Reduce Corporate Expenses While Improving Employee Benefits

Expense reduction is an on-going priority for most employers today. CFOs and finance departments are largely tasked with finding innovative ways to manage overhead costs. Typical cost reduction efforts focus on cutting expenses such as headcount, materials, supplies, and other purchased items. Compensation and benefits plans also are routinely examined to cut costs, but severance programs often escape the scrutiny of the finance department. This is a missed opportunity to improve severance benefits and save significant dollars.

An Employment Transition Benefit

Since severance programs are not legally required and are lightly regulated, employers are at liberty to adapt their severance program to reflect current best practices. Some forward-thinking Fortune 1000 companies are repositioning traditional severance pay with the concept of "employment transition benefits" or "career transition benefits." To achieve this, they are turning to Supplemental Unemployment Benefit ("SUB-Pay") Plans.

A SUB-Pay Plan is an "alternative severance plan" designed to assist a former employee's transition to new employment due to an involuntary reduction in force, job elimination, reorganization, or similar circumstance. These plans offer three distinct advantages over traditional severance pay:

1) Payments are not subject to employer FICA or FUTA taxes, or employee FICA taxes, when paid under a properly designed SUB-Pay Plan;
2) Payments are integrated with the receipt of state unemployment insurance ("UI") benefits;
3) If benefits are recognized as SUB-Pay at the state level, SUB-Pay is also not subject to SUTA taxes.

Significant Savings to the Employer

Finance and tax departments recognize immediately the significant savings these SUB-Pay Plans can generate. While a SUB-Pay Plan can be designed to meet an employer's specific objectives, the most common plan design involves integrating the benefit amount the company pays by the amount of state UI benefits the former employee receives upon their layoff. Based upon plan decision and company criteria employers have saved up to 45% (or more) of their traditional severance costs, while providing more benefits to their former employees due to the FICA tax exemption.

Improved Employee Benefits

Unlike severance pay, SUB-Pay actually puts more money in an employee's pocket while they're unemployed, as these payments are not subject to FICA. That means an extra $765 for every $10,000 of benefit. If state UI benefits run out before the former employee's SUB-Pay benefits end, the employer can still pay 100% of the remaining balance as SUB-Pay, and the former employee and employer still achieve a tax savings.

The significant company savings generated by SUB-Pay Plan can also be reinvested to possibly offer additional weeks of separation benefits or additional services to the former employee. Plus, while some employers have believed that SUB-Pay benefits must be terminated upon a former employee's re-employment, an employer may choose to pay the former employee their entire remaining benefit balance as a bonus outside of the SUB-Pay Plan.

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A More Equitable Separation Benefit
With traditional severance, some states allow former employees the opportunity to experience a financial "windfall" by allowing them to collect both severance and state UI benefits at the same time. Several states do require the former employees to use their severance benefits before becoming eligible for state UI benefits. Since SUB-Pay Plans integrate the receipt of state UI benefits to pay a former employee up to 100% of their pre-layoff wage, SUB-Pay Plans allow an employer to offer a more equitable, national scope separation benefit across state lines.

A Win-Win Severance Strategy
In today's volatile business climate, employers should periodically review their benefit programs, including severance, to ensure they are meeting all of its fiduciary requirements. Employers need to implement innovative ways to manage expenses with new severance strategies, such as SUB-Pay Plans, to ensure they are managing severance costs while providing key benefits to their former employees as they transition to new employment.

About the Author
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About Total Management Solutions
TMS is a trusted advisor to Fortune 1000 and mid-sized US companies, helping them change, manage and administrate their corporate severance plans. Through our SUB-Pay Plans we help companies reduce the high cost, stress and burden associated with implementing employee severance plans resulting from a merger, acquisition, business realignment or economic downturn. With a SUB-Pay Plan, our clients typically save 45% or more of traditional severance costs, while providing more separation benefits to laid-off employees.

With over 25 years of experience, TMS is the pioneer and only company solely dedicated to the design, implementation and administration of SUB-Pay Plans. Each SUB-Pay Plan is customized to meet your company's financial and cultural requirements and is supported by a management team of experts in SUB-Pay Plans, sophisticated technology and unparalleled customer service. Once the SUB-Pay Plan is designed and implemented, TMS manages the day-to-day aspects of the plan administration for you, while our personal service provides displaced employees with full support services from our in-house Client Service Support Center.