



## SUB-PAY PLAN BASICS

### What Is a Supplemental Unemployment Benefits (SUB-Pay) Plan?

Introduced by the IRS in 1956, a SUB-Pay Plan is a unique type of severance plan designed to assist employees engaging in an involuntary termination due to a reduction in force, job elimination, reorganization, or similar circumstance. SUB-Pay Plans save payroll tax dollars and enable a company to utilize their paid-in asset of state unemployment taxes to supplement state unemployment insurance ("UI") benefits with separation pay. When combined, these benefits can provide the laid-off worker with up to 100% of their pre-layoff wage.

### Who Can Use SUB-Pay Plans?

SUB-Pay Plans can be implemented by any company in any industry across the US.

### Why Do Employers Adopt SUB-Pay Plans?

SUB-Pay Plans are generally adopted for three purposes:

- To allow a company to pay severance benefits to former employees without impacting the employee's eligibility for, or amount of, state UI benefits;
- To reduce FICA, FUTA and SUTA taxes otherwise payable in typical severance arrangements, resulting in a savings to the employer and employee of up to 7.65 percent each; and,
- To allow a company to efficiently use payroll taxes already provided to the state for UI benefits (in certain plan designs).

### How Does a SUB-Pay Plan Work?

A SUB-Pay plan is similar to state UI benefits. For example:

- Former employees must be eligible for state UI benefits in order to receive SUB-Pay benefits;
- Former employees must verify that they are still unemployed and ready, willing and able to work;
- SUB-Pay benefits cannot be paid in a lump sum they must be paid on a periodic basis.

### What Are the Benefits to the Company?

- Saves 7.65% in severance costs from FICA tax savings;
- Payments are also exempt from FUTA and SUTA taxes;
- Saves up to an additional 45% of severance costs when state UI benefits are coordinated with separation pay;
- Reduces the impact of severance costs on the company's cash flow;
- Entire SUB-Pay Plan administration can be outsourced to a third-party administrator.

SUB-Pay Plan Savings Example		
	Severance	SUB-Pay
<b>Cost</b>	\$1,000,000	\$1,000,000
<b>Social Security Tax</b>	\$62,000	\$0
<b>Medicare Tax</b>	\$14,500	\$0
<b>FUTA &amp; SUTA Tax</b>	\$40,000	\$0
<b>UI Supplement</b>	\$0	-\$416,000
<b>TOTAL</b>	\$1,116,500	\$584,000
<b>SAVINGS</b>	\$0	<b>\$532,500</b>
<b>SAVINGS%</b>		<b>48%</b>
1) 100 individuals \$1,000 per week of benefit; 10 weeks of benefit		
2) Layoffs effective January 1, 2014		
3) State UI benefit = \$416 (US average)		
4) Combined FUTA & SUTA tax savings estimated at 4%		
5) Former employees gain \$765 over course of SUB-Pay Plan		

### What Are the Benefits to the Former Employees?

- Gains 7.65% more benefit per payment since SUB-Pay is not subject to FICA tax;
- Since SUB-Pay benefits are paid on a periodic basis the former employee receives steady income during their reemployment transition, and it may also reduce the additional tax burden associated with lump-sum severance payments;
- Outsourcing SUB-Pay Plan administration provides support and assistance to the former employee for the duration of their plan.

### How Can I Learn More about SUB-Pay Plans?

For more information about how a SUB-Pay Plan can benefit to your business, please visit [www.subpay.com](http://www.subpay.com), or contact us at [info@subpay.com](mailto:info@subpay.com), or call us at (800) 464-7755.