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# The Operation of Severance Pay Plans and Their Implications for Labor Mobility

UNITED STATES DEPARTMENT OF LABOR  
W. Willard Wirtz, Secretary

Sponsored by  
OFFICE OF MANPOWER, AUTOMATION AND TRAINING  
Curtis C. Aller, Director

Prepared by  
BUREAU OF LABOR STATISTICS  
Arthur M. Ross, Commissioner





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## Preface

The Manpower Development and Training Act of 1962 directed the Secretary of Labor to "establish a program of factual studies of practices of employers and unions which tend to impede the mobility of workers or which facilitate mobility." Included among the studies requested was one on the operation of severance pay plans.

In response to this interest in severance pay, the Bureau of Labor Statistics advanced its plans to study severance pay provisions of collective bargaining agreements, resulting in the second of its new series of agreement studies. To fulfill the statutory directive, the Department's Office of Manpower, Automation and Training (OMAT) requested the Bureau to study the actual operation and experiences of severance pay plans. This study, financed by OMAT and summarized in the present bulletin, also provided the opportunity to bring to light other related aspects of layoff and plant shutdown procedures.

The study was conducted and the bulletin prepared by J. Joseph Loewenberg, under the supervision of Harry P. Cohany, in the Bureau's Division of Industrial and Labor Relations, Joseph W. Bloch, Chief, under the general direction of L. R. Linsenmayer, Assistant Commissioner, Office of Wages and Industrial Relations.

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# The Operation of Severance Pay Plans and Their Implications for Labor Mobility

## Summary and Conclusions

To the vast majority of workers in the companies studied—almost 98 percent in 1962—the severance pay plan was but one of several protective assurances offered by the collective bargaining agreement, by company personnel policies, and by the union. For all covered workers, severance pay plans represent a form of insurance similar in some respects to life or sickness and accident insurance paid for by the employer. Hopefully, none of these will be used. The availability of severance pay in case of separation is intended to be, and probably is, reassuring; it makes workers less fearful about the possible effects of a change in business conditions, technology, and other developments beyond their control. Since far more workers benefit from such assurances than from actual severance payments, the support offered by the plans to general morale may represent their major contribution to flexibility in necessary work force adjustments. For workers who are separated and especially for those who remain on the job, however, other practices—for example, seniority systems and pension plans—contribute considerably to reducing the pressure for restrictions on company employment and layoff policies.

This study concentrated on the aspects of severance pay plans and their attendant circumstances that bear upon manpower and mobility issues. In conjunction with the previous analysis of plan provisions, it is hoped that no significant facet of the problems involved in the operation of severance pay plans was overlooked in this study. What follows is an attempt to summarize the findings and to distill from these the implications of severance pay plans for labor mobility.

During the period 1960–62, severance payments, in general, were not important expenditure or cost items to employers, and the number of workers receiving payments was also relatively small. About 30 percent of the plans had no occasion to make any payments during the 3-year period. In 1962, the year of highest utilization, slightly more than 2 percent of the workers covered by the plans received payments. Of these, over 60 percent had fewer than 10 years of service. Involuntary separation due to lack of work was by far the chief reason for separation. Reflecting the number of low-service workers among those receiving severance pay, average payments ranged from \$303 in plans in which workers retained recall rights to \$1,279 in plans in which workers lost all reemployment rights. Individual variations were, of course, wide.

Total severance payments probably accounted for only about one-fifth of 1 percent of annual payrolls among all plans combined. After deductions, take-home or spendable payments were, on the average, about 20 percent less than the amounts promised by the plans. Other benefits available on separation (e.g., prorated vacation pay, extended health and insurance coverage, vested pension rights), however, added to the resources of the separated worker.

On the basis of these figures, it would appear that a severance pay plan is a form of low-cost insurance to many companies, with a return to be measured not only in terms of the equity of displaced workers but of the bolstered morale of the entire work force. On the other hand, information obtained from the companies on the options available to workers facing separation, the types of company services in use designed to help such workers to other jobs or employments, and other efforts of a like nature, reflect a complex of influences that tend to diminish the relative importance of severance pay in itself. Moreover, the slow rise in the prevalence of severance pay plans, in conjunction with the seemingly low level of plan use, may signify that other practices (for example, more specialized forms of assistance, reassignment, retraining, early retirement, attrition arrangements, and the like) are taking over a greater share of the problem of displacement.

