



EMPLOYEE LEAVE

A review of current benefits with a focus on changes
and improvements to employee leave

Abstract

Any change to long standing policies of an organization can have huge consequences. Enclosed is a detailed account of the current benefits offered by M C Bank, along with a plan proposed to make changes to the employee leave policies for the bank. The plan details all areas of potential impact as well as the implementation plan.

Jeremy Callais
Jeremy.callais@mcbt.com

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Executive Summary

M C Bank is a local, family oriented Community Bank located in Morgan City, LA. The bank has been a part of the local community since 1955. M C Bank has six branches with four located in the immediate area of Morgan City Louisiana and the remaining two in the Lafayette Louisiana area. With around 350 million in assets, M C Bank is the largest Community Bank in the Morgan City area. The growth for M C Bank has been both organic and through the acquisition of the former Guaranty Bank of Morgan City in 1997. M C Bank is privately owned by approximately 200 shareholders. The board of directors for M C Bank is comprised of local, successful business people from the area that are keen on keeping M C Bank a Community Bank for many years to come.

M C Bank has established a secure place in our local community with deposit market share. M C Bank has the “lions share” of deposits in the immediate surrounding area. This is quite a statement considering the bank competes with eight other banks for the deposits. In the Lafayette market, we are a new bank to that area. In the Lafayette market, M C Bank shares less than 1% of the deposits. On the asset side of the balance sheet, M C Bank has always historically maintained a very low loan-to-deposit ratio. This is due to the conservative nature of the makeup of our bank. However, in recent years, M C Bank has moved the needle up in this area going from roughly 40% LTD to 60% LTD. Even with the low LTD ratio, M C Bank has maintained a minimum of a 1% R.O.A. for the past 10+ years. This has been possible by running a very efficient bank with minimal overhead. Finally, M C Bank has a very strong capital position (18.5%) and has enough liquidity to meet the foreseeable needs of the bank.

M C Bank is known as the “Hometown Spirit” bank. All decisions are focused around that mantra. M C Bank believes that all employees are part of the M C Bank family. Because of this motto, decisions are made with input from all different sections of employees. M C Bank has continued to be successful using this philosophy. As this modification of employee leave is explored, these things will be adhered to.

The employee population of M C Bank is a diverse make up of new employees and employees that have been in the bank for quite some time. The average tenure at M C Bank for an employee is close to 25 years, many with over 40 years of service. Currently, the makeup of the M C Bank employee population is changing very fast due to the large number of upcoming employees retiring. One of the issues that M C Bank is being faced with is to blend the needs and wants of the older generation of bankers with the newer generation of bankers coming to work for M C Bank. Thus, this analysis of employee leave is being completed.

M C Bank has a very generous benefits package for the full-time employees of M C Bank. For insurance, M C Bank provides, at no cost to the employee, health insurance, vision insurance, dental insurance, short term disability coverage, long term disability coverage and term life insurance equal to 2.5x the employee’s annual salary. In addition, the bank matches an aggressive 100% up to 5% of the employee’s contribution with 100% vesting immediately available to the employee. For employee paid time away from the bank, full-time employees fall into one of the following categories: employees with less than 10 years of service to M C Bank receive two weeks of vacation time and two weeks of sick time, employees with more than 10 years of service to M C bank receive three weeks of vacation time and four weeks of sick time. Any days that are not used at the end of a year go away and are not paid.

Since the focus of this project is on employee leave, only this section will be broken down further into detail. There are several issues that M C Bank has experienced with our current plan detailed in the above paragraph. First, having sick time has been a source of controversy among bank employees. Although the definition of sick time is clearly defined in the bank's employee handbook, sick time tends to be used as additional vacation time quite frequently. M C Bank has several employees that use all his/her sick and vacation time every year. Second, there are many employees that rarely use sick time. These employees do not receive any type of benefit for the sick time he/she earns each year. Third, the current plan does not allow for any type of carryover or rollover of days for the employee. Finally, there is only one step for rewarding an employee for the number of years he/she has worked for M C Bank, employees have asked for more reward for more years of service.

To address all the issues with our current employee leave policy, the decision was made to start from scratch and write a new policy. The first step to develop a new policy was to create a focus group of employees from M C Bank, employees from all different areas of the bank and varying time working for M C Bank. The group of employees were consulted throughout the process to ensure that the concerns were being addressed along the way. In addition, employee leave policies from several different Community Banks and other businesses in the were solicited to see what other employers are offering. Finally, it was decided that the new policy would focus on current employees of M C Bank and future employees of the bank. M C Bank would like to continue to get the top talent in the area, benefits are one of the major ways that this is possible.

The new policy has been developed and has addressed all the needs and concerns listed above. The new policy changes from the current sick/vacation policy of M C Bank to a Paid

Time Off Policy, or PTO. PTO time can be used by an employee for whatever need the employee has. If the employee needs a personal day, sick day, vacation day, etc., they will use PTO for these. The employee will now be able to rollover or carryover up to 35 days from year to year. The employee will earn PTO each pay period based on a formula which considers the number of years he/she has been employed by M C Bank and whether he/she is an officer of the bank. Finally, for employees that are working for M C Bank on 01/01/2017 when this plan goes into effect, a one-time award of 20 days will be awarded to each employee in the form of PTO. (This will replace the normal sick/vacation time the employee would have been rewarded under the old plan).

There will be both financial and non-financial impacts of this new plan. To complete the financial analysis, each employee was analyzed under the current plan and the proposed plan and compared the two plans. Industry data had to be used to determine the average number of PTO days a person would likely use and the number that he/she would likely carryover. After all the financial analysis was complete, the direction was still to move forward with the PTO plan. To address the non-financial impact, the effect of the plan on current employees, future employees and customers was analyzed. In addition, an analysis was done on the different generations of potential employees to address the different types of people that the bank may potentially hire. After all analysis had been completed, the decision to move forward with the new PTO plan has been made.

Due to the timing of this project, this plan has already been implemented. The plan has been in place for six weeks and there has been nothing but positive feedback. Supervisor and employee meetings were held over several weeks before the plan was put in place for training and have also been held after implementation for concerns. The employees have accepted the

plan and feel that each of them have had a say in the development of the plan. The preliminary research, analysis and development efforts were well awarded in the end. M C Bank will be a better place for our current employees and future employees to work based on this new plan.

Introduction/Background of M C Bank

History of M C Bank

Morgan City Bank was established in 1954, and the doors first opened for business on January 20, 1955. The original office was in Morgan City, Louisiana on Front Street. Morgan City Bank was formed by local community leaders to establish a local, friendly community bank in a small city that submersed in the industries of fishing and oil. In 1964, Colonial Plaza was built and served as the Bank's new main office. On April 1, 1991, MC Bancshares was formed as a one-bank holding company with its solely owned subsidiary being Morgan City Bank & Trust Company. Simultaneous with the merger of the bank into the holding company, the Bank's name changed to M C Bank & Trust Company. While continuing to grow as a bank, through this time several local branches were opened in the immediate surrounding communities. Branches were opened in Amelia, Berwick (now closed) and Bayou Vista.

On November 30, 1997, M C Bank acquired Guaranty Bank & Trust Company of Morgan City. With the acquisition of Guaranty Bank, M C Bank now spread the bank footprint to a larger area, an MSA, Lafayette. Also during the process, the main office was then relocated to 1201 Brashear Avenue in the Carline Land Corporation building. From this point to the present, M C Bank has doubled in size to 350 million in assets. In 2016, M C Bank constructed a new branch in Youngsville, LA and is continuing the growth in the Lafayette market. M C Bank now operates offices in Amelia, Bayou Vista, Lafayette, Youngsville and Morgan City.

M C Bank is privately owned, currently with approximately 200 shareholders. M C Bank also has a very diverse, hard-working board of directors that has provided excellent guidance and direction to the management of M C Bank, which has the outcome of an outstanding work

environment for the employees of the bank. M C Bank has always maintained the philosophy of give the customer the best service around, give back to the communities that we serve and treat our employees like a member of our family, which has proven to be a recipe for success.

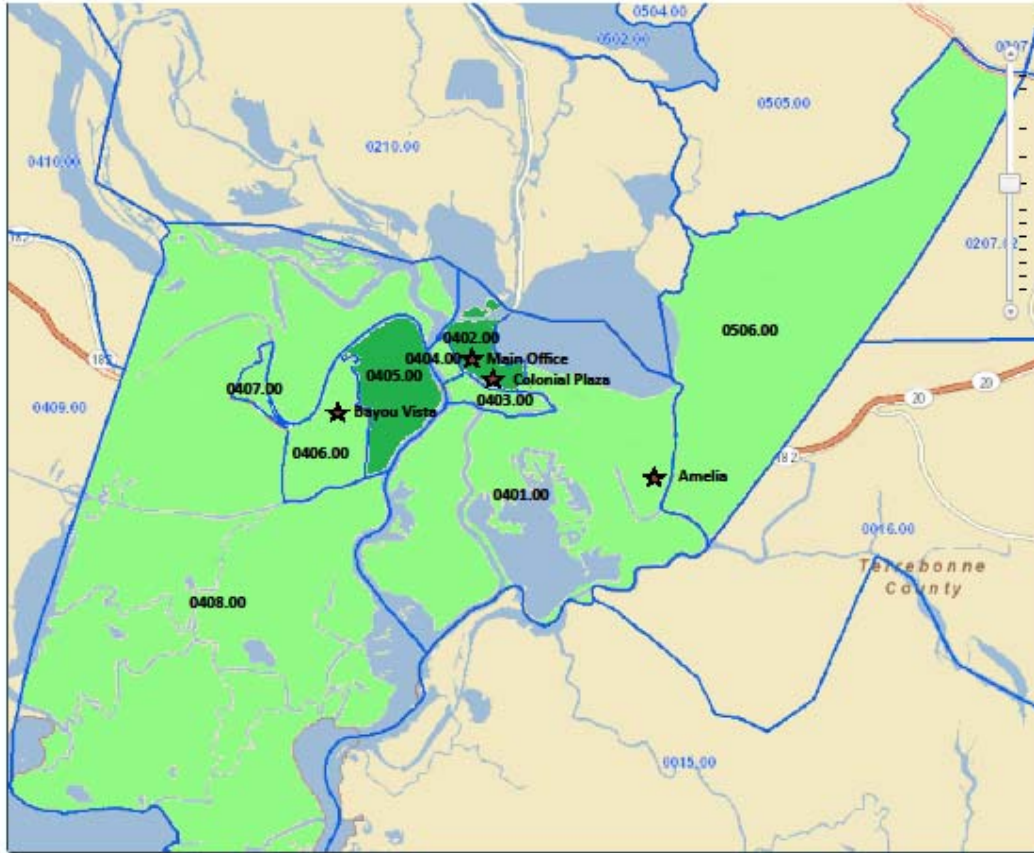
M C Bank's Current Position

M C Bank has positioned itself as a Community-Leader. M C Bank was established to attract customers by serving the financial needs of Morgan City and the surrounding communities. M C Bank is proud of the communities that it serves and we feel that we are leaders in these communities. We take "Hometown Spirit" seriously and will not intentionally do anything that goes against the best interests of the communities we serve. It is the mission of M C Bank to deliver high quality customer service, and to serve the financial needs of our communities.

