

SEVERANCE PAY

INTRODUCTION

Severance pay is paid to employees who are involuntarily separated from Federal service and meet specific eligibility requirements. The amount is computed using the employee's rate of basic pay at the time of separation, years of creditable service, and an age adjustment allowance, if over 40 years. It is paid at the same rate and at the same pay period intervals as regular salary payments unless an employee elects to receive severance pay in a lump sum. The authority of the Department of Defense to make lump-sum severance payments expires on October 1, 2018.

ELIGIBILITY REQUIREMENTS

To be eligible for severance pay, an employee must be serving under a qualifying appointment on a full-time or part-time tour of duty, completed at least 12 months of continuous service by the time of separation, and is involuntarily separated for reasons other than for misconduct or inefficiency.

Certain employees are not eligible for severance pay – employees serving under nonqualifying appointments, such as Presidential appointments, Executive Schedule appointments, noncareer Senior Executive Service appointments, and time-limited appointments (see Q1 for exception); employees who decline a reasonable offer; reemployed military and civilian retirees; individuals separated for cause; intermittent employees; workers' compensation recipients unless the compensation is being received concurrently with pay or is the result of another individual's death; and employees serving under a qualifying appointment in an agency that is scheduled for termination within 1 year of the date of the appointment.

There are also limits to eligibility for severance pay – for example, employees eligible upon separation for an immediate annuity from a Federal civilian retirement system, including a reduced annuity (Discontinued Service Retirement), a disability annuity, or a deferred annuity (Minimum Retirement Age (MRA) + 10 Federal Employees Retirement System (FERS) annuity). Eligibility for retired or retainer pay earned as a member of the uniformed services is also disqualifying.

The most frequently asked questions about severance pay are:

Eligibility

1. What is a “qualifying appointment” for severance pay?

“Qualifying appointment” means

- a. Career or career-conditional appointment in the competitive service or equivalent in the excepted service;
- b. Career appointment in the Senior Executive Service;
- c. Excepted appointment without time limitation, except under Schedule C or an equivalent;
- d. Overseas limited appointment without time limitation;
- e. Status quo appointment;

- f. Time-limited appointment in the Foreign Service when entitlement to reemployment in the same agency has expired; and
- g. Time-limited appointment (or series of time-limited appointments by the same agency without any breaks in service) for full-time employment that takes effect within 3 calendar days after the end of a qualifying appointment.

2. What is a “reasonable offer”?

- a. An employee is not eligible for severance pay if the employee declines a “reasonable offer” before the involuntary separation. A “reasonable offer” must be in writing, and the employee must meet the established qualification requirements unless the agency waives or modifies the qualifications to make the placement.
- b. In addition the offered position must be:
 - i. In the employee’s agency or one to which the employee’s function is transferred;
 - ii. Within the employee’s commuting area, unless the employee is under a geographic mobility;
 - iii. Of equal or greater tenure and same work schedule (part-time or full-time); and
 - iv. Not lower than two grades or pay levels below the employee’s current grade or pay level.

3. Who determines whether an employee is entitled to severance pay?

The separating agency makes the determination.

4. Under what circumstances may employees who resign before being involuntarily separated be treated as “involuntarily separated” for purposes of qualifying for severance pay?

- a. Under current severance pay regulations in 5 CFR 550.706, employees who resign because they expect to be involuntarily separated are considered to have been involuntarily separated for severance pay purposes ONLY IF they resign after receiving:
 - i. A specific written notice stating that the employee will be involuntarily separated by a particular action (e.g., Reduction of Force (RIF)) on a particular date; or
 - ii. A general written notice of RIF or transfer of function (TOF), issued by an authorized agency official, which announces that ALL positions in the competitive area will be abolished or transferred to another commuting area by a particular date.
- b. However, if the specific or general notice is cancelled before the resignation is effected; the resignation would not be qualifying for severance pay purposes.
- c. If the specific notice deals with involuntary separation by RIF procedures, the notice must meet the conditions in 5 CFR part 351, subpart H. A general notice has no standing under the RIF program and is not subject to RIF rules. Therefore, a general notice cannot be used to meet the RIF notice requirements in 5 CFR part 351, subpart H.

