

Severance and Paid-Time Off: Results from the Special Survey



Wilson
Group™
Concord, MA

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I. Background and Overview of Participants

Background of the Survey

This survey was created to fill an important need in the market. We have been asked by numerous clients about what companies do when they are making major staffing changes due to acquisitions, reorganizations or changes in corporate direction. The market place in almost every industry is changing dramatically, and these organizations want to remain competitive. This often requires significant change. This change creates gaps between the talent the company currently employs and what is needed. Therefore, what do you do with individuals who no longer fit with the direction of the company, and what actions do you need to take to honor their loyalty and past contributions.

In addition, the market for talent is becoming more competitive. As the millennial generation emerges with a greater number of people entering and advancing in the workplace, policies need to be reviewed and updated to reflect this workforce. The concern about a “balance life” is being desired by an increasing number of employees, including the millennial generation. Therefore, policies related to paid-time-off are being reviewed as well. This employee benefit is becoming increasingly importance as individuals seek employers that respect and value their personal and family commitments.

Consequently, we developed this survey of Severance and Paid-time-off policies and practices to understand what organizations are doing today. We examined these policies as they apply to multiple levels within an organization. One should examine the findings of this survey within the context of your firm’s total business and human resource philosophy and strategy. We encourage companies to look not at just the “median” – those actions done by 50% of the market – but look at the higher and lower levels as well. If your company does what everyone else does in the market, then you will not be able to create a competitive advantage. Perhaps you don’t want to in this area, but the innovative, thoughtful and competitive nature of companies in these dynamic times call for aligning what is valued by the workforce you seek to employ, and the policies and practices by which you treat them. People will then decide whether or not your organization is one where they want to continue or start focusing their career.

We hope the you enjoy this report and find it meaningful and helpful. If you wish to discuss your own situation, please give us a call. We look forward to being of service to you.

Sincerely,



Thomas B. Wilson
President and CEO

www.wilsongroup.com

I. Background and Overview of Participants

Profile of the Participating Organizations

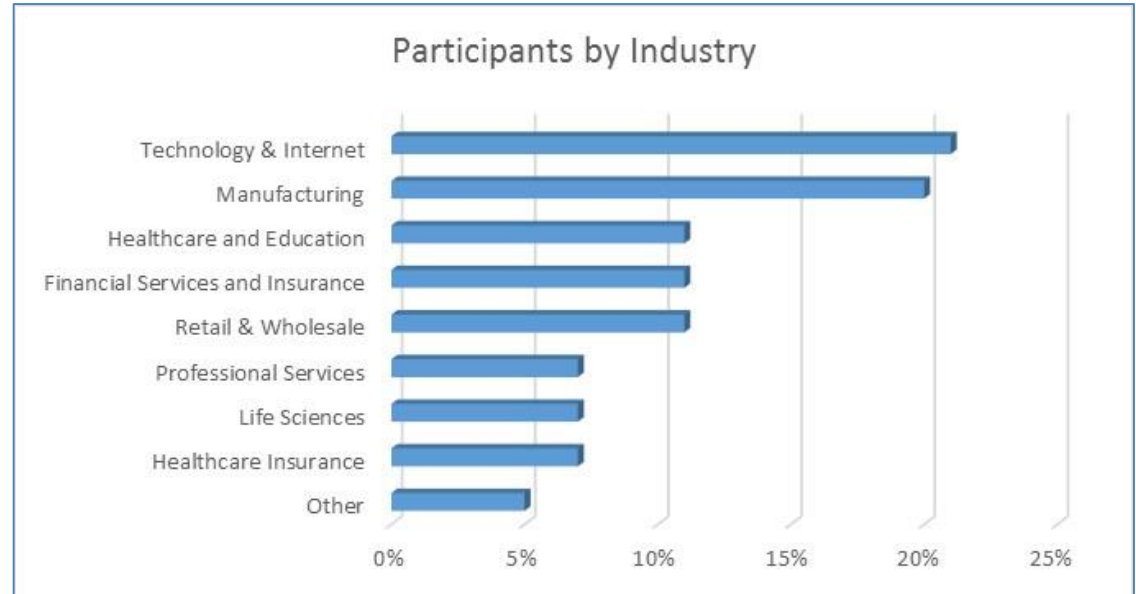
45 companies participated in this survey. A list of these companies is on the next page.

Revenues of Participants:

Average:	\$ 1,242,659,750
25 th Percentile	\$ 85,145,250
50 th Percentile	\$ 306,458,125
75 th Percentile	\$ 1,475,000,000

Number of Employees:

