



JOHNSTONE'S JOURNAL is published monthly, and designed to provide topical information of interest not only to plan administrators, but to all employees who enjoy coverage under the benefit plan. Feel free to make copies, and use as a payroll staffer.

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## Severance and Benefits Benefits After Termination of Employment

### Benefits and the Employment Contract

**Did you know benefits terminate on the day that the employment contract terminates?** That means that if an employee's last day of work is May 12<sup>th</sup>, then he or she will have no coverage beyond the end of that day.

### Severance Packages

In some cases, employers wish to provide employees with a severance package that includes benefits. Severance is really just a continuation of the employment contract extending some, or all, of the employment privileges beyond the last day of work. It's okay to continue benefits in this case - right?, or wrong?

The employee is no longer "actively at work," and, as such, most insurers do not automatically extend coverage beyond the employee's last day of "active work." To have coverage continued, the insurer must approve each case.

Before offering any benefit extension, you need to be sure that the insurer will agree to the arrangements you have planned.

### What Will the Insurer Agree to?

Most insurers will agree to extend coverage for all benefits up to, but not beyond, the statutory provisions in the Employment Standards Act. Depending on the province of residence this will vary, but has a maximum limit of eight weeks.

Under no circumstances will any insurer extend disability coverage (WI and LTD) for any period longer than eight weeks. In many cases, they will not agree to extend WI and LTD at all. They may, however, give consideration to extending the life benefits, A.D.&D., extended health care (EHC) and dental benefits for periods longer than eight weeks.

### Limitations to Extended Health Coverage

While most insurers will agree to extend some benefit coverage longer than the statutory period, they will likely restrict some of the EHC provisions. In particular, they may remove the travel insurance component of most EHC plans. Therefore, employees who plan to travel during the severance period must obtain separate travel insurance coverage.

### Alternatives to Consider

#### Life Insurance

Group life insurance has a conversion privilege. This will allow employees to convert their coverage, without a medical questionnaire, if they apply within 31 days of the termination of employment.

#### Accidental Death and Disablement

In some cases, this benefit can be converted. If the A.D.&D. contract does not have a conversion option

though, alternate coverage can be easily and inexpensively obtained, without medical information.

#### Long Term Disability

A few insurers provide a conversion option that allows employees to convert their LTD to an individual policy, without submitting medical information. However, the majority of insurers do not offer this option. If conversion is not available, employees who are healthy can obtain interim coverage matching the length of the severance period.

#### Extended Health and Dental Care

A few insurers offer conversion options, regardless of the group insurer being terminated. Coverage must be applied for within 30 to 60 days (depending on the insurer). Pre-existing condition clauses as well as claims waiting period's may be waived.

### CAUTION

If you have a situation where you want to extend coverage beyond the last day an employee is to be actively at work, contact us before making any offers to the employee.