M C Bank's main goal is to maintain our image as a friendly, community-minded, high-quality place to conduct banking business. Some of our other goals are to make concentrated efforts to attract all the various industries that exist in our market areas, strive to reach a 75% loan to deposit ratio, and to become a center for SBA and USDA Lending.

M C Bank has created a plan of action to reach these goals which includes maintaining our presence in the parishes of Terrebonne, Assumption, Lafourche, St. Martin, Iberia and Lafayette areas by continuing to call on banks and businesses, develop relationships with banks in other markets through loan participations, expand advertising in the Houma and Lafayette areas, institute an officer call program, develop an internal referral program for all employees, and continuing to see out loan personnel that have established, secure loan portfolios. Below are the census tract maps for our two areas of influence for M C Bank.

M C Bank & Trust Company—Non-MSA Assessment Area



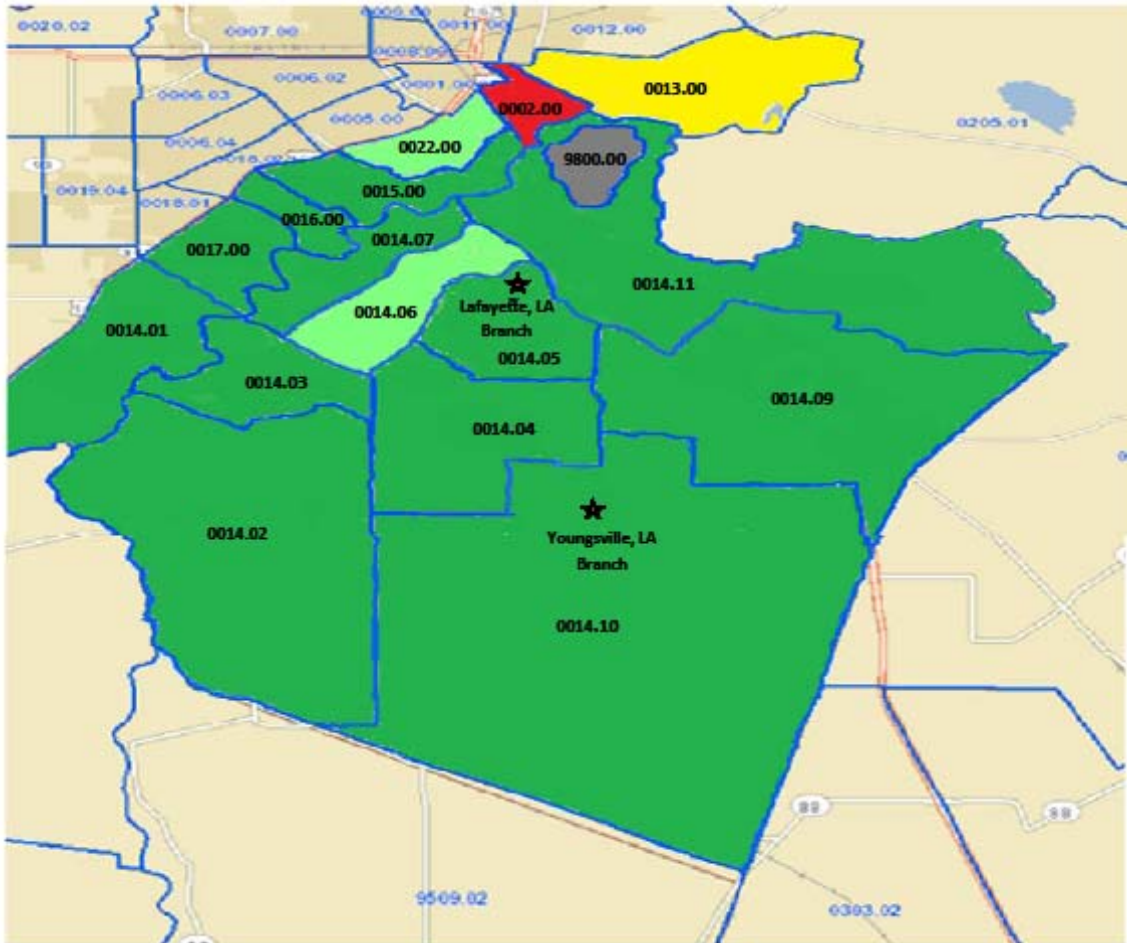
Census Tract Income Level

As a % of MSA Median

- > = 120%
- 80% < 120%
- 50% < 80%
- 0.01% < 50%

- 2014 Tract Outline
- State
- Water
- ★ M C Bank Branches

M C Bank & Trust Company—Lafayette MSA Assessment Area



Census Tract Income Level

As a % of MSA Median

- > = 120%
- 80% < 120%
- 50% < 80%
- 0.01% < 50%

- 2015 Tract Outline
- State
- Water
- ★ M C Bank Branches

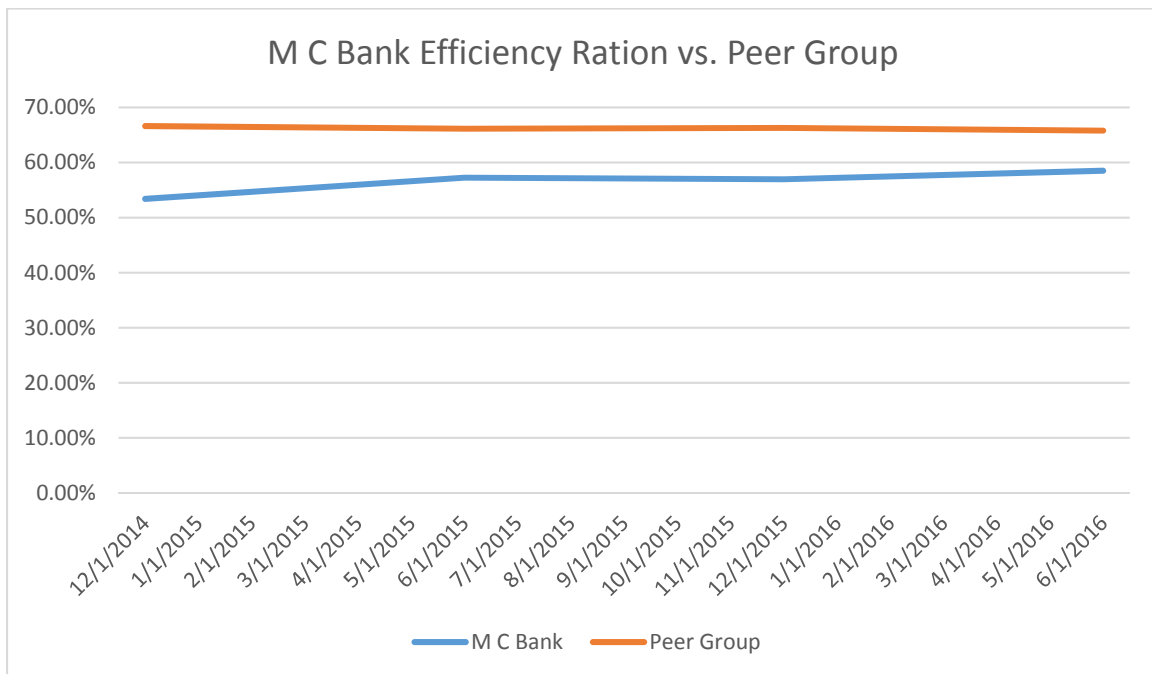
At the present, our major competitors in the Morgan City area are Regions Bank, Whitney Bank, Patterson State Bank, Iberia Bank, Regions Bank and Mid-South Bank. The market for commercial loans is impacted by all banks in and outside of our area due to the low loan demand being experienced by all, but does show some signs of a slow increase. The expansion of Cameron, Oceanering, Conrad and other related businesses; and the past difficulties in obtaining drilling permits in inshore and offshore waters have still had an impact throughout 2016. The opportunities for continued growth in our existing loan portfolio will be through increased business in the areas from Lafourche Parish to the parishes surrounding and including Lafayette parishes. Opportunities for loan growth will be greater for us with the opening of our new location in the Youngsville area. This will allow us to have a greater presence in the Lafayette market.

M C Bank has established a large footprint in our communities through the participation in our local organizations. The bank has created this image by the officers and employees continued involvement sharing both their knowledge and expertise in these organizations within the community. M C Bank is also involved with many different events to assist with the needs of these organizations such as: St. Mary Outreach, St. Mary Chamber of Commerce, Morgan City Historic Commission, East St. Mary Kiwanis Club, Rotary Club, Lions Club, various church and civic organizations.

Financial Condition and Market Share

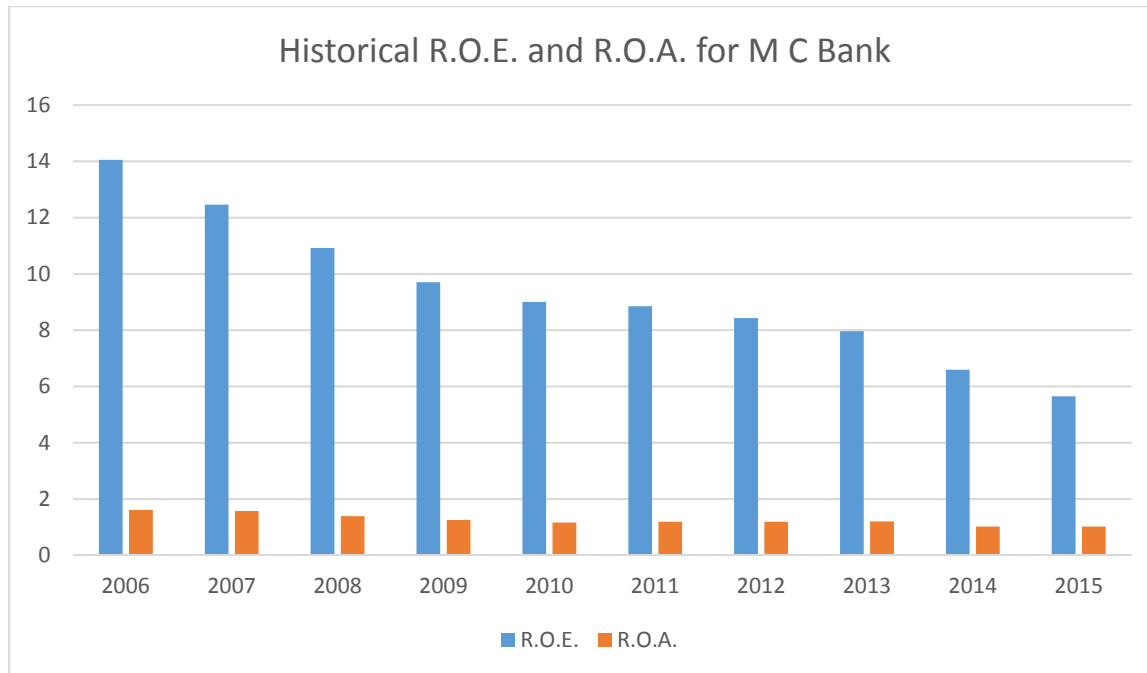
The primary customer base of M C Bank is Commercial, with the mix being represented by approximately 75% Commercial and 25% Consumer. In addition, the majority of M C Bank's customer base is tied to the oil and gas industry or the marine industry in one way or another. M C Bank currently has approximately \$350 million in assets. M C Bank also has a

very unique characteristic, which will result in many of the ratios and percentages being quite different than the peer groups. M C Bank has historically and currently held a very low loan to deposit ratio. With that being said, M C Bank has the majority of earning assets being held in the securities portfolio. Currently the bank has approximately \$160 million in securities and \$155 million in loans. Consequently, M C Bank tends to maintain a lower efficiency ratio than the peer group to combat the lower yield on the bank's earning assets, as detailed in the chart below.