The direct effects of severance pay on labor mobility appeared to be neutral, that is, the practice did not significantly impede mobility nor did it, in actual practice, significantly enhance mobility. Management representatives, where opinions were offered, generally believed that workers facing the possibility of separation did not bypass other employment opportunities elsewhere so as to avoid losing severance pay. On occasion, companies advanced the severance payment to encourage early leaving. The reasons why severance pay failed fully to exploit its potential for enhancing mobility were many, encompassing the attitudes of the parties (management, union, and workers), the structures and administration of the plans, and the circumstances in which workers found themselves after separation.

The traditional views of severance pay see it as a device to support the separated worker until the next job comes along and as a settlement of the employer's obligation to the displaced worker. The problems of fitting the displaced worker for another and different job, of recognizing that the worker may have lost not only a job but an occupation, of enhancing his chances for reemployment elsewhere, appear still to lie outside the sphere of the severance plan. The persistence of the traditional views accounts, at least in part, for some of the practices that seem to weaken the mobility potential of severance pay. Eligibility requirements are often restrictive, limiting the number of separated workers to whom severance payments are made. In many cases, the payments are too small to make a contribution to the worker's mobility, let alone support his family; in virtually all cases, legally required (e.g., income tax withholding) and other deductions take sizable bites out of available cash. Delays in payment, whether attributable to plan requirements or to slow administrative procedures or to worker choice, postpone the availability of the resource and permit the accumulation of debt. Almost half of the workers receiving severance pay in 1962 retained recall rights to their jobs; although these workers may have had little chance of going back to work, an attachment to the employer was preserved, presumably tending to discourage leaving the area or even an intensive job search.

In 22 States, the receipt of severance pay affects the displaced worker's unemployment compensation benefits. The rationale for such regulations derives principally from the view that severance payments and unemployment compensation serve the same purpose.

With regard to the workers' use of severance pay, the case studies revealed that the payments were used mainly to pay off past debts and make installment payments (often on purchases that would not have been made if the worker had had earlier notice of impending separation); to meet current living expenses; and, if anything was left, for savings. Expenditures for training or other means of increasing their job skills and opportunities for reemployment were insignificant.

On the other hand, most of the displaced workers had very little guidance regarding the use of their severance pay. Initially, they may have had the cash resources and the willingness to take steps aimed at improving their qualifications for and accessibility to new jobs. But apparently, without effective counseling and other forms of job assistance, they did not know how to convert their assets into effective job mobility. The passage of time often eroded both their resources and their accessibility.

It is frequently argued that too much is expected of severance pay:

Severance pay, however, has recently been criticized as not having a very positive effect in providing the displaced workers with "a new start" since so little of it is used for the purpose of obtaining retraining, finding better jobs, or, in appropriate cases, establishing self-employment. The significance of this criticism is that it would be unrealistic to expect severance pay to accomplish any more than unemployment compensation.<sup>1</sup>

<sup>1</sup> Richard Wilcock and Walter Franke, "Unwanted Workers: Permanent Layoff and Long-Term Employment" Glencoe, Ill. (The Free Press of Glencoe, 1963), p. 124.

Under current operations of severance pay plans, such comments may well be valid generalizations.

Even within existing purposes and cost limits, however, plans have a potential for enhancing mobility of workers that is currently not being realized. Employers can strive to present a worker with all alternatives simultaneously and to pay the severance award, if chosen, promptly upon his separation. Longer advance notice of separation would enable the worker to prepare better for it. States can review their unemployment compensation systems for their effects on severance pay. Tax authorities can reassess current tax policy with respect to severance pay. Employers, unions, and public and private agencies can provide more guidance and direct assistance to displaced workers receiving severance pay, particularly in identifying skills and trainable aptitudes and suggesting appropriate courses of action to capitalize on their assets. These steps, obviously, will not solve all problems. They will, however, increase the opportunities of separated workers to use their severance pay in more productive ways.

New approaches to severance pay require revisions in traditional attitudes in the direction of adapting plans more specifically to the reemployment needs of separated workers. This requires a disposition on the part of employers, unions, and workers toward the provision of, or payments for, retraining opportunities, and relocation if necessary, which would fit the displaced worker for other employment.



## Chapter I. Introduction

Severance pay has often been advocated as a device to promote labor mobility,<sup>1</sup> since the payments, under the circumstances, may help the displaced worker find other employment. In its simplest concept, separated from all related aspects both before and after the act of payment, severance pay provides the worker at a critical point in his working life with a financial resource that supports effective job hunting. The amount may even be large enough to underwrite relocation or retraining expenses. To the employer, the severance pay obligation may serve as an inducement to find other jobs for employees facing displacement, or otherwise to avoid incurring the financial and morale costs of separation. Many factors, however, come into play in situations involving worker displacement which, along with the incidence of severance pay, require study before the manpower and mobility implications of severance pay plans can be properly evaluated. This bulletin, supplementing an earlier study of severance plan provisions,<sup>2</sup> focuses on the experience and operations of several hundred plans.