Average:	4,558
25 th Percentile	145
50 th Percentile	800
75 th Percentile	2,603



I. Background and Overview of Participants

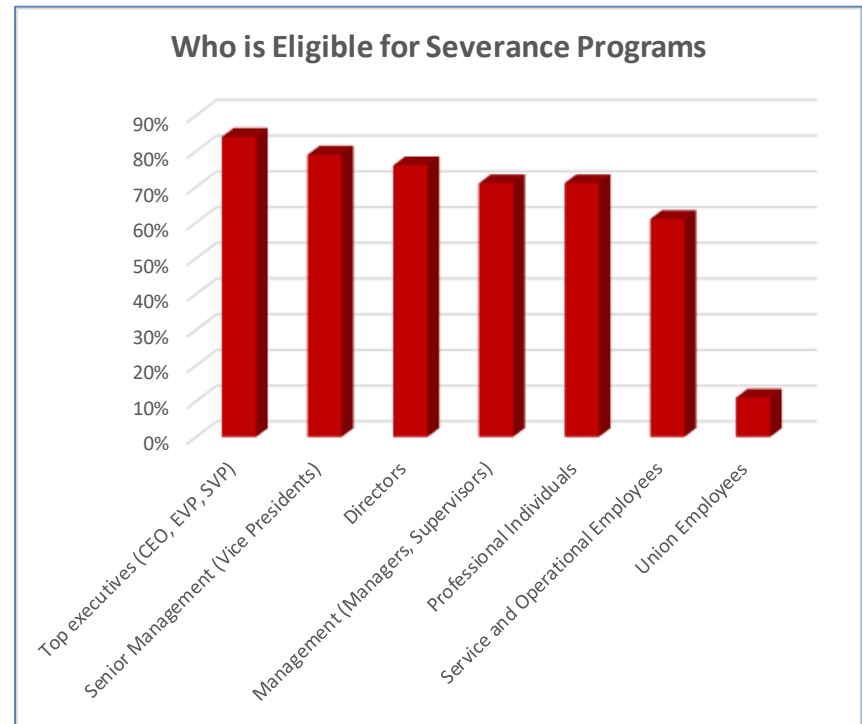
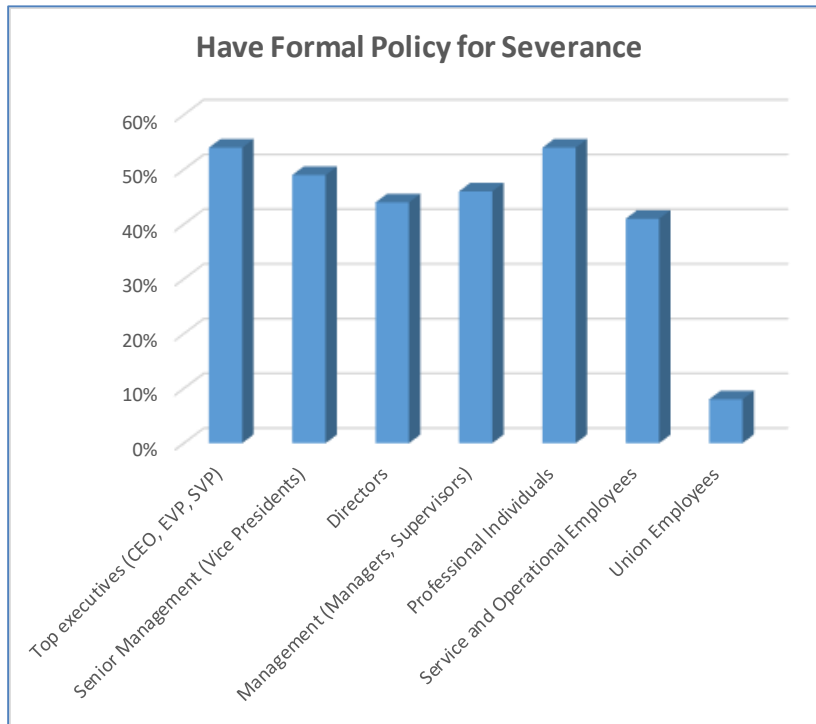
List of the Participating Organizations

47 Brand, LLC	International Packaging Corp
Acushnet Company	Keystone Partners LLC
AIPSO	Lear Corporation
Alice Peck Day Memorial Hospital	Matouk
Aspen Technology	Neighborhood Health Plan
Atrius Health	Nuance Communications
Beacon Mutual Insurance Company	Pegasystems Inc
Blount Fine Foods	Quincy Mutual Group, Inc.
Cimpress	Roche Bros
Commonwealth Financial Network	Smith College
Cooper-Atkins Corp.	Stallergenes Greer
CRICO/RMF	Stavis Seafoods
Dana-Farber Cancer Institute	Sunovion Pharmaceuticals Inc.
Dedham-Westwood Water District	The Gem Group, Inc. (Gemline)
Delphi Construction Inc	The MathWorks
Dentaquest	Transaction network services
Edgewater	Tufts Health Plan
Excelitas Technologies	UFP Technologies, Inc.
Harvard Pilgrim Health Care	Vermont Gas Systems
Hologic	Versatile
HubSpot	Vivonics, Inc.
IMTRA Corporation	Whittier Heath Center
Insight Performance, Inc.	

II. Severance Plans – Policies and Practices

Formal Policies and Eligibility

Most companies have formal policies for the severance programs for all employees (except policies for union employees). Virtually all executives (top levels) and employee groups are covered by such policies. Union employees who have severance benefits are covered by the union contracts.



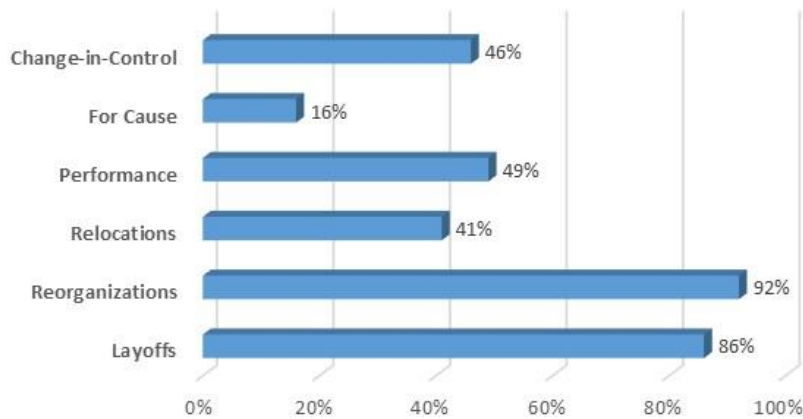
II. Severance Plans – Policies and Practices

