DEFERRED SALARY LEAVE

BACKGROUND

A Deferred Salary Leave Plan is a legislated process to defer a portion of salary and the related income tax to finance an unpaid leave of absence.

There are significant administration needs that must be coordinated among the teacher, the employing board of education, a banking institution and all benefits administrators. In addition, the Canada Revenue Agency, through the *Income Tax Act* and the *Income Tax Regulations*, places a number of stipulations on a DSLP that must be followed in order for the teacher to benefit from deferring income to the year of leave. Teachers also should check any provisions in their local collective bargaining agreement for specific conditions for a DSLP which may be unique to their plan.

BEGINNING THE PROCESS

The first step in contemplating a deferred salary leave should be to check if local board policy or the local collective bargaining agreement contains any provisions related to such plans. Where such provisions exist, in addition to board approval of the leave, there may be stipulations such as required qualifications for acceptance, restrictions as to the number of teachers who may enter a plan in a year or lead time specified for entry into a DSLP. Teachers also should be aware that local board policy or their local agreements may not provide for return to the same or a comparable position.

Where no provisions exist in the local collective bargaining agreement, the board still must approve the leave as an unpaid leave of absence.

REGULATIONS

A DSLP falls under Section 81(1)(s) of the *Income Tax Act* and is explained in detail in Section 6801 of the *Income Tax Regulations*. A DSLP must meet all the following conditions:

- A written agreement must be made between the teacher and the board.
- The purpose of the arrangement must be to fund a leave of absence.
- The period of the leave cannot be taken immediately before retirement.
- The teacher must return to work after the leave for a period that is not less than the length of the leave.
- A maximum of 33 1/3 percent of the teachers' gross salary may be deferred in one year.
- The leave of absence must not be less than six consecutive months unless it is for full-time attendance at a designated educational institution, in which case the leave of absence must not be less than three consecutive months.
- The leave of absence must begin no later than six years after the date on which the salary deferral begins.
- During the leave period, the teacher cannot receive any salary or wages from the board other than the amounts by which the teacher's salary under the plan was deferred, or is to be reduced, and reasonable fringe benefits.

Regulation 6801 allows teachers to take a five-month semester leave and count either July or August to meet the minimum six-month requirement.

The deferral period can be suspended or interrupted, for example, during a maternity, parenting or adoption leave period provided that the deferral period and the interrupted time do not exceed six years in total. However, resignation from teaching and termination of contract both result in withdrawal from the plan. These, along with voluntary withdrawal from the plan, result in full taxation of all deferred salary plus all other income in the taxation year of the withdrawal.

If you experience serious extended illness during your year of deferred leave, consideration may be given to terminating the leave in order to access your accumulated sick leave. Consult the Saskatchewan Teachers' Federation if you find yourself in this circumstance.

All deferred salary held under the arrangement must be paid to the teacher no later than the end of the first taxation year that begins after the deferral period. For example, if the deferral period ends in June 2013, you must receive the deferred salary prior to December 31, 2014.

The *Income Tax Act* and other regulations can change at any time.

SELF-ADMINISTRATION

A teacher may administer a self-funded DSLP provided that the leave has been approved by the employing school board. This type of arrangement will not provide a means of deferring income tax, but may still permit the leave to be purchased for pension purposes provided the teacher can demonstrate that systematic savings took place during the deferral period and has met other criteria. For more information about purchasing your self-funded deferred salary leave, contact your pension plan administrator.

SALARY DURING DEFERRAL AND LEAVE PERIODS

During the deferral period, a teacher would continue to receive their normal salary less the deferred amount. Full service accrues during this contribution period for increment purposes.

Salary during the leave period would consist of the total sum of amounts deferred plus interest. The leave period does not automatically count as experience for increment purposes; however, the provision for an incremental credit may be bargained locally. Teachers are strongly encouraged to consult a financial planner prior to making the decision to enter into a deferred salary leave arrangement. The following table provides an example of the financial implications of various deferral periods.

