Self-Funded Leave Policy

Policy objectives

To harmonize the long-term career and personal goals of employees.

To increase the flexibility of departments in using resources.

Policy statement

The Treasury Board recognizes the potential of self-funded leave to help achieve employee and organizational goals. Therefore, the Board urges departments to implement a self-funded leave program and encourage and approve requests for participation where operationally feasible.

Application

This policy applies only to indeterminate employees in participating departments.

Policy requirements

Departments implementing a self-funded leave program must do so in accordance with the requirements of the Generic Model attached or seek prior approval from the Secretary of the Board if they are considering making substantive changes to the model.

Monitoring

The Treasury Board Secretariat will monitor self-funded leave participation through Supply and Services Canada's pay system and the Secretariat's leave reporting system.

References

- Collective agreements
- *Terms and Conditions of Employment Regulations*
- Leave without pay policy
- *Income Tax Act and Regulations*
- *Public Service Superannuation Act*
- *Supplementary Retirement Benefits Act*
- *Public Service Employment Act*
- *Public Service Staff Relations Act*
- Conflict of Interest and Post Employment Code for the Public Service

This chapter replaces three Information notices to Directors of personnel dated:

- 31 October 1990
- 27 December 1990
- 19 April 1991

Enquiries

Designated representatives from corporate labour relations or corporate compensation may contact:

Strategic Compensation Management
Employee Relations and Total Compensation
Office of the Chief Human Resources Officer
Treasury Board of Canada Secretariat

Individuals from organizations within the Core Public Administration should contact their human resources division for information about this policy.

Generic Model

Purpose

This policy outlines the principles, guidelines, and process for the self-funded leave (SFL) program of (dept.).

Background

Self-funded leave is not unlike sabbatical leave in that it allows indeterminate employees to defer up to 33 1/3 per cent of their gross salary or wages in order to fund a period of absence from their work and return to their regular employment when the leave is over. The deferred salary or wages are exempt from taxation until the funds are released to the employee.

This program has inherent benefits for employees and managers. It enables employees, while still receiving an income, to withdraw temporarily from active service to engage in developmental activities or to pursue other interests during the leave. Certain income tax benefits may also apply because of salary or wage deferral. The program permits managers greater flexibility to develop staff, accommodate temporary resources and, in certain circumstances, it may minimize or eliminate the need to lay off employees.

Definition

For this policy, SFL means authorized leave without pay of between 6 and 12 consecutive months. The employee must request this leave in advance and at that time arrange to have money deposited in a trust account that will provide income during the leave.

Eligibility

All indeterminate staff are eligible to apply for SFL. In addition, new employees from other departments who were eligible to take advantage of the program and have an approved SFL agreement may, subject to operational requirements, be permitted to continue with that plan in accordance with the (dept.) SFL program.

Policy

Subject to operational requirements and this policy, the appropriate delegated manager may grant employees SFL for between 6 and 12 consecutive months.

When operational circumstances permit, such leave may be approved on more than one occasion. It is mutually exclusive of other types of leave such as that for family-related needs or education.

While on leave, the employee must not work for a federal institution or be paid a salary from the Consolidated Revenue Fund and must adhere to the Conflict of Interest and Post-Employment Code for the Public Service. With those exceptions, the department should not normally restrict the employee's activities during the leave.

In accordance with the *Income Tax Regulations*, the employee must make a commitment to return to his or her regular employment with the department or another federal department for not less than the period of leave granted. Thus, SFL cannot be used for pre-retirement.

All provisions of Acts, Regulations, and collective agreements relating to "leave without pay for other reasons" of between 6 and 12 consecutive months also apply to SFL.

Delegation of authority

The deputy minister has delegated the authority to approve SFL to managers at the following levels:

(State here the classification and/or title of delegated managers)

Procedures and Guidelines

Application and approval

Before formally applying for SFL, employees should consult their SFL program co-ordinator or a pay and benefits specialist. Detailed information on employee benefits is available from the appropriate pay and benefits unit.

