

Severance Package Checklist

While receiving a severance package can help soften the blow of losing employment, you may be unsure of what your options are or what questions to ask to make the most of the severance. The following is a list of key questions that you may want to consider when making decisions around this life event.

Severance

- Does the severance pay give you your best value? Have you consulted with a lawyer?
- Does the package include a lump sum severance payment? If so, will you be able to roll this payment into your RRSP as a retiring allowance?
- Will your employer allow you to split the payments?
- Do you have the option to delay receipt of the severance package?
- What are the tax consequences of the package?

Pension

- Are you a member of registered pension plan? Does the package eliminate or reduce early retirement penalties, or will your pension be reduced for life?
- Are you entitled to a pension adjustment reversal?

Other Employer benefits

- How do the early retirement benefits compare to those that you would have received at normal retirement age?
- Does your employer provide for a payout of unused sick-time?
- Does the package provide for continued extended health care or group life insurance? If not, what are the cost implications for you to obtain private insurance?
- Do you have unexercised stock options? If so, is there a specific time period in which those outstanding options must be exercised?

General

- If this package results in early retirement, are you eligible to receive EI payments? How soon can you begin receiving CPP and OAS benefits?
- Are you psychologically or emotionally ready for retirement? Have you considered what you are going to do to fill the time?
- What is likely to happen if you do not accept the package? Will you be transferred? Face a reduction in pay? Face termination shortly down the road?
- Will you need to use the severance funds to pay bills or loans, or can you set them aside for a longer-term investment?
- What are the possibilities of obtaining another job, or consulting? Is this something you would consider?
- Does your employer offer counseling to help you find a new job?

Glossary of Terms

Canada Pension Plan (CPP)

A compulsory, contributory, earnings-related social insurance program which applies to all employers, self-employed persons and virtually all employees everywhere in Canada except Quebec. It provides benefits on retirement, disability and death.

Defined Benefit Pension Plan

A registered pension plan that promises a certain level of pension income at retirement according to a pre-determined formula.

Defined Contribution Pension Plan

A registered pension plan under which employer contributions and if applicable, employee contributions are contributed into an account for the individual employee and may be invested in a variety of products. At retirement, the accumulated money in the account will be providing a pension to the employee. The amount of contributions is usually determined by a specific formula.

Early Retirement Date

The last day of the month in which a member chooses to retire, prior to the “normal retirement date”. The amount of the employee’s benefit will not be reduced if certain age or service eligibility requirements are met.

Extended Health Care

Insurance obtained usually through an employer-sponsored program which may pay hospital, surgical and medical costs, and/or prescription drug costs and/or the cost of special services needed e.g. private nursing, assistive devices, etc.

Group Life Insurance

Insurance issued, usually without medical examination, on a group of people under a master contract. It is usually issued to an employer for the benefit of employees. The individual members of the group hold certificates as evidence of their insurance.

Normal Retirement Age (Date)

The age or date specified in the pension plan as the normal retirement date of members. Commonly, in most pension plans the last date of the month in which a member turns 65.

Pension Adjustment Reversal (PAR)

An amount calculated and reported to Canada Revenue Agency which offsets previously reported Pension Adjustments and restores RRSP contribution room. A Pension Adjustment Reversal is applicable where a member of a registered pension plan or deferred profit sharing plan terminates service and transfers benefits out of the plan that are less than the total Pension Adjustments reported.

Old Age Security (OAS)

An unfunded social insurance arrangement which pays a modest pension to seniors aged 65 and over who have resided in this country for at least 10 years after age 18 and whose total income is less than a certain level. The maximum pension requires 40 years of residence.

Registered Pension Plan (RPP)

An arrangement which allows an employer to provide pensions to employees after they retire. Contributions are tax-deductible and the fund accumulates free of tax, but certain limits apply to the annual amount which may be contributed and to the investments of the fund. See Defined Benefit Pension Plan and Defined Contribution Pension Plan.

Retiring Allowance

An amount of money payable by an employer to an employee as compensation for loss of employment usually due to a termination or early retirement. Subject to certain restrictions, a retiring allowance may be paid directly into an employee’s RRSP above the employee’s unused RRSP room and without attracting any tax.

Severance

An amount of money an employer owes to an employee in lieu of notice, in exchange for the employee’s agreement to sever an employment contract.

Stock Options

Rights to purchase a corporation’s stock at a specified price.

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