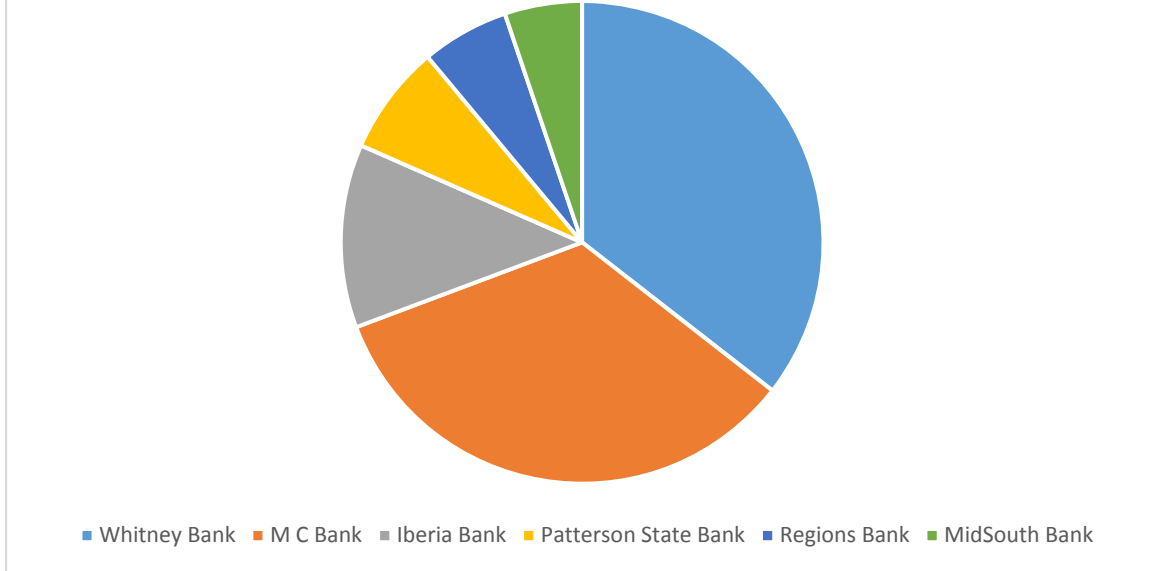
Historically, year after year, M C Bank maintains stable earnings. The goal for the bank is to achieve a minimum of a 1.0 R.O.A. M C Bank has been fortunate to meet and exceed this goal for the past many years. However, the R.O.E. for M C Bank has continued to decline for the same period. The majority of the earnings for the bank have been put back into capital for a long time. In addition, M C Bank has always paid out a relatively small dividend, which has led to a capital ratio of over 18%, more than double the recommended ratio to be considered well

capitalized. Our stable base of shareholders has not demanded an increase in dividend payout, which has given the bank the ability to grow capital. In the below chart, the historical R.O.A. and R.O.E. for M C Bank is depicted.



The deposit market share for M C Bank can be broken down in to two very distinct markets. We have our Non-MSA market (Morgan City area) and our MSA market (Lafayette area). Due to the smaller amount of competition and the longevity of the bank in the Morgan City area market, M C Bank has a much larger share as compared to our minimal time and increased competition in the Lafayette area market. For the Lafayette market, M C Bank currently has less than 1% of the deposits for that area. The diagram below details M C Bank's position in the Morgan City area market.

Market Share for Morgan City Area Market (Non-MSA)



Strategy/Implementation

A Review of M C Bank's Current Employee Benefit Package

M C Bank has a very long history of excellent employee retention. The average life of an employee at M C Bank is between 20 and 25 years, although this number is lower than in the past because of many recent retirements. Every employee of M C Bank becomes part of the M C Bank family. As a result, M C Bank has great buy in from the employees that work at the bank. Decisions that are made at M C Bank are focused around the employee. With this being said, the belief at M C Bank is that if all employees are an integral part of the M C Bank family, our employees will work very hard to ensure that our family stays a strong unit. With the buy in that we receive from our employees, we are able to have a wonderful group of employees that focus on making our customers feel like they are also part of our family. This is an extremely important part of being a Community Bank in South Louisiana. In our area, family comes first. Each and every employee of M C Bank knows the family of their coworkers. When one employee celebrates a joyful event, all employees share in that event. On the other hand when one employee grieves, all employees grieve. Our belief is that we spend more time each day with the people we work with than with the people that we live with, consequently we need to make that experience a meaningful one. If we do this, the rest will fall in line. This has been our philosophy since 1955 and it has been a recipe for success for the bank. Our President/C.E.O. orchestrates this mantra and all decisions are made with this focus. In all meetings, employee input is not only welcomed but also taken seriously. With the top person in the organization living and breathing this focus, subordinates also learn and follow this mission.

A full time employee of M C Bank is offered a very competitive benefits package as a result of the previously stated philosophy. When comparing benefits with other Community

Banks in our area, M C Bank is always a leader of the pack and typically able to sway an employee toward M C Bank due to these benefits. Listed below are the benefits offered to a full time employee at M C Bank:

Bank Provided Benefits for Full Time Employees:

- *Vacation Time*
 - Employees with less than ten years of service receive 2 weeks vacation
 - Employees with more than ten years of service receive 3 weeks vacation
- *Sick Time*
 - Employees with less than ten years of service receive 2 weeks sick time
 - Employees with more than ten years of service receive 4 weeks sick time
- *Birthday Time*
 - All employees receive an extra day off in the month of his/her birthday
- *Bereavement Time*
 - Employees receive up to 5 days bereavement time for an immediate relative
 - Employees receive up to 3 days bereavement time for one layer of family past immediate relative
 - Employees may (with supervisor approval) request 1 day sick time for a distant relative or close friend
- *401k*
 - Employees receive a 100% match on 401k investments up to 5% of their annual salary
 - Employees are eligible for this upon 90 days of full time employment
 - Employees are fully vested from day one

- *Insurance*
 - Bank pays 100% of a full time employee's health insurance
 - Bank pays 100% of a full time employee's dental insurance
 - Bank pays 100% of a full time employee's vision insurance
 - Bank pays 100% of a full time employees short term disability insurance
 - Bank pays 100% of a full time employees long term disability insurance
 - Bank pays 100% of a full time employees life insurance equal to 2.5 times the employee's annual salary (250k maximum)

- *Continuing Education*
 - M C Bank encourages its employees to continue receiving education. As a result, education expenses for courses that can assist the employee in furthering his/her career at the bank are paid 100%. In addition, employees are encouraged to gain certifications in their respective fields. These certifications (i.e. CPA, Microsoft Certifications, CFMP, CRCM, etc.) are also paid 100% by M C Bank.

As depicted above, employees of M C Bank are rewarded for being part of the M C Bank family. Just as the key to retaining a customer is to sway the customer into many bank products and services; providing many bank benefits has been key to retaining great employees. The above would not be possible without the buy in and leadership from M C Bank's Board of Directors. Our Board of Directors has allowed the extra expenses as a result of this benefits package to help make M C Bank a leader in benefits offered. In addition, the less that an employee has to worry about other costs, the more the employee is able to focus on his/her job at the bank.

Why Make a Change?

The spark for this project was due to the upcoming changes to the Labor Laws, which will go into effect in December 2016. The changes will affect 30% - 40% of our labor force at M C Bank. The result in the change to the Labor Laws will force several of the employee's at M C Bank to move from salary (Exempt) to hourly (Non-Exempt). The vast majority of these employees have been salary employees for many years. At M C Bank, salary employees are paid a salary for working whatever time necessary to get his/her job done. As a result, if a salary employee has to miss a partial day of work, no vacation or sick time is deducted from his or her benefits. On the other hand, an hourly employee at M C Bank is paid for all time worked and that employee is also eligible for overtime at time and a half when working more than 40 hours in a week. When an hourly employee at M C Bank has to take time within a workday away from the bank, either sick or vacation time must be used in order to receive a 40-hour week.

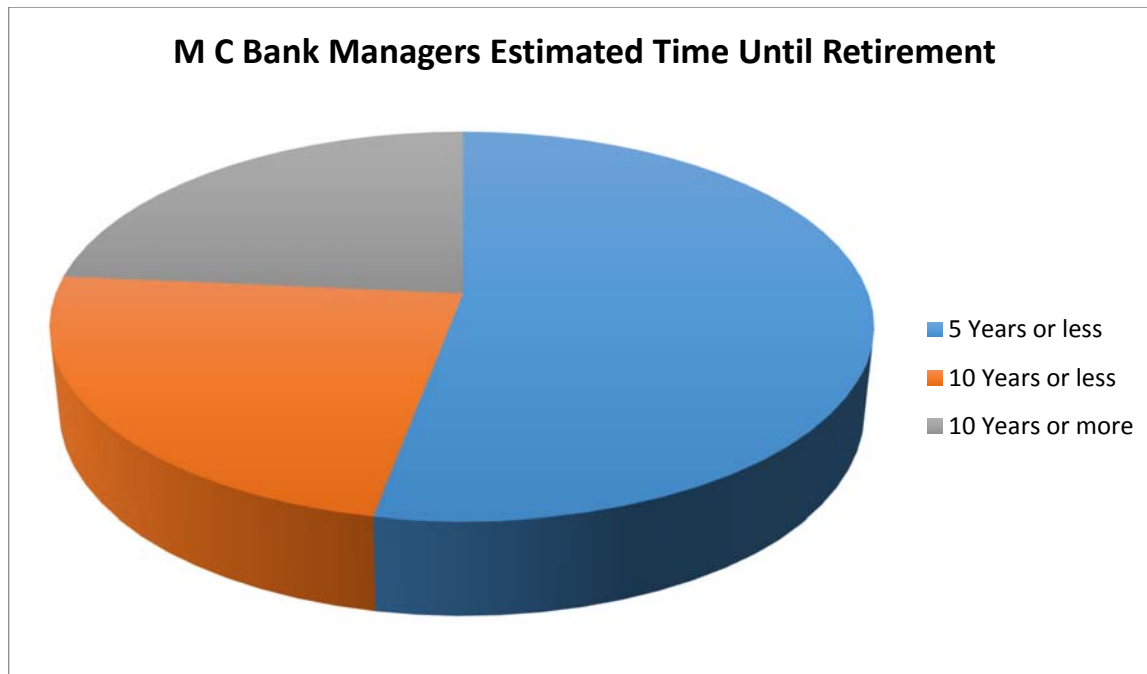
Another reason for the research of this topic is due to the changing landscape of the employee population at M C Bank. The current benefits package at M C Bank has been in place for over 20 years. At the time these benefits were put in place, the large population of "baby boomers" were mid career with M C Bank. This group of employees is now nearing retirement. M C Bank is in a transitioning period of bringing in younger employees to replace the large population of employees that will be retiring in the upcoming years. M C Bank has adopted a formal succession plan approved by the Board of Directors for the bank and is currently filling all of the positions as a result of this plan. The plan does not force any employee of M C Bank into retirement, rather prepares the bank for continued success as each employee decides to retire. With that being said, this transition deserves ample research to determine if the current

benefits package is fair and attractive to the entire population of employees at M C Bank. The chart below depicts the current estimated years to retirement for managers at M C Bank.

