

November 5, 2010

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Dear Gordon, Bonnie and Barb

Re: Implementation of Negotiated Wage Rates and Retroactivity

The new wage rates were implemented on the SAHO payroll system on Sunday October 24, 2010. Employees will see the new wage rates on the pay slips of November 12, 2010. Changes to shift differential, weekend premium and market adjustments are effective as of the date of signing of the applicable collective agreement and are as follows;

SGEU – October 19, 2010

SEIU – October 25, 2010

CUPE - October 26, 2010

Retroactivity for all employees will be paid on January 21, 2011 on the regular pay date. As a result of Canada Revenue Agency (CRA) tax averaging, employees who receive a significant one time lump sum payment such as retro activity, in an off pay week (i.e. separate cheque), may see lower net earnings on their first pay after the retroactivity is paid. In the past this has caused significant concern among employees and has led to the decision to pay the retro on a regular cheque.

This issue is a result of the “cumulative averaging method” used for income tax calculation. Each time pay is generated, the Cumulative Averaging Method for Income Tax within the payroll system incorporates the following:

- Year to Date Earnings and the Year to Date Income Tax that has been deducted.
- Current pay to be generated.
- Projected Annual Earnings are calculated based on each of the foregoing and projected Annual Income Tax is calculated. This in turn determines what the Income Tax deduction will be for the Current Pay.
- The goal is to have the employee at a breakeven point at year end – where they will neither under or over pay income tax.

CUPE, SEIU, SGEU
RE:Implementation of Negotiated Wage Rates and Retroactivity



When an employee's earnings are subject to an increase (i.e. economic increase or an increment), the system assumes that the increased amount will continue through to the balance of the payroll year and adjusts the income tax deducted accordingly. This is important to ensure the employee does not underpay and owe Revenue Canada additional income tax in that year. Large fluctuations due to a one time lump sum or retroactive payment increase the Projected Annual Earnings in the same manner as well as the Projected Annual Tax. If retroactivity is paid on a separate cheque this may result in a lower net pay due to higher income tax deductions in subsequent pay periods following the retro payment. Once earnings stabilize, the income tax will stabilize. Typically this takes three pay periods to stabilize.

In summary, there is no tax related benefit to employees to pay retroactivity on an out of schedule pay (separate cheque). In fact for some employees there is a detriment to do so.

With respect to the issue of pay slip information and whether a separate cheque would provide additional information I inform you of the following. Whether employees receive a separate retro cheque or retro pay on a regular cheque, the pay information will not differ. The information will be the same as it was for previous retroactivity payments associated with collective bargaining.

Retroactive earnings will show as follows for each job number an employee is to receive retro in;

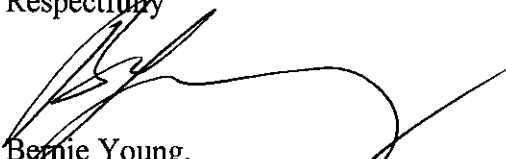
Earnings This Pay Period
Week Ending XXXX

<i>Dept</i>	<i>Job</i>	<i>Earnings Type</i>	<i>Hours</i>	<i>Rate</i>	<i>Amount</i>
#	#	RET-REG			\$ xxx.xx
#	#	RET-OT			\$ xxx.xx
#	#	RET-SWRK			\$ xxx.xx
#	#	RET-SICK			\$ xxx.xx
#	#	RET-VACN			\$ xxx.xx

All retroactive earnings in each pay type will be preceded by the designation RET.

For the above reasons, combined with the additional cost to the system in terms of staff time expended, dollars paid to financial institutions and expenses to deliver pay slips to employees for an out of schedule payment, the decision has been made to pay retroactivity on January 21, 2011 which is a regular pay week.

Respectfully


Bernie Young,
Director, Bargaining & Interpretation, Labour Relations

- c. Susan Antosh, CEO
- Tor Veltheim, VP Labour Relations
- LR Consultants