Severance Payments

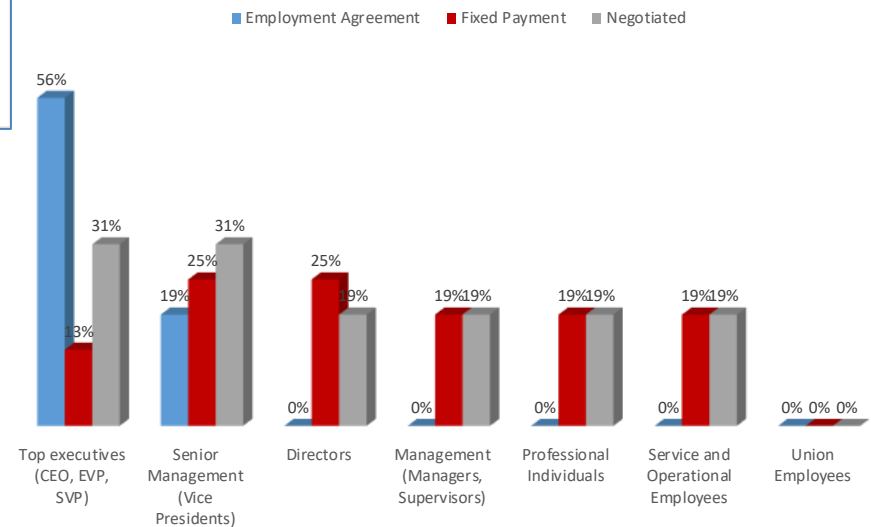
Employees receive severance payments when there is a reorganization, their positions are eliminated, there are layoffs due to reductions in force, there is a change in control or there are performance based terminations. Executives tend to have an employment contract or agreement that defines their severance program. Other

corporate policies define the type and nature of the severance program for managers and employees. While many programs use a fixed payment, an equal number permit the payments to be negotiated based on the existing circumstances.

When Severance Payments are Made



What Determines the Severance Payment



II. Severance Plans – Policies and Practices

Minimum amount of time for which severance is paid

The table below shows the minimum amount of time an employee receives severance payments – expressed by the number of weeks. The number decreases by level within the organization, with the executives receiving the most – typically 8 ½ months (34 weeks). There was also a wide range of responses and the low and high are shown. At a minimum, employee receive 2 weeks of severance. If they are in upper levels of management, the number of weeks is 4 to 8 weeks at a minimum; many organizations are higher. This should provide guidance on the foundation element to a competitive severance program.

	Top Mgmt	Sr. Mgmt	Directors	Mgmt	Indiv Contributor	Service & Ops Ees (Nonexempt)
Average	34	29	13	10	7	6
Low	9	8	4	2	2	2
High	65	52	39	26	18	18

II. Severance Plans – Policies and Practices

Maximum amount of time for which severance is paid.

The table below shows the maximum amount of time an employee receives severance payments. This is expressed in the number of weeks. The range of low to high is also shown. At a minimum, organizations establish a cap on severance at 3 months (12 weeks). On average, the number is 6 months (24 weeks) or 1 year for top management (52 weeks). Again the range of policies (shown by the low to high) indicates a greater variance with senior levels of management.

	Top Mgmt	Sr. Mgmt	Directors	Mgmt	Indiv Contributor	Service & Ops Ees (Nonexempt)
Average	46	35	26	24	22	22
Low	13	13	12	12	12	12
High	78	52	36	36	28	28

II. Severance Plans – Policies and Practices

Most typical structure of severance payments graduates based on years of service.

The previous pages showed the range from minimum to maximum. The table below shows the points at which the severance payments increase. In virtually all cases, companies use “Years of Service” as the factor to make adjustments in severance payment. This means that employees with longer employment history will likely have a higher severance payment or longer period for making severance payments than short-term employees. This table does not apply by job level, but shows an overall average of the time associated with different years of service. There is an average number of weeks and an upper range of weeks, again showing different approaches companies take to severance. On balance the higher number is 2x that of the average weeks. The question for you is what do you believe is fair, reasonable and competitive for the talent in your organization facing termination?

Years of Service	Avg. weeks of severance pay	Higher number of weeks of severance pay
0 – 2.9 years	2 weeks	4 weeks
3 – 4.9 years	3 weeks	8 weeks
5 – 9.9 years	4 weeks	12 weeks
10 – 14.9 years	6 weeks	18 weeks
15 – 19.9 years	8 weeks	20 weeks
20 years +	12 weeks	24 weeks

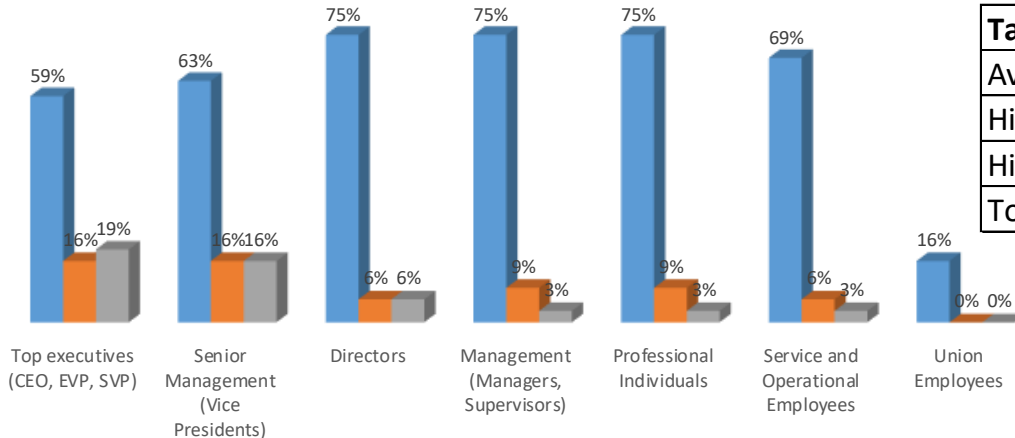
II. Severance Plans – Policies and Practices

How severance pay is determined.

The table below shows how the severance pay is determined. Clearly, the most predominate method is to use the individual’s annual salary (expressed in weeks) to determine the payout. A few organizations, mostly at the top management level, use total compensation. That is defined by salary plus the target annual bonus. Other options exist, and these are shown. About an equal number of companies negotiate the final payment as do those that use a calculation based on total cash compensation. It is important to note, that by using salary only, the individual is foregoing a potentially large portion of his or her annual income that is provided through the bonus program.

