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## Is your parachute really Golden?

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Losing your job may be stressful, but for some deciding what to do with their severance money is just as daunting.

"It can be a mixed blessing for some people," says Frank Wiginton, a certified financial planner at TriDelta Financial Partners.

Many people have never been given such a large sum of money at one time, and deciding what to do with their windfall is overwhelming.

"There is amazing stress. This is something that is being thrown at them, they've never been in this situation before and they don't know how to deal with it," Wiginton says.

Starting about a year ago, Wiginton says he has seen an increase in the number of people seeking financial guidance because they have received a severance cheque. Employers, labour lawyers and career counsellors have been referring clients to his firm. Some employers have even included funds in the severance package to allow for the employee to get financial advice.

More people may be faced with this situation, as in early January Statistics Canada reported 34,000 jobs were lost in December 2008

It's difficult to tell someone what they should do with their severance money until their entire financial situation is reviewed, says certified financial planner Doug Lamb.

Lamb, who works for Spera Financial Inc. in Toronto and is also a chartered accountant, says that he will have several meetings with a new client before he can advise them what they should do with their money.

"We focus on what this money means to you," Lamb says, explaining that a person in their 20s may feel confident they will find work in the next year and the severance money may be more of a windfall. However, if the person is older, they may not be able to get another job and they need this money to be their retirement savings.

Many factors should be considered before accepting a severance cheque, Wiginton says.

"The biggest mistake I see is that they sign whatever is put in front of them. The company is putting in front of them a contract that benefits the company," Wiginton says.

Employees should not be afraid to take the paperwork to a lawyer and a financial planner to ensure their interests are not being ignored.

Consulting a financial planner is important because of the tax implications associated with getting a severance payout.

Severance is an amount received on retirement or as compensation for the loss of employment and is considered a retiring allowance for tax purposes, says Bruce Ball, a chartered accountant and partner at BDO Dunwoody LLP.

While the employer should withhold tax at source – as they would with other employment income – there are still issues which should be considered.

One of Wiginton's clients – an older woman who had worked for a telecommunications company for 27 years – was given her severance cheque in December, meaning the large lump sum payment will be included in her 2008 income. Instead of making \$68,000 in 2008, her tax return will show an income of \$132,000.

"The income was the largest income she had seen in her life. This has huge tax consequences, she'll lose \$12,000 to taxes," Wiginton says. She said she should have negotiated with the employer so the money was paid in 2009 when she has no other income.

Employees who have been working at the same company for more than 13 years can take advantage of special RRSP provisions to alleviate some of these tax concerns.

For those who think they may lose their jobs in the future, Wiginton advises that they should be making arrangements now.

"We've been recommending that people setup a \$20,000 emergency fund line of credit while they are employed, because you can't get it once you have no job," Wiginton says. "You need to think about severance long before the possibility of losing your job."