

# Workers' Compensation: Managing the Full Cost of Voluntary Salary Continuation Benefits

# Managing the Full Cost of Voluntary Salary Continuation Benefits

## A Unique and Expensive Benefit for Public Service Employees

Many Connecticut municipalities have agreed in collective bargaining agreements 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, not the insurer, 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 was begun 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 now no longer needed.

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, often making it more lucrative for an injured employee to stay at home, collecting benefits, than it is to return to work. It is not uncommon for employees to receive five to ten percent more money, after taxes, in workers’ compensation and salary continuation benefits than they would receive working. In short, salary continuation benefits may “incentivize” employees to prolong recuperation, extend treatment, and delay return to work.

## Cost Implications of Salary Continuation Benefits

**Longer time-off drives salary costs higher.** Salary continuation benefits are not included under statutory Workers’ Compensation benefits; therefore, they are not covered by insurance. **The costs are borne by the municipality alone** and are generally **allocated to the salary line items of the municipal budget**. There, they are often hidden in overall salary costs, making the true cost of workplace injuries difficult to determine and to control.

**Longer time-off drives indemnity costs higher.** Any factor that **prolongs time-off increases indemnity costs, and ultimately the municipality’s insurance premium costs**. The longer an injured worker remains off the job, the less likely he or she will ever return to work. The National Council on Compensation Insurers states that Workers’ Compensation indemnity costs continue to outpace wage inflation rates.

**Longer time-off drives overtime and administration costs higher.** When an injured worker is out, that employee’s position needs to be filled—and many times by employees working overtime at high rates. Hidden too, are productivity losses, administrative costs, and the supervisory time spent managing and investigating accidents. Again these loss costs are folded into other line items, making the full cost of workplace injuries difficult to track and manage.

Salary continuation benefits typically begin with the first week’s payment of Workers’ Compensation benefits. They may last for a contractually designated number of months, usually three months to one year. Or they may extend until the employee reaches a medical state commonly known as “maximum medical improvement,” which may extend well beyond one year from the date of injury.

| Sample Salary Continuation Costs <sup>1</sup>           |   |   |
|---|---|---|
| Injured employee’s average weekly wage                  | State of Connecticut Weekly Workers’ Compensation Benefit | Weekly Salary Continuation benefit paid by employer |
| A. \$1,200 *  | \$719.22  | \$480.78  |
| B. \$1,000 **   | \$562.76  | \$437.24  |
| *A – married filing jointly ** B – single (1 exemption) |   |   |

Using the salary shown in Example A above: if an injured married worker is out-of-work for four weeks, the municipality would pay about \$1,923 in salary continuation benefits. If overtime pay (at time and a half) to replacement workers is required, the municipality would pay an additional \$7,200 in indirect costs. The total indirect costs would then be \$9,123.

<sup>1</sup>Source: State of CT Compensation Commission Weekly Benefit Table, October 1, 2010

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## Recommended Strategies to Reduce Costs

Below are some other actions that you and your municipality can employ to mitigate the cost of salary continuation benefits:

- **Identify and evaluate all salary continuation programs** in your municipality.
- **Establish a strategic position to begin negotiating the reduction or elimination** of salary continuation benefits.  
Note: Many municipalities have been successful in limiting the duration of the salary continuation benefits from twelve months to three or six months.

### Sample language:

An employee who sustains a job-related injury or disease and who is eligible for payment under Workers' Compensation shall receive from the employer his/her regular pay while on workers' compensation leave, up to a maximum of three (3) months. The employee may then utilize sick leave. The employee shall return to the Town, any payments he/she receives from the Workers' Compensation Insurance company for the pay given him/her during the three (3) month period.

- **Consider a waiting period before the injured employee** is eligible to receive benefits. For example, if your municipality currently offers twelve months of salary continuation benefits from the start of Workers' Compensation benefits, limit the salary continuation to six months, starting six months from the date of injury or the date of Workers' Compensation paid. Since most lost time injuries involve three to four weeks of lost time, the municipality thus limits salary continuation benefits to more severe injuries.
- **Consider implementing a long-term disability program** and/or use sick time in lieu of the salary continuation.
- Consider a graduated decrease in the amount of salary continuation benefits over the duration of the employee's absence from work.

### Sample language:

Employees are covered by State Workers' Compensation Laws. In the event that an employee is required to be absent from work due to a job related accident and, as a result thereof, has been determined to be entitled to compensatory Workers' Compensation payments pursuant to the State statute, such employee shall be paid the percentage of the difference between that employee's regular straight time weekly earnings and the amount of the weekly Workers' Compensation pay as indicated in the schedule below for each of the weeks during which the employee is thus required to be absent from work. This provision shall not apply to back weakness or back soreness cases and there shall be no differential payment in any such case.

| % of Regular Earnings | Weeks of Absence   |
|-----------------------|--------------------|
| 100%                  | first 3 weeks      |
| 80%                   | next 4 to 7 weeks  |
| 60%                   | next 8 to 12 weeks |
| 0%                    | after 12 weeks     |

- Consider **adding language to existing salary continuation program that allows the employer to subrogate** against any third party responsible for the employee's injury to collect against salary continuation benefits, or require the employee to reimburse the employer for salary continuation benefits from any recoveries from third parties.

### Sample language:

In addition to existing rights the City has or may have to recover Workers' Compensation payments from responsible third parties, the City shall have the right to recover any payments made by it to supplement said benefits from such a responsible third party. If the employee recovers a judgment or otherwise settles his/her claim against a responsible third party, the City shall be reimbursed by the employee to the extent of the benefits paid by it.

# Managing the Full Cost of Voluntary Salary Continuation Benefits

The National Safety Council estimates that for every insured dollar of a Workers' Compensation claim, the employer will pay approximately five dollars in uninsured costs.

Salary Continuation benefits significantly increase these uninsured costs in several ways.

For additional information on this topic, please contact your CIRMA Risk Management Consultant.

**Return-to-Work Programs.** Insurance and disability experts unanimously agree that a formal Transitional-Return-to-Work Program is essential. These programs are designed to bring injured employees back to the workplace during their recovery. This CIRMA best practice<sup>2</sup> helps municipalities reduce Workers' Compensation costs by decreasing the length of time-off, improving employee productivity, and improving employee morale. While an employee who returns to work before total recovery may not be able to perform many of the functions of the job, many tasks can still be performed. Returning injured employees to the workplace as soon as medically possible enables significant improvement in productivity and morale for both injured employees and their fellow workers, who may be working overtime, "pinch-hitting" for the absent employee. **Employees who participate in a return-to-work program are much less likely to succumb to depression as a result of their injury.**

<sup>2</sup> Return to Work Program: An Opportunity for Savings in Workers' Compensation Disability Management, © July 2004 Connecticut Conference of Municipalities.

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Rev. 07/01/15