Manager Positions	Estimated Years to Retirement
Manager #1	5 or less
Manager #2	5 or less
Manager #3	10 or more
Manager #4	10 or less
Manager #5	10 or more
Manager #6	5 or less
Manager #7	5 or less
Manager #8	5 or less
Manager #9	10 or less
Manager #10	10 or less
Manager #11	5 or less
Manager #12	5 or less
Manager #13	10 or more
Manager #14	5 or less
Manager #15	10 or less
Manager #16	10 or more
Manager #17	5 or less

***Actual position titles have been withheld due to privacy; can be provided if necessary for project.

The above data is also depicted in the illustration below to further explain the need for M C Bank to address the current upcoming change in the population of managers at M C Bank:



Proposed Changes

Employee Leave

As detailed in the topic submission for this project, the main focus will be employee leave due to the enormity of that topic. The other areas such as insurance and retirement will be discussed but not in the detail that employee leave will be examined. Due to the reasons detailed above, the employee leave policy for M C Bank is in need of overhaul. Keeping the employees at M C Bank at the center of all decisions, throughout this project the input from several different classifications of employees will be used to complete the research. For all decisions, this project and research will include input from the following classifications of employees:

1. Part time Employees
2. Hourly, Non-Officer Status Employees
3. Hourly, Officer Status Employees
4. Salary, Non-Officer Status Employees

5. Salary, Officer Status Employees
6. Employees with Less than 10 Years of Service to M C Bank
7. Employees with More than 10 Years of Service to M C Bank

Changing a plan that has been in place for such a long time would be resisted without the input and buy in from all of the above classifications of employees. In addition, it would not be fair. As a result of involving the various employees from the bank, the plan will be owned and supported by all of those involved in the development of the plan.

Aside from getting the input from employees at M C Bank, the development of this plan will also use the data from community banks throughout the state of Louisiana. Through our state association, The Louisiana Bankers Association, we subscribe to the Louisiana Community Bank Salary and Benefits Survey which details in survey format the offerings in salary and benefits for the community banks in Louisiana. It is very important for M C Bank to have a grasp on what our competitors are offering. Also, the vast majority of community banks in Louisiana participate in this survey so the data that is in the survey is a very accurate depiction of what we are competing against.

For employee leave, the largest finding is that community banks have abandoned the current policy of sick and vacation time. Community banks have moved to offering Paid Time Off (PTO), or Paid Days Off (PDO) instead of the traditional sick and vacation time. This transition to PTO/PDO is quite appealing to M C Bank to solve several issues within the current policy. In addition, PTO/PDO has been explored for years at the bank and the project has not been seen through completions due to getting put on the back burner for other projects. M C Bank has interest in moving to PTO/PDO for the for the following reasons:

1. Employees become responsible for their own time. Currently employees lose at the end of each year all vacation and sick time that is not used in the calendar year.
2. Several employees at M C Bank use all sick time and vacation time each year, while some employees only use vacation time. Employees that do not use all sick time each year will benefit from the extra days. Employees that use all sick time each year will still have the time to use.
3. M C Bank will be in line with the competition, giving employees and potential employees an easier “apples to apples” comparison when looking at other employers.
4. PTO/PDO is typically earned each pay period instead of being awarded at once. Currently, sick and vacation time is awarded in full on January 1 of each year.

For the above reasons, M C Bank would like to move to PTO/PDO. With the transition, M C Bank will also have to be aware of the impact this will have on current employees. Since employees that are working this year are technically earning their time for next year, and the fact that M C Bank would like for employees to begin earning time per pay period, M C Bank will have to start employees off with some time next year to ease the transition.

In meeting with the various classifications of employees at the bank, a wish list was compiled. The wish list includes the items that employees feel we can improve our package by offering in addition to items that management from the bank would like to accomplish:

1. The ability for employees to be able to carry over time from year to year, in case an employee needs to be out for an extended period of time.
2. The ability for an employee to be awarded for the longevity he/she has at M C Bank.
3. The ability for an employee to earn time based on his/her officer status in the bank.
4. Time off to accrue rather than all given at once.

Through the several meetings of input with employees, the meetings with the executive management (which I am a part of) and the data from the Louisiana Community Bank Salary and Benefits Survey, the following PTP/PDO policy has been developed. This entire plan has been developed from scratch, with nothing to use as a starting point except for the meetings that have been held with various employees. This plan has been turned over to our Human Resources attorney for review and his recommendations have been incorporated into the plan. The data analysis for the development of this plan will be examined in the financial impact portion of this project.

PTO Policy

SUBJECT: PAID TIME OFF (PTO)

PTO PROGRAM

M C Bank has instituted a program to give its employees time off for vacation, medical issues and personal time off. This program, called Paid Time Off (PTO) replaces all prior Vacation and Sick Leave Programs. All employees will receive time off under a tiered system based on their exempt/nonexempt/officer status and years of service. Employees may use this time off for vacation, medical issues, family emergency, personal time to attend school functions and other approved time off. The only additional time off that an employee can use and be paid by the bank besides PTO is holiday, bereavement, jury duty and Bank related meetings.

Employees who have been employed with M C Bank for more than 90 days are eligible to earn PTO time. The time that an employee receives will be earned on each regular pay period for M C Bank. Any special pay periods and periods which an employee receives pay for time not

worked will not earn PTO time. Only the normal payroll periods of the 15th and end of the month will earn PTO time.

For all employees (officer and non-officer status), PTO will be granted to the employee in hours. Nonexempt employees must take PTO in hourly increments. Exempt employees must take PTO in 8-hour increments.

The cap for the total number of paid hours that an employee will be granted in any calendar year will be set at 280 hours or 35 days. No employee of M C Bank will be granted more than this number of hours based on employee status and years of service. The only additional paid time off that an employee of M C Bank will be eligible to use is the number of hours that he/she has put aside into carry over/rollover hours. PTO hours will run concurrently with FMLA and non-FMLA leave when either applies.

YEARS OF SERVICE

Employees will be allowed to earn additional PTO based on the number of years the employee has been employed by M C Bank. All additional PTO will be granted on January 1st of each year, in the year immediately following the 5-year anniversary year, and will be granted based on the below schedule:

Full Time employees will be granted 8 hours of PTO for each five years of service, granted in the following year.

Part Time employees will be granted 4 hours of PTO for each five years of service, granted in the following year.

The cap for the total number of paid hours that an employee will be granted in any year will be set at 280 hours. No employee of M C Bank will be granted more than this number of hours based on employee classification and years of service. The only additional paid time off that an employee of M C Bank will be eligible to use is the number of hours that he/she has put aside into carry over/rollover hours. PTO hours will run concurrently with FMLA and non-FMLA leave when either applies.

The days that will be awarded for Years of Service will begin on 01/01/2018.

Examples of PTO granted for years of service:

1. If an employee has been employed at M C Bank for five years on 03/01/2017, the employee will receive an additional 8 hours of PTO on 01/01/2018, and each year thereafter until the next five-year anniversary.
2. If an employee has been employed at M C Bank for 20 years on 03/01/2017, the employee will receive an additional 32 hours of PTO on 01/01/2018, and each year thereafter until the next five-year anniversary.

CARRY OVER/ROLLOVER HOURS/DAYS – (Also called “banked” hours)

An employee of M C Bank will be allowed to carry over/roll over a set number of hours from calendar year to calendar year. The number of hours that an employee can carry over/roll over will be set based on the following schedule:

The total number of hours that an employee can carry over/roll over is not to exceed 280 hours.

Any hours that cannot be used and cannot be “banked” will not be paid by M C Bank.

Employees of M C Bank on 01/01/2017:

For employees who are employed with M C Bank on 01/01/2017, PTO time will be given to the employee to assist in the transition from our previous Sick/Vacation time to our PTO time. The amount of time that will be given to the employee on 01/01/2017 will be based on the below schedule:

Part-time employees:	60 hours
Full-time hourly, non-officer status employees:	160 hours
Full-time hourly, officer status employees:	160 hours
Full-time salary, non-officer status employees:	160 hours
Full-time salary, officer status employees:	160 hours

The cap for the total number of paid hours that an employee will be granted in any year will be set at 280 hours. No employee of M C Bank will be granted more than this number of hours based on employee classification and years of service. The only additional paid time off that an employee of M C Bank will be eligible to use is the number of hours that he/she has put aside into carry over/rollover hours/days. PTO hours will run concurrently with FMLA and non-FMLA leave when either applies.

EMPLOYEE CLASSIFICATIONS

A. REGULAR PART-TIME EMPLOYEE PTO ELIGIBILITY SCHEDULE:

Part-time employees will be eligible to earn according to the following schedule:

3 hours of PTO per regular pay period

**B. FULL-TIME NON-EXEMPT (HOURLY) EMPLOYEE/NON-OFFICER STATUS
ELIGIBILITY SCHEDULE:**

Full-time non-exempt/non-officer status employees will be eligible to earn according to the following schedule:

6 hours of PTO per regular pay period

In addition, for each five years of service to M C Bank, a full-time employee in this category will receive an additional 8 hours of PTO. The additional hours for years of service will be granted on January 1st of each year beginning in year 2018.

The cap for the total number of paid hours that an employee will be granted in any year will be set at 280 hours. No employee of M C Bank will be granted more than this number of hours based on employee classification and years of service. The only additional paid time off that an employee of M C Bank will be eligible to use is the number of hours that he/she has put aside into carry over/rollover hours. PTO hours will run concurrently with FMLA and non-FMLA leave when either applies.

**C. FULL-TIME NON-EXEMPT (HOURLY) EMPLOYEE/OFFICER STATUS
ELIGIBILITY SCHEDULE:**

Full-time non-exempt/officer status employees will be eligible to earn according to the following schedule:

8 hours of PTO per regular pay period

In addition, for each five years of service to M C Bank, a full-time employee in this category will receive an additional 8 hours of PTO. The additional hours for years of service will be granted on January 1st of each year beginning in year 2018.

The cap for the total number of paid hours that an employee will be granted in any year will be set at 280 hours. No employee of M C Bank will be granted more than this number of hours based on employee classification and years of service. The only additional paid time off that an employee of M C Bank will be eligible to use is the number of hours that he/she has put aside into carry over/rollover hours. PTO hours will run concurrently with FMLA and non-FMLA leave when either applies.

D. FULL-TIME EXEMPT (SALARY) EMPLOYEE/NON-OFFICER STATUS

ELIGIBILITY SCHEDULE:

Full-time exempt/non-officer status employees will be eligible to earn according to the following schedule:

8 hours of PTO per regular pay period

In addition, for each five years of service to M C Bank, a full-time employee in this category will receive an additional 8 hours of PTO. The additional hours for years of service will be granted on January 1st of each year beginning in year 2018.

