



The Employment Insurance Premium Reduction Program

**A guide for employers offering short-term
disability plans to their employees**

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Contents

- Is this guide for you?.....1**
- What’s new?1**
- Chapter 1: General information about the Employment Insurance premium reduction2**
 - Why does Service Canada offer the Employment Insurance premium reduction?2
 - What types of short-term disability plans can be considered as qualifying plans?3
 - What are the requirements that my plan must meet?.....3
 - How much can I save with the EI premium reduction?.....3
 - What are the reduced employer EI premium rates?.....4
 - Legislative references.....4
- Chapter 2: Applying for an EI premium reduction5**
 - How do I apply for an EI premium reduction?.....5
 - What information do I need to send along with my application?5
 - Where do I send my application?7
 - When can I apply for an EI premium reduction?.....7
 - What is the effective date of the EI premium reduction?8
 - What if some of my documents are not available when I apply?.....8
 - What if my plan does not meet all the requirements when I apply?8
- Chapter 3: Receiving the decision on entitlement for an EI premium reduction.....9**
 - What happens if I qualify for an EI premium reduction?9
 - What happens if I do not qualify for an EI premium reduction?9
- Chapter 4: How to appeal a decision10**
 - What happens if I disagree with the decision?10
- Chapter 5: Your responsibilities once a premium reduction is granted.....11**
 - How will the EI premium reduction affect my payroll?11
 - How do I calculate my employees’ portion of the savings?11
 - When do I return 5/12 of the savings to my employees?.....12
 - Do I have to reapply or requalify for an EI premium reduction every year?12

Chapter 6: Changes that may affect your premium reduction	13
What happens if I change my approved short-term disability plan?	13
What happens if I fail to notify you about changes to my plan?	13
What should I do if I cancel my short-term disability plan?.....	14
What if I want to cover a new group of employees under the approved plan?	14
What happens if I make a change to my company structure?.....	14
 Chapter 7: How to contact us	 15
 Annex 1: Requirements for short-term disability plans	 17
A. Requirements that apply to all short-term disability plans	17
B. Requirements specific to weekly indemnity plans	21
C. Requirements specific to cumulative paid sick leave plans	22

Is this guide for you?

This guide is for you if you are an employer who provides your employees with a short-term disability plan (also known as a wage-loss replacement plan). If your short-term disability plan meets certain requirements, you may be entitled to pay your Employment Insurance (EI) premiums at a rate that is lower than the standard employer rate (which is 1.4 times the employees' EI premiums).

What's new?

We made the following changes to the EI Premium Reduction Program to improve the way we deliver services and to reduce your paperwork.

- **Eliminating renewal applications**
As of January 2010, if you are granted an EI premium reduction, you will no longer need to complete renewal applications each year. This means that entitlement to the premium reduction will automatically continue until you change or cancel your approved short-term disability plan.
- **Notice of reduced EI premium rate for employers**
As of December 2009, if you are granted an EI premium reduction, you will receive a new yearly notice that will indicate your reduced EI premium rate associated with your approved short-term disability plan.
- **Revised application form**
We have streamlined Form NAS-5022, *Application for Employment Insurance Premium Reduction*, to make it easier to complete. From now on, you will use this form for two purposes: to apply for an EI premium reduction, or to apply for a continuation of an EI premium reduction after you make changes to your approved short-term disability plan.
- **Notification of changes made to approved plan**
If you are a participating employer and you change your approved short-term disability plan, you must notify us no later than 30 days after you make the modifications. You must also apply for a continuation of the EI premium reduction by completing Form NAS-5022 and sending it, along with any documents concerning the changes.

Chapter 1

General information about the Employment Insurance premium reduction

Why does Service Canada offer the Employment Insurance premium reduction?

In addition to regular Employment Insurance (EI) benefits, the Government of Canada's EI program provides special benefits to employees who are not working because of:

- illness, injury, or quarantine;
- pregnancy or the need to care for a newborn or newly adopted child; or
- the need to provide care or support to a gravely ill family member.

