



El Premium Reduction Program

GUIDE FOR EMPLOYERS

For further information on the Employment Insurance Premium Reduction Program, contact:

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Premium Reduction Program
120 Harbourview Boulevard
P.O. Box 11000
Bathurst, New Brunswick
E2A 4T5

Toll free: **1 800 561-7923**
Facsimile: **(506) 548-7473**

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Introduction

Description	1
Basic requirements	1
Savings	1
Types of short-term disability plans	2
How to participate	2

Table of contents

Part I – Requirements

Section 1: General requirements

1.1 Formal commitment	3
1.2 Returning the employees' portion of the savings	4
1.3 Employees not covered by the plan	6
1.4 Benefits	6
1.5 Eligibility period	7
1.6 Waiting period	7
1.7 Reduction or integration of benefits	7
1.8 Extent of coverage	7
1.9 Acceptable limitations to the payment of benefits	7

Section 2: Additional requirements specific to Weekly Indemnity Plans

2.1 Description of Weekly Indemnity Plans	9
2.2 Duration of benefits	9
2.3 Reinstatement period	9

Section 3: Additional requirements specific to cumulative Paid Sick Leave Plans

3.1 Description of Paid Sick Leave Plans	10
3.2 Accumulation of sick leave credits	10
3.3 Duration of benefits	11
3.4 Deferral of sick leave	11

Part II – Initial application for premium reduction

1. Application procedure	12
2. Employees not covered	12
3. Notification of approval	12
4. Effective date of premium reduction	12
5. Subsequent changes	13
6. Failure to qualify	13

Part III – The renewal application

1. Renewal procedure	14
2. Confirmation of reduction rate	14
3. Failure to qualify	14

Part IV – Right of appeal

Appeal procedure	15
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Introduction

What is the Premium Reduction Program?

The **Premium Reduction Program** allows employers to pay Employment Insurance premiums at a reduced rate if their employees are covered by a short-term disability plan that meets certain requirements set by Service Canada.

Employment Insurance (EI) provides special benefits to persons who are not working because of illness, injury or quarantine. It also allows for maternity, parental (including adoption) and compassionate care benefits. When employers make similar income protection coverage available to their employees, the latter may not have to collect from EI, or may collect for a shorter time. Because this reduces the demands made on the EI system, the government initiated this program to return the savings to both employers and their employees.

What are the basic requirements of the Program?

To be considered for a premium reduction, a plan that provides short-term disability benefits to employees must:

- provide at least 15 weeks of benefits for short-term disability;
- match or exceed the level of benefits provided under EI;
- pay benefits to employees within 14 days of illness or injury;
- be accessible to employees within three months of hiring;
- cover employees on a 24-hour-a-day basis.

How much money can an employer save on EI premiums?

The amount of savings depends on the type of plan, the employees' insurable earnings, the date the employer applies and the date the short-term disability plan meets all the requirements.

Service Canada sets the EI reduced premium each year. The rates are valid for only one year and can vary from year to year.

An employer who is granted a premium reduction would remit at a rate that is less than the standard rate of 1.4 times the employees' EI premiums. The difference between what the employer would have paid at the standard rate and what would now be payable at the reduced rate is the amount of savings.

Description

Basic requirements

Savings

Types of short-term disability plans

How to participate

Although the intention of the Program is to reduce the EI premiums of both the employer and the employees, for administrative reasons, the legislation reduces only the employer's premiums. It is therefore a Program requirement that the employer return a portion of the savings to all the employees to whom the reduced rate applies.

Example: In 2004, the total yearly savings per employee could be up to \$117.37. This is based on an employee who earned \$39,000, which is the yearly maximum insurable earnings for 2004. The portion to be returned to the employee is 5/12 of the savings or \$48.90. The employer's portion of the savings would be \$68.47.

What type of short-term disability plan qualifies?

