

# Is it time to scrap STD?

By Simon Sabat

Organizations make a significant investment in Canada's employment insurance program, which has a benefit that covers disability. Given this, it's time to reassess plan sponsors' short-term disability strategies.

It's quite surprising the number of plan sponsors that still provide employees with some form of a privately insured short-term disability (STD) benefit when the federal government offers a comparable program in the form of the Employment Insurance (EI) program for sickness and disability. Organizations foot a considerable amount of the bill for this government benefit, and they are also contributing to a large EI surplus.

The miniscule rate reductions for the EI program over the last couple of years do not change the fact that the EI fund's surplus is increasing at a high rate. The surplus has been increasing by \$6 billion to \$7 billion dollars for the last few years and it's now estimated to be in excess of \$35.9 billion (as of March 31, 2001).

The bulging surplus is built on employers' hard-earned money in the form of EI contributions. To make matters worse, organizations cannot opt out of the EI program. Given the premiums employers pay for their private STD programs and the increasing use of this benefit, it only makes sense to question whether it is prudent for organizations to offer a private STD benefit today.

EI benefits are a form of worker protection which originated in the 1930s and early 1940s to help offset the high levels of unemployment. The benefit was intended to run as a stand-alone insurance plan with no surpluses or deficits.

Over the past 60 years, the plan has evolved to reflect society's changing needs. According to the latest Employment Insurance Act (1996), EI pays an individual who is out of work for either of two reasons: lack of work and being disabled due to an accident or sickness. At-work accidents and sickness are covered by the Workplace Safety & Insurance Board.

Under the accident and sickness disability portion of the program—the portion which acts as an STD benefit—an employee is eligible for 55% of his or her pay up

to a maximum of \$413 per week. Payments begin after two weeks and continue until the individual recovers for a maximum of 15 weeks. The program allows employers who choose to opt out of this government program to receive a comparable benefit on a private basis.

Private plans—many of which are paid for and administered by employers—take on liability for accident and sickness disabilities and save Ottawa money. It only makes sense that employers that assume this role should be allowed to pay a lower EI premium, otherwise there is less incentive to offer this type of insurance to workers.

Each year in December, Ottawa notifies employers of the new EI rates for organizations and their employees for the ensuing year. Employers are required to pay 1.4 times the amount an employee pays unless the organization has been permitted to opt out of the program. An employer who is allowed to opt out would have to pay 1.27 times what an employee contributes towards the fund. This translates into a 9.2% savings.

Until 1993, the EI fund was in a deficit position paying more than it was accumulating in premiums. The

## Dwindling EI savings

The history of diminishing savings that the federal government has allowed between 1973 and 2001.



Source: Data supplied by the EI office in Ottawa.

following year marked a turnaround. In 1994, the fund generated its first surplus—\$2.28 billion. This was a direct result of three government actions: continuous premium increases; a reduction in the credit (or savings) given to employers who opted out of the program and provided their own accident and sickness disability program; and the tightening of eligibility rules.

In seven short years this surplus reached \$35.9 billion. The EI premium has jumped from \$2.25 per \$100 of insurable earnings in 1973 to \$3.15 today—marking a 125% increase over the past 28 years. During the same period, the savings that the government passed on to employers for providing their own privately insured STD benefit dropped from 28.6% to 9.2% of the premium. This 67.8% reduction in savings has put a lot more money in the EI coffers. Reductions in the credit to employers were based on the government's need for more funds rather than on actuarial calculations.

Severe cutbacks in the EI benefit began in 1993. They included refusing to provide benefits for those who quit their jobs or who were fired for misconduct, along with reducing the benefit level to 55% from 60%. These cutbacks helped lay the foundation for surplus accumulation.

Given the new EI reality and employers' inability to drop out of paying EI premiums, what can an organization do to stop any further contribution to the \$35.9-billion surplus? There are several options which must be weighed carefully to ensure corporate objectives are met.

## History of EI surplus and deficits

In 1994, EI plan deficits became surpluses.

	Unemployment rate	Employee premium rate	Break-even premium rate	Revenues (millions)	Total program costs (millions)	Interest charges (credits) (millions)	Annual surplus (deficit) (millions)	Balance at year-end (millions)
1990	8.1%	2.25%	2.53%	\$15,282	\$14,578	(\$222)	\$926	\$2,161
1991	10.3%	2.25%/2.80%	3.23%	\$14,760	\$18,961	\$5	(\$4,205)	(\$2,045)
1992	11.2%	3.00%	3.42%	\$17,885	\$20,261	\$255	(\$2,631)	(\$4,676)
1993	11.4%	3.00%	3.23%	\$18,469	\$19,273	\$405	(\$1,208)	(\$5,884)
1994	10.4%	3.07%	2.71%	\$19,327	\$16,734	\$310	\$2,283	(\$3,601)
1995	9.4%	3.00%	2.30%	\$19,180	\$14,831	\$82	\$4,267	\$666
1996	9.6%	2.95%	2.23%	\$19,091	\$14,169	(\$78)	\$4,999	\$5,665
1997	9.1%	2.90%	1.96%	\$19,379	\$13,363	(\$278)	\$6,295	\$11,960
1998	8.3%	2.70%	1.76%	\$19,623	\$13,012	(\$680)	\$7,291	\$19,251
1999	7.6%	2.55%	1.65%	\$18,648	\$13,013	(\$976)	\$6,611	\$25,862
2000	6.8%	2.40%	1.46%	\$18,868	\$12,736	(\$1,592)	\$7,725	\$33,586

Source: Chief Actuary's 2001 Report

For some employers, letting EI take care of employees' STD claims may be the simplest and most cost effective solution. This option must be considered carefully though, to ensure that it does not breach any collective bargaining agreements.

To help ease the exit from providing STD programs, Ottawa allows employers to set up supplementary disability programs on a self-insured basis. These plans—known as Supplementary Unemployment Benefits (SUB)—allow an employer to pay the first two weeks of disability, which are not covered under the EI program. They also allow an employer to top up the 55% the EI program pays up to 95% of earnings. SUB programs can be used by any organization that wants to give employees more adequate protection than the EI plan provides.

For others who enjoy an excellent disability claims history, the right move may be to leave STD privately insured as long as the cost of this private insurance is less than the savings available from EI. Unfortunately, these instances may be few and far between today.

Employers need to assess all the pros and cons of providing STD benefits to employees as opposed to having workers rely on the EI plan. A \$413 maximum weekly benefit does not begin to meet an executive's needs. A private disability program will provide far better service than

any government program, and EI benefits are always taxable while a private plan may not be.

Another considerable drawback of the EI plan is that it pays the maximum 15-week sickness benefit once only. Benefits are not available for a second unrelated disability. A private plan would pay the same number of weeks for each disability. In addition, a new entrant to the workforce may not be eligible for the full 15 weeks as he or she must work a minimum of 910 hours to receive the benefit. Under a private plan, the full benefit is available immediately.

Under the EI program, the rate is set by the government based on Canada-wide statistics, whereas a private plan's cost will largely reflect an organization's claims experience. This may or may not be an advantage to employers, depending on the volume of claims incurred.

Overall, employers need to evaluate their employees' needs as well as their organizational goals and challenges in the context of the STD program. Then they can decide whether a plan sponsor benefit is still worth the value that the organization invests in it, to both the employer and plan members. If not, an appropriate exit strategy is necessary to maintain a good employee/employer relationship. **BC**

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