When you offer similar income-protection coverage to your employees through a short-term disability plan, they may not have to collect EI benefits, or they may collect them for a shorter time. In this way, your short-term disability plan can reduce the demands made on the EI system. For this reason, Service Canada offers the EI Premium Reduction Program to return the savings to both you and your employees.

EI premiums are paid by employers and employees at a ratio of 7/12 and 5/12 respectively of the total EI premium payable. The EI Premium Reduction Program offers savings to both the employer and the employees using these same ratios. For administrative reasons, we only reduce the employer's EI premium rate; this reduction includes both portions of the savings. For this reason, it is the employer's responsibility to ensure that all their employees to whom the reduction applies receive their portion of the savings (5/12 of the savings).

What types of short-term disability plans can be considered as qualifying plans?

There are two types of short-term disability plans that could be considered as qualifying plans for an EI premium reduction:

- **Weekly indemnity plans**

These short-term disability plans pay weekly disability benefits to employees when they are ill or injured. The disability coverage can be set up through a self-insured plan (by either the employer or a group of employees) or it can be set up through a third-party plan (underwritten by an insurance carrier or a plan administrator). The employer, the employees, or both the employer and the employees can pay the cost of the plan.

- **Cumulative paid sick leave plans**

With these self-insured short-term disability plans, employees accumulate sick leave credits that they can use when they are ill or injured. Some plans may also allow employees to use paid sick leave credits while they remain at home because of pregnancy, to care for a newborn or newly adopted child, or to care for a gravely ill family member.

What are the requirements that my plan must meet?

Your short-term disability plan must meet the requirements that are listed in Annex 1 of this guide (see pages 17 to 24).

How much can I save with the EI premium reduction?

If you are granted an EI premium reduction, you will calculate your EI premiums using a rate that is lower than the standard employer rate of 1.4 times the employees' EI premiums. The amount saved is the difference between what would have been paid at the standard rate and what is now payable at the reduced rate.

For example, in 2011, the total yearly savings per employee could be as much as **\$177.02**. This calculation is based on an employee who earned \$44,200, which is the yearly maximum insurable earnings for 2011.

An employee whose salary is \$44,200 during 2011 will pay EI premiums of \$786.76 (calculated at 1.78%). For the purpose of this calculation, we have used a **reduced employer EI premium rate** of 1.175.

A = Regular employer EI premium = $\$786.76 \times 1.4 = \$1,101.46$

B = Reduced employer EI premium = $\$786.76 \times 1.175 = \924.44

C = Amount of total EI premium reduction = $A - B = \$177.02$

The portion of the savings returned to the employee in this example would be \$73.76 (5/12 of the \$177.02). As the employer, your portion of the savings would be \$103.26 (7/12 of \$177.02).

The amount you and your employees can save depends on the type of short-term disability plan you offer to your employees and the employees' insurable earnings.

What are the reduced employer EI premium rates?

There are four different reduced EI premium rates that are set each year. Depending on the type of short-term disability plan you offer, we will assign you one of these four rates.

Your **reduced EI premium rate** will be expressed as a multiple of the employee premiums payable—that is, a premium rate that is less than 1.4 times the employee premiums payable (for example, 1.181).

For the reduced employer EI premium rates currently in effect, visit our Web site at www.servicecanada.gc.ca/prp/rates.

Legislative references

The legislative references relating to the Premium Reduction Program are as follow:

- section 69 of the *Employment Insurance Act*
- section 60 to 76 of the *Employment Insurance Regulations*

Chapter 2

Applying for an EI premium reduction

How do I apply for an EI premium reduction?

There are two ways to apply for an EI premium reduction:

- you can complete Form NAS-5022, *Application for Employment Insurance Premium Reduction*; or
- you can prepare a request in writing using your company letterhead.