The following types of plans could qualify for an EI premium reduction:

- **Weekly Indemnity Plan** – This type of plan provides coverage through an arrangement set up by an employer (self-insured) or a plan underwritten by an insurance carrier. It pays weekly indemnity benefits in cases of illness or injury. Please refer to **Section 2** in Part I of this guide for details on this type of plan.
- **Cumulative Paid Sick Leave Plan** - This is a short-term disability plan based on the sick leave credits accumulated by employees for use in case of illness or injury. Some plans may also allow for the use of paid sick leave credits for pregnancy, caring for a newborn or newly-adopted child or compassionate care. Please refer to **Section 3** in Part I of this guide for details on this type of plan.

Note: The cost of short-term disability plans may be paid in whole or in part by either the employer or the employees.

What must I do to participate in the Program?

To participate in the program, you must register by submitting an initial application. An application form is included in the centre of this guide. Employers who are already participating in the Program must renew their entitlement to the reduction by completing a renewal application, which is issued every year.

Part I Requirements

Section 1: General requirements

1.1 Employers must make a formal commitment to their employees

When applying for a premium reduction, the employer must provide evidence of a written formal commitment made to employees to supply them with a short-term disability plan, i.e., paid sick leave or weekly indemnity benefits, if they are unable to work because of illness or injury. (Paid sick leave plans may also provide for maternity, parental benefits and/or compassionate care benefits.)

The *formal commitment* is the document (or documents) containing or detailing the short-term disability plan provided to the employees. This document takes various forms and may be recorded in a number of ways.

For instance:

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

The formal commitment must include a complete description of the benefits provided and must meet the conditions described in this part of the guide, based on the type of plan provided.

Formal
commitment

Returning the employees' portion of the savings

1.2 The employer must return the employees' portion of the premium reduction

EI premiums are paid by employers and employees in a ratio of 7/12 and 5/12 respectively. The intention of the Program is to reduce premiums for both parties. For administrative reasons, EI legislation reduces only the employers' premiums. Employers are therefore required to return 5/12 of the savings from the premium reduction **to all employees to whom the reduced rate applies**.

Employers must satisfy Service Canada that they have made effective arrangements for returning the employees' portion of the savings obtained through the premium reduction. Acceptable arrangements are:

- **a written mutual agreement** between employer and employees or their representatives on the method of returning the employees' portion of the premium reduction;
- **a cash rebate** in an amount equivalent to 5/12 of the reduction savings (considered taxable and insurable income);
- **new employee benefits** provided as a result of the premium reduction, such as a dental plan, group life insurance; or
- **increased employee benefits** or upgrading of existing benefits, such as more holidays, more time off work, increased life insurance.

Note: For any questions regarding taxability or insurability of benefits, please contact the Canada Revenue Agency (CRA).

To calculate 5/12 of the savings from the premium reduction, the following guideline can be used:

- A. **Employer regular premium** = Total employee premiums multiplied by standard rate (1.4)
- B. **Employer reduced premium** = Total employee premiums multiplied by reduced rate (e.g., 1.248)
- C. **Amount of the total savings** = Employer regular premiums minus employer reduced premium (A – B)
- D. **Amount to be returned to the employees** = Amount of total savings from premium reduction (C) x 5/12.

Example 1:

An employee whose salary is \$30,000 during 2004 will pay a total EI premium of \$594 (calculated at 1.98%). For the purpose of this calculation, we have used an **employer reduced rate** of 1.248.

A. Employer regular premium	= \$594.00 x 1.400 =	\$831.60
B. Employer reduced premium	= \$594.00 x 1.248 =	\$741.31
C. Amount of total premium reduction	= A – B	= \$90.29
D. Employee's portion of reduction	= C x 5/12	
	= \$90.29 x 5/12	\$37.62

Employers are strongly encouraged to reach an agreement with their employees on the method of returning the employees' portion of the savings from the premium reduction. Only written mutual agreements which identify how the employees will benefit from the reduction will be accepted.

Example 2: – Sample of an Employer/Employee Agreement

This is an agreement between _____ (employer's company name) and _____ (group of employees) .

If _____ (employer's company name) is granted an EI premium reduction, the employees' portion of this reduction will be used in the following manner: _____ .

