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ATTORNEYS AT LAW

Do You Owe Departing Employees for Unused Vacation Time?

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Joe worked for a local manufacturing company and had accumulated about 70 hours of vacation time when he decided to leave the company. He received his last paycheck for the hours he worked but complained that he did not receive payment for his unused vacation time. Joe filed a small claims action against his former employer, arguing that he was entitled to payment for his unused vacation benefits.

Michigan law is very clear on the issue of payment of fringe benefits: Fringe benefits are governed by either a written contract or a written policy of the employer. (See MCL 408.473.) Fringe benefits include holiday pay, sick time, personal days, vacation, bonuses, expense reimbursement, and contributions made on behalf of an employee.

Unless there is a written policy or contract stating that the employee is entitled to payment of unused vacation time (a fringe benefit), then the employer is not required to pay that benefit when an employee departs. In Joe's situation, his company had an employee handbook that specifically stated "unused vacation benefits are not paid after termination of employment," and he was not successful in his small claim action.

However, Joe's case highlights the importance of having an employee handbook that spells out policies, procedures for disciplinary action, and details concerning fringe benefits.

If you would like your current handbook reviewed, or if your company doesn't yet have a handbook, feel free to contact our office to set up an appointment with one of our Business Law attorneys who can help your company define its policies and safeguard against costly and time-consuming litigation.