Completed "Application for Self-Funded Leave" forms (TBS 330-109), including salary deduction arrangements, must be received by the delegated manager and forwarded to the appropriate pay and benefits office for processing at least months before the actual leave begins. In most circumstances, advance notice of months will be needed to begin wage deferral. A copy of the form is to be sent to the financial institution that will administer the trust account. The delegated manager concerned will review all applications in a timely manner and approve participation, subject to operational requirements.

The maximum salary deferral period is years.

Note:

Revenue Canada stipulates that the actual period of leave must begin after a period not exceeding six years from the date on which the deferral began. A period of five years is recommended to allow for unforeseen circumstances.

The amount of salary or wages deferred in any year may be any amount of up to and including 33 1/3 per cent of the employee's substantive job-related income for that year. Income that may be used for deferral purposes includes regular salary or wages, the bilingualism bonus, and supervisory differential. The actual amount deferred will remain the same unless the employee requests a change.

The employee may request in writing a change to the amount of salary deferred. The pay and benefits unit would have to receive such requests at least months before the date on which the change is requested and not later than six months before the date the leave is due to begin.

Pay administration and financial aspects

When the pay and benefits unit receives an approved application form, it will verify that the deferral amount does not exceed the maximum allowed. It then sends the document to the SFL coordinator for regular transmission to an approved financial institution (see appendix D). Once an account number has been issued the pay and benefits unit initiates a salary deduction pay action. Supply and Services Canada will deduct funds and transfer them to the trust account established for the employee at the financial institution.

The trust account will generate interest that the financial institution must pay annually to the employee. The employee is then responsible for reporting this interest in his or her annual income tax return.

Withdrawing money other than interest from the trust account before it matures may be allowed only in cases of serious financial or other hardship and with the written authorization of the employee concerned and the departmental SFL program co-ordinator.

When the employee's trust agreement matures, the financial institution is to release the money to an account to which the employee has access, without further departmental involvement.

All amounts held for the employee's benefit in the trust account must be paid to the employee no later than the end of the first taxation year that begins after the end of the deferral period.

Income tax and other deductions

During the deferral period, all regular deductions will continue except for income tax and the Canada and Quebec Pension Plans on that part of salary or wages deferred.

During the actual leave period, deductions and benefits apply as described in appendix C.

When the funds are released to the employee, a deduction will be made at source for income tax and other statutory purposes.

Withdrawal

Where an employee can demonstrate to the delegated manager that continuing with the plan would cause severe financial or other hardship, or where an employee participating in the plan has been identified as surplus or is laid off as a result of work force adjustment, a request will be made to the financial institution to release the accumulated funds to the employee as soon as possible. The employee can determine the financial and tax-related implications of withdrawal by discussing them with the appropriate district office of Revenue Canada-Taxation.

Should an employee die before the leave begins or while on leave, the funds shall be released to the employee's designated beneficiary or estate as determined by the executors or administrators of the estate.

Postponement

Withdrawal from the program may entail a considerable tax burden for the employee. The employee may therefore request that the planned period of leave be advanced or postponed for up to six months if this will prevent him or her from withdrawing from the program. The delegated manager will, based on operational requirements, make every reasonable effort to accommodate the employee's request. Such requests to delay the period of planned leave cannot, however, be accommodated where they would result in a salary or wage deferral beyond the maximum six-year limit specified in the *Income Tax Regulations*.

If unforeseen and justifiable operational circumstances beyond the manager's control arise and no other feasible option exists, an appropriate authority may, at the manager's request, postpone the forthcoming leave, except where the employee's salary or wage deferral would exceed the maximum six-year limit.

Changes to duration of leave

An employee may, no later than six months before the planned leave date, request in writing a change to the duration of the leave if the leave period requested remains between 6 and 12 months. The delegated manager must approve such requests. The financial institution must also be advised of the change.

Recall or denial

Because of the financial implications for the employee, denying leave after the maximum six-year deferral period or recalling an employee from leave requires a manager to obtain the prior written authorization of the deputy minister.

