

Imagine \$34.3 Billion Contributed Into 401(k) Plans.

By [Jewell Lim Esposito](#) on December 01, 2011



Yesterday's [top story](#) at CNNMoney was about how Americans will give up some \$34.3 billion this year in vacation benefits, as they are not able to take advantage of the paid time off that their employers give them.

Why not have these employees instead contribute the \$34.3 billion in vacation benefit into their retirement plan?

I wrote about this plan design technique about 1 1/2 years ago, in my piece "[How Employers Can Allow Employees to Contribute Unused Vacation Time Into a 401\(k\) Plan.](#)" Sure, employers could simply allow employees to forfeit their unused vacation (and the dollar amount associated with such vacation), but if an employer chooses to allow an employee to contribute the dollar equivalent of what would have been forfeited into a 401(k) plan (and I think, reasonably, into a 403(b) plan), then the employer has that ability. . . and employees would likely view this option as a "gift" of sorts. What they couldn't gain in a vacation, they get in retirement savings.

Two IRS Revenue Rulings explain in more detail. [Revenue Ruling 2009-31](#) discusses amounts of leave that employees forfeit at year-end; [Revenue Ruling 2009-32](#), unused leave at the time of an employee's separation from service.

Note: If an employer allows these types of paid time off/vacation/sick leave contributions into its retirement plan, it is likely that the employer cannot rely on a safe harbor plan. The employer will have to test individual contribution limits.

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