How Severance Pay Is Determined

■ Salary only ■ Total Compensation ■ Negotiated



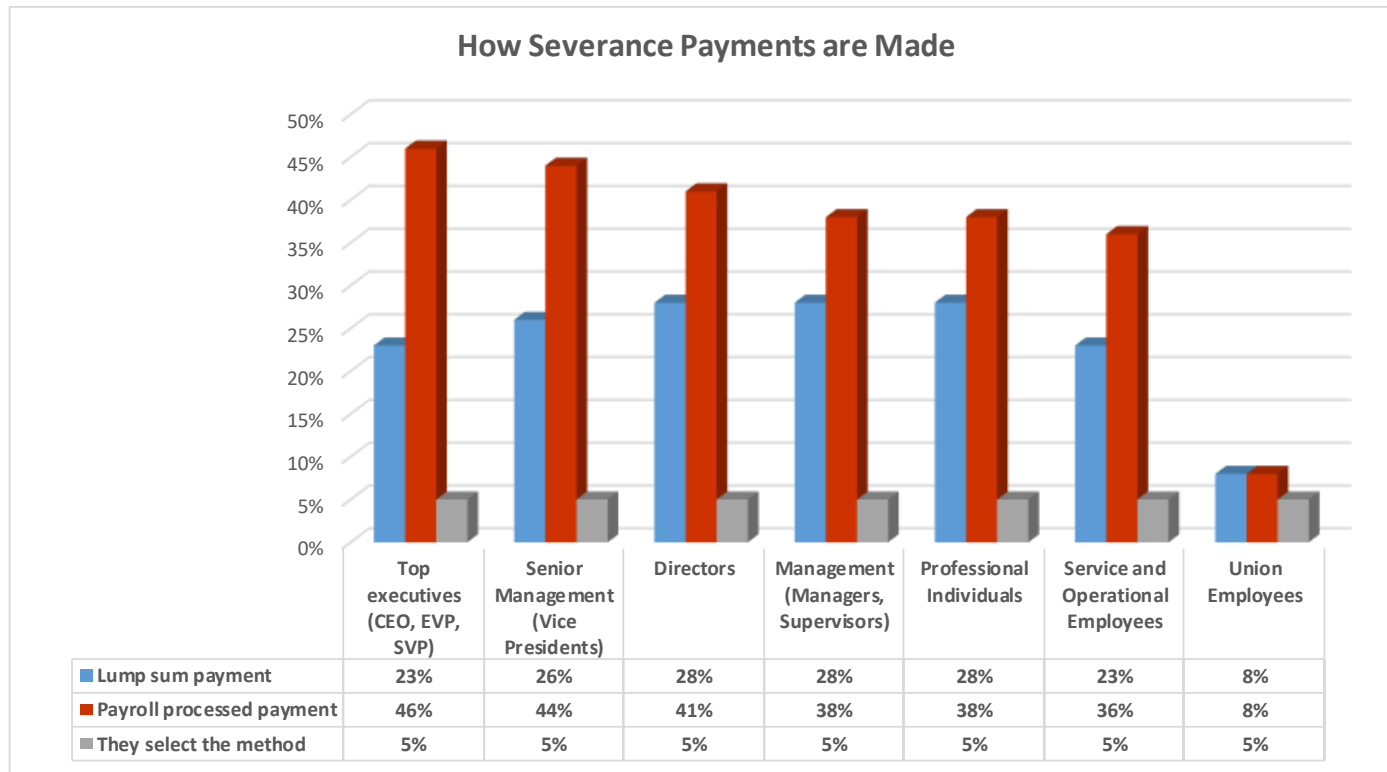
When severance is based on total compensation, what determines the total compensation?

Target total bonus	100%
Average bonus paid over last XX years	0%
Higher of target bonus or 3 year average	0%
Highest bonus paid in last 3 years	0%
Total direct compensation	0%

II. Severance Plans – Policies and Practices

How the severance payment is provided.

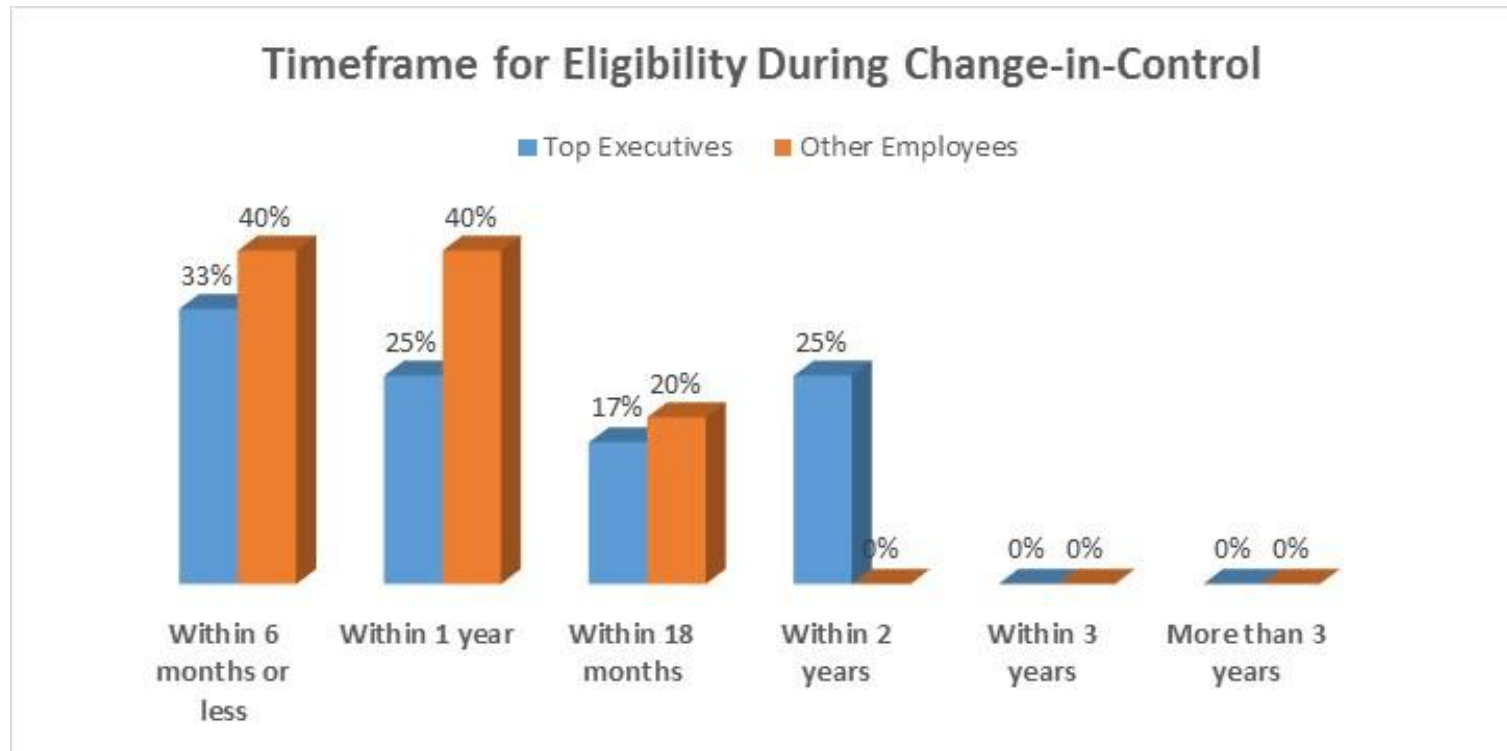
When the severance payment is made, most organizations use their payroll systems. This means that if an individual receives 6 months of severance, the person receives that severance in their standard process over the 6 month pay period. For those in mid-management or individual contributor roles, many firms make their payment in a lump sum. Perhaps this reflects certain conditions associated with the termination.