For your convenience, we have included a copy of Form NAS-5022 in the centre of this guide.

What information do I need to send along with my application?

With your application, you must include the following information:

- a) evidence of your commitment to provide a short-term disability plan; and
- b) your undertaking that you will return the employees' portion of the savings.

a) Evidence of your commitment to provide a short-term disability plan

With your application for an EI premium reduction, you must provide evidence that you have made a formal commitment to your employees to provide them with a short-term disability plan.

This formal commitment can be any document that provides details about your short-term disability plan, including:

- a union or association agreement;
- an industry-wide trust contract;
- a private carrier's insurance policy;
- an administrative measure contained in your employees' handbook;
- minutes of a Board of Directors' meeting indicating that your employees are provided with a short-term disability plan;
- a statement contained in a personnel policy bulletin; or
- any commitment in writing to your employees.

The formal commitment must include a complete description of the benefits you are providing under the short-term disability plan.

b) Your undertaking to return the employees' portion of the savings

With your application for an EI premium reduction, you must provide evidence that the employees to whom the premium reduction applies will benefit from the premium reduction in an amount equal to at least 5/12 of the savings.

Acceptable methods for returning the savings include the following:

- **a cash rebate;**
- **new employee benefits** that you provide to your employees as a result of the premium reduction, such as a dental plan or group life insurance; or
- **increased employee benefits** or upgrading of existing benefits, such as more holidays or more time off work.

Note

You can only use benefits already contained in a collective agreement if you and the union have a written agreement on this matter.

What is the effective date of the EI premium reduction?

If your plan meets all the requirements on the date of your initial application, we will determine the effective date of the EI premium reduction as follows:

- If you send the application on or before the 15th of the month, the effective date of the premium reduction is the first day of the following month.
Example: If you send us your initial application on June 10, the effective date of the EI premium reduction is July 1.
- If you send the application on or after the 16th of the month, the effective date of the premium reduction is the first day of the second following month.
Example: If you send your initial application on February 23, the effective date of the EI premium reduction is April 1.

What if some of my documents are not available when I apply?

Even if you do not have all the required documents available at the time you complete your application, you should submit your application to our office as soon as possible. Because the effective date of your EI premium reduction is based on the date you send in your application, waiting for all your documents could affect your savings. After we receive your application, we will contact you so that you can provide any missing information or documentation.

What if my plan does not meet all the requirements when I apply?

If your short-term disability plan does not meet all the requirements on the date you submit your initial application, we will let you know what modifications you have to make so that it does.

If you choose to amend your plan so that it meets all the requirements, you will have to send us a copy of the amendments.

Chapter 3

Receiving the decision on entitlement for an EI premium reduction

What happens if I qualify for an EI premium reduction?

If you qualify for an EI premium reduction, we will contact you to verify if you need an additional payroll account number. Since the Canada Revenue Agency (CRA) does not allow employers to remit at different rates under the same payroll account, you will need more than one payroll account number if the following occurs:

- you have employees who are not covered by an approved plan (for example, students, casual employees)—in this case, you will need to make remittances for these employees at the standard rate of 1.4 times the employees' EI premium;
- you have more than one type of approved plan for which you could be granted a reduced rate; or
- the type of approved plan you offer is a paid sick leave plan and it defers the use of paid sick leave credits for more than three months but not more than 12 months of employment, beginning on the day the employee started working for you or the day the employee joined the plan (in this case, you will need to make remittances for temporary employees or employees on probation at the standard rate of 1.4 times the employees' EI premium until they become entitled to use their paid sick leave credits).

If we determine you need an additional payroll account number, you will have to contact the CRA office serving your area to request a separate account number. Once you provide us with the additional number, we will send you a notice of entitlement to the EI premium reduction. We will also let you know the applicable reduced EI premium rate(s).

Your **EI premium reduction** will be specified in cents per \$100 of insurable earnings. For example, the premium reduction could be 39 cents (\$0.39) for every \$100 of insured earnings.