The cap for the total number of paid hours that an employee will be granted in any year will be set at 280 hours. No employee of M C Bank will be granted more than this number of hours based on employee classification and years of service. The only additional paid time off that an employee of M C Bank will be eligible to use is the number of hours that he/she has put aside

into carry over/rollover hours. PTO hours will run concurrently with FMLA and non-FMLA leave when either applies.

E. FULL-TIME EXEMPT (SALARY) EMPLOYEE/OFFICER STATUS

ELIGIBILITY SCHEDULE:

Full-time exempt/officer status employees will be eligible to earn according to the following schedule:

10 hours of PTO per regular pay period

In addition, for each five years of service to M C Bank, a full-time employee in this category will receive an additional 8 hours of PTO. The additional hours for years of service will be granted on January 1st of each year beginning in year 2018.

The cap for the total number of paid hours that an employee will be granted in any year will be set at 280 hours. No employee of M C Bank will be granted more than this number of hours based on employee classification and years of service. The only additional paid time off that an employee of M C Bank will be eligible to use is the number of hours that he/she has put aside into carry over/rollover hours. PTO hours will run concurrently with FMLA and non-FMLA leave when either applies.

F. TEMPORARY EMPLOYEES

Temporary employees will not be eligible for PTO.

GENERAL PDO/PTO INFORMATION

1. Hourly employees must take PTO in 1 hour increments.
2. Salary employees must take PTO in 8-hour increments.

3. All employees must take at least 40 consecutive hours of PTO in a calendar year.
4. PDO is calculated in a calendar year. When an employee reaches a five-year anniversary, the additional time will be granted in the following calendar year.
5. Human Resources will circulate a PTO calendar to each supervisor in November of each year. At least ½ of each employee's PTO must be scheduled on that calendar. This calendar must include the employee's 40 consecutive hours out of the Bank. Each supervisor is required to give credit for seniority to years of service within their department. This calendar is due back to Human Resources no later than December 1st. Human Resources is required to compile this information into a master list. Each supervisor can block out dates in the year that are not eligible for employees to take PTO at his/her own discretion. Each supervisor is also in control of the number of employees that can be out at any time in his/her department.
6. An employee who moves from hourly to salary or from salary to hourly within a calendar year will have their PTO converted at that time. If an employee has a change in officer status, the amount of time that employee can earn will take effect immediately.
7. The President/C.E.O. may, to insure adequate staffing, cancel an employee's pre-scheduled PTO time off regardless of when it was scheduled.
8. At no time, shall an employee be able to use (or borrow) PTO time that has not been earned or granted. If an employee does not have PTO and must be out of the Bank (other than immediate family bereavement, holiday, jury duty or Bank related meeting), the employee must take the time as unpaid time. Any employee taking unpaid time must have that time preapproved by the supervisor of that employee.

9. Any PTO time that an employee has at the end of a calendar year that has not been taken will move to the employee's carry over PTO. Any hours that would make the employee's PTO/PDO "banked" amount exceed 280 hours will be lost, cannot be taken and will not be paid.
10. PTO and any other time paid but not worked will not count as hours worked towards calculating overtime.

Examples

1. Employee John Smith is a **non-exempt (hourly)/non-officer/part-time employee** that was hired at M C Bank on 06/22/2007. On 01/01/2017, John Smith will be given 60 hours of PTO. Each regular pay period beginning 01/15/2017, John Smith will earn 3 hours of PTO. On 12/31/2017, any PTO remaining for John Smith that is less than 280 hours will be moved to carryover or "banked" PTO. Any PTO that exceeds 280 hours will be lost, cannot be taken and will not be paid. On 01/01/2018, John Smith will be given 8 hours of PTO for years of service worked at M C Bank (4 hours per 5 years worked). In addition, John Smith will continue to earn 3 hours of PTO for each regular pay period. On 12/31/2018, any PTO remaining for John Smith that has not been taken will be added to John Smith's carryover or "banked" PTO. Once John Smith's carryover or "banked" PTO reaches 280 hours, any PTO remaining will be lost, cannot be taken and will not be paid.
2. Employee Cathy Smith is a **non-exempt (hourly)/non-officer/full-time employee** that was hired at M C Bank on 06/22/2002. On 01/01/2017, Cathy Smith will be given 160 hours of PTO. Each regular pay period beginning 01/15/2017, Cathy Smith will earn 6 hours of PTO. On 12/31/2017, any PTO remaining for Cathy Smith that is less than 280

hours will be moved to carryover or “banked” PTO. Any PTO that exceeds 280 hours will be lost, cannot be taken and will not be paid. On 01/01/2018, Cathy Smith will be given 24 hours of PTO for years of service worked at M C Bank (8 hours per five years worked). In addition, Cathy Smith will continue to earn 6 hours of PTO for each regular pay period. On 12/31/2018, any PTO remaining for Cathy Smith that has not been taken will be added to Cathy Smith’s carryover or “banked” PTO. Once Cathy Smith’s carryover or “banked” PTO reaches 280 hours, any PTO remaining will be lost, cannot be taken and will not be paid.

3. Employee Tim Smith is a **non-exempt (hourly)/officer/full-time employee** that was hired at M C Bank on 06/22/2014. On 01/01/2017, Tim Smith will be given 160 hours of PTO. Each regular pay period beginning 01/15/2017, Tim Smith will earn 8 hours of PTO. On 12/31/2017, any PTO remaining for Tim Smith that is less than 280 hours will be moved to carryover or “banked” PTO. Any PTO that exceeds 280 hours will be lost, cannot be taken and will not be paid. On 01/01/2018, Tim Smith will be given 0 hours of PTO for years of service worked at M C Bank (Tim Smith has worked less than 5 years). In addition, Tim Smith will continue to earn 8 hours of PTO for each regular pay period. On 12/31/2018, any PTO remaining for Tim Smith that has not been taken will be added to Tim Smith’s carryover or “banked” PTO. Once Tim Smith’s carryover or “banked” PTO reaches 280 hours, any PTO remaining will be lost, cannot be taken and will not be paid.

4. Employee Sally Smith is an **exempt (salary)/non-officer/full-time employee** that was hired at M C Bank on 06/22/1997. On 01/01/2017, Sally Smith will be given 160 hours of PTO. Each regular pay period beginning 01/15/2017, Sally Smith will earn 8 hours of

PTO. On 12/31/2017, any PTO remaining for Sally Smith that is less than 280 hours will be moved to carryover or “banked” PTO. Any PTO that exceeds 280 hours will be lost, cannot be taken and will not be paid. On 01/01/2018, Sally Smith will be given 32 hours of PTO for years of service worked at M C Bank (8 hours per five years worked). In addition, Sally Smith will continue to earn 8 hours of PTO for each regular pay period. On 12/31/2018, any PTO remaining for Sally Smith that has not been taken will be added to Sally Smith’s carryover or “banked” PTO. Once Sally Smith’s carryover or “banked” PTO reaches 280 hours, any PTO remaining will be lost, cannot be taken and will not be paid.

5. Employee Mary Smith is an **exempt (salary)/officer/full-time employee** that was hired at M C Bank on 06/22/1977. On 01/01/2017, Mary Smith will be given 160 hours of PTO. Each regular pay period beginning 01/15/2017, Mary Smith will earn 10 hours of PTO. On 12/31/2017, any PTO remaining for Mary Smith that is less than 280 hours will be moved to carryover or “banked” PTO. Any PTO that exceeds 280 hours will be lost, cannot be taken and will not be paid. On 01/01/2018, Mary Smith will be given 40 hours of PTO for years of service worked at M C Bank (8 hours per five years worked totals 64 hours, however Mary Smith cannot be granted any more than 280 hours in a year based on employee status and years of service. Since based on employee status Mary Smith can earn 240 hours, she is only eligible to receive 40 hours for years of service). In addition, Mary Smith will continue to earn 10 hours of PTO for each regular pay period. On 12/31/2018, any PTO remaining for Mary Smith that has not been taken will be added to Mary Smith’s carryover or “banked” PTO. Once Mary Smith’s carryover or “banked”

PTO reaches 280 hours, any PTO remaining will be lost, cannot be taken and will not be paid.

Insurance

Currently M C Bank is very generous in the insurance offerings to the employees of the bank. M C Bank bears 100% of the cost for an employee's health, dental, vision, short-term disability, long-term disability and life insurance. While this plan is very generous and places M C Bank in the top of offerings to their employee base, it also has several limitations. First and foremost, this health insurance plan is quite costly for M C Bank (which will be analyzed in the financial impact portion of this project). The health insurance plan is a plan that has not been changes in several years due to the fear of losing the "grandfather status" under The Affordable Care Act. The current health insurance plan is not a high deductible plan; it is a plan that has low deductibles and low copayment amounts. Secondly, from meeting with the focus groups within the bank, the plan is quite appealing to the older generation of employees at the bank but not nearly as appealing to the younger generation of employees within the bank. The older generations of employees do not have a family to insure, most of their children are out of the house and have reached the maximum age to insure under a family plan. On the other hand, the younger generations of employees are amidst the age of raising a family. For an employee to bear the full cost of insuring his/her family the costs are astronomical under the current health insurance plan at the bank and there is nothing paid toward that cost by the bank. Finally, our current insurance package only has one option. All employees in the focus group would like to see several options to insurance offerings so they can have options to pick from.

All of the above issues and concerns have been brought to our insurance agent for M C Bank. Our insurance package renews in April of 2017. Prior to renewal, our agent is going to

make a formal presentation to M C Bank on several options that we can pick from. In addition, M C Bank is currently exploring the option of utilizing Medicare as an option of insuring our population of employees that have reached the age of becoming Medicare eligible. Several of the banks that were polled for this project have begun providing a Medicare Supplement and a Prescription Drug Card for this group of employees that has a cost of less than ½ of a traditional health insurance group plan while also increasing the benefits to the employee and reducing the out of pocket costs for the employee. This research will not be done prior to the due date of this project (due to the renewal date of our insurance package) so the final outcome of the insurance analysis will not be complete.

Retirement

M C Bank currently offers a 401k program for full-time employees through Pentegra. Once again, when compared to our peers, our match of 100% up to 5% of an employee's salary is quite aggressive. In addition, an employee is eligible after 90 of employment. An employee is fully vested into the 401k from day one. The focus group of employees are quite satisfied with our current plan and initially offered no recommendations for changes to the plan. Several years ago, the employees asked for an option to take a loan from his/her 401k and that option was put into effect. Due to the fact that there were no recommendations for change to our 401k plan from M C Bank employees, Pentegra was contacted to determine if there were any options available to enhance our plan. Based on conversations with Pentegra, there are three options that can be considered to enhance our plan at M C Bank. First, M C Bank can increase the contribution percentage from 5% to 6% without losing our 401k "grandfather status". The advantage to maintaining "grandfather status" is the minimal amount of reporting requirements by the bank. Once a plan is not a "grandfather status" plan, there are many more reporting

requirements and scrutiny under Federal Law. Secondly, M C Bank has the option to put in place a plan that would have the bank give the employee additional contributions on his/her behalf based on the performance of the bank. Our representative at Pentegra will be presenting different options to M C Bank at our next annual meeting to discuss these in further detail. This meeting will not take place until after this project is due. Thirdly, M C Bank has the ability to dedicate a certain portion of bank stock that can be allocated to be awarded to an employee within the 401k plan. This option will be a separate project in itself and will not be part of this project but will be explored as a possible future offering to enhance the benefits package for employees at M C Bank.

