

CUPE Severance Payout FAQ's

The frequently asked questions (FAQ's) are to provide you with information only. This document is not intended to provide financial or legal advice, or collective agreement language interpretation.

The new CUPE collective agreements signed on January 8, 2019 is available online at http://www.exec.gov.nl.ca/exec/hrs/working_with_us/collective_agreements/index.html

Process

1. Can I find out what my severance payment will be prior to making a decision on my options?

The Human Resources division is currently working through hundreds of severance audits. You can **estimate your payout** by multiplying the number of completed years of continuous employment by your weekly salary to a maximum of 20 weeks' pay. Your weekly rate of pay is as per your rate on March 31, 2018.

2. How will you calculate the severance payout amount?

The severance payout will be based on one week of salary for each year of eligible employment to a maximum of 20 weeks.

3. How will I know the number of weeks of severance I am entitled to?

Please consult your collective agreement for the qualifying weeks. We are unable to provide individualized information at this time.

4. Will my partial year of service be used in the calculation of my severance?

Service is based on full years of service according to your Collective Agreement. For example, 5.5 years would equal 5 weeks of severance. Seasonal & Part-Time employees should refer to their Collective Agreement for language applicable to the calculation of their service.

5. Once I choose a quarter for payout, when will I receive the payment?

Payments will be released on the following dates:

Quarter 1 – March 28, 2019

Quarter 2 – June 20, 2019

Quarter 3 – September 26, 2019

Quarter 4 – December 5, 2019

Quarter 5 – March 27, 2020

6. Why can't I get my payout now?

The payout requires validation of every individual employee's service, which in many cases is not straight-forward. The receipt of hundreds of election forms and necessary Canada Revenue Agency documentation will require adequate review time to ensure accurate processing. At the end of the day, we all want to ensure a smooth payout of severance owing, in keeping with the compliance and processing requirements and with full accountability for tax-payer dollars.

7. What happens if I fail to complete and return my election form by the specified deadline as per the Election Form?

Your severance will be paid to you by March 28, 2019.

8. Can an employee change their mind when they want it paid?

No. Employees have up to the specified deadline, as per the Election Form, to elect options for payout. No changes will be accepted past this date.

9. Can I split my payment over two or more quarters or over different taxation years?

No. The severance payout is a one-time lump sum payment. You must elect by the specified deadline, as per the Election Form, to take the full amount. You will be paid the amount as calculated, less applicable taxes and deductions. There is no option to receive a portion now and the rest later.

10. Can you tell me what my net payout will be?

No. Your net payout will depend on your personal situation at the time the payment is processed. You are encouraged to seek professional financial advice if you have questions about planning or need help to make your decision.

11. Can my severance payment be issued to me on a separate cheque? Will I pay more tax if it is included with my regular pay?

No. Any monies payable to you will be included with your regular deposit for the pay period. The payroll system will deduct the correct amount of income tax taking into consideration your regular earnings, year to date earnings and the one time severance payout. The gross severance amount will be identified on your pay statement under "Earnings".

12. What happens if I choose to defer my severance payout? Can I take some or all at a later date?

If you choose to defer your severance payout, it will be calculated and frozen as of March 31, 2018 and locked in until you request payment. The future payment cannot be split over several payments – you must take the full amount.

13. I am currently on a leave of absence or lay off status. How will I know what my options are?

An information package will be mailed to your home address. Your options will be outlined in detail and the package will contain all of the necessary forms.

14. I am currently on maternity leave. Do I have to choose a quarter option while I am off or can I wait until I return?

Yes, you must choose an option on the election form by the deadline. If no election is made your severance will be paid to you by March 28, 2019.

15. I took a year of maternity or parental leave. Does that reduce my period of continuous employment?

No. Maternity, paternity and adoption leave, up to 52 weeks, will be counted as service for severance pay purposes.

