

## Short-Term and Long-Term Disability Claim Payments under ASO Plans – EI and C/QPP Premium Deductions

In a 2004 [Focus Update](#), Sun Life Financial profiled two Federal Court of Appeal rulings from 2002/03, concluding that disability payments from these particular ASO plans were insurable earnings as defined in regulations to the Employment Insurance Act. At the time, Sun Life suggested that plan sponsors consult their own legal counsel and benefits advisor for advice on how these court cases relate to their particular plan design.

In addition, where EI premiums are required, CPP/QPP premiums may also be required. This means, as well as being subject to income tax, disability benefits paid under an ASO arrangement, whether administered by a third party (such as an insurer) or the employer (in-house), may also be subject to the employer's and employee's EI and CPP/QPP premium contributions and other payroll related taxes and deductions.

### At Sun Life

Sun Life treats a disability claim payment, whether under an insured plan or ASO plan, in the same manner (i.e., as a payment under a wage loss replacement plan). This means that Sun Life will only deduct and remit income tax from the disability claim payment. In addition, Sun Life will issue the appropriate tax slip outlining the gross amount of disability payments made and any income tax deducted at source, on behalf of the plan sponsor.

Any remittance and reporting obligations for EI and CPP/QPP premiums and other payroll-related taxes and deductions related to the ASO disability payments is the responsibility of the plan sponsor rather than Sun Life. Sun Life does not have the infrastructure in place to support these types of payroll services for ASO plan sponsors.

### How can Sun Life help?

Some of our plan sponsors may not be fully aware of the court rulings and the potential implications to their ASO arrangements. We believe it's important to remind plan sponsors of the federal court rulings so that they can determine if they need to take any action.

In February, Sun Life will communicate to all existing ASO disability plan sponsors to remind them of the Federal Court rulings. The communication will include a recommendation that plan sponsors seek advice to determine if their plan is affected and also advise them that Sun Life cannot support this service (i.e., deduct and remit EI & CPP premiums from disability claim payments or tax report).

If plan sponsors wish to change their current arrangement then, Sun Life will work with them to determine an appropriate plan design. This could include moving to an insured plan or changing their short term disability plan to Sun Life's Early *RETURNS* Absence Management Services.

For plan sponsors who choose to continue with their ASO disability plan, Sun Life will review their ASO agreement to ensure that it accurately reflects the services that Sun Life provides.

### Questions?

If you have any questions, please contact your Sun Life Financial group representative.