### Types of Plans<sup>3</sup>

In recent years, through collective bargaining, the concept of severance pay and the availability of unemployment insurance have been merged in a variety of devices, made even more diverse by tax and legal considerations and a certain blurring of the distinction between severance and layoff. To an increasing degree, moreover, workers who are laid off with or without the expectation that the layoff will be permanent are also realizing in cash or in vested rights their equity in various fringe benefits that they stand to lose, along with wages, in the loss of jobs.

Traditional severance pay plans provide a money payment, in a lump sum or in installments, to workers whose employment has been terminated. A complete severance of the employment relationship, and with it the worker's seniority, is either treated explicitly by the plan or the conditions of the payment are such that only permanent separation is applicable. These awards are variously referred to as severance pay, termination pay, dismissal allowance, separation benefit, and layoff allowance (where layoff implies permanent layoff). Under such plans, the payment of benefits is not contingent on the workers remaining unemployed. Severance pay plans generally are unfunded, although in recent years a number of funded arrangements have been negotiated.

The primary purpose of supplemental unemployment benefit (SUB) plans is to provide weekly allowances to workers on layoff, as a supplement to unemployment compensation. Usually, the layoff is not considered permanent, that is, both employer and worker expect the worker to be recalled to the job. Unlike traditional severance pay plans, SUB benefits are paid only if the worker is unemployed. SUB plans are typically funded arrangements.

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<sup>1</sup> A recent example is the Redundancy Payments Bill placed before the British House of Commons in March 1965, with the purpose, as described by the Economist (London, England, Apr. 3, 1965), "to promote social justice, and to encourage the mobility of labor, by compensating workers put out of a job by their industry's decline or their employer's uncompetitiveness."

<sup>2</sup> Major Collective Bargaining Agreements: Severance Pay and Layoff Benefit Plans (BLS Bulletin 1425-2, 1965).

<sup>3</sup> The following description of the various types of severance pay plans currently in effect is taken from the agreement study upon which this study is largely based. *Ibid.*

In recent years, SUB plans have been expanded to provide additional benefits. Some SUB plans have adopted severance pay provisions granting lump-sum allowances to workers whose unemployment has extended for a specified period or when the employer determines that the worker's layoff is permanent, whichever is sooner.

Both traditional severance pay provisions and SUB plans are found in the primary metal industries, but severance pay is not part of the SUB plan nor is the severance allowance paid from SUB funds. The two plans are related only to the extent that, under certain circumstances, SUB payments may be deducted from severance allowances.

Extended layoff benefit plans, such as those negotiated in the aerospace industry, contain some of the major features of SUB plans and traditional severance pay plans. They resemble SUB plans in that they are funded, clearly state that their purpose is to supplement unemployment compensation, and cover all workers on layoff without removing the workers' rights to recall. They resemble the traditional severance pay plan in payment of benefits as a lump-sum allowance (after the first 4 weeks of layoff), the payment not to be contingent, after the qualifying period of unemployment, upon the worker remaining unemployed.

Other variations include plans having features of severance pay and layoff benefits. These provide for lump-sum payments, but because they lack either a clear-cut statement that the acceptance of benefits severs the employment relationship or a listing of conditions for payment that could be interpreted only as permanent separation, they conceivably could provide for either layoff benefits, or a severance benefit in the event that the laid off worker is never recalled. Still other plans combine a layoff benefit under one condition and a severance benefit under another. Some plans provide a benefit only on retirement, either in lieu of a pension plan or if the worker does not qualify for a pension under an existing plan. Individual trust account plans, a funded arrangement, establish an account for each worker from which he may draw under certain specified conditions, including separation. Pooled multiemployer arrangements, as in the apparel and maritime industries, have their own unique features.

### Scope of Study

Prior Survey of Severance Pay Provisions. For its study of plan provisions, the Bureau examined 1,773 major collective bargaining agreements, each covering 1,000 workers or more, or virtually all agreements of this size in the United States, exclusive of those in railroad<sup>4</sup> and airlines industries, and in government. These agreements applied to approximately 7.5 million workers or almost half of the total coverage of collective bargaining agreements outside of the excluded industries. Of these, 4.1 million workers covered by 1,023 contracts were in manufacturing; and the remaining 750 agreements, applying to approximately 3.3 million workers, were in nonmanufacturing. For that prior study, the Bureau tabulated traditional severance pay plans; plans which had no explicit statement of termination; separation pay provisions in SUB plans; the aerospace industry's extended layoff benefit plan; combination plans; and other variations providing payments on separation or layoff, exclusive of provisions incorporated into pension plans.

