

An income protection resource  
for business owners



# Sick pay

**Keeping your  
bottom line strong**

## **If you or a key employee became disabled today, would your company:**

- Continue their pay check?
- Continue to take a business tax deduction for wages paid?
- Be able to afford continuing their pay without him/her generating revenue?

If you said, "Of course we would!" you may be in for a surprise unless you have a Qualified Sick Pay Plan (QSPP) in place before the disabling accident or illness occurred.

## **What happens if you don't have a QSPP and you pay your disabled employee?**

Without a written QSPP before a disability:

- Salary payments made to a disabled employee are not considered a deductible business expense (includes salary payments to an owner).
- Deductions claimed by the business may be disallowed.
- Back taxes, penalties, and interest may apply.
- You and your business may be exposed to claims of unlawful discrimination from other employees who may not receive the same benefits.

If you're going to pay a disabled employee anyway, it makes sense to ensure that you can take the tax deduction and protect your company's bottom line.

## **Three simple steps to protect your bottom line**

### **1 Create a written document with the QSPP's key elements before a disability occurs. You get to decide:**

- Who to pay
  - Which class(es) of employees will be covered (management, key employees, support staff, etc.)
- How much to pay
  - Benefit levels can vary by class
- When to start payments
- How long to pay

Your company must have a corporate resolution or plan document adopting the plan.

**2** **Decide how to fund the QSPP — either through an insurance company or self-insurance.**

**3** **Communicate the plan to employees before a disability occurs.**

### **Benefits of an insured sick pay plan**

Most business owners choose to transfer most of the risk to an insurance company. Doing so lets you convert the unknown cost of a lengthy disability to a known cost in the form of an insurance premium. Other advantages include:

- Premiums paid by the business may be a tax-deductible business expense.
- Premiums are typically not considered as additional taxable compensation to the employee.
- The insurance company assumes the responsibility for claims determination.
- The costly drain on assets (and possible liability on your balance sheet) is replaced with modest expenses that can be budgeted for.
- Flexibility for the plan to be employer-pays-all or employer-pays-part.

Consult with your tax and legal advisors on your firm's specific circumstances.

**QSPP funding**

When establishing a QSPP, you'll want to look at how to fund it. Should you retain the entire risk of having to pay disability benefits out of your firm's assets, or should you transfer most of that risk to an insurance company? Factors to weigh include:

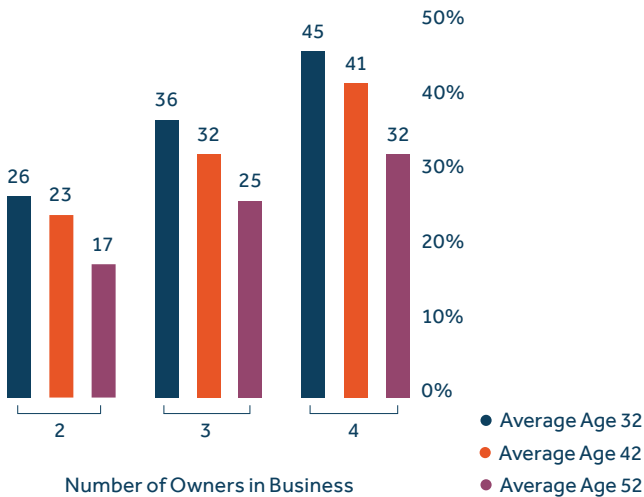
Considerations	Self-insure	Insurance company
Risk	Retained	Transferred
Claims determination and administration	You	Insurance company
Decision whether or not a disabled employee has recovered	You	Insurance company
Cost/timing	Large benefit checks while short-staffed	Affordable premium payments while at full productivity
Liability for payments	You	Insurance Company
Impact on financial statements	Unfunded liability adversely impacts financial statements	Strengthens company's financial statements



**You or a partner disabled? What are the odds?**

The chances of you or a business partner becoming disabled before age 65 are higher than you think.

**Chances of one partner becoming disabled (%)\***



And if you included not only owners but key employees in the chart, the odds would be even higher.

Think about how disruptive this would be to your business. You'd have fewer individuals generating revenue, with other employees trying to pick up the slack. You'd also be draining cash to continue paying the disabled employee.

**Call your financial professional or insurance representative today to protect your company's bottom line and your employees.**

\* National Association of Insurance Commissioners Individual Disability Table, 2013.

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