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A Win-Win Plan

Short Term Disibility coverage can have long term benefits for employer and employee.

By Christopher Gory

Of all the areas of an employee benefits plan [life insurance, dependant life insurance, Accidental Death & Dismemberment coverage, Extended Health Care coverage, Dental coverage, Long Term Disability (LTD) and Short Term Disability (STD)], very few employers have an STD component in their plan, even though it's a win-win for both the employer and the employee.

Many employers rely on government benefits through the Employment Insurance (EI) Plan and/or the Workers Compensation Board (WCB) to provide employees with benefit until the LTD component of their employee benefits plan provides coverage, more often than not, after an elimination period of 120 days. There are some issues with this that employers and employees should be aware of:

- With EI, no benefits are provided until the 15th day and there is no flexibility in the start dates
- Benefits are taxable, and are limited to 55% of the employee's average insured earnings, up to a yearly maximum of $42,300 (2009). This means that the maximum an individual can receive is $447 per week (2009)
- WCB provides coverage for those injuries (and some sickness) which are job related. There is no coverage for non work-related injuries or illnesses

The answer to this dilemma is to add a STD benefit, also referred to as Weekly Indemnity (WI), which runs from the end of the employer's sick day policy (if applicable) until the LTD component commences. STD coverage is flexible in many different ways:

- The starting date of STD coverage can be the 1st or 8th day for an accident, and the 3rd, 8th or 15th day for a sickness (some insurance companies even break this down further, and add a 1st or 8th day for hospitalization option). If, within two weeks of returning to work, total disability due to the same or related causes recurs, this second period of disability will be considered a continuation of the previous disability, and the elimination period will be waived
- Higher levels of coverage are available. For example 60%-66.7% of coverage is available if the plan is non-taxable (100% of premiums are paid by the employee), and 66.7%-75% of coverage if the plan is taxable (premiums are paid by the employer)

Any employer who provides STD coverage to their employees may benefit from the Employment Insurance Premium Reduction Program. Under the EI Act, an employer's EI premiums may be reduced when employees are covered by a qualified STD plan which reduces EI benefits that would be payable if a plan did not exist. However, in order to take advantage of this, an employer must apply, and the STD plan must meet the following conditions:

- It must provide at least 15 weeks of benefits for STD
- It must match or exceed the level of benefits provided under EI (55% of employee's weekly insurable earnings)
- It must pay benefits to employees within 14 days of illness or injury
- It must be accessible to employees within three months of hiring
- It must cover employees on a 24-hour-a-day basis, even if they are injured while working at a second job, and the plan does not need to cover any WCB related disabilities
- The STD plan must be the first payer and the plan cannot use income benefits payable by EI as part of its payment structure
- A formal commitment must be made by the employer to the employees, and must include a complete description of the benefits provided. Examples of a formal commitment include:
  - A commitment in writing by the employer to employees;
  - A statement contained in a personnel policy bulletin;

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- A Board of Director's minutes indicating that employees are provided with an STD plan;
- An administrative measure contained in an employee handbook;
- A private carrier's insurance policy; and
- A union or association agreement.

There are limitations that will not prevent the employer from qualifying for a premium reduction, but that may exclude employees from receiving STD plan benefits. Some of the situations include an employee:

- Whose illness or injury is covered by WCB, the Canada Pension Plan (CPP) or the Quebec Pension Plan (QPP)
- Whose illness or injury results from committing a criminal offence
- Whose illness or injury results from war, participation in a riot, or disorderly conduct
- Whose illness or injury is intentionally self-inflicted
- Whose illness or injury is related to cosmetic surgery
- Who is ill or injured during a strike or lockout at the place of employment
- Who is in the receipt of maternity, parental, or compassionate care benefits under the EI Act

Although the intention of the program is to reduce the EI premiums of both the employer and the employees, the legislation reduces only the employer's premiums. Consequently, it is a requirement that the employer return 5/12ths of the reduction to all employees to whom the reduced rate applies. This can be in the form of:

- A cash rebate in the amount of 5/12th of the reduction savings and is considered taxable and insurable income;
- New or increased employee benefits provided as a result of the premium reduction; and/or
- Upgrading of existing benefits (for example more holidays).

For example, an employee whose salary is $40,000 during 2009 will pay a total EI premium of $692 (calculated at 1.73%). For the purpose of this example, we have used an employer reduced rate of 1.248:

A. Employer regular premium
= $692.00 x 1.400 = $968.80

B. Employer reduced premium
= $692.00 x 1.248 = $863.62

C. Amount of premium reduction
= A – B = $105.18

D. Employee's portion of reduction
= C x 5/12 = $105.18 x 5/12 = $43.82

For each calendar year, the rates of premium reduction are established based on four categories of qualified plans, with a separate rate for each category. The categories are as follows:

- **Category 1** - A cumulative paid sick leave plan which allows for a minimum monthly accumulation of 1 day and a total maximum accumulation of at least 75 days.
- **Category 2** - A cumulative paid sick leave plan which allows for a minimum monthly accumulation of 1 2/3 days and a total maxmum accumulation of at least 125 days.
- **Category 3** - A weekly indemnity plan with a maximum benefit period of at least 15 weeks.
- **Category 4** - A weekly indemnity plan with a maximum benefit period of at least 52 weeks. This reduction is available only to public and para-public employers of a Province.

In November of each year, the annual reduced rate for the following calendar year is calculated by Service Canada. The rates can vary from year to year.

If there are certain employees who are not covered by the STD plan, the employer will have to remit EI premiums at the full rate of 1.40 for them. The Canada Revenue Agency (CRA) does not allow employers to remit at different rates under the same payroll account. Therefore, if an employer has two separate remittances to make, they must obtain an additional payroll account for the employees not covered by the STD plan.

Providing an STD plan is a win-win situation for both employer and employee. An employee is able to have the peace of mind that if a disability were to occur, their employer is helping to ensure that they are in a stronger financial situation than if they relied strictly on government assistance. An employer is able to use the STD plan as a selling feature to attract and retain key employees – something even more important in these economic times. As well, an employer also knows that an STD plan helps in maintaining healthy and happy staff – something that affects a company's bottom line.

(More information on the EI Premium Reduction Program can be found on the Service Canada website at: http://www.servicecanada.gc.ca/eng/cs/prp/010.shtml)

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