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<sup>4</sup> The exclusion of the railroad industry from this study needs special emphasis, since severance pay is an important type of protection in this industry. However, a comprehensive study of experience in the industry was made by the staff of the Presidential Railroad Commission. (See "The History of and Experience Under Railroad Employee Protection Plans," Appendix Vol. III, Report of the Presidential Railroad Commission, February 1962, pp. 109-191.)

All of these plans are hereafter called severance pay plans, disregarding, for the sake of convenience, legal or tax distinctions among the different types of plans.

Survey of Severance Pay Experience. Of the 1,773 major agreements analyzed for Bulletin 1425-2, 525, covering 3,051,000 workers, contained severance pay plans. Of these, 58 agreements, covering 208,000 workers, were excluded from the present study either for not being germane (e.g., severance pay awarded only at retirement or negotiated in principle only) or for not having the information readily available (multiemployer plans and pooled industry funds). However, two large pooled industry funds in the apparel and maritime industries were included, as were a number of other association plans.

A mail questionnaire was sent to each of the 467 plans in the scope of the present study. Two separate questionnaires were used (see appendix)—one for companies whose severance pay plans were in some way related to a supplemental unemployment benefit plan, and the other for the remaining severance pay plans. Replies usable in whole or in part were received from 418 plans, or approximately 90 percent of those requested. These 418 plans covered a total of 2,868,247 workers. Classified according to the essential features of the plans for purposes of this study, the response comprised the following:

Type of plan	Plans	Workers
SUB-related -----	147	1,709,879
Lose recall rights -----	72	219,913
Retain recall rights -----	183	778,855
Combination -----	11	152,350
No information on recall rights -----	5	7,250
Total -----	418	2,868,247

The above distribution of plans differs from that presented in the study of severance pay provisions largely because of: (1) Differences in classification—the provisions study made reference to severance pay plans included in SUB and pooled industry plans. This study is concerned with severance pay plans affected by SUB plans even though not part of them, such as plans of the primary metals industry; (2) interpretations by respondents—some respondents chose to answer the questionnaire in terms of employees permanently and involuntarily terminated, although parts of their plans provided for payments to employees temporarily laid off or retiring; (3) classification of plans in the provisions study according to language; in this study, according to questionnaire replies and interviews; (4) provision by some plan administrators of revised employment figures, and provision by others of information for the entire work force covered by a plan, not just for those covered by the collective bargaining agreement.

More than two-thirds of the worker coverage of responding plans were accounted for by four industries—transportation equipment, communications, primary metals, and apparel (table 1).

Table 1. Respondents by Industry Group and Type of Plan

Industry group	Total		Type of plan									
	Plans	Workers	SUB-related		Lose recall rights		Retain recall rights		Combination		No information on recall rights	
			Plans	Workers	Plans	Workers	Plans	Workers	Plans	Workers	Plans	Workers
Transportation equipment -----	40	692,742	22	596,625	3	5,000	15	91,117	-	-	-	-
Communications -----	72	474,824	-	-	8	41,600	61	374,124	3	59,100	-	-
Primary metals -----	53	455,531	46	444,940	2	4,175	5	6,416	-	-	-	-
Apparel -----	35	426,849	35	426,849	-	-	-	-	-	-	-	-
Electrical machinery-----	33	211,509	2	10,160	1	1,500	22	108,949	6	88,100	2	2,800
Machinery, except electrical-----	19	114,995	12	101,200	5	11,945	2	1,850	-	-	-	-
Food-----	29	90,908	1	1,200	24	78,490	4	11,218	-	-	-	-
Chemicals-----	36	69,864	-	-	6	12,202	28	52,512	2	5,150	-	-
Fabricated metals -----	14	61,058	14	61,058	-	-	-	-	-	-	-	-
Transportation -----	8	46,654	3	35,090	2	3,850	3	7,714	-	-	-	-
Utilities-----	19	45,908	-	-	10	22,026	8	22,682	-	-	1	1,200
Ordnance-----	10	45,869	-	-	-	-	10	45,869	-	-	-	-
Rubber-----	5	41,625	2	14,800	3	26,825	-	-	-	-	-	-
Other <sup>1</sup> -----	45	89,911	10	17,957	8	12,300	25	56,404	-	-	2	3,250
Total -----	418	2,868,247	147	1,709,879	72	219,913	183	778,855	11	152,350	5	7,250

<sup>1</sup> Includes textile, furniture, paper, printing, petroleum refining, leather, stone and glass, instruments, mining and crude petroleum, retail trade except restaurants, services, and miscellaneous nonmanufacturing. 6 industry groups are not represented among questionnaire respondents: Tobacco, lumber, miscellaneous manufacturing, wholesale trade, restaurants and hotels, and construction, railroads, airlines, and government were excluded from the scope of the survey.

