Washington	12 days	No limit	Cash payment for sick leave hours over 480 hours at 25% of current salary.
West Virginia	18 days	No limit	Service credit used to determine retirement benefits or converted to credit for health insurance.
Wisconsin	16.25 days	No limit	Sick leave converted to credits to pay group health insurance.
Wyoming	12 days	No limit	Cash payment for 50% of sick leave, to a maximum of 480 hours.