

## **Recent Amendments to Pennsylvania Unemployment Compensation Law Include Severance Pay Offset**

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Act 6 of 2011, which was signed into law on June 17, 2011, amended the Pennsylvania Unemployment Compensation Law in a number of ways. These changes include for the first time a severance pay offset against unemployment compensation benefits. Under the new law, "severance pay" is defined as:

one or more payments made by an employer to an employee on account of separation from the service of the employer, regardless of whether the employer is legally bound by contract, statute or otherwise to make such payments. The term does not include payments for pension, retirement or accrued leave or payments of supplemental unemployment benefits.

The offset is calculated by subtracting 40 percent of the "average annual wage" under the Unemployment Compensation Law from the total severance amount. Currently, this "40% of the average annual wage" calculation equals \$17,853, which means that claimants can receive up to \$17,853 in total severance pay before their unemployment compensation benefits are affected. The amount of the severance attributed as an offset in any given week will equal the claimant's full-time daily or weekly wage, and the offset begins with the first week immediately following the claimant's separation from employment.

The effective date of the Act's severance pay provision is January 1, 2012. Severance agreements reached between an employer and employee in 2011 should not impact the employee's unemployment compensation benefits, even if the severance pay continues into 2012. The Act states that its severance pay provisions apply to benefit years that begin on or after the effective date, but will not "apply to severance pay agreements that were agreed to by an employer and employee prior to the effective date."

As we approach 2012, employers and employees should be aware of these new severance pay offset rules and their impact on unemployment compensation benefits when considering severance arrangements.

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