

FACT SHEET #125 February 2019

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 Affects Worker's Unemployment Benefits

The severance payment, like any other kind of "remuneration," will reduce unemployment benefits for 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 benefit can be affected in the following ways:

- If the severance payment attributed to a week or weeks equals or exceeds 1.5 times the worker's weekly benefit amount, the unemployed worker is **not** entitled to any unemployment benefits for the week or weeks.
- Instead of a traditional lump-sum severance, sometimes an employer will pay severance over time. This type of severance will prevent the employee from receiving unemployment insurance until after the final payment is made. For example, if the person receives six months' severance, then he or she may not be eligible for unemployment insurance until after the six-month period has ended.

How Lump Sum and Salary Continuation Payments Affect Unemployment Benefits

- If an employer makes a lump sum severance payment at the time the worker is separated from a job but 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 payments of severance pay (sometimes referred to as salary or wage continuation payments), that severance payment will be used to reduce unemployment benefits in the week in which it is paid, unless the employer allocates the severance payments to other weeks.