



How an Alternative Severance Program May Help Employees Get Back to Work Quicker

In today's economic environment, reductions-in-force are not only unavoidable, but necessary in order for companies to meet the demands of an ever-changing business and economic environment. And, while no company wants to lay off any employee, there comes a time when layoffs must happen.

In what could be viewed as an "entitlement benefit," the majority of companies in the United States prefer to provide a lump-sum severance benefit to their reduced workforce in order to provide a "cushion" to new employment. Unfortunately, this type of severance, when coupled with the potential for the laid off employee to receive state unemployment insurance (UI) benefits simultaneously, may inadvertently encourage that former employee to stay out of work longer than is necessary.

Severance Pay as a Transitional Benefit

A Department of Labor (DOL) statistic indicated in a December 2014 study that it takes the average laid-off employee up to 33.6 weeks to find new employment. With a combination of a large number of severance weeks and the ability to collect state UI benefits at the same time, the DOL's report is not surprising. The key to getting former employees back to work sooner may be to view severance pay not as an entitlement, but as a transitional benefit.

Today, many Fortune 1000 companies are looking beyond the status quo of entitled lump-sum severance benefits. Some companies are taking the approach that separation benefits should be a payment that truly "transitions" a former employee to new employment. Not only would this approach help a former employee to find new employment faster, but it could save both the company and laid-off employee money along the way.

Transitioning with Supplemental Unemployment Benefit (SUB-Pay) Plans

With the use of a separation program that's over 60 years old, today's companies are once again turning to SUB-Pay Plans to create a true "transitional benefit" for their former employees.

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) Because SUB-Pay is not considered wages against the receipt of state UI benefits, and taxed the same as state UI benefits, the 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 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

While serving as an employment transition benefit, SUB-Pay Plans generate significant savings for the company. While a SUB-Pay Plan can be designed to meet a company's specific objectives, the most common plan design involves integrating the SUB-Pay 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 companies may save 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 the former employee's pocket while they're unemployed, as these payments are not subject to FICA. That means an extra \$76.50 for every \$1,000 of benefit. If state UI benefits run out before the former employee's SUB-Pay benefits end, the company 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 employer their entire remaining benefit balance as a bonus outside of the SUB-Pay Plan.

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.