Financial Impact to M C Bank

Any change to a benefit offering by the bank will have a financial impact on the bank. Plans may sound wonderful to talk about in theory, however until the numbers are analyzed, the feasibility of various projects cannot be determined. At M C Bank, not all projects are required to have a positive impact on the financial statement but all projects must be completely reviewed in order to reduce the element of surprise. In many cases M C Bank will decide to continue with a project, even if the project will cost the bank money, if the non-financial impact to the bank is positive and outweighs the negative financial impact. All major projects are reviewed on an individual basis to make this determination.

The approach used to analyze the financial impact of this project consists of several layers. The initial layer was to do a complete analysis of our current employee sick/vacation time for a baseline cost analysis. The second step for the bank was to determine the maximum number of hours that an employee will be eligible for under the new PTO plan. By comparing these two by the total number of days will allow the bank to quantify a potential dollar impact to the bank. Once the dollar impact is determined, assumptions will be made to estimate best and worst case scenarios. Finally, research will be done to compare the assumptions that were made to actual industry data.

Current Sick/Vacation Analysis

The current number of sick/vacation days awarded is based solely on the amount of time that an employee has worked at M C Bank. If an employee has worked at M C Bank for 1-9 years, that employee receives 2 weeks sick time and 2 weeks vacation time. If an employee has been employed by M C Bank for 10+ years, that employee receives 3 weeks sick time and 4

weeks vacation time. Sick time and vacation time that is not used by December 31st of the calendar year is lost and the employee is not paid anything for that time. If an employee's job is terminated, whether voluntary or involuntary, the employee is paid for any vacation time but not for any sick time. The only deviation to the above rules is for employees that are part-time or for employees that have been working at M C Bank for less than 1 year. The below chart depicts our current employee makeup of M C Bank in relation to the current sick/vacation policy that is being replaced.

Employee	Current Sick Hours	Current Vacation Hours	Total Current Hours	Employee	Current Sick Hours	Current Vacation Hours	Total Current Hours
Employee 1	160	120	280	Employee 44	160	120	280
Employee 2	160	120	280	Employee 45	80	80	160
Employee 3	80	80	160	Employee 46	80	80	160
Employee 4	160	120	280	Employee 47	160	120	280
Employee 5	80	80	160	Employee 48	160	120	280
Employee 6	80	80	160	Employee 49	160	120	280
Employee 7	160	120	280	Employee 50	32	80	112
Employee 8	80	120	200	Employee 51	160	120	280
Employee 9	0	0	0	Employee 52	160	120	280
Employee 10	80	80	160	Employee 53	80	80	160
Employee 11	160	120	280	Employee 54	80	80	160
Employee 12	160	120	280	Employee 55	160	120	280
Employee 13	80	80	160	Employee 56	160	120	280
Employee 14	160	120	280	Employee 57	24	80	104
Employee 15	0	50	50	Employee 58	80	80	160

Employee 16	160	120	280	Employee 59	160	120	280
Employee 17	40	80	120	Employee 60	160	120	280
Employee 18	0	50	50	Employee 61	0	0	0
Employee 19	160	120	280	Employee 62	80	80	160
Employee 20	0	50	50	Employee 63	160	120	280
Employee 21	160	120	280	Employee 64	160	120	280
Employee 22	160	120	280	Employee 65	40	40	80
Employee 23	160	120	280	Employee 66	80	80	160
Employee 24	160	120	280	Employee 67	40	80	120
Employee 25	80	80	160	Employee 68	80	80	160
Employee 26	80	80	160	Employee 69	80	120	200
Employee 27	160	120	280	Employee 70	160	120	280
Employee 28	0	0	0	Employee 71	0	50	50
Employee 29	160	120	280	Employee 72	160	120	280
Employee 30	160	120	280	Employee 73	160	120	280
Employee 31	160	120	280	Employee 74	160	120	280
Employee 32	80	80	160	Employee 75	160	120	280
Employee 33	160	120	280	Employee 76	160	120	280
Employee 34	160	120	280	Employee 77	0	50	50
Employee 35	160	120	280	Employee 78	160	120	280
Employee 36	160	120	280	Employee 79	80	80	160
Employee 37	160	120	280	Employee 80	160	120	280
Employee 38	160	120	280	Employee 81	160	120	280
Employee 39	160	120	280	Employee 82	160	120	280
Employee 40	160	120	280	Employee 83	0	50	50

Employee 41	80	80	160	Employee 84	0	0	0
Employee 42	80	80	160	Employee 85	0	0	0
Employee 43	160	120	280	Totals	9,536	8,180	17,716

As depicted in the above chart, the current total sick hours awarded for our employee base is 9,536; the total vacation hours awarded for our employee base is 8,180; the total combined hours awarded to our employee base is 17,716.

Proposed PTO Hours

The proposed PTO plan will have many more moving parts. Employees of M C Bank will be able to earn PTO hours based on employee officer status, exempt/non-exempt status and length of time working at M C Bank. The below chart shows the same employees (our current staff) based on the amount of PTO each employee can earn in a year.

Employee	Proposed PTO Hours	Years of Service Hours	Total PTO Hours	Employee	Proposed PTO Hours	Years of Service Hours	Total PTO Hours
Employee 1	144	56	200	Employee 44	192	40	232
Employee 2	192	40	232	Employee 45	144	8	152
Employee 3	144	0	144	Employee 46	144	8	152
Employee 4	144	32	176	Employee 47	144	48	192
Employee 5	240	8	248	Employee 48	144	16	160
Employee 6	144	0	144	Employee 49	192	48	240

Employee 7	144	32	176	Employee 50	144	0	144
Employee 8	240	0	240	Employee 51	192	56	248
Employee 9	144	0	144	Employee 52	144	48	192
Employee 10	144	0	144	Employee 53	144	8	152
Employee 11	240	72	280	Employee 54	144	0	144
Employee 12	144	56	200	Employee 55	192	56	248
Employee 13	144	0	144	Employee 56	144	16	160
Employee 14	192	56	248	Employee 57	144	0	144
Employee 15	72	0	72	Employee 58	144	0	144
Employee 16	240	56	280	Employee 59	144	48	192
Employee 17	144	0	144	Employee 60	144	64	208
Employee 18	72	0	72	Employee 61	144	0	144
Employee 19	240	32	272	Employee 62	144	0	144
Employee 20	72	0	72	Employee 63	192	56	248
Employee 21	240	8	248	Employee 64	144	24	168
Employee 22	240	56	280	Employee 65	144	0	144
Employee 23	144	16	160	Employee 66	240	8	248
Employee 24	240	56	280	Employee 67	144	0	144
Employee 25	144	8	152	Employee 68	144	8	152
Employee 26	144	8	152	Employee 69	240	8	248
Employee 27	144	80	224	Employee 70	144	32	176
Employee 28	144	0	144	Employee 71	72	80	152
Employee 29	144	32	176	Employee 72	144	16	160
Employee 30	144	40	184	Employee 73	144	24	168
Employee 31	144	56	200	Employee 74	144	56	200

Employee 32	144	0	144	Employee 75	240	48	280
Employee 33	192	64	256	Employee 76	240	0	240
Employee 34	144	64	208	Employee 77	72	0	72
Employee 35	144	16	160	Employee 78	144	16	160
Employee 36	192	48	240	Employee 79	144	8	152
Employee 37	144	40	184	Employee 80	144	40	184
Employee 38	192	32	224	Employee 81	144	24	168
Employee 39	144	40	184	Employee 82	144	64	208
Employee 40	144	16	160	Employee 83	72	0	72
Employee 41	144	8	152	Employee 84	72	0	72
Employee 42	192	8	200	Employee 85	72	0	72
Employee 43	144	24	168	Totals	13,344	2,136	15,392

As depicted in the above chart, the current total PTO awarded for our employee base on an annual basis is 13,344; the total hours awarded for years of service for our employee base is 2,136; the total combined hours awarded to our employee base is 15,392.

Side-by-Side Comparison

In the previous two sections, the current plan and the new plan were detailed for each employee of M C Bank. The chart below compares the two plans on each employee of the bank, with the difference on a per employee basis.

First Name	Total Sick/Vac. Hours	Total PTO/PDO Hours	Difference Current to Proposed	First Name	Total Sick/Vac. Hours	Total PTO/PDO Hours	Difference Current to Proposed
Employee 1	280	200	(80)	Employee 44	280	232	(48)

Employee 2	280	232	(48)	Employee 45	160	152	(8)
Employee 3	160	144	(16)	Employee 46	160	152	(8)
Employee 4	280	176	(104)	Employee 47	280	192	(88)
Employee 5	160	248	88	Employee 48	280	160	(120)
Employee 6	160	144	(16)	Employee 49	280	240	(40)
Employee 7	280	176	(104)	Employee 50	112	144	32
Employee 8	200	240	40	Employee 51	280	248	(32)
Employee 9	0	144	144	Employee 52	280	192	(88)
Employee 10	160	144	(16)	Employee 53	160	152	(8)
Employee 11	280	280	0	Employee 54	160	144	(16)
Employee 12	280	200	(80)	Employee 55	280	248	(32)
Employee 13	160	144	(16)	Employee 56	280	160	(120)
Employee 14	280	248	(32)	Employee 57	104	144	40
Employee 15	50	72	22	Employee 58	160	144	(16)
Employee 16	280	280	0	Employee 59	280	192	(88)
Employee 17	120	144	24	Employee 60	280	208	(72)
Employee 18	50	72	22	Employee 61	0	144	144
Employee 19	280	272	(8)	Employee 62	160	144	(16)
Employee 20	50	72	22	Employee 63	280	248	(32)
Employee 21	280	248	(32)	Employee 64	280	168	(112)
Employee 22	280	280	0	Employee 65	80	144	64
Employee 23	280	160	(120)	Employee 66	160	248	88
Employee 24	280	280	0	Employee 67	120	144	24
Employee 25	160	152	(8)	Employee 68	160	152	(8)
Employee 26	160	152	(8)	Employee 69	200	248	48