Your **reduced EI premium rate** will be expressed as a multiple of the employee premiums payable—that is, a premium rate which is less than 1.4 times the employee premiums payable (for example, 1.181).

What happens if I do not qualify for an EI premium reduction?

If you do **not** qualify for an EI premium reduction, we will send you a notice of non-entitlement.

Chapter 4

How to appeal a decision

What happens if I disagree with the decision?

You have the right to appeal any decision we make regarding your entitlement to an EI premium reduction within one year of the date we issue the decision notice to you.

You must submit your notice of appeal in writing (on company letterhead), and it must include the following information:

- your name and address;
- your payroll account number (15 characters);
- the reasons for your appeal;
- the name and address of your authorized representative and permission to deal with him or her (if applicable);
- additional supporting documentation (if applicable); and
- your signature.

Send your notice of appeal to the address indicated on page 15 of this guide.

Chapter 5

Your responsibilities once an EI premium reduction is granted

How will the EI premium reduction affect my payroll?

We will send you a notice that indicates your reduced EI premium rate and the year to which it applies. Since your reduced EI premium rate is applicable from January 1 to December 31, you will have to recalculate the EI premiums you have already paid for the year and make any necessary adjustments to your remittances.

Employees for whom the reduced rate applies are those who belong to a group or class of employees covered by your approved plan, including employees who are serving the plan's eligibility period (a period of not more than three months).

For more information on remittances (for example, retroactive adjustments, remittances for employees who are not covered by an approved plan), please contact the Canada Revenue Agency office serving your area.

How do I calculate my employees' portion of the savings?

Use the following formula to calculate your employees' portion of the savings (5/12 of the total savings):

A = **Regular employer premium** = Total employee premiums multiplied by the standard rate (1.4)

B = **Reduced employer premium** = Total employee premiums multiplied by the reduced rate (for example, 1.181)

C = **Amount of the total savings** = Regular employer premiums minus reduced employer premium (A – B)

D = **Employees' portion of the savings** = Amount of savings from EI premium reduction to be returned to employees (C x 5/12)

Example

An employee whose salary is \$40,000 during 2011 will pay a total EI premium of \$712 (calculated at 1.78%). For the purpose of this calculation, we have used a **reduced employer EI premium rate** of 1.181.

$$A = \text{Regular employer premium} = \$712.00 \times 1.4 = \$996.80$$

$$B = \text{Reduced employer premium} = \$712.00 \times 1.181 = \$840.87$$

$$C = \text{Amount of total EI premium reduction} = A - B = \$155.93$$

$$D = \text{Employee's portion of reduction} = C \times 5/12 = \$155.93 \times 5/12 = \mathbf{\$64.97}$$

When do I return 5/12 of the savings to my employees?

You must return the employees' portion of the savings in the year in which you received the EI premium reduction, or within the first four months of the following year.

If you have any questions about whether the employee benefits you offer are taxable, insurable, or pensionable, please contact the Canada Revenue Agency office serving your area.

Do I have to reapply or requalify for an EI premium reduction every year?

No. Once you are granted an EI premium reduction, your entitlement will continue until you **change or cancel** your approved plan. For more information on changing or cancelling your approved plan, please see Chapter 6 on page 13.

In the last quarter of each year, we will send you a *Notice of Reduced EI Premium Rate for Employers* that advises you of the reduced EI premium rate for the coming year.

Chapter 6

Changes that may affect your premium reduction

What happens if I change my approved short-term disability plan?

If you make changes to your existing approved plan, we will need to determine if you are entitled to continue receiving the EI premium reduction. Therefore, if you modify your existing approved plan, you must:

- notify us within 30 days of the change;
- apply for a continuation of the EI premium reduction by sending us a completed Form NAS-5022, *Application for Employment Insurance Premium Reduction*, or a letter (on company letterhead), along with all documentation relevant to the changes you have made to your plan; and
- provide us with evidence that the employees to whom the premium reduction applies will benefit from the premium reduction in an amount equal to at least 5/12 of the savings (by either providing the details on Form NAS-5022 or in a letter on company letterhead).