Nonsupervisory White-Collar Employees. Information on the incidence of severance pay for nonsupervisory white-collar employees not in the bargaining unit was obtained from 371 of the 418 companies or plans responding to the questionnaires. Over 700,000 white-collar employees were covered by severance pay plans in effect in these companies.

Case Studies. A series of five case studies was undertaken to observe the operation of severance pay plans, to gather data on worker use of and reaction to severance pay, and to gain insight into the role of severance pay in plant shutdown situations. Each case study involved interviews with management and union officials, representatives of public agencies in the community, and a limited number of separated workers. The case studies (ch. IV) describe partial or complete plant shutdowns that affected workers of various skills and ages, and reveal aspects of layoff situations and severance pay that are not susceptible to study by mass survey techniques.

## Chapter II. Use of Plans and Benefits Provided

This chapter deals primarily with the incidence of severance pay—the frequency of plan use; the number of workers receiving payments, their length of service prior to separation, and the reasons for their separation; and an accounting of the benefits paid and received, including gross severance payments and deductions therefrom, other cash payments accruing to separated workers, and noncash benefits available upon separation. Consideration of these matters is preceded by a discussion of the development of plans.

### Origin of Plans

The negotiation of severance pay and related plans is largely a postwar development, although a substantial proportion of companies had formal plans in effect prior to the incorporation of such provisions in collective bargaining agreements. According to Bureau of Labor Statistics studies, the proportion of agreements with these plans increased from 4.7 percent in 1944 to 7.9 percent in 1949, to 15.7 percent in 1955–56, and to 29.6 percent in 1963.<sup>5</sup> The year of origin of the 418 negotiated plans covered by this study, and the incidence of prior experience, is reflected in the following tabulation. (Changes in plan provisions are not accounted for.)

Year originally negotiated	Severance pay plans in agreements		Prior severance pay plans in effect	
	Plans	Workers	Plans	Workers
1939 or earlier-----	5	12,271	1	2,413
1940–1944 -----	31	216,380	23	185,897
1945–1949 -----	119	784,491	39	247,767
1950–1954 -----	50	271,286	21	182,067
1955–1959 -----	128	1,268,155	11	30,137
1960–1963 -----	73	273,424	8	15,870
Data not available-----	12	42,240	9	35,040
Total-----	418	2,868,247	112	699,191

The spread of plans after 1955 is attributable in large measure to the introduction of a severance pay feature into the automobile SUB plans, and the negotiation of SUB-severance pay plans in the women's apparel industry. Over three-fourths of the worker coverage added between 1955 and 1963 were accounted for by SUB plans. Severance pay plans in the primary metals industry, most of which were negotiated in 1947, prior to the conception of SUB plans, were later tied to SUB plans in some respects (thus considered as SUB-related plans for purposes of this study) although not made a part of them.

Slightly more than a fourth of the respondent plans (112), covering a similar proportion of workers, indicated that the company had formal, unilateral severance pay plans in existence prior to the negotiated arrangements. One company, for instance, reported that it "first adopted a termination allowance plan for salaried employees in 1923, and extended such allowances to hourly

<sup>5</sup> See BLS Bulletin 1425-2, op. cit.

employees beginning in 1928;" the plan was made part of the collective bargaining agreement in 1941. The largest number of plans reporting formal experience before a collectively bargained plan came into existence were in the communications and electrical machinery equipment industries. As might be expected, the older the plan under collective bargaining the more likely it was preceded by a unilateral, nonbargained plan.

Without considering the periods in which a nonnegotiated plan was in effect, almost half of the plans studied were in existence prior to 1954. Only about a sixth had not been negotiated by 1960, the beginning of the period for which data on plan usage were requested. The negotiation of a severance pay plan, however, is not commensurate with implementation of the plan. The Ladies' Garment Workers' Fund, for instance, required 2 years' of employer contributions following negotiations before the plan was placed in operation in 1960. In all cases, terms of the plan have to be met by the individual worker or work situation before severance payments can be made.

