GASB Statement #47, *Accounting for Termination Benefits*, covers termination benefits for involuntary (e.g., layoffs) terminations. Examples of termination benefits that may be provided for involuntary terminations and included in GASB Statement #47 include severance pay, continued access to health insurance, career counseling, and outplacement services. Please note, however, that postemployment benefits (pensions and OPEB) which are part of the compensation that employers offer in exchange for services received are excluded.

A. A liability and corresponding expense should be recognized in the financial statements when:

1. A **plan of involuntary termination** (see definition below) has been approved by those with the authority to commit the University to the plan, and
2. The plan has been communicated to the employees, and
3. The amount of the liability can be estimated.

B. According to GASB 47, a **plan of involuntary termination** is a plan that:

1. Identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and when the terminations are expected to occur and
2. Establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.

C. Note that if a plan of involuntary termination requires the employee to render future service in order to receive termination benefits, a liability and expense for the portion of the involuntary termination benefits that will be provided only after completion of the future service should be recognized ratably over the future service period. For this purpose, the future service period is considered to begin when the criteria of “A” above have been met.

*For implementation purposes at UMS, we are considering that the “plan has been communicated” when UMS Human Resources has approved the involuntary termination and the employee has received official notification. The assumption is that the employee will be notified immediately following the UMS Human Resources approval.*
Examples:

I. On May 1, 2011, UMPSA employee with 18 years of service is notified that termination will occur effective immediately. Employee will receive 6 months of pay-in-lieu of notice and 8 months of severance pay. Since no future service period is required, the total involuntary termination costs should be recognized in May 2011. UMS will accrue for the cost of pay-in-lieu of notice and severance pay including the benefit cost at 17.65% on both the pay-in-lieu of notice and severance pay.

II. On May 1, 2011, UMPSA employee with 18 years of service is notified that termination will occur as of November 1, 2011. Employee will work 6 month notice period and receive 8 months of severance pay. Since a future service period is required, UMS should accrue the severance pay and associated benefits (at 17.65%) over the next 6 months (1/3 reflected in FY11 and 2/3 reflected in FY12).

III. Faculty retrenchments – When employee is notified that the retrenchment will occur, UMS should accrue for the total cost of the retrenchment including the full cost of benefits.

UMS Accounting for Involuntary Terminations:

A. SWS Accounting established 7 General Ledger accounts: Severance (53901), Pay-in-lieu of notice (53902), Retrenchment (53903), Benefits Distribution- Severance (54820), Benefits Distribution – Retrenchment (54821), Benefit Recovery Severance (54905), and Benefit Recovery Retrenchment (54908).

B. In MaineStreet payroll, the “G/L Account # Expense” field in the Earnings Code Table has been updated to “hard-code” the appropriate account in A. above with the corresponding Earnings Code for Severance (012), Payment-in-lieu of notice (013), and Retrenchment (014). For this to automatically record the expense properly, however, the necessary corresponding 10-digit account code must exist or be created in advance of the payroll processing; otherwise, the payout charge will go to suspense in the General Ledger and will need to be retroactively corrected. The alternative method that can be utilized to record termination payouts is to enter a record on the employee’s distribution detail for the appropriate earnings code(s) and 10-digit account code. This will minimize charges against suspense but will require an entry in the employee’s distribution detail panel.

C. Benefit Cost Allocation:

a. Severance and Pay-in-Lieu of Notice - A benefit rate of 17.65% will be assessed against charges to the new Severance and Pay-in-lieu of notice salary accounts to cover the cost of FICA/Medicare taxes and 401(3)(b) employer contributions. Benefits recovery costs assessed to campuses will be charged to the new account “Benefits Distribution – Severance” (54820) with an offset in the SWS Benefit Pool to the new account “Benefit Recovery Severance” (54905). In the SWS Benefit Pool, the accrued benefit expenses will be distinguished by the use of class code 99.

b. Retrenchment – The full benefit rate will be assessed against charges to the new Retrenchment salary account since faculty are entitled to health benefits during the retrenchment period. Benefit recovery costs assessed to campuses will be charged to the new account “Benefits Distribution- Retrenchment” (54821) with an offset in the SWS Benefit Pool to the new account “Benefit Recovery Retrenchment” (54908). Since retrenchments will be assessed the full
benefit rate, the difference between the current full benefit rate and 17.65% will be charged against the Health Insurance account (54100) in the SWS Benefit Pool. The accrued benefit expenses in the SWS Benefit Pool associated with retrenchments will be distinguished by the use of class code 93.

D. Campuses\(^1\) need to submit the following information to SWS Director of Budgeting (Miriam White) or Director of Accounting (Darla Reynolds) who will make the appropriate accrual and final adjusting entries:

- Copy of involuntary termination plan/announcement/notification
- Names and EMPLIDs of employees being terminated
- Chartfield combination for charge (department, fund, class, program, project) – if utilizing a department other than the employee’s “normal” department, the department utilized must reflect the same functional classification as the employee’s normal distribution department—i.e., AFUM retrenchments must be charged to an instructional department if employee’s normal salary was charged to an instructional department.
- Total amount of severance by employee and scheduled payout by month
- Total amount of retrenchment by employee and schedules payout by month
- Total amount of pay-in-lieu of notice by employee (if applicable) and scheduled payout by month
- Planned date of termination
- Beginning date of notice period to work (if applicable)
- Special post-employment benefit arrangements (such as extended healthcare benefits, outplacement services, etc.)

A sample template entitled “Involuntary Terminations Report” is attached and should be used to report these items. The “payout by month” information in items d., e., and f., will be used so that the reversals of the accrual can match the actual payouts on a monthly basis to even-out the monthly impact on expenses.

\(^1\) UMS HR will provide SWS Director of Budgeting with the draft notice letter to employee which will contain some of the required information. SWS Director of Budgeting will then follow-up with campus to obtain any additional information necessary to make the accounting entries.