Send this information by mail to the address indicated on page 15 of this guide.

After we receive your application, we will review it and make a decision on whether you can continue receiving an EI premium reduction. We will then inform you in writing of our decision.

What happens if I fail to notify you about changes to my plan?

A change to your approved plan could affect your premium reduction. For this reason, it is important that you notify us within 30 days of your making the changes to avoid any retroactive adjustments to your reduced rate.

What should I do if I cancel my short-term disability plan?

If you cancel your approved short-term disability plan, you must notify us within 30 days. Entitlement to your EI premium reduction ends on the date you cancel your plan. We will inform you of any adjustments required.

What if I want to cover a new group of employees under the approved plan?

If you cover a new group of employees under your approved plan, you must provide us with proof of their coverage, along with information on how these employees will receive their portion of the savings.

What happens if I make a change to my company structure?

If there is a major reorganization in the company, such as an amalgamation or new ownership, you must contact us immediately.

Note

If you change your payroll account number, address, telephone or fax number, or the name of the contact person(s) with whom we usually communicate, please inform us immediately.

Chapter 7

How to contact us

For more information on the Employment Insurance Premium Reduction Program:

Click www.servicecanada.gc.ca/prp

Call **1-800-561-7923**
(Fax: 506-548-7473)

Visit **a Service Canada Centre**

You can also write to us at:

Service Canada
EI Premium Reduction Program
P.O. Box 11000
Bathurst, New Brunswick
E2A 4T5

Annex 1

Requirements for short-term disability plans

In order to be considered for an EI premium reduction, your short-term disability plan must meet certain requirements.

The following pages describe the requirements that apply to all short-term disability plans, as well as **specific requirements** that are unique to weekly indemnity plans and to cumulative paid sick leave plans.

A. Requirements that apply to all short-term disability plans

1. Employees must be eligible to claim benefits under the plan within three months

A new employee who belongs to a group of employees covered by the plan must be eligible to claim benefits on the first day of the month following the completion of three months of continuous employment.

Example: A new employee hired May 10, 2011, is entitled to claim benefits starting September 1, 2011.

Some plans are based on an “hour bank principle,” where employees bank hours while working for a number of employers. In this case, a union hiring hall usually administers the employees’ pay and benefits. These employees must become eligible to claim benefits on the first day of the month following the day the employee accumulated 400 hours of active employment.

2. The waiting period for payment of benefits cannot be more than 14 consecutive days

Benefits under the short-term disability plan must be paid no later than the 15th day following the start of the employee’s disability.

3. Benefits paid must be at least equal to the amount of benefits an employee would receive from the EI program

The weekly amount of benefits payable to employees under the plan must be at least equal to or exceed the amount of EI benefits that the EI program would pay.

For example, the basic EI benefit rate is 55% of a claimant's average insurable earnings, up to a **yearly maximum insurable amount** of \$44,200 in 2011. This means that claimants can receive a maximum payment of \$468 in EI benefits per week. Therefore, for 2011, the short-term disability plan must provide at least 55% of an employee's normal weekly insurable earnings, to a maximum of at least \$468.

Please note the following:

- When calculating insurable earnings, employers must include any additional income the employee earned for work done on a **regular** basis, such as overtime, bonuses, and shift differentials.
- The **yearly maximum insurable earnings amount** is reviewed each year. If an adjustment is made, it affects the maximum payment of EI benefits a person can receive. Therefore, if your plan provides a fixed maximum weekly amount of benefits that is equivalent to that offered by the EI program, your amount must be adjusted on or before January 15 of the year following the adjustment. This adjustment will ensure that the amount is still equal to or exceeds the amount of EI benefits an employee would receive from the EI program.