Transfer or promotion

Since an appointment to a non-participating federal department or agency would require withdrawal from the SFL program, participating employees will be responsible for the financial implications of such appointments.

Return to work after the period of leave

The actual date of return to work or completion of the mandatory period after returning to work may be delayed for a valid reason such as sickness or maternity.

Where an employee does not fulfil the return to work requirements of this policy, the department must notify Revenue Canada-Taxation.

Effects of Self-Funded Leave Without Pay

On Employee Benefits and Contributions

Note:

Employees should consult a pay and benefit specialist for more information about the options available and for instructions to ensure continuing coverage.

Item	Cost	Comment
Income tax	Tax is reduced during the salary deferral period in proportion to the amount of salary deferred.	Income tax withheld will be adjusted during the deferral period. When annual interest payments are made and when the trust matures, the financial institution will deduct and remit the required statutory deductions for income tax. Note: Should the employee fail to take leave as required under the plan, all amounts held in trust must be reported as income in the first taxation year that begins after the end of deferral period. This may raise an employee's tax rate and could increase the income tax payable significantly.

Item	Cost	Comment
Superannuation	Single rate contribution for the first three consecutive months of leave, double rate for the remainder.	The period of absence counts as pensionable service; therefore, contributions are required.
(Public Service Superannuation Act and Supplementary Retirement Benefits Act	On return to duty, the employee will be required to pay the current share plus the above amounts.	On return to duty, contributions are recovered either in a lump sum within 30 days or by salary deductions in equal monthly instalments over a period equal to twice the LWOP period. At the employee's request, direct payments may be made during his or her absence either annually, semi-annually, or quarterly, to the Superannuation Branch, Supply and Services Canada. Contributions for previous elective service should normally be remitted directly to the Superannuation Branch.

Item	Cost	Comment
Canada or Quebec Pension Plans	The financial institution pays the employee's and employer's shares from the proceeds of the trust.	The period of leave counts as pensionable employment. CPP/QPP contributions remitted on behalf of an SFL participant by SSC and an SFL custodian, in a given calendar year, constitute a continuance of employment for CPP/QPP purposes. A letter from the departmental pay services unit to the custodian or vice versa, indicating the amount of contributions paid year-to-date will be sufficient to give effect to the continuance rule.
Unemployment insurance	Premium not payable.	The period of leave does not qualify as a period of insurable employment. Consequently, any leave period of more than 32 weeks may leave an employee with insufficient insured weeks to qualify for UI benefits if he or she were laid off following the leave.

Item	Cost	Comment
Death benefit	The contribution required is the amount that the contributor would have paid if he or she had not been on leave without pay.	Coverage continues during the LWOP period. The contribution is recovered in the same way as superannuation.
Disability and long-term disability insurance	The employee is required to pay his or her and the employer's share.	Coverage continues during the LWOP period; therefore, contributions are required. Premiums will be recovered on return to duty over a period equal to the LWOP period.
Provincial health insurance plans	In premium-levying provinces, employees must pay the full premium directly to the province.	Normal coverage may continue by paying premiums in advance.
Public service health care plan	The employee is required to pay his or her and the employer's share.	Normal coverage may continue by paying premiums in advance.

Item	Cost	Comment
Dental care plan	The employee can maintain coverage by paying the employer's monthly contribution.	Coverage may continue by paying premiums to the Receiver General for Canada every quarter in advance of the coverage period.
Public service management insurance	The premium is the same amount that the employee would be paying if he or she were receiving a salary.	During the LWOP period, premiums must be paid directly to the insurer to continue coverage. Payments must be in advance, either quarterly, semi-annually, or annually.
Union dues	Not subject to dues check-off during LWOP period.	On return to duty, deductions will resume.
Union insurance	The employee must pay premiums directly to the appropriate union association.	The employee is responsible for making arrangements with the appropriate union association to continue this insurance.

Approved Financial Institution

Alterna Savings Credit Union

319 McRae Ave, 2nd floor
Ottawa, Ontario
K1Z 0B9

Telephone: 1-877-560-0100
DepositOperations@alterna.ca

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