

## Interpretive Memorandum No. 2016-1

**DATE:** REVISED August 2, 2022 (Originally issued July 13, 2016)

**TOPIC:** How Service Credit Is Awarded and Earnable Compensation Calculated For Members Who Receive Compensation Under An Employer-Sponsored Salary Continuance Plan

**PURPOSE:**

The purpose of this memorandum is to discuss how creditable service is awarded and Earnable Compensation is determined when a Member is absent from work due to a disabling illness or injury and is receiving compensation under an Employer-sponsored salary continuance plan<sup>1</sup>.

**SUMMARY:**

**A.** NHRS interprets the term “salary continuance” to refer to short-term and long-term disability insurance plans for which the Employer, and sometimes the Member, pay premiums to the insurance company; and, in return, the insurance company pays benefits either directly to the Member or to the Employer on behalf of the Member. In some case the plan may be self-funded by the Employer. Salary continuance does not include situations where the Employer continues to pay normal wages to the Member who is absent from work due to an illness or injury and there is no salary continuance plan.

**B.** A Member is awarded creditable service when he or she is absent without salary due to a disability if he or she receives compensation from a salary continuance plan if the disability insurance coverage is wholly or partially funded by the Employer. Creditable service will continue to be awarded until the Member experiences one of the following: (a) returns to work; (b) dies; (c) retires; (d) is no longer compensated under the plan; or (e) is no longer employed by the Employer. (The underlined provision was effective July 1, 2014).

**C.** A Member is considered to be “absent without salary” for any period for which they receive full or partial salary continuance benefits notwithstanding the fact that they may supplement their benefits with sick or vacation time or wages from part-time work with the Employer.

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<sup>1</sup> Capitalized terms shall have the meanings as provided in the Interpretive Memoranda Glossary of Terms.

**D.** The benefits received from a salary continuance plan are considered Earnable Compensation on a pro rata basis based on the proportionate share of the total insurance premium paid by the Employer; and, should be reported as Base Compensation. The Employer must submit a Salary Continuance Reporting Form for each month. Employers may remit Member contributions on behalf of the Member through payroll withholding. If not, NHRS will bill the Member.

## **ANALYSIS**

**A. Salary Continuance Plan.** In most cases, a salary continuance plan is an insurance plan for which the Employer and/or the Member pays a premium to the insurance company. In some cases, the plan may be self-funded by the Employer. This includes both short-term and long-term disability plans. Benefits paid under such plans are Earnable Compensation to the extent provided in Paragraph 4 below. Salary continuance does not include amounts paid by the employer pursuant to a policy or procedure that is not part of a funded plan.

**B. Service Credit.** A Member may be granted creditable service when receiving compensation from a salary continuance once Employer and Member contributions are paid. Creditable service will continue to be awarded until the Member experiences one of the following: (a) returns to work; (b) dies; (c) retires; (d) is no longer compensated under the plan; or (e) is no longer employed by the Employer.

**C. Absent Without Salary/ Supplemental Compensation.** Some Employers allow Members to supplement their benefits by using sick or vacation. In addition, some plans pay partial benefits if the Member returns to part-time work while recovering. A Member is still considered to be “absent without salary” for any period for which they receive full or partial salary continuance benefits notwithstanding the fact that they may supplement their benefits with sick or vacation time or wages from part-time work with the Employer. Any such supplemental sick pay or vacation pay, and part-time wages, should be reported in the regular monthly report as Base Compensation and should not be reported on the Salary Continuance Form.

**D. Reporting Earnable Compensation and Contributions.** Amounts paid under a salary continuance plan are Earnable Compensation on a pro rata basis based on the proportionate share of the total insurance premium paid by the Employer and should always be reported as Base Compensation. The Employer is required to file with NHRS a Salary Continuance Form for each month. Employer and Member contributions may be remitted by checks filed with the Salary Continuance Form. In some cases, the Employer may remit contributions through the NHRS DRS reporting system (e.g., if benefits are paid through the Employer’s payroll system and NHRS contributions can be withheld by the Employer.). In cases when Member contributions are not remitted by the employer, NHRS will bill the Member. If Member contributions are not paid, no service credit will be awarded and Employer contributions will not be refunded.

*Mark F. Cavanaugh, Esq.*

8/2/2022

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**Approved by Mark F. Cavanaugh, Esq.  
Associate Counsel and Compliance Officer**

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**Approval Date**