- d. A Certification of Expected Separation under 5 CFR 351.807 is not a qualifying specific or general notice under the severance pay regulations.
- e. Entitlement to certain benefits – training assistance, priority placement rights, appeal rights, etc. – may be affected by an employee’s decision to resign in advance of an actual involuntary separation action. The employing agency should inform affected employees of these implications before they accept a resignation.
- f. Even if a resignation is considered an “involuntary separation” under the severance pay rules, the employee may not be eligible for severance pay under 5 U.S.C. 5595 and 5 CFR part 550, subpart G, for other reasons. The employee must meet all applicable eligibility requirements described in 5 CFR 550.701-550.714.

5. What exactly constitutes a qualifying “general notice” under 5 CFR 550.706?

A general notice is a written notice which states that (1) all employees in the affected competitive area will be terminated due to abolishment of their positions, or (2) all positions in the affected competitive area will be transferred to another commuting area as part of a TOF. The notice must state the specific date by which all positions are scheduled to be abolished or transferred (no more than 1 year after the date of the notice). EXAMPLE: “All positions in this competitive area will be abolished no later than [insert date]”. It should also expressly state that a resignation after receipt of the notice will constitute an involuntary separation for severance pay purposes, as long as the notice is not cancelled prior to the effective date of the resignation. The general notice must be distributed to all employees in the affected competitive area. (See the definition of “competitive area” in 5 CFR 351.402.)

NOTE: A general notice may not be used to effect an employee’s separation. To effect an employee’s separation, a specific written notice must be issued to the employee in accordance with applicable statutory and regulatory requirements. Thus, in the case of a RIF separation, a 60-day minimum notice period is generally required. See 5 CFR 351.801 for exceptions.

6. Does a person who has been separated from Federal service lose his or her severance pay if he or she refuses a “reasonable” job offer under the Priority Placement Program (PPP)?

The person does not lose their severance pay, but the individual’s name will be removed from the PPP. Once vested, an employee’s severance pay is not affected because he or she is no longer an “employee.” An employee is defined as “an individual employed in or under an agency.” However, if an employee refuses a “reasonable” job offer, as defined in 5 CFR 550.703, prior to being separated, he or she would lose his or her entitlement to severance pay.

7. Does an employee who had two temporary appointments after being separated from a full-time career appointment meet the definition of “qualifying appointment” for severance pay purposes?

Yes, in cases where a temporary appointment follows service under a qualifying appointment by not more than 3 days, the employee meets the definition of “qualifying

appointment,” providing that the qualifying time-limited appointment is full-time (as required by 5 U.S.C. 5595(a)(2)(ii)). His or her severance pay will be determined on the basis of his or her rate of basic pay at the time of separation, age, and years of creditable service from the qualifying temporary appointment.

8. If a career employee on a permanent position voluntarily accepts a full-time time-limited position, is he or she eligible for severance pay upon the termination of that temporary appointment?

Yes. An employee, serving under a qualifying appointment, is entitled to severance pay. A time-limited appointment is deemed qualifying when entered within 3 calendar days after the end of another position designated as qualifying as defined under 5 CFR 550.703.

9. If an employee resigns, will he or she be entitled to severance pay?

Generally speaking, a resignation is a voluntary separation and would not entitle an employee to severance pay (see question 4). However, resignation is considered involuntary for purposes of severance pay, (provided the employee has not declined a reasonable offer in the agency before separation) if the employee received a specific notice in writing from his or her agency that he or she is to be involuntarily separated and the notice of separation is not canceled before the resignation takes effect. Separations (terminations) due to misconduct, delinquency or inefficiency do not confer severance pay entitlement.

10. Does an employee who has been removed for medical inability to perform his or her duties have an entitlement to severance pay?

5 U.S.C. 5595(b) authorizes severance pay for employees who are involuntarily separated from Federal service other than for misconduct or inefficiency. Inefficiency includes a separation for poor performance or conduct under part 432 or 752. Per OPM guidance, “an employee may receive severance pay if a separation is caused by an employee’s inability to perform his or her duties because of a medical condition that is beyond the employee’s control. This determination should be made by the employing agency based on acceptable medical documentation provided by the employee.”

Other Compensation

11. If entitlement to an immediate annuity at the time of separation is a bar to severance pay, is severance pay discontinued if the employee becomes entitled to an annuity beginning at some later time?

Entitlement to an annuity beginning at a later time has no effect on an employee’s entitlement to severance pay. However, retroactive entitlement could result in an overpayment of severance pay (see below).