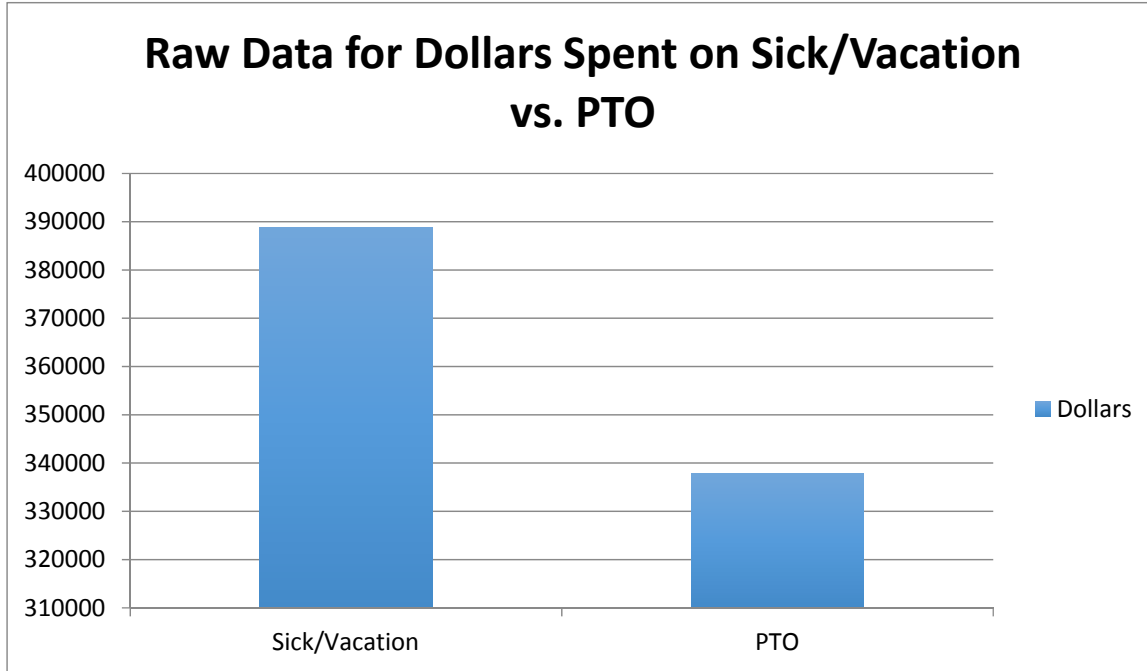
Employee 27	280	224	(56)	Employee 70	280	176	(104)
Employee 28	0	144	144	Employee 71	50	152	102
Employee 29	280	176	(104)	Employee 72	280	160	(120)
Employee 30	280	184	(96)	Employee 73	280	168	(112)
Employee 31	280	200	(80)	Employee 74	280	200	(80)
Employee 32	160	144	(16)	Employee 75	280	280	0
Employee 33	280	256	(24)	Employee 76	280	240	(40)
Employee 34	280	208	(72)	Employee 77	50	72	22
Employee 35	280	160	(120)	Employee 78	280	160	(120)
Employee 36	280	240	(40)	Employee 79	160	152	(8)
Employee 37	280	184	(96)	Employee 80	280	184	(96)
Employee 38	280	224	(56)	Employee 81	280	168	(112)
Employee 39	280	184	(96)	Employee 82	280	208	(72)
Employee 40	280	160	(120)	Employee 83	50	72	22
Employee 41	160	152	(8)	Employee 84	0	72	72
Employee 42	160	200	40	Employee 85	0	72	72
Employee 43	280	168	(112)	Total	17,716	15,392	(2,324)

At first glance, the side-by-side comparison shows that on a topical level that the new PTO plan issues 2,324 less hours to the employees of M C Bank. However, in order for this to be true, the assumption would have to be made that every employee uses every sick/vacation hour and also every PTO hour each year. Research proves that this is not the case. In a recent study called “Project: Time Off”, The Bureau of Labor Statistics reports that nearly 55% of employees leave vacation time on the table, unused at year end. For those employers that issue sick time, close to

80% of employees end the year with unused sick time. Nationwide, the average employee takes only 16.2 days of paid leave per year. This average has dropped from over 20 in the year 2000, so there is an obvious decline in the number of days of paid leave that employees are taking away from work.

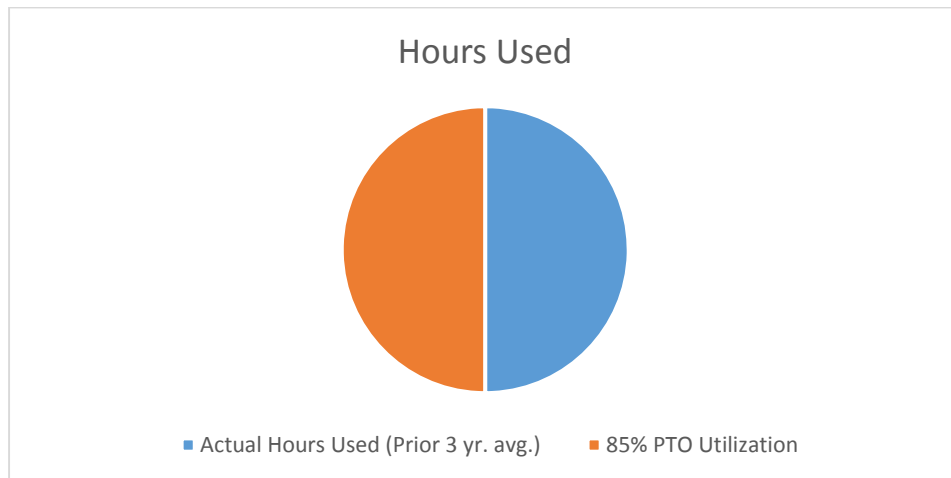
The numbers from M C Bank are somewhat similar to the national average. In averaging the last 3 years of data from M C Bank, employees are leaving vacation time on the table at approximately 10% of time not used and the percentage is much higher for sick time at almost 40% of sick time is not being used. To assist in the cost comparison from one plan to the next, the average cost of an hour will be based on the average hourly rate at M C Bank for an employee, \$21.95. Without using assumptions and industry data, this analysis would not be very accurate. Just using the raw numbers, moving to this PTO plan would have a positive impact on M C Bank. The positive impact would be due to the fact that the assumption would be made that employees of M C Bank use all sick/vacation time and also use all PTO time. In addition, the raw data assumption does not take into account any carryover time that will be implemented in the new PTO plan. In fact, just using raw numbers, the total amount spent by the bank on paid

leave hours would decrease by \$51,011.80. See the raw number comparison below.

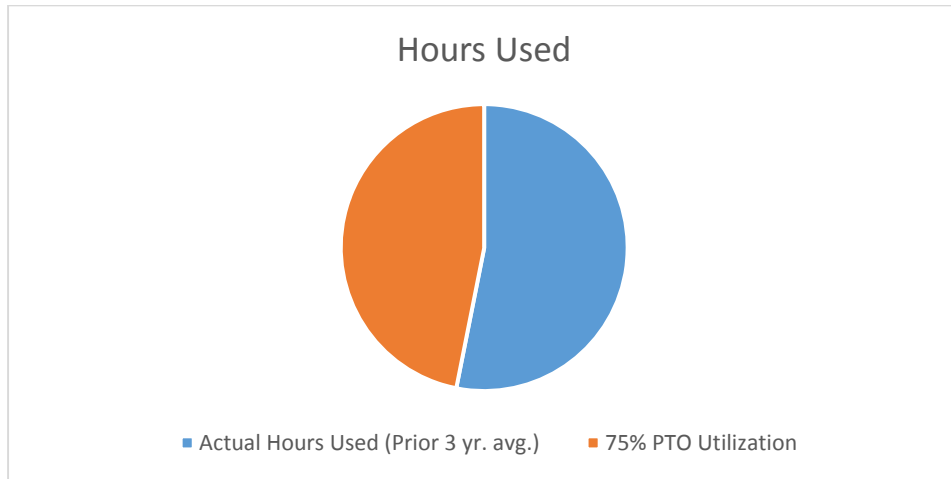


Scenarios with Assumptions

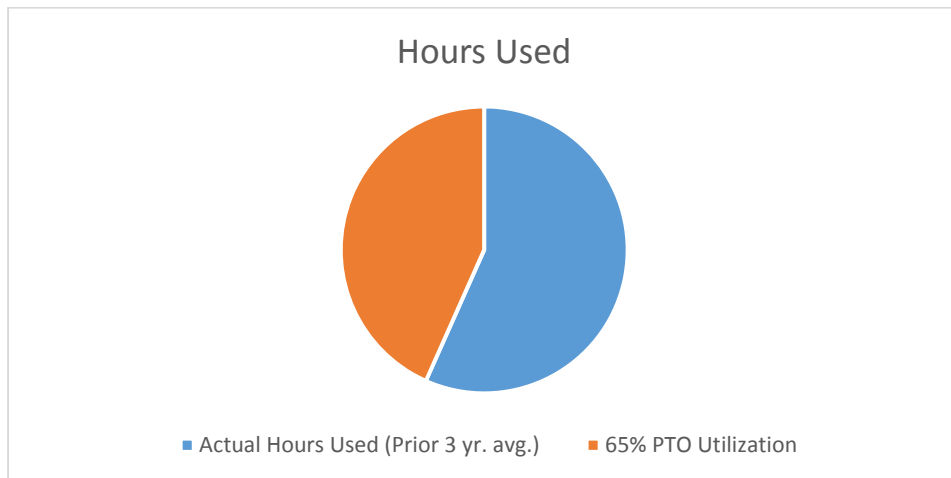
Scenario #1 – Actual Sick/Vacation Used in Prior 3 years comparing to a PTO Utilization of 85% of PTO Used and 15% of PTO moved to Carryover



Scenario #2 – Actual Sick/Vacation Used in Prior 3 years comparing to a PTO Utilization of 75% of PTO Used and 25% of PTO moved to Carryover



Scenario #3 – Actual Sick/Vacation Used in Prior 3 years comparing to a PTO Utilization of 65% of PTO Used and 35% of PTO moved to Carryover



As depicted in the above three charts, the utilization of the total number of hours used in PTO should decrease in moving from sick/vacation time to PTO. At 85% PTO utilization, which is well above industry standards (will be covered in next paragraph), the number of hours used is about the same number of average hours used in sick/vacation time. There is another element that M C Bank is adding with the ability for an employee to carryover or bank 280 hours. The

cost for this new benefit should be carried as an accrued liability as this builds up over time. At an average hourly rate of \$21.95 per employee, the total for this at full utilization per employee is \$6,146.00.

Industry Data

Based on industry data, M C Bank is moving toward joining most companies in the US by offering the ability to carryover or bank PTO. According to the Project Time Off study that was completed by Oxford Economics, 55% of businesses in the US allow employees to carryover PTO. Also in this study, the data revealed that there is a sharp decline in the number of days away from his/her job that employees are using. The average number of days has dropped from slightly over 20 to approximately 16. Based on this number, the estimates that were used in the comparisons are extremely conservative. The comparisons used were utilization rates of 85%, 75% and 65%. To reach the industry data standards, the utilization rates for M C Bank would be much closer to 50%. The data for these industry statistics show even more revealing information when looking at the raw data. Government employees leave 21% of time earned on the table whereas private sector employees only leave 15% (therefore the first assumption used an 85% utilization rate).

Results of Financial Analysis

Based on the financial impact to M C Bank, this plan is one in which we will continue to move forward with. As previously detailed in this analysis, this decision is not solely a financial decision for the bank. Even though there is a decrease in the total hours earned, the addition of carryover or banked hours will carry a cost. M C Bank has long designed benefits around the voice of the employees that make M C Bank wonderful and this is another example of that. All

the analysis places this project at a “net even” impact on the bottom line for M C Bank, the overwhelming non-financial benefits are the driving force behind this project.

