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Important Termination (Separation from Service), Severance and Benefits Considerations

Separation from Service

The Federal Unemployment Tax Act (FUTA) provides a safety net to most former employees who were discharged for acts other than serious misconduct. In general, benefits will be awarded to former employees who are laid off or discharged for minor misconduct (e.g. incompetence). The award amount for unemployment insurance benefits is almost half of an employee's former earnings. The award amount could be more if the employee is married or has dependents.

Most church employees do not have this type of protection. Section 3309 of FUTA enables most churches and church-related organizations to opt out of the State Unemployment Tax System. While it is possible for a church to voluntarily elect into the unemployment insurance system, most do not. PCA churches and church-related organizations should remember former employees are not covered under unemployment insurance, and are encouraged to factor this disadvantage into severance package decisions for former employees, including non-ministerial employees. In consideration of this and based on a church's ability to pay, many churches may consider paying severance.

Severance

Normally, severance includes "effective salary" (salary, plus housing allowance if ordained), plus an amount equal to what was allocated for the benefit component (medical and dental insurance, life and disability insurance, social security, pension/retirement, tuition, etc.). Because group insurance plans will not normally continue to cover those whose employment has ended, a cash amount equal to the benefit component should be paid directly to the former employee (this is considered taxable income). Many group policies, including PCA group policies, do not allow for plan continuation beyond termination of active employment (see below). In fact, PCA group insurance policies require that an employee, including ministers, work full time, at least 30 hours a week. Generally, the only flexibility granted is the ability to extend benefits to the end of the month the employee was last 'actively at work.'

Active employment

Active employment is defined as the employee working for the employer for earnings that are paid regularly; that the employee is performing the material and substantial duties of his regular occupation; that the employee is working at least the minimum number of hours as described under the eligible groups in each plan (for PCA group plans, this is 30 hours per week). Normal vacation is considered active employment. Temporary and seasonal employees are excluded from coverage.

Portability

The communication of termination dates is very important for accurate billing, for claims processing and for portability of insurance. Ministry employers are encouraged to report termination dates to RBI immediately in order to correct billing and so that we may complete portability forms which enable former employees to continue coverage through an individual insurance plan. These policies can be vital in providing the protection former employees need in between jobs. Failure to report termination dates promptly, may limit RBI's ability to port coverage or in the extreme, may invalidate any potential claim.

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