Rate of Pay

16. I am awaiting an outstanding JES appeal decision. If I am successful in the appeal, will my severance calculation be adjusted and any balance owing paid out?

Yes. Any employee who is due an adjustment after a successful JES appeal decision will also receive an adjusted severance calculation and payout.

17. What rate of pay will be used for my severance calculation?

Your severance rate of pay is your weekly salary as of March 31, 2018. (For specific questions on your rate of pay, please consult your collective agreement.)

18. If I am currently red-circled, will the red-circled amount be included in my severance rate of pay?

Yes. It would include your regular rate of pay plus any red-circled amount. Your severance rate of pay is your rate as of March 31, 2018.

19. Is the rate of pay based on all earnings such as stand-by, overtime, shift differential and Labrador Allowance for example?

No. The rate of pay will be based on your regular weekly salary, which includes red circled earnings.

20. If I choose to wait until I retire, will the severance be paid based on my salary at March 31, 2018 or my salary at retirement?

If you choose to defer your severance payout until retirement, service and salary will be calculated and frozen as of March 31, 2018.

21. If I was due a step increase prior to March 31, 2018, will the new step rate be used for my severance calculation?

Yes. Any employee who is due a step increase prior to March 31, 2018, will receive it prior to the calculation of the severance payment.

Eligibility

22. What counts as eligible service?

Please reference your applicable collective agreement.

23. I resigned or retired prior to March 31, 2018 and did not qualify to receive a severance under the 'old' rules. Will I qualify to receive a severance under the new Collective Agreement?

No. The new Collective Agreement comes into effect on March 31, 2018. You would have to be an employee as of March 31, 2018 to qualify for the severance payout.

RRSP's

24. Can my severance be treated as a retiring allowance?

No. It is an early severance payout and therefore it must be treated as employment income. The Canada Revenue Agency CRA requires that it be subject to all applicable statutory deductions (income tax, EI and CPP).

25. Will I get an extra \$2,000 per year of "RRSP room" for every year I was employed before 1996?

No. The severance payout is not a retiring allowance so the rules surrounding retiring allowances, such as the pre-1996 eligible room and transfer to RPP, do not apply. If you want the flexibility that is offered to retirees when collecting their severance, you have the option to defer your severance payout. The severance payout is a one-time lump sum payment and is treated as employment income and subject to all applicable taxes and deductions. There is more information on retiring allowances on the Canada Revenue Agency (CRA) website, including information on transferring the eligible (pre-1996) portion to an RRSP or RPP.

26. Why is my severance payout subject to EI and CPP deductions when it's being transferred to an RRSP?

This is not an RRSP transfer similar to what we would facilitate at retirement. The severance payout is employment income and it is not considered a retiring allowance. The severance payout is employment income and it is not considered a retiring allowance. As such it is subject to all statutory deductions (income tax, CPP and EI). The Province has obtained an approval from CRA to allow an individual to not pay income tax on the amount if they agree to contribute the funds to an RRSP and they have the personal RRSP room to do so. The payment is still subject to EI and CPP deductions, unless you have already reached the annual maximum.

27. I have been instructed to complete a Declaration of Intent form? What is this?

The Declaration of Intent is a Canada Revenue Agency (CRA) form which must be completed and maintained on file by the employer. It is the employer's approval to allow the RRSP portion of your severance payment to be paid directly to you. By completing and signing the form, you agree to contribute the RRSP amount to you or your spouse's RRSP for the taxation year in which you receive your payment.

28. Will/can NLESD transfer my payment directly into an RRSP?

No. The NLESD cannot facilitate the transfer of funds to the financial institution. The severance payment will be paid directly to you. If you wish to contribute to your RRSP, and you have the personal room to do so, the funds can be paid to you without income tax withholding and you will then make the contribution to your RRSP on your own. Any financial institution/provider is fine, provided the contribution is being made to a **registered** RRSP.