Note: *This document should be on company letterhead, be addressed to the employees and specify to which group or groups of employees it applies. It must be signed by the employer and by employees or their representatives.*

If a mutual agreement cannot be reached, the employer may decide on a method and must complete the appropriate section on the initial application form. If a different method is used for separate groups of employees, the employer must provide details for each method in a covering letter.

In this instance, certain conditions apply. The benefit:

- must be provided in the year of reduction or within the first four months of the following year;
- must be accessible to all employees covered by the short-term disability plan;
- must be equal in value to at least 5/12 of the savings from the reduction; and
- must be a new or an upgraded benefit.

Benefits already contained in a collective agreement can only be used to satisfy the 5/12 requirement if the union and the employer have a written agreement on this matter.

Employers need not put the method of returning the employees' portion into effect until **after** the premium reduction is granted.

Employees not covered by the plan

1.3 Separate remittances must be made for employees not covered by a short-term disability plan

Employers are granted a premium reduction **only** on behalf of employees covered by an acceptable short-term disability plan. This also includes employees serving the eligibility period under the plan, provided this period does not extend beyond that prescribed in item 1.5 below. Remittances for all other employees must be made at the standard rate of 1.40.

The Canada Revenue Agency (CRA) does not allow employers to remit at different rates under the same payroll account. Therefore, if you have separate remittances to make, you must obtain an additional payroll account (e.g., RP0002) for the employees not covered by your plan by contacting the CRA office serving your area.

Please note that the Premium Reduction Program grants the reduction; however, if you have any questions regarding the remittance of payroll deductions or if you wish to open and/or close a payroll account, you must contact the CRA.

Benefits

1.4 Benefits must be equivalent to what employees would receive from EI

The weekly amount payable to employees must at least match the income benefits EI would pay based on insurable earnings. When calculating insurable earnings, the employer must include any additional income earned for work done on a **regular** basis, such as overtime, bonuses and shift differentials.

Example: If an employee's normal weekly insurable earnings are \$460 and the benefit rate payable under EI is 55%, the short-term disability plan must pay at least \$253 in benefits (\$460 x 55% = \$253).

- Service Canada may adjust insurable earnings on an annual basis. The maximum benefit level of any short-term disability plan must be adjusted on or before the 15th of January every year to match or exceed this amount. The employer must do this in order to maintain entitlement to a full reduction.*
- Employers may opt to include a clause in their plan that will automatically upgrade the maximum benefit level to match any future increase in the EI maximum insurable earnings.

* Any amendment made after January 15th will result in a reduction based on the number of months the plan met the requirements.

1.5 When must a new employee be covered by this plan?

A new employee who belongs to a group or class of employees covered by the plan must be eligible to claim benefits or start accumulating sick leave credits on the first day of the next calendar month after completing a period not exceeding three months of continuous employment. For example, a new employee hired May 10, 2003 must be entitled to claim benefits no later than September 1, 2003.

If the plan is based on an hour bank principle*, the employee must become eligible to claim benefits or start accumulating sick leave credits on the first day of the next calendar month after accumulating a number of hours not exceeding 400 hours of active employment.

Eligibility
period

1.6 When do benefits become payable?

Benefits under a short-term disability plan must begin no later than the 15th day following the start of the employee's disability, i.e., after a waiting period of no more than 14 consecutive days.

Waiting period

1.7 Can benefits be reduced or integrated with EI?

Your short-term disability plan must be first payer. You cannot receive a premium reduction if your plan uses income benefits payable by EI as part of its payment structure. Consequently, benefits under your plan cannot be integrated or coordinated with benefits that would be paid under the *EI Act*.

Reduction or
integration of
benefits

1.8 Is coverage to be provided only during regular working hours?

The short-term disability plan must provide 24-hour coverage, that is, the employees must be covered whether they are working 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 1.9.

Extent of
coverage

1.9 What limitations are allowed?

While a short-term disability plan must provide coverage equal to or more than that available under EI, some limitations to the payment of benefits are allowed that will not prevent the employer from qualifying for a premium reduction, but that may exclude employees from receiving plan benefits. The only acceptable limitations are listed below.