# OF YEARS SALARY IS DEFERRED	YEAR OF LEAVE	% OF GROSS SALARY DEFERRED EACH YEAR	% OF GROSS SALARY RECEIVED IN DEFERRAL YEAR	
1	2nd	33 1/3*	(1/3)	33 1/3
2	3rd	33 1/3*	(1/3)	66 2/3
3	4th	25	(1/4)	75
4	5th	20	(1/5)	80
5	6th	16 2/3	(1/6)	83 1/3
6	7th	14	(1/7)	86

* maximum allowed

BENEFITS AND STATUTORY DEDUCTIONS

BENEFITS/ DEDUCTIONS	DURING THE DEFERRAL PERIOD	DURING THE LEAVE PERIOD
Income Tax	Applied on the portion of salary received and on the interest earned on the deferred amount, if any.	Applied on the deferred amount received and on any interest earned not already calculated.
Employment Insurance	Contributions based on gross salary (salary received plus deferred amount).	No deductions are taken. The period of leave is not counted towards insured employment for EI purposes. Eligibility for EI benefits would be restored once the teacher had worked the minimum number of insurable hours in the 52-week period prior to a claim for EI benefits. EI regulations do not allow a teacher under contract to collect EI benefits except for maternity, parental and sick leave benefits. Consult a member of the Saskatchewan Teachers' Federation's senior administrative staff if you find yourself in this situation.
Canada Pension Plan	Contributions based on the portion of salary received.	Contributions based on deferred amounts received.
	May have an impact on future CPP benefits (disability or regular).	
Sick Leave	Accrues at normal rate.	No accrual during leave period. Accumulated sick leave accrued prior to leave period is not accessible during leave; however, it is not forfeited and is available upon return from leave.
Teachers' Long-Term Disability Plan	Premiums and benefits based on gross salary (salary received plus the deferred amount).	As a member of the disability plan, coverage is optional during the leave period. To continue coverage, you must submit an application for extended coverage to the STF within 30 calendar days of the date coverage would otherwise cease (your last teaching day). Once approved, premium payments will be arranged with and directed through the disability plan. For further information, contact the Plan: 1-800-667-7762.
Group Life Insurance	Coverage continues.	To continue coverage, you must apply to the Saskatchewan Teachers' Superannuation Commission by enclosing a copy of the letter from the board of education granting the leave and paying full premiums by the end of September. For further information, contact the STSC: 1-877-364-8202.
Teachers' Dental Plan	Coverage continues.	Coverage continues. Advise the Plan of your change in circumstances by submitting a dental plan Change of Information form. Claims should be forwarded directly to Sun Life Assurance Company. Dental inquiries should be directed to Sun Life Assurance: 1 800-361-6212 or the STSC: 1-877-364-8202.
Members' Health Plan	Coverage continues.	Coverage continues. Advise the plan of your change in circumstances by completing and returning a Change of Information form to the STF.
Pension Plan	Contributions continue based on gross salary.	No pension contributions will be deducted during the deferred salary leave period unless you make the necessary arrangements with your board to remit monthly contributions on your behalf. After the completion of your leave, you may purchase a period or periods of time up to a lifetime maximum of one year of service (CRA restriction) coinciding with the period(s) of the leave. Pension contributions are based on salary you would have earned had you been teaching during the period of the leave. Contact your pension plan administrator for more information: 1-800-667-7762.

BENEFITS/ DEDUCTIONS	DURING THE DEFERRAL PERIOD	DURING THE LEAVE PERIOD
RRSP Contribution Room	The amount of income deferred is not counted as earned income for the purposes of calculating your RRSP contribution limit and may result in a decrease in your RRSP contribution room for the year or subsequent year.	Deferred amounts are considered earned income when received.
STF Fees	Payable on gross salary (salary received plus the deferred amount).	No fees are deducted while on leave.

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STF-00199A / 20220902 / 8000-50