29. Can I roll a portion to my RRSP this year and roll the remainder next year?

No. The severance payout is a one-time lump sum payment. You will be paid the amount as calculated, less applicable taxes and deductions. There is no option to receive a portion now and the rest later.

30. How do I know if I have enough room in my RRSP's to cover what I wish to contribute from my severance payment?

You will find your amount of personal RRSP contribution room for the year in which you elect to receive your severance on your Notice of Assessment (NOA) issued by the Canada Revenue Agency (CRA).

31. Where can I find my Notice of Assessment (NOA)?

You can obtain a copy of your Notice of Assessment (NOA) by logging into My Account from Canada Revenue Agency (CRA) website <https://www.canada.ca/en/revenue-agency/services/e-services/e-services-individuals.html> or by calling 1-800-959-8281. Questions about your personal RRSP contribution room should also be directed to CRA by calling 1-800-959-8287.

32. What if the \$15,000 tax waiver from CRA is not enough to cover my full payout?

If you expect your severance payout to be more than the \$15,000 covered by the waiver, you have two options:

1. You can receive up to \$15,000 of your payout, without income taxes deducted, to be contributed to an RRSP if you have the personal RRSP contribution room to do so. The remainder will be paid to you with income taxes deducted.
2. To contribute more than \$15,000 to an RRSP without income taxes deducted, you must apply to CRA for a personal tax waiver. Please refer to the Payment Options Summary form for instructions on how to complete and submit a T1213.

33. I want to speak with someone about the T1213 form.

If you have a question about filling out or submitting the T1213, you can contact the inquiry line at CRA - 1-800-959-8281.

34. Can I deposit my RRSP funds to my spousal RRSP account?

Yes. The severance payout can be directed to a spousal RRSP provided you have sufficient personal RRSP room to do so. You (the employee) will receive the severance payout payment, so it will be included in your income for the taxation year in which you receive it. You will receive an official tax receipt from your financial institution in your name, but it will indicate that it is for a spousal RRSP. You will use the receipt when you file your annual tax return to offset the severance payout income in Box 14 of your T4.

35. How does the spousal contribution work? Why would I contribute to a spousal RRSP if I still need to have the RRSP room myself?

People generally contribute to a spousal RRSP because the spouse has less income and, when the funds are withdrawn, they are included in the spouse's income. If that spouse has lower income, they will pay less income tax. You (the employee) will receive the severance payout, so it will be included in your income in the taxation year in which you receive it. You will also get the official tax receipt in your name, but it will indicate that it is for a spousal RRSP. You will use this receipt when you file your taxes to offset the severance payout income on your T4. The severance payout information and Canada Revenue Agency (CRA) forms explicitly state that, even if you are contributing to a spousal RRSP, you must have the personal room. By signing the CRA Declaration of Intent or T1213, you are essentially agreeing to use your RRSP contribution room to place the funds in your spouse's RRSP.

36. Can I contribute to multiple RRSP's?

Yes. You (the employee) will receive the severance payout payment. You can contribute to the RRSP(s) of your choice providing you have the personal RRSP contribution room to do so. The payment will be included in your income for the taxation year in which you receive it. You should receive the official tax receipt(s), from your financial institution(s), in your name. You will use the receipt(s) when you file your annual tax return to offset the severance payout income in Box 14 of your T4.

37. Can I transfer the payment into a Registered Education Savings Plan RESP (vs RRSP) without taxes being withheld?

No. RESP contributions are not tax-deductible. The tax waiver applies only to RRSP contributions.

38. Can I transfer the payment into a Registered Disability Savings Plan RDSP (vs RRSP) without taxes being withheld?

No. RDSP contributions are not tax-deductible. The tax waiver applies only to RRSP contributions.

39. I want to place money into a Tax Free Savings Account (TFSA). Would this be considered the same as making an RRSP contribution?

No. Unlike an RRSP, contributions to a TFSA are not tax deductible. In that regard, any contribution to a TFSA would be in after tax dollars. The tax waiver only applies to RRSP contributions. You are free to use the funds for whatever purpose you want, but it would be the net (after tax) amount.

