



Wealth  
Management

# the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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## Salary continuance and other company benefits

If you're leaving your employment, you may be offered a salary continuance and be entitled to other company benefits. This article discusses the tax implications of receiving a salary continuance. It also discusses some of the other company benefits that may be available to you when your employment with the company ends.

### Salary continuance

Your employer may offer you the option of receiving a salary continuance instead of a lump-sum severance payment or retiring allowance. If you're receiving a salary continuance, your employer will generally continue to pay your salary until the earlier of a specified date or a triggering event, such as finding new employment.

A salary continuance can provide you with cash flow to fund your ongoing expenses. Generally, only amounts actually paid in the year are subject to taxation. A salary continuance is considered regular employment income and as such, it's subject to regular income tax deductions including Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) contributions, Employment Insurance (EI) premiums, and registered pension plan (RPP) contributions. It also qualifies as

earned income which may generate RRSP contribution room for you in the year following the year of payment.

You may prefer receiving a salary continuance rather than a lump-sum amount if you're more comfortable with a regular source of income. In some cases, company benefits such as drug, dental, life insurance and participation in a pension plan will continue while you're receiving salary continuance, whereas these benefits may not continue if you're receiving a lump-sum cash payment.

In some cases, a lump-sum payment may make more sense. For example, you may have an immediate need for a larger amount of cash or wish to pay off debt sooner. If there's a risk that the company you're leaving is in financial difficulty, or if the terms of your salary continuance make it likely you will not receive the full schedule of payments, it may be advisable to receive the lump-sum payment.



If you choose to receive a lump-sum payment, the payment may be considered a retiring allowance. For more information, please ask your RBC advisor for a copy of an article on retiring allowances.

### Other company benefits or incentives

The importance of other company benefits or incentives that may be available to you when you leave your employer or when you retire shouldn't be overlooked. In some cases, you may continue to have access to group plans that provide benefits such as health, dental or life insurance coverage even after you leave your employer.

Check with the company's benefits representative or human resources specialist to find out the conditions and length of coverage, and if it's possible to convert any of the group plans to personal coverage.

If the company benefits will cease upon leaving your employer, check to see if you may qualify for benefits under your spouse or partner's employee group benefits. The following are some of the different types of benefits or incentives that may be available.

#### Medical and dental benefits

Some companies may continue to offer medical and dental benefits. However, they generally won't be as generous as they were when you were employed and there may be additional costs. These benefits may also only be available for a specified period of time.

If you're entitled to medical and dental benefits, make sure you understand all the terms and conditions and evaluate whether or not you'll require additional coverage to meet your needs. For example, if you travel outside the country, do the plans provide out-of-country coverage?

Should you find yourself without medical and dental benefits after leaving your employer, you may want to consider obtaining personal health insurance coverage to help protect your finances. Speak with a licensed insurance representative for more information.

#### Life insurance

Upon leaving a group life insurance plan, you may be eligible to convert your group coverage to private coverage within a specified time frame provided by the insurer.

Given the change in your circumstances, it's also likely a good time to re-assess how much life insurance coverage you require. A licensed life insurance representative can help you determine your needs.

Check with the company's benefits representative or human resources specialist to find out the conditions and length of coverage, and if it's possible to convert any of the group plans to personal coverage.

#### Corporate vouchers or discounts

Some employers may provide vouchers that may be used to purchase company products or services. This kind of benefit is taxable and your employer should report the benefit to you on a tax slip.

Instead of vouchers, discounts are sometimes offered on company products and services. Discounts are generally not a taxable benefit.

#### Third-party services

Some employers may provide terminated employees counselling, resume writing or job placement services through third-party providers. These services are designed to help terminated employees attain re-employment sooner.

### Consider your options and plan accordingly

After leaving your employer, you may be entitled to a salary continuance, lump-sum payment and/or other company benefits. You may be presented with different options and need to make irreversible decisions. Be sure to take into consideration your cash flow needs (immediate and long-term) and remember to maintain flexibility, as your circumstances may change. Your RBC advisor can assist you in determining your cash flow and other financial needs.

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