

Severance Explained

When CCC asks for a severance date, we are inquiring about the date the participant terminated their employment relationship with the Employer and is no longer engaged in any form of continued employment at this time that would result in the employee's earnings for services provided to the employer being reported on a W2 for the given year. The severance date is typically the last date of paid employment with the district or college for an employee who will not return to work unless they go through a hiring process through the Employer.

- **Immediate re-hire arrangements preclude severance distributions:** If both the employer and the employee know at the time of “retirement” that the employee will, with reasonable certainty, continue to perform services for the employer, a termination of employment has not occurred.
- **Documented gap in service:** It is critical that the employer has a documented gap in the employment relationship, as this will provide an audit trail demonstrating IRS compliance (some examples include a resignation letter or a written request to be removed from an active substitute list).
- **Active Substitutes:** Teachers on a substitute list are not considered severed from service as they may return to work at any time.
- **Part-Time Work:** Retired or not, if an employee is working part-time, they are not considered severed from service.
- **Leave of Absence:** Employees on LOA are not considered severed as they may return to work at any time.
- **Retirement:** Retirement is not equal to severance. Many retirees remain active substitutes or part-time employees; if a retiree is earning any payments that would result in receiving a W-2, they are not severed.
- **Early Retirement Incentives:** ERI’s are not considered payments for services; employees receiving ERI’s may be considered severed if they are not working and may not return to work without going through a rehiring process.
- **Time Frame:** There is no requirement pertaining to the amount of time the employee has been severed; the most important component is a documented break in the employment relationship and no immediate re-hire arrangement is in place.
- **Missing Records:** If there is no record of the employee, (for example, if there has been a database change since the employee severed from service and the records were not pulled forward) please provide the earliest date the employer can verify that the employee did not work at the district.