

## **Severance Arrangements under the Traditional Program Questions & Answers**

### **Summary**

A severance payment is any salary, benefits (other than Benefits Plan coverage) or money paid by an organization to an employee in association with the employee's termination of eligible service regardless of how the organization describes the payment: gift, goodwill payment, payment for unused vacation, etc. A formal written agreement is not necessary for the payment to be considered severance.

Cash compensation must be reported as Effective Salary (as defined in Sec. 2.1 of the Benefits Plan); however, any amounts paid directly by the employer to the Board for benefits continuation are not included in Effective Salary. Cash compensation includes:

- amounts paid to the employee (even if the intended purpose is to fund unemployed dues or self paid medical continuation payments), and
- elective deferrals to retirement plans (other than the Pension Plan)

In other words, the same rules that currently apply to Effective Salary would apply to any payment by an employer to or on behalf of an employee in connection with a termination of employment.

### **Q1: Is there a set formula for severance arrangements?**

**A:** No. Severance arrangements vary by employing organizations, but all severance arrangements are included in Effective Salary.

### **Q2: Can employing organizations elect to pay dues on certain components of Effective Salary as part of a severance arrangement?**

**A:** No. Churches and other employing organizations must pay dues on all components of Effective Salary that are part of a severance arrangement, and it does not matter if the amount is a lump sum payment or a continuation of salary for a specified number of months.

### **Q3: If the severance arrangement only includes a lump sum payment, how are dues assessed by the Board of Pensions?**

**A:** The Board will require the employing organization to remit dues on all components of Effective Salary included in the lump sum amount stated in the severance arrangement, in addition to the previously reported annual Effective Salary.

### **Example**

*A severance arrangement provides for a lump sum payment of \$10,000. The employing organization's invoice will reflect a single account adjustment equal to the additional dues payable on the \$10,000 severance amount. Therefore the account adjustment would be \$3,100 for the additional dues incurred due to the lump sum payout of \$10,000.*

**Q4: Can a severance arrangement extend an employee's benefits beyond the last day worked?**

**A:** Yes, the employing organization will be billed as if the employee is still on the payroll. The employer is billed for benefits for the specific time period stated in the severance arrangement.

**Example**

*A severance arrangement stipulates that the employer will continue to provide Benefits Plan coverage for the member for six months following termination of employment. The termination date for the member is August 31; the Effective Salary at the time of termination is \$55,000. The employer will continue to remit dues until February 28 of the next calendar year. The effective salary will not be adjusted.*

*The employer is responsible for remitting dues based on the reported Effective Salary of \$55,000 for the period September 1 to February 28.*

*The member's free coverage begins on March 1. Additionally, if the member was serving in an installed position, vacancy dues would also commence on March 1.*

**Q5: If the severance arrangement stipulates that benefits are to be paid beyond the last day the employee works, what date is used for termination of benefits?**

**A:** The date for termination of benefits is the last day the employing organization agrees to pay dues.

**Example**

*Member's last date worked is May 31; employer agrees to pay benefits to November 30; the employing organization is billed up to November 30 for benefits; the member's record is updated to reflect November 30 as the termination date. The member's free coverage period begins on December 1 and if the member was serving in an installed position, vacancy dues would commence on December 1.*

**Q6: Can a severance arrangement include both a lump sum payment and extension of employee benefits?**

**A:** Yes. However, the employer does not have to both include a lump sum payment and provide an extension of employer-paid benefits.

If the lump sum payment is an extension of salary, then dues will continue to be paid as if the member is still working.

If the employer agrees to both provide a lump sum payment (that is not tied to an extension of

salary) and provide an extension of employer-paid benefits, the Board of Pensions will require the employer to remit dues on:

- the lump sum payment, and
- the current salary for the period of time that the severance arrangement specifies that benefits will be paid.

**Q7: Can severance arrangements include amounts to cover the cost of dues for Medical Continuation or the Transitional Participation Basis for the member?**

**A:** Yes. In this situation, the employer is assessed dues for the monies that will be given to the member to pay for the cost of either Transitional Participation Basis or Medical Continuation dues.

However, the member is responsible for remitting dues for Medical Continuation or the Transitional Participation Basis under a self-pay format.

**Q8: What does “self-pay” mean?**

**A:** It means a member directly remits dues to the Board of Pensions to continue coverage on Medical Continuation or the Transitional Participation Basis. Each month an invoice is sent to the member for the cost of his or her coverage.

**Q9: If a church provides a severance arrangement to a member serving in a called position, will vacancy dues be assessed to the church when the member stops working at the church?**

**A:** Vacancy dues are assessed to the church immediately following the member’s termination date if the severance arrangement stipulates a lump sum payment.

Alternatively, vacancy dues are not assessed immediately to a church when the severance arrangement includes an extension of employer-paid benefits. In this type of severance arrangement, vacancy dues will be assessed when the employer is no longer responsible for employer-paid benefits.

**Q10: What examples are there that illustrate the impact of a severance agreement on the dues paid by employing organizations?**

**A:** Please see the chart on the next page.

**Examples of Severance Agreements and Effect on Dues**

The last day worked for each member in the examples below is the same, but they had different severance agreements in regards to the extension of benefits, as well as the receipt of a lump sum payment.



Types of Severance Agreements			Effects on Dues	
Last day worked	Benefits extended to this date	Lump sum payment	Dues on effective salary paid until this date	Additional dues payable for lump sum payment
10/1	Not extended	\$2,000	10/1	\$630
10/1	3/31	Equal to 6 months salary	3/31	\$0
10/1	11/1	\$5,000	11/1	\$1,575
10/1	12/1	\$0	12/1	\$0