### Extent of Plan Usage

The companies surveyed were asked to report the number of employees to whom payments had been made in each of the 3 years—1960–62. A few respondents were not able to furnish the requested information. In some cases, recently adopted plans had not had sufficient time to be put into operation; in others, the data sought were not readily available from company records.

There was a noticeable increase in year-to-year implementation of plans between 1960 and 1962, both in absolute and relative terms, as shown below:

Year	Number of plans reporting on usage	Percent of plans with workers receiving payments
1962-----	401	64.5
1961-----	378	61.1
1960-----	310	52.9

The addition of new plans partly explains the increase in the number of plans under which payments had been made.

Approximately 30 percent of the respondents reported no experience at all during the 3-year period. Several companies noted that they had never had occasion to pay severance benefits even though their plans were first negotiated in the late 1940's. Lack of plan implementation does not necessarily mean that there were no workers separated; either the circumstances of the separations or the individual characteristics of the workers may have disqualified them from severance pay eligibility. On the other hand, the lack of payments under many plans during the 3-year period probably reflects the absence of plant shutdowns involving large numbers of workers; successful efforts in finding jobs for workers who would otherwise be separated; increased use of early retirement; or stable or rising employment needs.

The utilization of severance pay varied with the type of plan, although all types showed an increase in usage over the 3-year period (table 2). Plans that awarded pay to workers who retained recall rights were consistently implemented to a greater extent than those compensating workers on complete separation, including SUB-related plans.<sup>6</sup> The greater frequency of temporary layoffs,

<sup>6</sup> The inclusion of 35 plans involving the International Ladies' Garment Workers' Union, the 35 administered as 1 plan, overstates the rise in usage of SUB-related plans. Even without the ILGWU plan, however, this category shows a somewhat higher increase in plan usage than the other two distinct types.

the existence of other plans to alleviate layoff situations, and stricter eligibility qualifications under plans requiring employment termination to be permanent probably account for the difference.

Table 2. Extent of Plan Usage, 1960-62

Type of plan and year	Total plans reporting on usage <sup>1</sup>		Plans with no workers receiving severance pay		Plans with workers receiving severance pay	
	Number	Percent	Number	Percent	Number	Percent
<b>All plans:</b>						
1962-----	401	100	142	35.5	259	64.5
1961-----	378	100	137	38.9	231	61.1
1960-----	310	100	146	47.1	164	52.9
<b>SUB-related:</b>						
1962-----	145	100	61	42.1	84	57.9
1961-----	138	100	66	47.8	72	52.2
1960-----	94	100	64	68.1	30	31.9
<b>Lose recall rights:</b>						
1962-----	67	100	29	43.3	38	56.7
1961-----	59	100	27	45.8	32	54.2
1960-----	55	100	27	49.1	28	50.9
<b>Retain recall rights:</b>						
1962-----	173	100	47	27.2	126	72.8
1961-----	171	100	40	29.3	121	70.7
1960-----	154	100	51	33.2	103	66.8
<b>Combination:</b>						
1962-----	11	100	2	18.2	9	81.8
1961-----	7	100	1	14.3	6	85.7
1960-----	5	100	2	40.0	3	60.0
<b>No information on recall rights:</b>						
1962-----	5	100	3	40.0	2	60.0
1961-----	3	100	3	100.0	0	-
1960-----	2	100	2	100.0	0	-

<sup>1</sup> Excludes plans to which data were either not available or inapplicable.

Over a third of all plans in which workers lose recall rights when accepting severance pay, including SUB-related plans (75 of 212), had no case of severance payments during the 3 years, as against one-fifth of plans in which workers retain recall rights.

Along with the increased utilization of plans has come an increase in the number of workers receiving payments upon severance or layoff, as follows:

Year	Plans making payments		Workers receiving payments		
	Plans	Workers	Number	Percent of workers under—	
				All reporting plans <sup>1</sup>	Plans making payments
1962-----	259	2,302,656	52,838	1.9	2.3
1961-----	231	2,108,406	33,373	1.3	1.6
1960-----	164	1,400,856	16,892	.8	1.2

<sup>1</sup> Excludes plans for which information was either not available or inapplicable.