40. When should I set up my RRSP account?

Consult with your financial advisor or your financial institution to determine when you should set up your RRSP account.

Taxation and T4's

41. If I take the one time severance payout, how will it be taxed?

The one time severance payout will be taxed as employment income and subject to income tax withholdings, CPP and EI deductions. The payment will be made through the Payroll system and included with your bi-weekly pay. The payroll system will calculate the appropriate amount of income tax to be deducted by taking into consideration your annual salary, plus the one time severance payout. If you are putting the severance payout amount into an RRSP, you will have options under a tax waiver to not have income taxes withheld. There are two options - a corporate or personal tax waiver, depending on the amount you wish to put into the RRSP. Since it is not being paid on termination, it cannot be treated as a retiring allowance. Please refer to Payment Options Summary for specific taxation for each option.

42. Where will the severance payout be reported on my T4?

The severance payment is employment income and will be reported in Box 14 of your T4.

43. I rolled my entire severance payout to an RRSP. Should it still be included in Box 14 of my T4?

Yes. The severance payment is employment income and will be reported in Box 14 of your T4 regardless of the RRSP rollover. Your financial institution will issue an official income tax receipt for your RRSP contribution. When you file your annual tax return, there will be an income inclusion on your T4 for the Severance Payout amount, and you will have an offsetting tax deduction (the tax receipt from your financial institution) for the contributed amount.

Pension/Retirement

44. Is the early severance payout considered to be pensionable earnings?

No. Your severance payout will not be included as pensionable earnings.

45. Can I use the severance payout to purchase pension service?

The severance payout is not a retiring allowance so the rules surrounding retiring allowances, such as a direct transfer by your employer to a Registered Pension Plan, do not apply. However, you can use your payment for any purpose you wish. You can use your after-tax funds to purchase past service, but the employer cannot facilitate the transition. If you are interested in buying back pensionable time, you should contact your regional Human Resources office.

46. What if I plan to retire within the next few years? Is there a benefit to waiting and receiving the severance when I retire?

If you need help making your decision about the severance payout, you are encouraged to seek professional advice based on your personal situation and goals. You may wish to speak to a tax accountant or a personal financial planner to assist you in your decision.

If you choose to take the payment on retirement as per the dates specified, you will receive the severance based on your salary as of March 31, 2018. If received at retirement, the payment will qualify as a retiring allowance and no EI or CPP will be deducted. Income tax will be withheld based on lump sum rates of 10% on amounts up to \$5,000, 20% on amounts between \$5,001 and \$15,000 and 30% on amounts over \$15,000. Please note that the income tax deducted is simply a withholdings tax. The amount of income tax you pay will be calculated based on your total income from all sources and determined when you file your personal income tax return. All or a portion of your severance can be transferred directly to an RRSP without income tax withholdings if you have sufficient personal RRSP room to do so. No waiver is required and the employer can facilitate the transfer. Rules around pre-1996 eligible room will also apply.

47. If I wait until retirement, how will my severance be taxed? What taxes apply?

If paid at retirement, the Canada Revenue Agency (CRA) classifies the severance as a retiring allowance. It is subject to income tax only; no EI or CPP will be deducted. If taken in cash, the payment will be subject to a withholdings tax as follows: 10% on amounts up to \$5,000, 20% on amounts between \$5,000 and \$15,000 and 30% on amounts over \$15,000. Note that the income tax deducted from the severance on retirement is simply a withholdings tax. The amount of income tax you pay will be calculated based on your total income from all sources and determined when you file your personal income tax return.

48. Do I need a tax waiver (corporate or personal) if I'm taking my severance at retirement?

No. Severance taken now or at retirement can be tax sheltered. For the severance payout, the funds are considered regular employment income so a waiver is needed if the employee wishes to have it paid with no tax withholdings. For the severance paid at retirement, it is considered a retiring allowance and no waiver is needed. In both cases, you must have sufficient personal RRSP room.