Example

On January 1, 2010, your short-term disability plan specified that the maximum amount of benefits payable per week was \$457, which was the same maximum payable under the EI program.

On November 12, 2010, the EI program announced an increase of the **maximum insurable earnings amount** effective January 1, 2011 (from \$43,200 to \$44,200). As a result, the maximum weekly amount of EI benefits payable to claimants increased from \$457 to \$468.

To continue with your EI premium reduction, you will have to increase your amount of benefits payable to \$468 per week on or before January 15, 2011. If you do not modify the amount, your plan will no longer meet the requirements to qualify for an EI premium reduction.

To avoid having to modify your plan every time the EI maximum insurable earnings amount is adjusted, you may choose to include a clause in your plan that will automatically upgrade the maximum benefit level to match any such increases in the EI yearly maximum insurable earnings amount.

4. The plan must be the first payer

The plan cannot allow an employee to claim EI benefits as part of its payment structure (that is, benefits under the plan cannot be integrated or coordinated with benefits that are paid under the *Employment Insurance Act*).

5. The plan must provide 24-hour coverage

The employees must be covered whether they are at work or not, even if they are injured while working at a second job. The plan must protect employees in both “occupational” and “non-occupational” environments, except in situations described in Item 6 below.

6. The plan can have certain limitations to the payment of benefits

Some limitations to the payment of benefits are allowed that will not prevent the employer from qualifying for an EI premium reduction.

It is acceptable that benefits are not paid to an employee:

- who is not under the care of a licensed physician;
- whose illness or injury is covered by workers' compensation, the Canada Pension Plan, or the Quebec Pension Plan;
- whose illness or injury is intentionally self-inflicted;
- whose illness or injury results from service in the armed forces;
- whose illness or injury results from war or participation in a riot or a disturbance of the public order;
- whose illness or injury occurs while on leave of absence or paid vacation;
- who is receiving maternity, parental, or compassionate care benefits under the *Employment Insurance Act*;
- who is ill or injured as a result of committing a criminal offence;
- who is engaged in employment for wage or profit while receiving disability benefits;
- who is ill or injured during a strike or lockout at the place of employment (if the right to benefits is reinstated on the employee's return to active employment);
- who is serving a prison sentence;
- who is not entitled to EI income benefits payable because he or she is outside Canada;
- whose illness results from the use of drugs or alcohol and who is not receiving continuing treatment for the use of these substances;
- who receives accident benefits under a provincial automobile insurance plan that does not take EI income benefits payable into account when paying their benefits;
- who receives a retirement pension from the same employer;
- who has plastic surgery solely for cosmetic purposes, except where attributable to illness or injury; or
- who, in the case of a recurring disability, is receiving benefits according to a reinstatement provision of a group long-term disability plan (as long as the reinstatement period does not exceed six months).

B. Requirements specific to weekly indemnity plans

In addition to the requirements explained in Part A above, weekly indemnity plans must also meet the following requirements:

1. Benefit duration

Weekly indemnity plans must pay benefits until the earliest of the following:

- the payment of at least 15 weeks of benefits;
- the end of the period of incapacity due to illness or injury;
- the date the employee retires; or
- the date of separation from employment for any reason other than illness or injury, if the notice of separation was given prior to the beginning of the illness or injury.

Special weekly indemnity plans (for provincial/territorial or para-public employers) must pay benefits until the earliest of the following:

- the payment of at least 52 weeks of benefits;
- the end of the period of incapacity due to illness or injury;
- the date the employee retires; or
- the date of separation from employment for any reason other than illness or injury, if the notice of separation was given prior to the beginning of the illness or injury.

2. Reinstatement of benefits following the end of a disability

Weekly indemnity plans must provide reinstatement of full benefits to an employee within a specified period of time for new and recurring disabilities—that is, at least 15 weeks of benefits must be again available to an employee who returns to work following the end of an illness or injury.

