



# Work Interrupted

Severance planning options to help you through the emotional shock

**J**ob loss is a risk we all face. Ask the unfortunate people in the oil patch and at General Motors who are experiencing that first-hand right now.

While you may not be able to completely insulate against it happening, you can prepare yourself with financial habits and tax knowledge to weather through it if it does, and emerge sooner and as intact as possible.

## HAVING A BRIDGE FUND

As a type of emergency fund, this bridges the household until the primary or sole breadwinner can get back into financial production. Ideally you'd have this in place well beforehand, but even if you don't, it's a habit and mindset that will serve you well if you're beginning to get nervous about your workplace.

Generally, a three-to-six-month cushion is suggested. While this may serve the purpose, make sure it truly reflects your personal job outlook and spending habits. Without dwelling on it too much, ask yourself on an annual basis what your prospects would be if you had to look for work. And on the spending side, understand what goes toward necessities, discretionary purchases, and luxuries respectively, and how you will place the latter two on hiatus when required.

## JOB LOSS IN THE MOMENT

It's an emotional shock, but you need to maintain a clear head in a compressed timeline. The decisions you make will have both immediate and long-term effects. Within that, tax is sometimes simply part of calculating what you have no control over, and in other cases it is a critical contributor to those decisions.

### *Nature of a payout*

Without getting into the minutia of how each is calculated, your employer may owe

you one or more of the following, all of which are subject to income tax:

- Severance pay based on length of your employment, when you are let go without any fault on your part
- Termination pay that is in lieu of providing advance notice of the last day of employment
- Vacation pay for earned but unused vacation entitlement
- Lump sum for accrued benefits (e.g., banked sick days) that may be owed to you on departure

Withholding for income tax, Canada Pension Plan, and Employment Insurance will apply if severance pay is in the form of salary continuance. However, if it is paid as a lump sum, only the tax is deducted. As well, if your employer agrees to defer payment over two or more years, that could ease the tax cost if you are in a lower bracket on each receipt.

### *Benefit continuation and replacement*

Losing health and dental insurance can be an extra disruption, especially if you or your family have upcoming appointments. Ask if coverage could be extended for a time to relieve some of the burden.

For life insurance, employers usually allow you to buy replacement coverage without medical underwriting from the current benefits company. That's especially important if you're no longer insurable, but otherwise you may be able to reduce cost by shopping the market.

### *Retirement funds*

**Transfer to RRSP:** When a large payment comes, you can direct some of that amount to your RRSP if you have room. This will protect against income tax, but be sure that you still keep enough cash on-hand to carry you through your expected unemployment time.

**Registered pension plan:** Defined contribution plans can generally be transferred

to a locked-in RRSP without any tax issues. Defined benefit plans are more complicated, with possibilities ranging from remaining in the plan, beginning the pension immediately, transferring to the plan of a new employer, or commuting into a locked-in RRSP. Your pension administrator will provide you with a package to review, so get out your reading glasses and fine-tooth comb.

**Retiring allowance:** Extra one-time RRSP room is available on severance pay to a longstanding employee. It is \$2,000 for every year you've been with the same or related employer before 1996, plus \$1,500 for each year before 1989 for which employer contributions to an RPP or DPSP have not vested. Contributions must be to your own RRSP (i.e., not to a spouse), and the room cannot be carried forward.

## RECOVERY TO EMPLOYMENT

On top of managing your spending, it's important to keep your debt under control. At a minimum, make the minimum payments to keep your credit in good standing, bearing in mind that potential future employers will likely do a credit check before hiring.

If you are feeling overwhelmed, consult your financial advisor, a credit counselling service, or an insolvency trustee. They can advise on negotiating with creditors, and discuss whether debt consolidation may be appropriate.

Finally, when you do get resituated, understand and keep an eye on any probationary period you may be under. You should continue to operate with your streamlined spending rules until that period has passed, but in time things will normalize to a new routine, with your future back on track. **■**

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