II. Severance Plans – Policies and Practices

Severance during Change-in-Control.

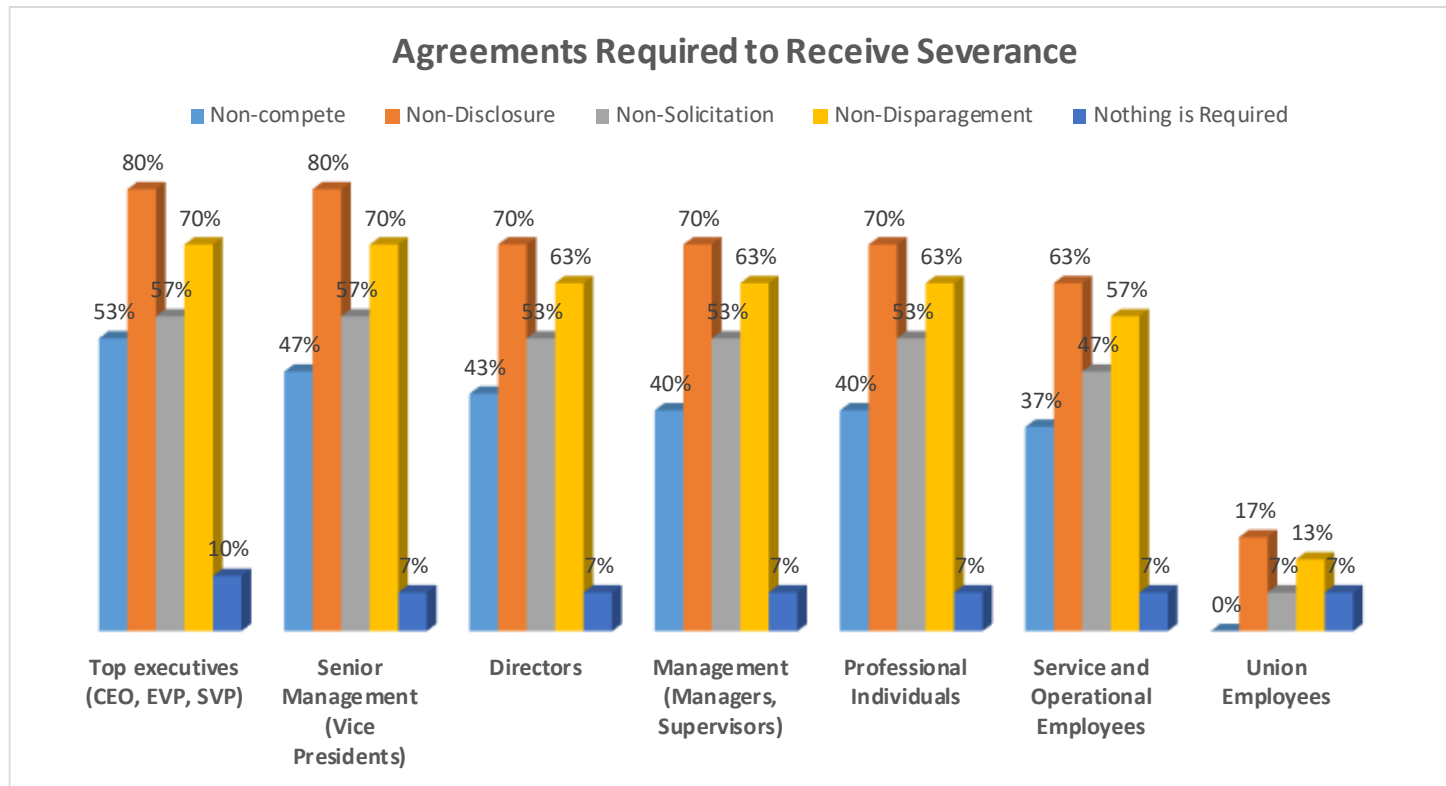
Earlier we indicated that individuals are eligible for severance when there is a change-in-control (i.e., the company's ownership changes). The table below shows most employees receive a severance payment if the termination occurs within either 6 months or 1 year from the change in control. However, many executives receive either 1 year or 2 years as the timeframe for which they would be eligible to receive a severance due to the change-in-control.



