How to Pay Short-Term Disability For Commissioned Employees

Your sales manager just called to tell you that one of the top salespeople at your company needs to take a leave of absence to have a baby. As you are getting her FMLA paperwork ready, you remember that her absence will also be covered under your company's short-term disability policy. As with many short-term disability (STD) policies, her weekly STD benefit will be 60 percent of her regular compensation.

But wait…she is a commissioned salesperson! A large portion of her compensation is based on her commissions. If she gets only 60 percent of her base salary while she is off work, it will actually be far less than her regular compensation. Is that fair to her?

You check your short-term disability plan document for guidance. If yours is an insured plan, that plan document should tell you how her benefit will be calculated. But in your case, there is no plan document because your company has a self-funded salary continuation policy, not an insured policy. Unfortunately, your company policy simply states that the employee will receive 60 percent of her regular pay for up to 26 weeks while disabled. This would be easy to calculate if the employee was paid on a straight salary basis, or even on a regular hourly basis.

But since a significant portion of this employee's pay is based on commissions, it is not so clear-cut. Here are some different ways your company could handle this, in increasingly generous order:

- **Pay a weekly STD benefit of 60 percent of 1/52 of the salesperson's annual base salary only.** Any residual commissions or bonuses earned but not paid prior to the leave of absence are paid at normal intervals but not considered part of the base salary for benefit calculation purposes.
- **Pay a weekly benefit of 100 percent of 1/52 of the salesperson's annual base salary only.** Any residual commissions or bonuses earned but not paid prior to the leave of absence are paid at normal intervals. This method would pay full base salary but not consider previous commissions or bonus earnings.
- **Pay a weekly STD benefit of 60 percent of 1/52 of the salesperson's total earnings over the most recent 12-month period.** Any residual commissions or bonuses earned but not paid prior to the leave of absence are paid at normal intervals. This method would take into account the employee's total historic earnings, including commissions and bonuses.

Of course, the same principles also apply to any employee who has a variable pay component. Pieceworkers, bonus-eligible employees, and nonexempt employees who work overtime on a regular basis may all fall into a similar situation.

There are no absolute right answers in these situations. The method your company decides to use in paying STD benefits is a function of its culture and corporate compensation philosophy. It is important to have a policy in place before it is needed and to apply the policy consistently. By having a clearly defined policy, you can avoid at least one source of anxiety. Now, if you could only figure out who will do the work while she's gone!

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