12. Members of the Retired Reserve are not eligible for reserve retired pay until age 60. If an employee who is a retired reservist is involuntarily separated from his Federal position, but he has not yet attained the age for reserve retired pay, is he eligible for severance pay, providing he meets the other eligibility requirements?

Yes. He is not eligible for an immediate annuity from the military at the time of separation. Unless an employee is eligible to receive immediate payments from a Federal annuity, he or she is eligible for severance pay.

13. What impact occurs when an employee starts drawing severance pay but later becomes entitled to a disability annuity?

Since the disability annuity will be retroactive to the date of separation from the service, the employee will have to return all severance pay received.

14. Is entitlement to unemployment compensation a bar to severance pay?

No. However, entitlement to severance pay has a bearing on unemployment compensation. An employee should check with his or her state unemployment office.

15. An employee was receiving workers' compensation when he was separated by RIF. May he receive severance pay when the workers' compensation ends?

No. The employee is not entitled to severance pay because the employee was receiving workers' compensation at the time of separation. (5 U.S.C. 5595(a)(2)(v) and 5 CFR 550.704(b)(4)) However, the employee may request that the workers' compensation be interrupted, and the severance pay begin at the time of separation. When the severance pay entitlement ends, the employee may then reapply for the workers' compensation. If the employee still qualifies for workers' compensation, those payments may be resumed.

16. An employee, affected by RIF, is entitled to severance pay and continuation of health insurance benefits. Should the employee's share of his health insurance premium be deducted from severance pay?

No. Under 5 CFR 550.709, the only deductions to severance pay are for income and Social Security taxes.

17. Is severance pay, and the period covered by the severance pay, creditable for retirement or leave accrual purposes?

No, when a person receives severance pay, he or she is no longer a Federal employee.

18. May an employee accept other employment and still receive severance pay?

- a. Yes, unless the new employment is in the Federal service. Severance pay will not begin if an employee is reemployed in another permanent position before separation. If an employee accepts a position with the Federal Government or the government of the District of Columbia while receiving severance pay, the employee is no longer eligible for severance pay and severance pay terminates unless employed under a nonqualifying time-limited appointment.
- b. If an employee entitled to severance pay accepts a temporary appointment within 3 calendar days following a qualifying appointment, the employee's entitlement to severance pay terminates. When the qualifying temporary appointment ends, severance pay is triggered by the involuntary separation resulting from the expiration of the time-limited appointment. The rate of basic pay earned in the temporary job is used to determine the employee's severance pay, and the payments are made by the activity employing the individual under the qualifying time-limited appointment.
- c. If an employee entitled to severance pay is employed under a nonqualifying time-limited appointment, severance payments are suspended during the appointment. Severance pay resumes (without being recomputed) when the employee separates from the

nonqualifying time-limited appointment. The activity that originally separated the employee involuntarily is responsible for the payments.

19. If an employee receives severance pay in a lump sum payment and is subsequently reemployed by the Federal Government within the timeframe covered by the severance pay, is he or she liable to the Government for any overpayment of severance pay?

Yes. Under a lump sum payment, the employee must repay to DoD (or military department, if applicable) an amount equal to the amount of severance pay applicable to the period from the start of Federal reemployment to the end of the calculated severance pay period.

Severance Pay Computation

20. How is the amount of severance pay determined?

- a. Severance pay is determined on the basis of the rate of basic pay at the time of separation and years of creditable service. If the employee is over 40 years of age, an age adjustment allowance is also a part of the formula.
- b. An employee is entitled to a basic severance pay allowance of one week's basic salary for each year of creditable service up to 10 years, two weeks salary for each year of service thereafter, and 25% of the applicable amount for each full 3 months of creditable service beyond a whole year. An age adjustment allowance is computed on the basis of 2.5 percent of the basic allowance for each 3 full months of age over 40 years.
- c. For example, if an employee is 45 years and 2 months old with 20 years of creditable service with a basic weekly salary of \$1,000, the severance pay fund would be computed as follows:

Basic Allowance:

\$1,000 (weekly salary) x 10 (first 10 years)	= \$10,000
\$1,000 (weekly salary) x 2 x 10 (years in excess of 10)	= \$20,000
	\$30,000

Age Adjustment Allowance:

\$30,000 (basic allowance) x 5 (years over 40) x 10%	= \$15,000
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Severance Pay Fund:

\$30,000 (basic allowance) + \$15,000 (age adjustment allowance)	
	Total \$45,000

21. Is there any limit on the amount of severance pay an employee can receive?

- a. Yes. Total severance pay is limited to one year's pay at the rate received at the time of separation. Also, each employee has a lifetime limitation of 52 weeks. Therefore, if an employee is in a position to receive severance pay a second time, severance pay may not continue after the sum of the two periods reaches 52 weeks.

b. Suppose, as in Question No. 19, the total severance pay to which an employee is entitled is \$45,000. Because pay at the time of separation is \$1,000 per week, it will take 45 weeks to pay the entire severance pay. After receiving severance pay for 20 weeks, the former employee is reemployed in the Federal Government under an appointment without time limitation, and the severance pay is terminated. He or she works for three full years and is again separated under circumstances entitling him or her to severance pay. The employee is now 48 years and 2 months old and has 23 years of creditable service. At the time of the second separation the basic weekly pay is \$1,250. The severance pay fund is computed as follows:

Basic Allowance:

\$1,250 (weekly salary) x 10 (first 10 years)	= \$12,500
\$1,250 (weekly salary) x 2 x 13 (years in excess of 10)	= \$32,500
	\$45,000

Age Adjustment Allowance:

\$45,000 (basic allowance) x 8 (years over 40) x 10%	= \$36,000
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Severance Pay Fund:

\$45,000 (basic allowance) + \$36,000 (age adjustment allowance)	= \$81,000
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c. The severance pay fund equals \$81,000. It will take 64 and 8/10 weeks (\$81,000 divided by \$1,250) to pay the entire severance pay. However, because total severance pay may not exceed 52 weeks, and because the employee had already received 20 weeks of severance pay, he or she is entitled to only 32 weeks of pay at \$1,250 a week.

22. An employee is now working part-time but until a few months ago, was a full-time employee. What salary will his or her severance pay be based on?

Severance pay is based upon the salary of the position of record at the time of the qualifying separation. Therefore, the severance pay will be computed based upon the salary as a part-time employee. The exception is for employees whose established work schedules require alternating full-time and part-time work during the 26 biweekly pay periods immediately before separation.

23. What is creditable service? Does it include military service?

Creditable service for severance pay purposes is any service which is creditable for leave accrual purposes. Military service which precedes civilian service is not creditable for severance pay purposes. Military service which interrupts civilian service is creditable.

24. Does severance pay include COLA's like in Alaska and Hawaii?

No. The rate of basic pay, as defined in 5 CFR 550.703, is exclusive of additional pay of any kind beyond locality and some stated premium pays. See example 1.

Example 1	
A Severance Pay Computation	
REF: 5 CFR 550.707 and 550.712	
Annual Salary:	\$64,239
Hourly Rate of Pay:	\$30.78
Separation Date:	12-08-07
Date of Birth:	10-05-64
Service Computation Date:	11-22-85
Creditable Years of Service:	22 years, 16 days
Age Over 40 Years:	3 years, 2 months, 3 days
Weeks of Severance Pay Previously Paid:	10.0 weeks
Basic Severance Pay Allowance	Calculations
Compute 1 week of basic pay for each full year of creditable service through first 10 years.	$\$30.78 \times 40 = \$1,231.20$ $\$1,231.20 \times 10 \text{ years} = \$12,312$
Compute 2 weeks of basic pay for each full year of creditable service beyond 10 years.	$\$1,231.20 \times 2 \text{ weeks} \times 12 \text{ years} =$ $\$29,548.80$
Compute 25 % of the applicable amount (1 week or 2 weeks of pay) for each full 3 months of creditable service beyond final full year.	None
The employee's Basic Allowance equals \$41,860.80 (\$12,312 + \$29,548.80).	
Age Adjustment Allowance	Calculations
Compute 2.5 percent of the basic severance pay allowance for each full 3 months of age over 40 years.	$.025 \times 12 \text{ (3 years} \times 4 \text{ quarters)} = 30\%$ $(.3 \text{ age adjustment factor})$ $\$41,860.80 \text{ (basic severance pay allowance)} \times .3 = \$12,558.24$
The employee's Age Adjustment Allowance equals \$12,558.24 .	