II. Severance Plans – Policies and Practices

Agreements Required as Condition for Severance Payments.

The table below shows the conditions that organizations tend to employ for receiving the severance payments. In most cases, employees (and executives) are required to sign a non-disclosure statement and a non-disparagement statement to receive the payments. Non-compete and non-solicitation tend not to be required perhaps because these are covered under other employment agreements (for executives) or it is too late to impose these conditions when an individual is forced to leave the company.

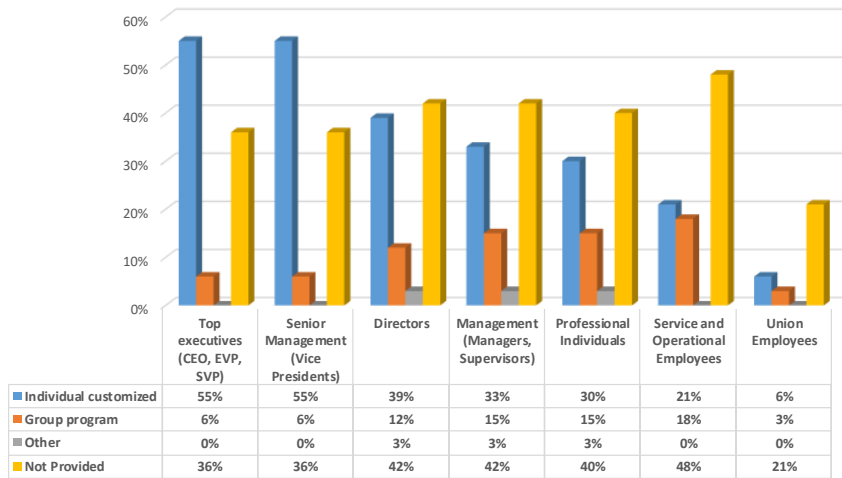


II. Severance Plans – Policies and Practices

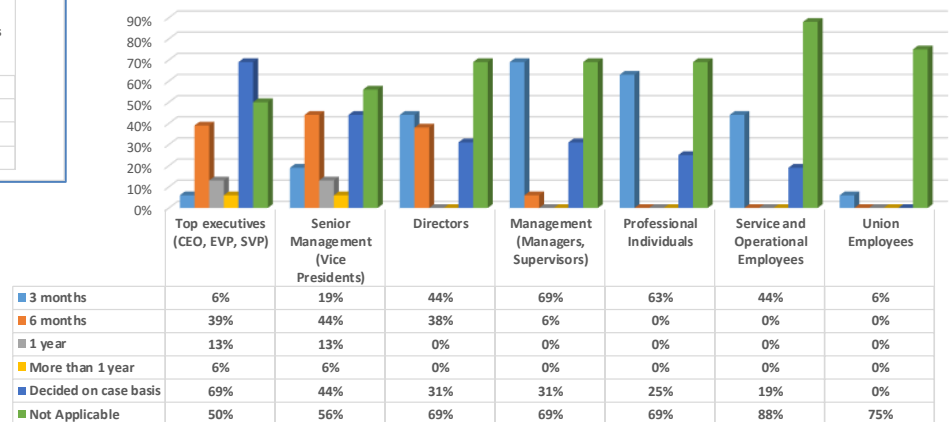
Utilization of Outplacement Services

When an individual is terminated, many organizations provide outplacement services to help the individual continue his or her career somewhere else. The table below shows that this is most often applied to senior management and top executives. They will participate in an individually tailored program. For other employees, they tend to participate in group oriented outplacement services. The timeframe is usually about six (6) months, or three (3) months for managers and professional individual contributors.

Type of Outplacement Services Provided



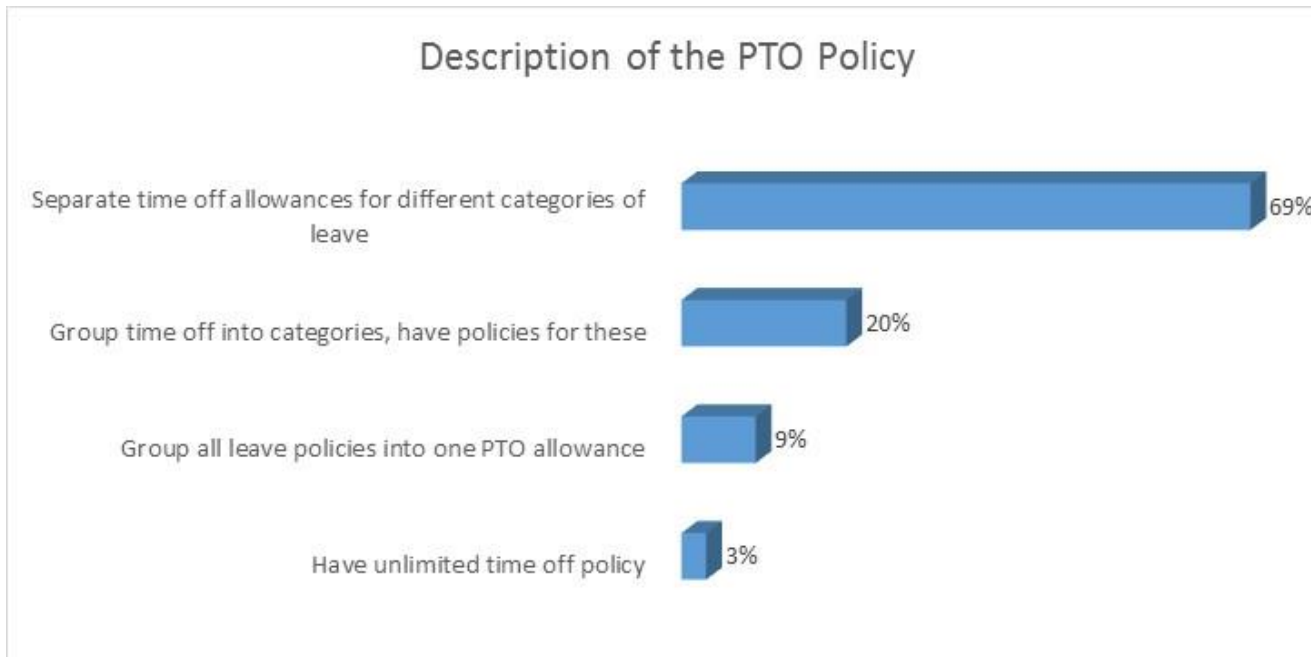
Length of Time for Outplacement Services



III. Paid-Time-Off – Policies and Practices

Paid-Time-Off Policies

All (100%) of the survey participants who responded to this question said that they have established policies related to paid-time-off. The policy is best described by the following statements (the % indicates the number of companies who felt the description best matched their policies).



