

# Compromise Agreement and Job Seekers Allowance - What Is Your Entitlement?

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Compromise Agreement & JSA Entitlement

**With rising unemployment and greater competition in the search for jobs, employees at risk of losing their employment may be concerned about whether an employer's lump-sum offer within an employment compromise agreement settlement package, adversely affects one's entitlement to Job Seekers Allowance? Here we take a closer look at Compromise Agreement settlements and Job Seekers Allowance entitlement.**

(Newswire.net -- February, 13 2013) Milton Keynes, Buckinghamshire, UK -- With businesses of all sizes cutting costs during these lean times, inevitably top of the target list on costs, which often represents a major share of a business's total costs, is staff costs. And with more employer's now forced to make these tough decisions with the least fuss possible, the employment compromise agreement seems to be having its day.

A Compromise Agreement is a legal document that complies with stated conditions set out in s.203 Employments Right Act 1998, and which states that the employee will not pursue any employment claims against the employer at the end of their employment. In exchange for this promise from the employee, the employer agrees a financial package on termination of the contract of employment.

The amount of the settlement or severance package that is offered, will vary significantly between employees.

Factors that have a direct bearing include such things as length of service, the age of the employee at the time of dismissal, the seniority, rate of pay and any other contractual benefits tied to the employment. The reason for the proposed termination may also influence the eventual financial package offered.

With lump-sum severance payments equivalent to up to 6 months pay not unusual, employees may naturally be concerned to know whether this will have any adverse impact on their ability to claim Job Seekers Allowance and other benefits, especially if a prolonged period of unemployment is a real possibility.

First it needs to be understood that a financial lump-sum package can often be made up of many different components. Put simply however, these can be grouped into contractual and non-contractual payments.

Contractual payments are those payments that an employee is entitled under the contract of employment, for example, a sum in lieu of notice, unused holiday pay, car allowance and other contractual entitlements as at the date of dismissal.

Non-contractual payments are such payments made by an employer over and above what an employee is legally entitled to under his or her contract of employment, or what the law says is a minimum entitlement on termination of employment. This element of a lump-sum payment is variously described as compensation for "loss of office", "in recognition of services rendered", "in recognition for past loyalty" and so forth.

The distinction between contractual and non-contractual payments is important from a Revenue and Benefits Office stand point.

[Job Seekers Allowance](#) (JSA) is not normally paid during the period of notice. So an employer given a payment in lieu of notice and not required to work that notice period will not be able to claim JSA in that time.

However, it would be advisable for the employee to sign on at the Job Centre in order to claim NI Contribution Credits during the notice period.

Another important criteria used by the Benefits Office to establish entitlement to benefits, is the amount of capital a person has at the date of termination of employment. There is a savings threshold of £16,000, above which a person cannot claim "income-based" JSA.

So, if an employee receives a settlement of £20,000 of which £8,000 is for contractual entitlements including a payment in lieu of notice, for the purpose of calculating capital savings, the Benefits Office usually discounts the contractual payments, which leaves in this example £12,000.

This is below the £16,000 threshold for income-based JSA, but as explained, an employee would not be able to claim JSA during their notice period.

Contribution-based JSA on the other hand is not affected by most lump sum payments and the £16,000 capital limit will not therefore apply.

Whether an employee is entitled to contribution-based JSA will depend on whether a person has contributed, during their working life, a sufficient amount of National Insurance contribution.

National insurance is deducted at source every month from an employee's salary. So for more information on this, it is advisable to contact either the Citizens Advice Bureau or your local Benefits Office.

JSA is not available to employees that leave their employment "voluntarily".

Fortunately, the Revenue and the Benefits Office do not currently interpret a Compromise Agreement dismissal as a "voluntary" occurrence. Which means that lump-sum payments packaged within an employment compromise agreement do not affect one's entitlement to claim JSA.

The rules and regulations on entitlement to benefits constantly change. Employees are therefore advised to contact their local Benefits Office or speak with a Job Centre adviser for an up-to-date position.

If you looking for more guidance on [negotiating a compromise agreement deal](#) or on compromise agreements in general, you can check out this webpage at [www.cardonaandco.co.uk/compromise-agreements](http://www.cardonaandco.co.uk/compromise-agreements).

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