Non-Financial Impact

As with any large change in the policies of an organization, it is often much easier to quantify the financial impact of the change being made than it is to measure the possible cost of the impact on the people of the organization. The human element, although predictable to an extent, has such a wide variety of reactions and responses to change that it is nearly impossible to plan for all possible outcomes. As detailed in previous sections, M C Bank employees are comprised of ages from young to tenured. In addition, the potential changes could not only have an impact on the employees of M C Bank, but also the customers of the bank. Any change that impacts the employees of the bank have a ripple effect that can reach the customer. In this section of this project, the non-financial impacts of the PTO change will be covered to include our current employees of the bank, potential new hires to M C Bank and the potential impact to the customer base of M C Bank.

Impact on Current Employees

The employees of M C Bank are the lifeblood of the organization. It is the employees of the bank that make the bank such an amazing place to work. With that being said, the employees lie at the nucleus of all decisions made at M C Bank. While examining our current employee base, employees will be broken into categories of less than 10 years and greater than 10 years of service.

Currently Employed with M C Bank

Full-Time Employees of M C Bank with less than 10 years of service to the bank currently receive 2 weeks of vacation time and 2 weeks of sick time as an employee of the bank. Full-Time employees of M C Bank with more than 10 years of service to the bank receive 3

weeks of vacation time and 4 weeks of sick time as an employee of the bank. The employee is eligible for the sick and vacation time after one full year of service to M C Bank. Under the new PTO plan, full-time employees will receive time based on his/her hourly/salary status as well as his/her officer status. This time is not awarded in full on January 1st as in our previous plans rather the time is accrued over each pay period. During a one-time event on 01/01/2017, the employee will be awarded 160 hours of PTO. Based on the implementation of the new plan, not many issues are anticipated with this group of employees during the first year. All of the employees in this category will be awarded more days in 2017 than in the previous year and previous plans. Additionally, a positive impact to the entire organization is the ability to earn additional hours based on years of service to M C Bank. This is an item that has been long requested by employees of the bank and will finally be brought to implementation.

Part-Time Employees

Part-time employees will begin with 60 hours and have the ability to earn an additional 72 hours throughout 2017. As a result, there is a positive impact for this group. In addition, the employee will have the ability to carry over up to 280 hours from 2017 – 2018, which has never been an option at M C Bank until now, should also net positive results among this group. Part-time employees at M C Bank have always had the ability to earn 40 hours of vacation and 0 hours of sick time, so the potential issues with this group are minimal if any.

Hourly/Non-Officer Status Employees

Hourly/Non-Officer status employees will begin with 160 hours and have the ability to earn an additional 144 hours throughout 2017. As a result, there is a positive impact for this group. In addition, the employee will have the ability to carry over up to 280 hours from 2017 – 2018, which has never been an option at M C Bank until now, should also net positive results

among this group. A potential issue with this group of employees includes envy of other groups since this group is the lowest earning group of employees. Based on the employee's hourly/non-officer status, this is the lowest level of employee classification at the bank; therefore this is also the lowest earning classification at the bank. Another potential issue will arise when an employee depletes all PTO and needs to be away from the bank. There is absolutely zero "borrowing" under this plan. If an employee is not in the bank and has no PTO time, he/she will not be paid and will also have a mandatory consultation with Human Resources. Consecutive time away from the bank has always been allowed by taking five consecutive days away from the bank using days from any source. The time an employee takes in the past could be for a bank meeting, sick time, vacation time, etc. Under the new plan, every employee is required to take five consecutive days of PTO; this is a change that could potentially have a few negative vibes associated with it. The final potential issue anticipated with this group of employees is the fact that an hourly employee must take PTO in hourly increments. An employee was previously allowed to take time in any increment; this has been changed to hour increments only.

Hourly Officer and Salary Non-Officer Status Employees

Hourly Officer and Salary Non-Officer status employees will begin with 160 hours and have the ability to earn an additional 192 hours throughout 2017. As a result, there is a positive impact for this group. In addition, the employee will have the ability to carry over up to 280 hours from 2017 – 2018, which has never been an option at M C Bank until now, should also net positive results among this group. This group will also have some of the same potential issues as the previous group. This group may take issue with the requirement of taking hourly increments, consecutive five day PTO requirement and not being able to "borrow" time from future PTO accrual. There is another very large potential issue with this group of employees. A large

number of employees at the bank are moving from salary to hourly as a result of upcoming changes to the labor laws for our country. Although some of the changes have been placed on hold at this time, M C Bank is still implementing the changes as part of a complete audit we have done on employee classifications at the bank. As a result of moving from salary to hourly, this group will accrue less time per pay period than he/she would have if the changes from salary to hourly would not have taken place. Many of these employees have been salary for many years. Although Federal Law is mandating these changes, this will be viewed as a demotion to many employees. This change has been coming for a very long time and these employees have been made aware for over a year that the change was coming, but the transition will still be one that will be difficult for some employees to go through.

Salary Officer Status Employees

Salary Officer status employees will begin with 160 hours and have the ability to earn an additional 240 hours throughout 2017. As a result, there is a positive impact for this group. In addition, the employee will have the ability to carry over up to 280 hours from 2017 – 2018, which has never been an option at M C Bank until now, should also net positive results among this group. Potential issues are minimal for this group of employees. This group of employees has a very positive impact in all areas of this PTO plan. In the design of the PTO plan for this group of employees, much care was taken to try and award the employee for his/her service and tenure to the bank. This classification of employee has worked his/her way up through the ranks at the bank and should be rewarded as such. This level was also viewed as a level we would like all employees to strive for, as a result the benefits of making it to this level were designed as such. The largest issue that this group of employees will have with the plan is the understanding of the PTO plan and concept. This group of employees is charged with the responsibility of

learning the plan inside and out and meeting with all of the other employees of the bank to communicate the ins and outs of the plan. Although all of the different classifications of employees were involved in the design of the plan, not all employees understand the details of the plan; this group of employees is charged with the responsibility of relaying the information to the remaining employees of M C Bank.

Impact on Future Employees

Although M C Bank is very employee focused on our current team, losing sight of future hires and the impact on that group would not be a wise decision. M C Bank must compete with other employers to get the best talent and continue to attract the best talent to bring into our organization. With a focus on the thought process through which recent generations should be examined to ensure that this PTO plan is an attractive benefit to be an enhancement to our current offerings rather than a detriment. Although the intent is not for this paper to turn in a generational thesis, without a little background on Generations X and Y (the Millennials), an explanation of this PTO plan as it related to each of them would be difficult. Since in the immediate future, these are the only generations that could potentially be hired by M C Bank, this is the reason that only these two generations will be covered.

Generation X

Generation X employees are easily examined since M C Bank has many of them currently employed. Generation X employees are roughly defined as employees that were born between the years of 1965 – 1980. These boundaries are very loosely defined. These employees are a very large part of the work force because these are the children of “Baby Boomers”. This group of employees have some very distinct characteristics. The most prominent characteristics are:

- Grew up in a family of dual incomes
- Divorce rate is high
- Independent
- Comfortable with technology
- Very flexible, have some loyalty to employer
- Good work/life balance
- Assets/Debts are more close to being equal

Based on the above characteristics of this generation, the addition of this PTO plan should be very conducive attracting Generation X employees. The PTO plan is very flexible and gives an employee time off to spend as needed to keep the work/life balance in place. The fact that the plan shifts all responsibility on the individual employee, the independence of the employee will not be compromised. Finally, the fact that a new employee can begin building time off after 90 days of employment will be an attractive feature as well.

Generation Y (The Millennials)

Generation Y are probably the most unique generation to arrive in quite some time. This generation is defined as people that were born roughly between 1980 and 2000. This is the generation from where most the hires will come from for the foreseeable future. This generation is the focus of much research and direction of many organizations. As with Generation X, this generation also has some very distinct characteristics. Listed below are the most well defined traits of this generation:

- Best educated of all generations (related to test scores and college degrees)
- This group wants to share in the decision making on all levels

- Expectation of a timeline for career upward movement
- Work/Life balance is biased more toward life than work
- Ethics/Diversity are high priority to this group
- Have a large desire to “feel good” about decisions
- Long tenure at a job is not a goal

Based on the characteristics of “The Millennials”, this PTO plan should also be very conducive to hiring and potentially retaining new employees from this generation. The plan is very generous on time awarded, which will be very awarding to an employee that likes to have time away from the bank. In addition, a possible future enhancement to the plan will be to allow volunteer time to earn PTO, which will make the “feel good” characteristic of this generation flourish and allow M C Bank to have a potential edge over another employer. Lastly, since all policies here at the bank are designed by a cross section of our employee base, the desire that this generation must be involved in the decision-making process will help the bank in attracting talent from this generation.

Impact on Customers

As with any decision at M C Bank, the impact on our customer base must be examined. The initial thought is that an employee policy will not have an impact on our customer base, however that is not entirely true. The PTO Policy has a direct effect on our employees at M C Bank. The policy can have an impact on employee morale, which can influence the way our employees interact with our customers. Based on the analysis that has been completed, this should have a positive effect on employee morale. Another impact that this may have on our customer base is the fact that we are known as being “The Hometown Spirit” bank in our community. Our employee focus group that helped in the design of this plan is very excited

about this plan. When our full staff becomes excited about this plan in the same way, there will be many conversations about the wonderful plan that M C Bank has instituted for its employees. In addition, the plan is built in a way that we can add as time goes on. If we decide to add such benefits as earning PTO time for volunteering or earning time for other accomplishments, the community will see M C Bank employees at more and more events in the community. The final impact on our customer base could be slightly negative. The plan that is being put in place is very generous in the accrual of time. This plan has the potential to allow employees of certain classifications to have more PTO time than they had vacation/sick time in the past. With more employees, potentially being out of the bank at certain times, M C Bank must closely manage the various departments to make sure that none are understaffed in any way. All in all, the minimal impact that will happen on our customers should be a positive one.

Results of Non-Financial Impact

The non-financial impact on the implementation of a PTO plan to replace our current Vacation/Sick plan has been analyzed. The areas that have been detailed are the impact on our current employees, future employees and our customer base. Within each of the areas the subgroups were broken down even further. Based on the analysis and research that has been completed, the result is that the implementation of the new PTO plan will have a positive non-financial impact on M C Bank. Based on both financial and non-financial impact on M C Bank, the bank will be proceeding with the implementation of the plan and will monitor the results.

Conclusion

M C Bank is a customer service focused bank that believes each employee of the bank is part of a very close family. Each decision that is made at M C Bank keeps current and future employees in mind. The philosophy of M C Bank is to keep our employees happy and that feeling will become visible to our customers. Changing a benefit that has been a part of an organization for 20+ years is not an easy task. However, with the right planning and buy in from all employees, it can be accomplished. Effective January 1, 2017, this P.T.O. plan was implemented at M C Bank. Although it is too early to tell how accurate the financial impact projections made in this project will be, there are signs that the projections will be accurate. The employee response to this plan has been overwhelmingly good. The bank has since held two meetings (1 with only supervisors and 1 with all employees) and all feedback has been positive. The keys to success for the implementation of this plan have been the vast amount of preliminary research, employee involvement in the development of the plan, employee education prior to implementation of the plan and follow up with the employees after. Overall, two months in, this project has been a complete success.

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