III. Paid-Time-Off – Policies and Practices

Maximum vacation allowance by position level

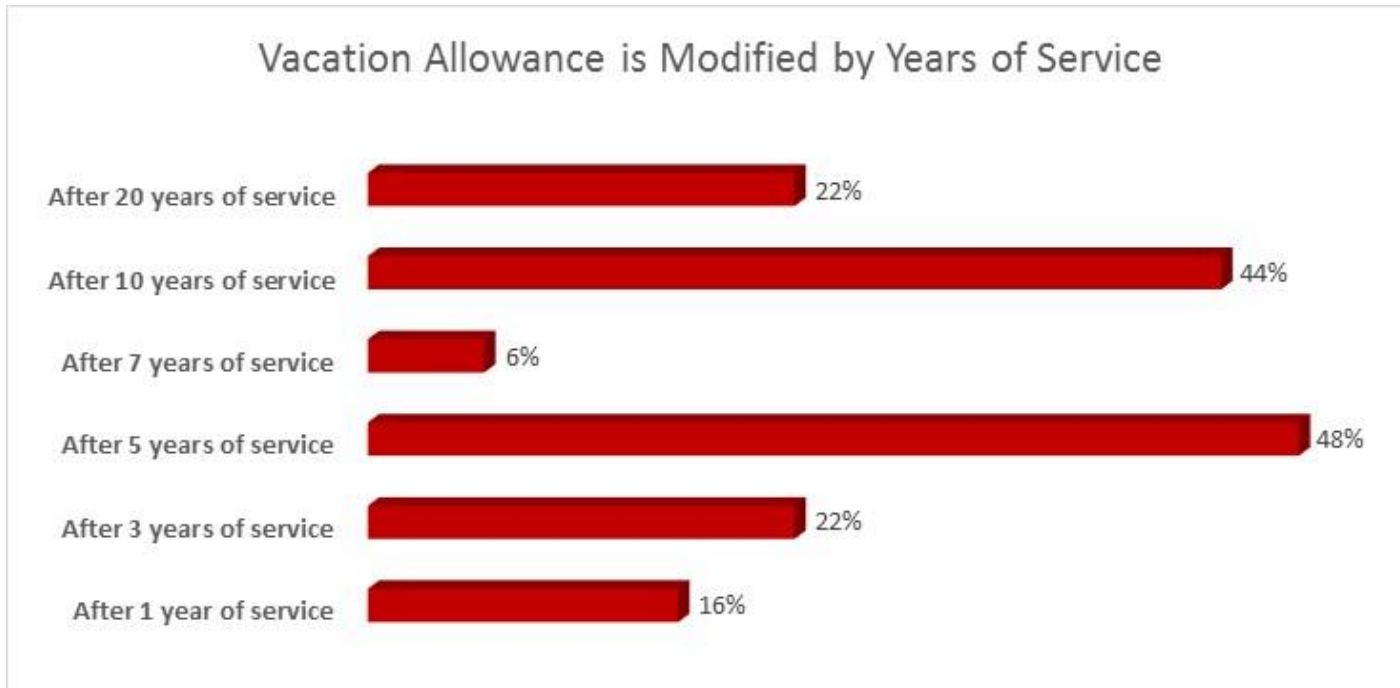
Companies that don't use an "unlimited vacation" policy have a maximum level of vacation. The table below shows the number of weeks for maximum vacation by position level. The data shows the average and key percentiles. Overall, the maximum level of vacation does not vary by level within the company, but does vary by length of service (as shown earlier). The maximum is between 5 and 6+ weeks of vacation per year.

	Top Executives (CEO, EVP, SVP)	Senior Management (Vice Presidents)	Directors	Management (Managers and Supervisors)	Professional Individual Contributors (Exempt)	Service and Operational Employees (Non-Exempt)	Union Employees
Average	6.6	6.6	6.5	6.4	6.3	6.1	5.5
25th Percentile	4.0	4.0	4.0	4.0	4.0	4.0	5.3
50th Percentile	5.0	5.0	5.0	5.0	5.0	5.0	5.5
75th Percentile	6.0	6.0	6.0	6.0	6.0	6.0	5.8

III. Paid-Time-Off – Policies and Practices

Vacation allowance is modified by years of service

Vacation time usually increases based on years of service. The following chart shows the years of service milestones when the amount of vacation is increased. The most prevalent time frames are 5 years and 10 years of service.



III. Paid-Time-Off – Policies and Practices

How PTO is Earned

Paid-time-off is usually earned based on one's employment during a fiscal year. The chart below shows the percent of organizations that accrue PTO time on a weekly or monthly basis and those that award the number at the beginning of the year. This is shown by type of paid-time-off. This shows that vacation time and sick leave time usually accrue on a weekly/monthly basis, where floating and personal days are awarded at the beginning of the year.



III. Paid-Time-Off – Policies and Practices

Carry over to the next year

Many organizations allow individuals to carry unused paid-time-off to the following year. The table below shows the range of amounts that are permitted to be carried over by type of leave. General practice is that organizations allow five weeks of vacation and five weeks of sick leave to be carried over. They do not allow other unused time (maternity/paternity, floating, personal days) to be carried forward to the following year.

