

## Severance Pay – Allocating Benefits to a Specific Period of Time Can Reduce Costs

Severance payments are employer related benefits often paid to employees as part of their termination of employment. Although severance payments are by no means mandatory, employers can elect to make payments under a number of circumstances, based on their established employment policies. The level of severance payments available to a former employee are often determined by the duration of their employment.

When an individual files a claim for unemployment compensation, the state will always ask if any severance pay was received as part of the terms of separation from their employer. The amount of severance pay reported, and most importantly, the time frames to which the payments were allocated can have a significant impact on the benefits charged to the employer. In fact, in many states, severance pay is deductible from unemployment benefits only if it is allocated.

Although regulations vary from state to state, allocating severance payments over a specific number of weeks can delay the start of benefits and may ultimately reduce the duration of benefits received by an individual. In states where severance can be allocated, the amount of the severance payment is deducted from any unemployment benefits available during the corresponding weeks of eligibility. Should a former employee receive six weeks of severance pay as part of their termination agreement, allocating those severance payments over the six weeks immediately following the date of termination will result in their not receiving unemployment benefits until those six weeks of severance have been exhausted.

### Making the Decision to Allocate Severance Payments – Yes or No?

**Example 1: Severance Not Allocated:** In the situation described above, if severance payments were not allocated and the individual remained unemployed for twelve weeks, they would receive 6 weeks of full pay via their severance payments and 12 weeks of unemployment benefits from the state that would be charged to the employer.

**Example 2: Severance Is Allocated:** If severance was allocated, the individual would receive 6 weeks of full pay, but would then receive only 6 weeks of unemployment benefits, following the exhaustion of the 6 weeks of severance pay.

In this scenario, the former employee would still be receiving payments of some type throughout the entire duration of their unemployment. However, your organization would be charged for 6 fewer weeks of benefits. Multiply this figure by the average weekly benefit amount of \$296 dollars and you can easily quantify the savings that can be generated.

### Allocating Severance Does Not Impact Eligibility

Remember, allocation of severance has no impact on an individual's eligibility to receive unemployment benefits or the amount of benefits available. As always, eligibility for benefits is based on an individual's reason for separation from their place of employment. Allocation of severance simply helps the state determine when those benefits will begin to be received.

TALX's experience, expertise, and proven results help employers navigate the uncertainty of the unemployment insurance system. For additional information regarding this article or other proactive unemployment cost management techniques, please contact Sheila Gramann at 314-214-7387, or by e-mail at [sgramann@talx.com](mailto:sgramann@talx.com) or visit our corporate blog at <http://blog.talx.com>.