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Memo

Operating Guidance

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CONTRACT AND GRANT OFFICERS VICE CHANCELLORS—ADMINISTRATION CONTROLLERS

Subject: Severance Pay Charges on Grants and Contracts

Background:

The University of California has recently implemented severance pay policies for career employees in various classifications and collective bargaining units. *Personnel Policies for Staff Members* (PPSM) Policy 60., "Layoff and Reduction in Time from Professional and Support Staff Career Positions," effective July 1, 2003, sets forth the layoff and severance pay policy for career position professional and support staff. (http://atyourservice.ucop.edu/employees/policies/staff_policies/spp60.html)

Exclusively represented employees covered by collective bargaining agreements are governed by the specific layoff and severance pay terms and conditions stated in their respective contracts. (http://atyourservice.ucop.edu/employees/policies/systemwide_contracts/index.html) These policies and contracts provide affected career employees with an option for severance pay in lieu of the right of recall and preference for reemployment.

"Limited appointees" (employees hired with time-limited appointments) are not career employees and are not eligible for severance pay.

Implementation of Severance Pay Policy for Extramural Funds:

- Severance payment in lieu of recall and preferential reemployment rights should be charged entirely to the last payroll fund source(s) of the severed individual (distributed proportionately if the individual is paid from multiple fund sources).
- Departments may choose to charge any or all of the severance payment to discretionary, unrestricted fund source(s) available to the department.
- Some non-federal extramural awards may contain specific restrictions on the allowability of severance payments. In such cases, charges must be made in compliance with the conditions of the award(s). Other departmental fund sources may have to be used.

Allowability of Charging Severance Pay to Extramural Awards:

OMB Circular A-21, *Cost Principles for Educational Institutions*, allows severance pay to be charged to federal funds in accordance with section 43., *Severance pay*, below:

- a. Severance pay is compensation in addition to regular salary and wages which is paid by an institution to employees whose services are being terminated. Costs of severance pay are allowable only to the extent that such payments are required by law, by employer-employee agreement, by established policy that constitutes in effect an implied agreement on the institution's part, or by circumstances of the particular employment.
- b. Severance payments that are due to normal recurring turnover and which otherwise meet the conditions of subsection a may be allowed provided the actual costs of such severance payments are regarded as expenses applicable to the current fiscal year and are equitably distributed among the institution's activities during that period.
- c. Severance payments that are due to abnormal or mass terminations are of such conjectural nature that allowability must be determined on a case-by-case basis. However, the Federal Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment.
- d. Costs incurred in excess of the institution's normal severance pay policy applicable to all persons employed by the institution upon termination of employment are unallowable.

Thus, severance pay is an allowable cost if it is part of an institutional program or policy that is consistently applied to all applicable employees (not just federally funded employees). The University's policies meet these standards.

Policy for Charging Severance Pay:


To charge severance pay to extramural fund sources, the University must have a consistent policy that determines the amounts to be charged to individual fund sources. The policy set forth above provides the basis for direct charging severance pay. However, campuses should be aware of some of the possible issues that could arise in implementing this policy:

- Extramural awards may not have the funds in their budgets to pay severance pay since severance pay was not budgeted in the original award.
- When the severance policy applies to an extramural award due to the "bumping" based on seniority of another employee, the award's budgeted salary is still needed to complete the project.

- The severance pay for career employees terminated due to the end of the funding period may not be available in the budget and may require early termination of the employee in order to have the funds required for severance pay.

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