The employee's **Severance Pay Fund** equals **\$41,860.80 + \$12,558.24 = \$54,419.04** (44.2. weeks)

Severance pay fund means the total severance pay to which an employee is entitled during a single entitlement. However, total severance pay may not exceed 1 year's pay at the time of separation. Also, there is a lifetime limit of 52 weeks for each employee. Since the employee has already been paid 10 weeks of severance pay, he would be entitled only to **34.2 weeks (44.2 – 10)** for a total of **\$42,107.04** (\$1,231.20. x 34.2).

Example 2

A Severance Pay Computation—Firefighter-144 hours/weekly (Nonexempt)

GS-6, Step 7, RUS

REF: 5 CFR 550.707 and 550.712

Annual Salary:	\$40,751
Firefighter Hourly Rate of Pay:	\$14.79 (\$40,751 / 2756)
Biweekly pay (106 nonovertime hours)	\$1,567.74 (106 x \$14.79)
Biweekly pay (38 overtime hours)	\$562.02 (38 x \$14.79)
Biweekly pay	\$2,129.76 (\$1,567.74 + \$562.02)
Weekly pay	\$1,064.88(\$2,129.76 divided by 2)
Separation Date:	09-01-07
Date of Birth:	02-26-62
Service Computation Date:	04-28-81
Creditable Years of Service:	26 years, 4 months, 3 days
Age Over 40 Years:	5 years, 6 months, 5 days

Basic Severance Pay Allowance	Calculations
Compute 1 week of basic pay for each full year of creditable service through first 10 years.	\$1,064.88 x 10 years = \$10,648.80
Compute 2 weeks of basic pay for each full year of creditable service beyond 10 years.	\$1064.88 x 2 weeks x 16 years = \$34,076.16

Compute 25 % of the applicable amount (1 week or 2 weeks of pay) for each full 3 months of creditable service beyond final full year.	$\$1,064.88 \times 2 = \$2,129.76 \times .25 = \$532.44$
The employee's Basic Allowance equals \$45,257.40 (\$10,648.80 + \$34,076.16 + \$532.44).	
Age Adjustment Allowance	Calculations
Compute 2.5 percent of the basic severance pay allowance for each full 3 months of age over 40 years.	$.025 \times 22 \text{ qtrs (4 qtrs} \times 5 \text{ years} = 20 \text{ qtrs} + 2 \text{ qtrs)} = .55 \text{ age adjustment factor}$ $\$45,257.40 \text{ (basic severance pay allowance)} \times .55 = \$24,891.57.$
The employee's Age Adjustment Allowance equals \$24,891.57 .	
The employee's Severance Pay Fund equals $\$45,257.40 + \$24,891.57 = \mathbf{\$70,148.97}$ (65.8 weeks)	
Severance pay fund means the total severance pay to which an employee is entitled during a single entitlement. However, total severance pay may not exceed 1 year's pay at the time of separation. Because the employee is a firefighter, the maximum amount of severance pay he is entitled to receive is \$55,374 ($\$14.79 \times 144 = \$2,129.76$ biweekly pay x 26 pay periods). This amount includes his straight-time pay for regular overtime hours. He will be paid \$1,064.88 a week for 52 weeks.	

Notes

1. In computing severance pay, service and age are counted in whole years and calendar quarters. For example, in computing the basic severance allowance, 10 years 7 months of service would be credited as 10 years and 2 calendar quarters. Age 47 and 5 months would count as age 47 and 1 calendar quarter.
2. Overtime standard for firefighters = 106 hours biweekly or 53 hours per week
3. Total severance pay may not exceed 1 year's pay at the rate received immediately before separation.
4. In accordance with 5 CFR 550.1305, the sum of pay for nonovertime hours that are part of a firefighter's regular tour of duty and the straight-time portion of overtime pay for hours in a firefighter's regular tour of duty is treated as basic pay for severance pay.

REFERENCES

- 5 U.S.C. 5595
- 5 CFR part 550, subpart G
- OPM Fact Sheet: Severance Pay
- OPM Fact Sheet: Severance Pay Estimation Worksheet
- DoD Instruction 1400.25, "Civilian Personnel Management," V550, Enclosure 3, November 8, 2015

- DoD 7000.14-R, DoD Financial Management Regulation, Volume 8: “Civilian Pay Policy,” Paragraph 0308

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