Deductions from Severance Payment

49. What deductions are taken/not taken from the Severance Payout?

All statutory deductions (CPP, EI and Income Tax) will be withheld as per the Payment Options Summary. If you have benefit arrears or a salary overpayment, that amount will be automatically deducted. There will be no bi-weekly benefit premium/deduction taken from your payment. The payment is also subject to any garnishments currently in place. Union dues will not be deducted.

50. If I have an outstanding salary overpayment or benefit arrears, will it be recovered from the severance payout?

Yes. Any amount owing will be deducted from the severance payout. This includes, but is not limited to, salary overpayments, salary advances and benefit arrears. Deductions are recovered under the authority of s.31 of the Financial Administration Act. Deductions could also include any wage garnishment orders in effect.

51. Can I choose to have my severance cover any annual leave arrears, TOIL arrears, salary overpayments or benefit arrears?

Yes. If you wish to do so, please notify your employer in writing by January 31, 2019.

52. Will I be notified, prior to the payment date, of any outstanding recoveries from my severance payment?

No. Please contact payroll to confirm present outstanding amount.

General

53. I cannot decide what the best option for me would be. Can NLESD Human Resources or payroll staff assist me in making a decision?

No. You should consult with your financial institution, a financial advisor, or a tax advisor. Every effort has been made to provide answers to questions we feel you may have.

54. If I elect to defer my severance, how do I request and receive payment?

Once the option to defer has been elected, payment of severance shall occur at the end of the period of employment as stipulated in the provisions in the applicable collective agreement. Employees who have deferred payment of severance and wish to receive payment prior to the end of the period of employment must request to do so in writing. Such notice must be received by your regional Human Resources office not later than December 31 of any given year. Payment of severance shall then occur not later than June 30 of the following calendar year.

All severance must be redeemed in full at time of payment. An employee may not elect to receive partial or portioned payment(s) of their total severance pay, i.e., payment of severance shall be made only once. For example, severance payment cannot occur over multiple years or be paid so as to allow

employees to transfer a portion of their severance to a RRSP in one year while deferring payment of the remainder to a subsequent year.

55. I'm not sure what I should do. Where can I get financial advice?

If you need help making your decision about the severance payout, you're encouraged to seek professional advice based on your personal situation and goals. You may wish to speak to a tax accountant or a personal financial planner to assist you in your decision.

56. If I am on unpaid leave and in receipt of Employment Insurance benefits, will the severance payout affect my benefit payments?

You should contact Service Canada to discuss the severance payout impact on your Employment Insurance benefits.

57. What if I am on Long Term Disability (LTD) when the severance payment is paid?

The severance payout can be paid out in the quarter of your choosing. Each LTD case is adjudicated individually and the payout can potentially be offset depending on various factors. However, it will not impact the status of your LTD claim. Please contact Great West Life 1- 844-349-5656 to discuss your individual claim.

58. I am on a current Worker's Compensation claim and not expecting to be back to work on March 28, 2019. When will my severance amount be paid? Will it impact my compensation benefits?

No. Your severance amount can be paid out in the quarter of your choosing. Workplace NL has advised the payment will not impact your receipt of Worker's Compensation benefits.

59. What are the CPP and EI rates and what is the annual maximum contribution?

The CPP contribution rate for 2019 is 5.10% to a maximum contribution of \$2,748.90. The EI premium rate for 2019 is 1.62% to a maximum contribution of \$860.22. The rates for 2020 will not be announced until later in 2019.

60. I disagree with the calculation of the severance amount and/or number of weeks calculated for me. What do I do?

Contact your regional Human Resources office to request a copy of your service audit. Please review the audit and indicate where you feel errors have been made.

61. Who can I call if I have more questions?

Please contact your regional Human Resources office.