The requirements for reinstatement are as follows:

- If the subsequent disability is **new**, full benefits must be reinstated no later than one month after the employee returns to work.
- If the subsequent disability is a **recurrence** of an earlier one, full benefits must be reinstated no later than three months after the employee returns to work.

For a plan based on an hour-bank principle, the requirements are as follows:

- If the subsequent disability is **new**, full benefits must be reinstated when the employee accumulates no more than 150 hours of active employment.
- If the subsequent disability is a **recurrence** of an earlier one, full benefits must be reinstated when the employee accumulates no more than 400 hours of active employment.

Special weekly indemnity plans (for provincial/territorial or para-public employers) must provide for the reinstatement of a full 52 weeks of benefits to an employee no later than one month after the employee returns to work for both new and recurring disabilities.

C. Requirements specific to cumulative paid sick leave plans

In addition to the requirements explained in Part A, cumulative paid sick leave plans must also meet the following requirements:

1. Accumulation of sick leave credits

Paid sick leave plans must provide **one or more days** of paid sick leave per month of continuous employment and allow for a minimum accumulation of 75 days. The plan may also allow for the use of sick leave credits while remaining at home because of pregnancy, to care for a newborn or newly adopted child, or to care for a gravely ill family member.

Sick leave credits that are in excess of this minimum 75-day requirement may be used for other reasons (for example, taking a family member to a medical appointment). This is acceptable as long as at least one day per month (12 days per year) is maintained to be used **only** in cases of an employee's illness or injury and, if the plan allows it, while the person remains at home because of pregnancy, to care for a newborn or newly adopted child, or to care for a gravely ill family member.

Enhanced paid sick leave plans must provide **one and two-thirds days or more** of paid sick leave per month of continuous employment and allow for a minimum accumulation of 125 days. The plan may also allow for the use of sick leave credits while remaining at home because of pregnancy, to care for a newborn or newly adopted child, or to care for a gravely ill family member.

Sick leave credits that are in excess of this minimum 125-day requirement may be used for other reasons (for example, taking a family member to a medical appointment). This is acceptable as long as at least 20 days per year are maintained to be used only in cases of an employee's own illness or injury and, if the plan allows it, while remaining at home because of pregnancy, to care for a newborn or newly-adopted child, or to care for a gravely ill family member.

Both **paid sick leave** and **enhanced paid sick leave plans** may allow days to be prorated based on the number of hours an employee has worked in a particular month.

When employers first apply for an EI premium reduction, their sick leave plan must have allowed for a possible accumulation of 72 days of paid sick leave credits (for a **paid sick leave plan**) or 120 days of paid sick leave credits (for an **enhanced paid sick leave plan**) in the six years preceding the date of application or since the plan was put in place, whichever is the shorter period. When the amount has not been achieved on the date of the application for the premium reduction, employers will be required to provide additional credits.

Example:

A paid sick leave plan provides an accumulation of one day per month (12 days per year). On the date of the initial application, the plan has been in effect for five years. This means an employee who has been covered by the plan from the beginning could have accumulated 60 days of paid sick leave. In this case, the employer would be required to credit all employees with 12 more days of paid sick leave credits to achieve the 72 days necessary to meet the requirements.

2. Benefit duration

The plan must pay benefits until the earliest of:

- the payment of 75 days of sick leave for a **paid sick leave plan** or 125 days of sick leave for an **enhance paid sick leave plan**;
- the end of the period of incapacity due to illness or injury;
- the exhaustion of all accumulated paid sick leave;
- the date the employee retires; or
- the date of separation from employment for any reason other than illness or injury, if the notice of separation was given prior to the beginning of the illness or injury.

3. Deferral of sick leave

For temporary employees or new employees who are still subject to a probationary period, the employer may defer the use of paid sick leave credits for a period of no longer than 12 months, beginning on the day the employee started employment or joined the plan.