	Vacation	Sick leave	Maternity/ Paternity leave	Floating days	Personal Days
Average	10.7	5.3	6.2	2.8	3.5
25th Percentile	5.0	0.0	0.0	0.0	0.0
50th Percentile	5.0	5.0	0.0	0.0	0.0
75th Percentile	12.5	5.0	5.0	0.0	3.8

IV. Comments and Observations

Severance and paid-time-off policies are one of those core policies that is like “infrastructure” and you frequently don’t pay attention to it until you need it. This survey has provided practice data and insights into how companies structure these programs. Based on comments, most believe their program gives them a competitive advantage by providing a level of job security in times of uncertainty, and personal expectations so people can manage their work-life balance. There was little consensus on the amounts, but these plans all serve important ends.

The following summarizes the highlights of the survey findings:

1. **Severance policies** tend to apply to all employees. There are clear formal policies for larger organizations.
2. **A severance payout** occurs when jobs are lost due to a reorganization, layoffs or change-in-control. In these cases, it is not the person’s fault for why they were terminated, and the severance is a way to recognize this. Severance does occur for performance, and the policies do not appear to differ.
3. **The range of time** varies greatly. Generally speaking the maximum is between 1.5x and 2.0x the minimum.
4. **Executive and senior managers** tend to get approximately twice the payment as managers and employees. This is because it often takes significantly longer to find an executive level position than a manager or individual contributor position.
5. **The plans are structured** with a minimum for all based on their level within the company. Then, the amount increases based on one’s years of service, until you reach a maximum. The steps associated with increases in time are usually every 5 years until one reaches 20 years of service. That is the cap.
6. **Virtually all companies base the severance payment** on the individual’s salaries. Some firms provide the payment based on total compensation (salary plus target bonus) for top executives and senior management. The payment is usually made through the payroll process although some firms make a single payment to the individual. This occurs more commonly at lower levels.
7. **When there is a change-in-control**, executives tend to be eligible for special severance payments if they are terminated within 1 to 2 years of the change. Other employees have 6 months to 1 year.

IV. Comments and Observations

The following summarizes the highlights of the survey findings (continued):

8. **The most common requirements** to receive a severance payment are non-disclosure and non-disparagement of the company.
9. **Most, but not all, organizations provide outplacement services** to individuals being terminated. This is most common at the executive and senior management levels. Although most are decided on a case-by-case basis, the typical length is six months for upper management and 3 months for managers and individual contributors.
10. **Most organizations have paid-time-off policies** for each of their elements of PTO (e.g., vacation, sick leave, personal leave, etc.). Only one organization in the survey offers “unlimited time off” as a policy; this is something that has the attention of many technology and innovative companies.
11. **The median maximum allowable vacation** by these organizations is five (5) weeks. The range was fairly narrow from four (4) to six (6) weeks. The average was higher than the 75th percentile because there were a few organizations that have very high maximum levels – 25 weeks to 32 weeks to 2 years.
12. **Those that have more standard policies** limit the amount of vacation time and sick leave that can be carried over to the following year. The median was 5 weeks. Personal Days and Floating Days cannot be carried over for most organizations.

We hope this information is helpful to you and your organization in setting these policies for your work force. Given the dynamic nature of the marketplace, and the level of change most organizations experience, it is important to both understand and align your severance and paid-time-off policies with your human resource/people management philosophy. These are important protections for the organization and the individual.

If you would like to discuss your situation or address other issues related to your people management strategies, we are here to help. The next few pages gives you background information on Wilson Group. We look forward to hearing from you and helping your company be the best that it can be.

Overview of Wilson Group

Mission

“To help our clients assess, develop and implement performance systems and total compensation plans that translate strategy and values into action.”

Primary Services

- Executive total compensation
- Board of directors governance structure and compensation
- Sales effectiveness and total rewards
- Employee total compensation and rewards
- Special studies in market trends and practices

Key Differentiators

- **Our expertise --** Work with highly seasoned, experienced professionals
- **Our collaborative approach --** We engage our clients in a collaborative, open communication fashion
- **More cost effective --** Highly customized, value added to address just what the client needs
- **Innovative insights --** Simplifies complex data into easy to understand information and actions plans

Founded 1994, Concord, MA

Clients and Markets

We have worked with over 150 clients. They include:

- Information Technology – MorphoTrust, iRobot, Care.com, Constant Contact, Cengage, Visual IQ
- Consumer Products – Randolph Eyewear, New Balance, Acushnet, Stratus Seafood, High Liner Foods
- Light manufacturing – A.W. Chesterton, Lightcontrol, HTP Heating, H.J. Baker & Co.
- Professional services – Copyright Clearance Center, Oxford Global, Shepley Bulfinch, ZGF Architects
- Financial services – Commonwealth Financial Network, Quincy Mutual, Vermont Mutual
- Healthcare – DentaQuest, Dana Farber Cancer Institute, Franciscan Children’s
- Non-Profits – Boston Symphony, Umbrella Community Arts Center, Animal Rescue League

Overview of Wilson Group

Leadership and Network

- Thomas B. Wilson, President
- Susan Malanowski, Principal
- Rhonda Farrington, Principal
- Our Network of additional specialized resources:
 - Marsh McLennan Agency LLC – Executive Benefits
 - ISP Advisors -- Global Equity Compensation
 - Independent Compensation Advisors – A National Network of Boutique Compensation Consulting Firms

Thought Leadership

- Compensation Planning Survey Report – 2013/2014/2015/2016
- Survey of Sales Compensation Practices – 2013/2014
- “Goal Setting: What Has Gone Wrong and What Can Be Done” – published WorldatWork Journal, Fall, 2012
- “Changes for Challenging Times – Survey Report on Economic Challenges and Company Responses” (2009)
- Innovative Reward Systems for the Changing Workplace (McGraw-Hill, revised 2003)
- Published over 30 articles and book chapters
- Presented at over 100 leading regional and national conferences

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