

FACT SHEET #125 December 2015

How Severance Pay Affects Unemployment Benefits

Defining Severance Pay

Severance pay is a payment made by the employer when the employee is separated from the job. Severance pay is remuneration and is issued in calculating a worker's benefit payment.

How Severance Pay Can Affect a Worker's Unemployment Benefit

The severance payment, like any other kind of "remuneration," will reduce unemployment benefits otherwise payable in the weeks to which the severance payment is allocated or distributed. If the payment is not allocated to a specific week or weeks by contract or by the employer, then the reduction in unemployment benefits will occur only in the week in which the severance payment is actually made.

Depending on the amount of severance pay, a worker's unemployment benefits can be affected in the following ways:

- If the severance payment attributed to a week equals or exceeds 1.5 times the worker's weekly benefit amount, then the unemployed worker is **not** entitled to any unemployment benefits for the week.
- If the worker's severance payment is greater than his/her weekly benefit amount but less than 1.5 times the weekly benefit amount, then the full amount of the severance payment is subtracted from 1.5 times the worker's weekly benefit amount. (The balance of weeks remaining on the unemployed worker's claim will be reduced by one week, if the worker claims benefits for that week.)
- If the severance payment is equal to, or less than, the worker's weekly benefit amount, then the claimant's weekly benefit amount will be reduced by 50 cents for each dollar of the total severance payment amount. (The balance of weeks remaining on the unemployed worker's claim will be reduced by one week if the unemployed worker claims that week.)

How Lump Sum and Salary Continuation Payments Affect Unemployment Benefits

In some cases, the employer may make a lump sum severance payment when the worker is separated from a job. If the employer allocates the severance payment to a week or weeks other than the week in which the payment is made, then the worker's weekly unemployment benefits will be reduced in each claimed week to which the severance payment is allocated.

If the employer makes a lump sum severance payment but does not allocate that severance payment to a week or weeks, then the severance payment will reduce the unemployment benefits only in the week in which the lump sum severance payment is made.

If the employer makes weekly or monthly severance payments (sometimes referred to as salary- or wage-continuation payments), then the severance payment will be used to reduce unemployment benefits in the week in which the severance is paid, unless the employer allocates the severance payments to other weeks.

Examples

#1 – The unemployed worker becomes unemployed after working full-time during week ending September 7. The employer pays the unemployed worker a \$5,000 severance payment in that week and does not allocate the severance payment to any period. The unemployed worker files a new claim the following week. The worker's benefits are not reduced, as the severance payment was paid prior to the start of the claim and was not allocated to any period for which the unemployed worker was claiming benefits.

#2 – Same facts as in Example 1, except the employer allocates the lump sum severance payment to the six weeks following the job separation. Unless the employer specifies how much will be allocated per week, UIA will equally allocate the payment over the six weeks, reducing the unemployment benefit for each of those six weeks. The severance payment can also be considered wages to qualify for a later claim.

#3 – If the employer makes weekly wage continuation payments for the one-year period following the job separation, benefits would be reduced accordingly in each week. The severance payment can also be considered wages to qualify for a later claim.