In cases of illness or injury, sickness benefits need not be paid to any employee:

Acceptable
limitations to
the payment
of benefits

* Employees who bank hours while working for a number of employers are considered to be working under an "hour bank principle". The administration of their pay and benefits is generally done through a union hiring hall.

-
- 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, participation in a riot or disorderly conduct;
 - whose illness or injury occurs while on leave of absence or on paid vacation;
 - whose illness or injury results from committing a criminal offence;
 - who is ill or injured during a strike or lockout at the place of employment (if the right to benefits is reinstated upon the employee's return to active employment);
 - who is not receiving continuous treatment for the use of drugs or alcohol when the illness results from the employee's use of these substances;
 - who, in the case of a recurring disability, is receiving benefits according to a reinstatement provision of a group long-term disability plan (provided the reinstatement period does not exceed 6 months);
 - who is in receipt of maternity, parental or compassionate care benefits under the *EI Act*;
 - who has plastic surgery solely for cosmetic purposes except where attributable to illness or injury;
 - who receives a retirement pension from the same employer;
 - who receives accident benefits under a provincial automobile insurance plan that does not take income benefits payable by EI into account when paying their benefits. (At present, the Quebec Automobile Insurance Plan, the Ontario Motorist Protection Plan, the Automobile Insurance Plan of Saskatchewan, and the Manitoba Autopac are acceptable);
 - who is engaged in employment for wage or profit while receiving disability benefits;
 - who is serving a prison sentence;
 - who is not entitled to income benefits payable by EI by reason of being outside of Canada.

Section 2: Additional requirements specific to Weekly Indemnity Plans

2.1 What is a Weekly Indemnity Plan?

A Weekly Indemnity Plan is a plan set up by an employer (self-insured) or a plan underwritten by an insurance company that will provide weekly benefits for a fixed period to employees in cases of illness or injury.

2.2 How long must benefits be paid?

To qualify for a premium reduction, a weekly indemnity plan must pay benefits at least 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.

2.3 When must employee benefits be reinstated following the end of a disability?

The weekly indemnity plan 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:

- If the disability is *new*, full benefits must be reinstated no later than one month after the employee returns to work;
- If the 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:

- If the disability is *new*, full benefits must be reinstated when the employee accumulates a number of hours *not exceeding* 150 hours of active employment;
- If the disability is a *recurrence* of an earlier one, full benefits must be reinstated when the employee accumulates a number of hours *not exceeding* 400 hours of active employment.

Description
of Weekly
Indemnity
Plans

Duration of
benefits

Reinstatement
period

Description of Paid Sick Leave Plans

Accumulation of sick leave credits

Section 3: Additional requirements specific to Cumulative Paid Sick Leave Plans

3.1 What is a Paid Sick Leave Plan?

A Paid Sick Leave (PSL) Plan provides coverage based on sick leave credits accumulated by the employee. A paid sick leave plan may also provide for maternity, parental and/or compassionate care benefits. This type of plan is usually found in the public service sector.

3.2 How many days of sick leave must an employee accumulate?

Paid Sick Leave (PSL) 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 due to 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 the minimum requirements 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 own illness or injury and, if the plan allows it, while the person remains at home due to pregnancy, to care for a newborn or newly-adopted child or to care for a gravely ill family member.

In accordance with the November 16, 1995 changes to the EI Regulations, a new category of premium reduction was created for PSL plans which the Program identifies as Enhanced Cumulative Paid Sick Leave Plans. This category applies to PSL plans which provide a minimum of one and two thirds days of paid sick leave per month of continuous employment and a minimum accumulation of 125 days. Consequently, a minimum of 20 days per year must be 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 due to pregnancy, to care for a newborn or newly-adopted child or to care for a gravely ill family member.

PSL plans may allow days to be *prorated* based on the number of hours worked.

When employers first apply for a premium reduction, their PSL plan must have allowed for a possible accumulation of 72 days of paid sick leave credits (120 in the case of 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 this is not achieved, the employers will be required to either provide these credits or add to what could exist to achieve this maximum.

