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Government's Continuing Budget-Buster: Paid Sick Leave.

While paid sick leave is critical to economic security and health for employees and their families, its impact is even more far-reaching — even contagious: When ill employees go to work, co-workers, clients and employers can get sick as well. But there is another health factor associated with paid sick leave: employers' fiscal health.

For governments and the private sector alike, overly generous sick-leave policies can lead to unexpected back-end costs and potentially significant unfunded liabilities. In terms of employer costs, paid sick leave ranks only behind medical and retirement benefits. This issue is particularly acute for governments: While in the private sector almost 40 percent of employers do not offer paid sick leave, nearly all full-time public-sector employees receive some form of coverage.

So how are local governments managing their paid-sick-leave programs? And are cities and counties making the types of post-recession reforms that we have seen in other benefit areas such as pensions and retiree health care?

The answer is that paid sick leave (PSL) appears to still be quite generous, with few local governments seeking to reform longtime practices. In a national survey of human-services professionals for large cities and counties, Michael Thom of the University of Southern California and I found that only 14 percent of local governments had sought to reduce their cost exposure by enacting post-recession PSL reforms.

Most local governments have continued to offer generous sick-leave policies, including allowing employees to accrue more than 120 hours of PSL annually (53 percent) and having no limit on the number of PSL hours that can be rolled over from year to year (77 percent). Further, over 50 percent allowed employees to cash out unused paid sick leave upon leaving their jobs, while 40 percent allowed unused PSL to be used in calculating retiring employees' service credits for pension purposes — one form of "pension spiking."

Allowing paid sick leave for family members was widespread (89 percent), but other practices, such as sharing programs (allowing employees to donate unused sick leave to needier co-workers) and converting unused sick leave to vacation time, were not as prevalent (42 percent and 13 percent, respectively). While the percentage of local governments requiring a doctor's note for prolonged sickness was quite high (over 70 percent), the number that perform sick-leave audits and have incentive programs to avoid unnecessary use of sick leave were quite low (both less than 25 percent).

Collective-bargaining status and employee classification — such as public safety vs. general staff — were both significant factors in determining certain practices. In local governments with collective bargaining, the practice of allowing employees to include unused PSL in pension calculations was more likely. Further, public-safety employees were less likely to be affected by budget-savings reforms after the recession, less likely to be required to have a doctor's note for prolonged absences, and more likely to have sharing programs.

When governments elect to allow PSL to be accrued and rolled over from year to year with no limit, and either be cashed out when employees leave or used in pension calculations, the costs and impact can be substantial. That's because much of the paid sick leave may have been earned during years in which an employee had a lower salary, while payouts at termination and for pension determinations are calculated at the highest salary levels. Also, many local governments treat PSL costs as a pay-a--you-go item, which means these expenses are seldom included as fixed items in their budgets.

As local governments recover from the recent recession and continue to grapple with unfunded pension and retiree health-care costs, their focus undoubtedly will turn to other cost drivers such as paid sick leave. Serious consideration for cost-containment measures should include ending the practice of applying unused PSL hours in pension-benefit calculations; limiting the amount of hours that can be accrued and rolled over from year to year; and limiting unused-PSL payouts to a nominal or fixed amount paid annually instead of allowing it to accumulate until retirement.

With such fundamental change on the horizon, local governments should work with their employees to adopt more sustainable, fair and innovative paid-sick-leave practices that also will provide employees with incentives to avoid unnecessary absenteeism.

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