Over the 3-year period, a total of 103,103 workers received payments. This is at least 3.6 percent of the workers covered by the total 418 respondent plans. For each principal type of plan, the pattern is similar—substantial annual increases, more than 100 percent, in the number of workers receiving severance pay between 1960 and 1962 (table 3). The most notable change in these 3 years occurred in SUB-related plans, largely because of the addition of plans in the apparel and maritime industries. The highest proportion of workers receiving payments out of workers covered by plans that awarded severance pay occurred in plans where workers retained recall rights. Next in this scale were plans in which reemployment rights were lost (other than SUB-related plans).

Table 3. Workers Receiving Payments by Type of Plan, 1960-62

Type of plan and year	Plans implementing payments		Workers receiving payments	
	Plans	Workers <sup>1</sup>	Number	Percent
All plans:				
1962 -----	259	2,302,656	52,838	2.3
1961 -----	231	2,108,406	33,373	1.6
1960 -----	164	1,400,856	16,892	1.2
SUB-related:				
1962 -----	84	1,441,043	22,379	1.6
1961 -----	72	1,303,596	11,435	.9
1960 -----	30	786,200	4,848	.6
Lose recall rights:				
1962 -----	38	134,477	3,884	2.9
1961 -----	32	118,637	2,233	1.9
1960 -----	28	99,582	1,584	1.6
Retain recall rights:				
1962 -----	126	576,036	24,865	4.3
1961 -----	121	545,373	17,937	3.3
1960 -----	103	455,974	9,801	2.1
Combination:				
1962 -----	9	147,900	1,660	1.1
1961 -----	6	140,800	1,768	1.3
1960 -----	3	59,100	659	1.1
No information on recall rights:				
1962 -----	2	3,200	50	1.6
1961 -----	-	-	-	-
1960 -----	-	-	-	-

<sup>1</sup> Coverage held constant, based on latest coverage figure reported.

A distribution of workers receiving severance pay in 1960-62, by industry, reveals variation in the percentages of workers receiving payments among industries in any year, and year-to-year in the same industry (table 4). Variations in the proportion of workers receiving severance pay in a single year are only partially explained by differences of plans with respect to recall rights. Although all plans in the ordnance industry provided for retention of recall rights, the overwhelming majority of workers receiving severance pay in the food and transportation industries lost recall rights. These were the second and third ranking industries in percentage of covered workers awarded severance pay in 1962. The reasons for the incidence of workers receiving severance pay must be sought in eligibility requirements, industry characteristics, and economic pressures. Nor do all industries follow the overall upward trend in proportion of covered workers receiving severance pay in the 3 years. The chemicals and electrical machinery industries, for instance, showed a reverse trend, while the primary and fabricated metals industries awarded severance pay to the relatively fewest workers in 1961.

Table 4. Distribution of Workers Receiving Severance Pay by Industry, 1960-62

Industry group and year	Plans reporting		Plans paying benefits		Workers receiving payments		
	Number	Workers	Number	Workers	Number	Percent of workers in plans responding	Percent of workers in plans paying benefits
All industries, 1962 <sup>1</sup> -----	401	2,770,898	259	2,302,656	52,838	1.9	2.3
Selected industries:							
Ordnance -----	10	45,869	7	41,119	4,604	10.0	11.2
Food -----	23	85,108	16	63,358	3,484	4.1	5.5
Apparel -----	35	426,849	35	426,849	9,824	2.3	2.3
Chemicals -----	33	63,414	27	54,435	826	1.3	1.5
Primary metals -----	52	449,531	14	247,916	4,067	.9	1.6
Fabricated metals -----	14	61,058	8	45,302	1,616	2.6	3.6
Machinery, except electrical -----	19	114,995	11	100,800	1,358	1.2	1.3
Electrical machinery -----	27	179,859	20	162,482	2,139	1.2	1.3
Transportation equipment -----	35	680,743	25	643,292	15,696	2.3	2.4
Transportation -----	8	46,654	4	38,850	1,596	3.4	4.1
Communications -----	71	473,024	54	376,000	3,338	.7	.9
All industries, 1961 <sup>1</sup> -----	378	2,577,254	231	2,108,406	33,373	1.3	1.6
Selected industries:							
Ordnance -----	8	42,700	6	38,800	2,344	5.5	6.0
Food -----	24	76,918	12	53,568	1,893	2.5	3.5
Apparel -----	35	426,849	35	426,849	5,958	1.4	1.4
Chemicals -----	31	58,756	29	55,656	2,793	4.8	5.0
Primary metals -----	50	348,431	9	160,816	1,272	.4	.8
Fabricated metals -----	13	59,908	3	25,150	415	.7	1.7
Machinery, except electrical -----	17	112,795	10	98,800	1,177	1.0	1.2
Electrical machinery -----	24	165,694	16	149,172	2,968	1.8	2.0
Transportation equipment -----	31	665,143	23	635,222	8,215	1.2	1.3
Transportation -----	6	11,654	1	1,250	1	.1	.8
Communications -----	69	466,924	49	358,500	3,760	.8	1.0
All industries, 1960 <sup>1</sup> -----	310	2,011,910	164	1,400,856	16,892	.8	1.2
Selected industries:							
Ordnance -----	8	42,700	3	4,950	105	0.2	2.1
Food -----	21	70,118	10	39,668	1,209	1.7	3.0
Apparel -----	-	-	-	-	-	-	-
Chemicals -----	31	58,756	25	51,003	2,155	3.7	4.2
Primary metals -----	48	340,431	8	99,316	2,160	.6	2.2
Fabricated metals -----	11	53,608	3	34,850	1,287	2.4	3.7
Machinery, except electrical -----	16	110,345	10	74,345	1,885	1.7	2.5
Electrical machinery -----	21	84,594	13	62,972	1,730	2.0	2.7
Transportation equipment -----	29	661,943	16	607,675	2,033	.3	.3
Transportation -----	5	11,564	-	-	-	-	-
Communications -----	68	465,494	48	360,905	3,243	.7	.9