Example: A plan provides an accumulation of one day per month, i.e., 12 days per year. When the employer applies for a premium reduction, the plan has been in effect 5 years. This means an employee could have accumulated 60 paid sick leave credits. In this case, the employer would have to credit all employees with 12 days of paid sick leave credits to achieve the 72 days required. This will reduce or eliminate the obligation to pay EI sickness benefits to these employees. The number of credits to be provided will vary from employer to employer depending on the effective date of the plan and/or the rate of accumulation. Upon application, more information will be provided by the Premium Reduction staff to address the specifics for each employer.

3.3 How long must benefits be paid?

To qualify for a premium reduction, the plan must pay benefits until at least the earliest of the following:

- the payment of 75 days of sick leave, 125 in the case of an enhanced PSL plan;
- the exhaustion of all accumulated paid sick leave;
- 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.

3.4 What happens when the use of paid sick leave is deferred?

For temporary employees or employees on probation, the employer may defer the use of paid sick leave credits for a period *not exceeding* 12 months of employment beginning on the day the employee commenced employment or joined the plan.

Employers who defer the use of paid sick leave credits for more than three months must remit their premiums on behalf of these employees under a separate payroll account at the standard rate of 1.4 times the employees' premiums.

When the employees become entitled to use their paid sick leave credits, they may then be reported under the payroll account at the reduced rate.

Duration of
benefits

Deferral
of sick leave

Part II Initial application for premium reduction

Application procedure

1. How do I apply for a premium rate reduction?

If you believe you have a short-term disability plan that meets the criteria explained in this guide, you should complete the *initial application* form included in the centre of the guide. You must submit the completed form to the Premium Reduction Program, along with the following supporting documents, if available:

- a copy of your formal commitment (describing your Weekly Indemnity Plan or your Paid Sick Leave Plan);
- a copy of the respective collective agreement(s) (if your application covers employees who are members of a union);
- a copy of the written mutual agreement between you and your employees regarding your obligation to return their portion of the reduction (if such an agreement exists).

Should Service Canada require additional information to make a decision, you will have 30 days from the date of their request to provide this information.

Employees not covered

2. What if I have employees who are not covered for short-term disability?

Any employees who are not covered must be reported under a separate payroll deductions account. Employer EI premiums for these employees must be paid at the standard rate of 1.4. If you require an additional payroll deductions account, contact the Canada Revenue Agency (CRA) office serving your area. For detailed information, please refer to Section 1, item 1.3 in Part 1 of this guide.

Notification of approval

3. What happens if I qualify for a premium reduction?

If your plan is approved after evaluation, you will be advised within a few weeks of the reduced rate to which you will be entitled.

The amount of **premium reduction** will be specified in cents per one hundred dollars of insured earnings, e.g., the premium reduction could be 30 cents (\$0.30) for each one hundred dollars (\$100.00) of insured earnings.

The **premium rate** will be expressed as a multiple of the employee premiums payable, i.e., a premium rate which is less than 1.4 times the employee premiums payable (e.g., 1.248).

Effective date of premium reduction

4. How is the effective date of my reduction determined?

The effective date of reduction is based on the date you send the application, if all the conditions *are met* on that date. The reduction is calculated as follows:

- If the application is sent on or before the 15th of the month, the effective date of reduction is the first of the following month.

- If the application is sent on or after the 16th of the month, the effective date of reduction is the first of the second month following.

If all conditions are ***not met*** on the date you submit your application, the effective date of the reduction will be based on the date you meet all the requirements for a premium reduction.

5. Can changes be made to a short-term disability plan after it is approved?

Yes, but you must notify the Premium Reduction Program *within 30 days of the date of the change*.

Please send the notification and supporting documents to:

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

Toll free: **1 800 561-7923**
Facsimile: **(506) 548-7473**

- If there is a major reorganization in the company, such as an amalgamation or new ownership, you must send details of the changes to the Premium Reduction Program. The Program will advise you of any effect on your right to the premium reduction.

