

100% Pay During Incapacity To Work

More and more often, we encounter cases of employees who receive 100% pay compensation even when they are absent from work – e.g. incapacitated, or while they are on maternity, paternity or parental leave. This employee benefit is typically offered by global companies, and is still difficult to work with in the Czech setting.

The benefit likely originated in countries where employees are not financially supported by the state, and where they might end up with no income while they are ill. However, the Czech Republic has an extensive, multi-leveled compensation system. What kind of problems does that pose for providing the benefit of 100% pay compensations during employees' incapacity to work?

1. Determining the Difference Between Gross and Net Wages

It is the gross wage that is referred to when speaking of 100% pay that is compensated for, i.e. before taxes and social & health contributions are withheld. However, that is not the case for pay compensations, since they are exempted from taxes and insurance contributions, and thus no deductions are made from them.

Furthermore, compensation calculations differ depending on the type of an employee's absence, and often, compensation is simultaneously paid by different entities.

The compensation for the first 14 days of an employee's incapacity to work is covered by the employer, and therefore easy for them to deal with. However, if the employee benefit is valid for longer time periods, e.g. 100 days, it is necessary for the employer to take into consideration the statutory amount already covered by the Czech Social Security Administration (CSSA).

Pay compensations for maternity and paternity leaves are treated similarly, but the CSSA covers the mandatory amount from the first day.

Compensations for parental leave seem to be the most problematic, since the mandatory amount is paid by the Labor Office of the Czech Republic and individually distributed to employees over time, depending on how long they want to draw parental allowance for. That makes it impossible for employers to calculate and cover the rest.



2. The Difference Between Calendar and Working Days

Pay compensations covered by employers are calculated based on the number of working days in the given month. However, compensations covered by state institutions are calculated based on the number of calendar days, which can cause issues if the given month begins or ends with a weekend during which an employee's absence, typically sick leave, is discontinued. In such cases, they would still be covered by the CSSA. If an employee received 100% pay as a benefit under these conditions, they would be overpaid and they would therefore have to return the compensation received from the state to their employer.

3. Excluded Periods

For social insurance purposes, it is necessary to monitor the so-called excluded periods. There are several types, but when it comes to incapacity to work employers need to report periods during which an employee does not participate in social insurance, i.e. days which will not be compensated for by the employer. Paternity leave, for example, is covered by the CSSA, and it is seen as unpaid leave by employers. But what happens when a 100% pay compensation is provided as an employee benefit? During such periods, employees are entitled to pay compensations, even though they do not perform work. From employers' point of view, these periods are then seen as paid leave, despite the fact that the employers cover the pay compensations only partially.

Considering how complicated it is for employers to calculate the compensations, we recommend to all companies that would like to offer this benefit to clearly define all possibilities, including the calculation method, in their internal regulation.

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