Bloomberg Law

Report on Salary Surveys™

Most Firms Offer Severance Pay but Formal Policies Decline

The majority of organizations offer severance to employees, but the number of formal policies are on the decline, according to several studies, which also found that the reason behind a termination—involuntary or with cause—can affect pay levels.

Offering severance is not just about taking care of the departing employee, but ensuring continued engagement by existing employees and protecting a company's public image, according to Emily Elder, senior manager, Practice Development at RiseSmart.

Fifteen years ago, companies would offer severance pay to avoid legal action, but that outlook has shifted, Elder told Bloomberg Law. Legal issues are still a concern, but corporate reputation can be at risk if departing employees aren't reasonably and respectfully managed

''It's really around the perception of being a valued employee. Customers are really interested in that, being able to hear from those who left the company through no fault of their own. It's powerful to get their feedback,'' Elder said.

The growth in social media means that it is far easier to see how an organization handles its employees, which can affect hiring and retention levels, she added.

''If I had a really great experience, it's a company that others want to go to. If I, my friend or coworker was let go, then I want to know if they were treated well or not,'' Elder said.

Most Offer Pay The majority of companies offer severance to at least some employees after an involuntary separation; 38 percent offer it to all employees, while 52 percent give it to some, according to a survey from RiseSmart (see Table 1). Executives are the most likely to receive severance pay at 87 percent, compared to 61 percent of administrative and clerical workers, the survey found.

The RiseSmart survey is based on responses from 450 U.S. companies with 500 or more employees.

When termination stems from a reduction in force or corporate restructuring, 88 percent of organizations pay severance, according to a survey from Lee Hecht Harrison and Compensation Resources Inc., a pay consultancy (see Table 2). However, only 13 percent offer severance pay when the termination is for cause, and only 6 percent provide severance on retirement.

The Lee Hecht Harrison survey is based on responses from 350 senior HR leaders at U.S. companies.

Two Industry Groups Two surveys from Radford examine severance and change in control policies at life sciences firms and technology firms.

At life sciences companies, the higher ranked employees are, the more likely they are to receive severance payments, according to one survey from Radford. At the vice president level, 62 percent have a severance policy, while approximately 45 percent of those in other employee groups are covered by a severance policy (see Table 3).

At technology companies, the majority (71 percent) have a not-for-cause severance policy, according to another survey from Radford. At 39 percent of tech companies, the payment is based on a minimum rate determined by level with additional pay based on tenure.

 ISSN 1067-4551

Table 1: Are all employees eligible for severance resulting from involuntary separation?	
Yes, all	38%
Yes, some	52%
No, none	10%
If not all, which employees:	
Officers/senior executives	87%
Managers/professionals	80%
Administrative/clerical	61%
Source: RiseSmart	BloombergLaw/rssg0915

Table 2: Under which circumstance(s) does your company provide severance to employees.

Circumstance	%
Termination due to reduction in force or corporate restructuring	88%
Involuntary termination	62%
Change of control (double trigger)	17%
Change of control (single trigger)	16%
Termination for cause	13%
Voluntary termination	11%
Retirement	6%
Death	3%
Disability	3%
Other	7%
Source: Lee Hecht Harrison	A BNA Graphic/rssg0916

Severance pay is calculated at 55 percent of tech firms using only base salary'; far fewer include factors such as target bonuses, according to the Radford survey (see Table 4). The survey is based on 179 U.S.-based technology companies.

Outplacement Benefits Two-thirds of companies offer full or partial outplacement to all levels of employees in the Lee Hecht Harrison survey. Half offer outplacement to all C-suite executives, senior management, and directors. Slightly less than half provide outplacement to managers, supervisors, professional/technical employees, and exempt employees. Only 40 percent provide outplacement to all nonexempt employees.

Table 3: Severance policy prevalance at life sciences companies, by employee level.

Employee level	No	Yes
Vice presidents	38.0%	62.0%
Directors	53.7%	46.3%
Managers	54.6%	45.4%
Senior individual contributors/professional positions	54.6%	45.4%
Individual contributors/professional positions	55.6%	44.4%
Support	44.4%	44.4%

Source: Radford

A BNA Graphic/rssg0917

Among organizations that offer outplacement programs, 80 percent do so ''because it is our responsibility to take care of our workforce'' and 78 percent to help affected employees achieve their desired career goals, according to the Lee Hecht Harrison survey. In addition, 72 percent said it was to maintain a strong employer brand, and 59 percent said it was meant to minimize litigation.

Fewer than half of the companies in the RiseSmart survey offer outplacement programs for all employees; 57 percent provide them to officers and executives, 45 percent to managers and executives, and 34 percent to administrative and clerical employees.

It can be cost-prohibitive to offer outplacement services to all employees, according to Elder. It is also difficult for organizations to know which employee groups might be able to find new jobs faster than others without a high-level awareness of the market for various skills, she added.

Redeploy Employees Despite the tight labor market, fewer than half of organizations have formal programs in place to redeploy terminated employees into open positions within the company, according to the survey from RiseSmart.

There might be a skills difference between the workers being let go and the people the organization wants to hire, according to Elder. Internal hires only work when the skills and competencies align, she added.

In addition, companies might not have a support system to reskill employees or even to conduct an internal hire, according to Elder. Employees might not know how to find an internal job, apply for it, have a formal resume, or understand the process, she added.

''It really comes back to: managers have to be really committed to give preferential treatment to internal hires,'' she said.

If the skill sets are a match, it can be a substantial savings—both in time and money—for an organization to hire internally, since it avoids the expenses of recruiting, onboarding, and learning the corporate culture, Elder said.

Table 4: How is employee cash severance calculated at U.S. technology companies?

Base salary only	55%
Base salary plus target bonus	17%
Base salary plus actual bonus	5%
No change in control policy in place	17%
Other	6%

Source: Radford BloombergLaw/rssg0918

''There's a lot that goes into reduction-in-force planning: the legal processes, a lot of trying to think things through. Things are continuing to evolve. There is more concern about the company brand and about the people who are staying,'' Elder said.

The Severance & Separation Benefits Benchmark Study from Lee Hecht Harrison and Compensation Resources Inc. can be found here.

The Guide to Severance and Workforce Transition from RiseSmart is available here.

Six Trends in Severance and Change-in-Control Practices at US Technology Companies from Radford can be found here.

Five Trends in Severance and Change-in-Control Practices at US Life Sciences Firms from Radford is available here.