6. What happens if my plan does not qualify?

If your short-term disability plan does not qualify, Service Canada will inform you of what modification(s) will have to be made to meet the requirements. If you choose to amend your plan so that it will qualify, you should submit a copy of the amendment to the Premium Reduction Program as soon as possible.

Subsequent
changes

Failure to qualify

Part III The renewal application

Renewal procedure

1. What must I do to continue to benefit from a premium reduction?

In December of each year, Service Canada will send you a "**Conditional Authorization to a Reduced Employment Insurance Premium**" notice advising you of the reduced rate you may use in the coming year, provided you continue to meet all the requirements for a reduction.

During the first half of the new year, Service Canada will send you a **Renewal Application for Premium Reduction** to determine if you continue to meet the requirements. You must complete and return this form within a period *not exceeding* 30 days from the date of issue.

For assistance in the completion of the Renewal Application please contact us at:

Toll free: **1 800 561-7923**

Facsimile: **(506) 548-7473**

Confirmation of reduction rate

2. What can I expect if my renewal application is approved?

If your application is approved, Service Canada will confirm the reduced rate you should use to remit your EI premiums.

The amount of **premium reduction** will be specified in cents per one hundred dollars of insured earnings, e.g., the premium reduction could be 30 cents (\$0.30) for each one hundred dollars (\$100.00) of insured earnings.

The **premium rate** will be expressed as a multiple of the employee premiums payable, i.e., a premium rate which is less than 1.4 times the employee premiums payable (e.g., 1.248).

Failure to qualify

3. What happens if my renewal application cannot be approved?

If you no longer meet all the requirements for a premium reduction, Service Canada will notify you. Your premium reduction will be recalculated based on the number of months that all the requirements were met for that year. If you decide to modify your plan, you must advise Service Canada as soon as possible so that your reduction can be recalculated.

Part IV Right of appeal

What happens if I do not agree with the decision made by Service Canada?

If you do not agree with the decision made concerning your request for a premium reduction, you have the right to appeal that decision during a period **not exceeding one year** from the date of the decision.

You must submit your appeal in writing and provide the reasons on which the appeal is based. Please send appeals to:

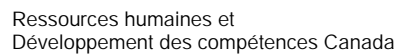
Service Canada
Premium Reduction Program
120 Harbourview Boulevard
P.O. Box 11000
Bathurst, New Brunswick
E2A 4T5

Facsimile: **(506) 548-7473**

Please note: This guide contains general information only. In controversial situations, the *Employment Insurance Act* and *Regulations* must govern.

Appeal
procedure

[illegible]



- For assistance, refer to our *Guide For Employers* at: <http://www1.servicecanada.gc.ca/en/cs/prp/010.shtml>
- **You must complete an application for each payroll account for which you require a reduction.**
- **You must include a copy of each short-term disability plan you want to register. → See Guide - Section 1.1**

Payroll Account											R	P				
Company Name																
Mailing Address																
City										Prov.		Postal Code				

1. How many employees reported under the payroll account indicated above are covered by your short-term disability plan(s)?	
2. If you have employees indicated in question 1 for whom you remit Quebec Parental Insurance Plan premiums, indicate the number.	

3. Five-twelfths (5/12) of the savings from the premium reduction belongs to the employees to whom the reduced rate applies. The employer is required to return this to the employees. How will you return this portion of the savings?

--

- is at least equal to 5/12 of the savings;
- is a new benefit or an enhancement to an existing employee benefit;
- is accessible to all employees to whom the reduced rate applies; and,
- will be provided in the year for which the reduction is given, or within the first four months of the following year.

Note: If there is a signed mutual agreement regarding the 5/12 and/or if the 5/12 details are contained in a collective agreement, please include a copy of the relevant document with this application.

Title

--

Tel.

() -

Fax

() -

Date _____

Signature

El Premium Reduction Program
PO Box 11000
Bathurst NB E2A 4T5

1 800 561-7923

Fax : (506) 548-7473

→

Date Sent:

