

SALARY CONTINUATION

Background

Many Connecticut municipalities have agreed in collective bargaining agreements (CBA's) to provide "salary continuation" or "supplemental wage" benefits to public service employees who are injured on the job. These supplemental wages are provided in addition to the non-taxable statutory Workers' Compensation benefits that injured employees receive. Salary continuation benefits, which are paid by the municipality, are provided almost exclusively to public service employees; few private sector employers provide these benefits. Moreover, the benefits are provided here in Connecticut, a state that mandates one of the highest Workers' Compensation benefit rates in the nation.

The practice of providing these expensive benefits began years ago when there was disparity in pay rates between the public and private sector. A rich benefit package provided municipalities a means to attract and keep employees that is no longer needed due to the reduction in pay disparity.

It is an unintended consequence of the federal and state tax codes that exacerbates the cost burden of these benefits on municipalities. Because Workers' Compensation benefits are non-taxable, salary continuation payments are taxed at a lower rate than full, regular wages. Because of this, it is not uncommon for employees to receive more money, after taxes, in Workers' Compensation and salary continuation benefits than they would receive while working. In short, salary continuation benefits may lead to higher frequency of lost time claims and more paid days lost from work, thus negatively impacting a municipality's total operating budget.

Scenario

In the spring of 2018, CIRMA Risk Management met with the New Canaan Public Schools to review a demonstration of the Salary Continuation Model using district Workers' Compensation loss information. At that time, it was estimated that the District had paid over \$70,000 in the voluntary salary continuation benefit to injured employees over the previous five policy years, which led to injured employees taking home approximately 12% more than what they would have received if they were working due to the way taxes are applied to the voluntary benefit.

CIRMA/Member Partnership

Through collaboration with CIRMA, the New Canaan Public Schools were able to learn more about the voluntary salary continuation benefit that was included in many CBA's and how it directly impacts operational budgets. The District was able to use this information to reduce the voluntary benefit in many of the CBA's. The direct results of doing this are the minimizing of the indirect costs of Workers' Compensation claims and the ability to better manage the Salary Continuation program.

For more information on this topic, please contact your CIRMA Risk Management Consultant. Please visit our training and education program page at CIRMA.org for our current training schedule.