<sup>1</sup> Totals include industries not shown separately.

Length of Service. A distribution of severance pay recipients in 1962 by their years of service at separation, with data for about two-thirds of the total, reveals the preponderance of relatively low-service workers among the recipients of plan benefits, taken as a whole.

Years of service	Percent of workers receiving payments, 1962
Under 3 years -----	23.7
3 to 9-----	37.8
10 to 14-----	19.2
15 to 19-----	12.8
20 years and over-----	6.5
Total -----	100.0

The high proportion of recipients with less than 3 years and from 3 to 9 years reflects the low eligibility requirements of many plans,<sup>7</sup> while the low proportion of workers with 20 years of service or more undoubtedly reflects not only the protection afforded by a high seniority standing but also the availability of retirement (regular or early) as an alternative to separation.

Plans which granted benefits without loss of recall rights and SUB-related plans accounted for most of the workers receiving benefits with less than 3 years, and from 3 to 9 years of service.

Type of plan	Percent distribution of workers, 1962				
	Years of service				
	Under 3	3-9	10-14	15-19	20 and over
SUB-related -----	25.1	36.2	18.4	12.7	7.5
Lose recall rights -----	5.7	33.7	31.6	15.6	13.4
Retain recall rights -----	27.3	37.9	17.7	13.0	4.1
Combination-----	14.6	61.0	15.8	6.8	1.8

In the case of SUB-related plans, however, five-sixths of workers receiving pay upon less than 3 years of service came from two industries, apparel and maritime, which together accounted for only about half of the number of workers receiving severance pay from SUB-related plans. Without these two industries, the length of service distribution of workers receiving severance pay from SUB-related plans is similar to that of other plans in which recall rights are lost with acceptance of severance pay.<sup>8</sup>

Years of service	SUB-related plans, excluding apparel and maritime industries, 1962	
	Percent of workers receiving payments	
Under 3 -----	2.8	
3-9 -----	26.9	
10-14 -----	30.3	
15-19 -----	21.4	
20 and over-----	18.6	

<sup>7</sup> See BLS Bulletin 1425-2, op. cit.

<sup>8</sup> One company with a SUB-related plan reported 1,963 severance payments which showed 80 percent of the 1,335 recipients to have 20 years or more of service, with the remainder falling in the 15-19-year category.

Reasons for Separation. Information available for more than 90 percent of the recipients of plan benefits indicated that involuntary separation due to lack of work was by far the most important reason for separation.

Reason for separation	Percent of workers receiving payments
Involuntary separation due to lack of work (lack of business, closing or consolidation of plants, technological change) -----	95.2
Retirement or disability without being eligible for retirement annuity -----	1.0
Discharge for cause or inability to perform work -----	2.8
Voluntary separation -----	.9
Other -----	.1
Total -----	100.0

The low frequency of voluntary separation reflects the prevailing practice of restricting benefits to workers involuntarily separated.<sup>9</sup> Instances were reported, however, of workers volunteering to leave in place of another employee slated for displacement, thereby becoming eligible for separation pay.

Lack of work was the primary reason for separation in each of the different types of plans.

Reason for separation of workers receiving severance pay, 1962

Type of plan	Lack of work	Retirement or disability	Cause or inability to perform	Voluntary separation	Other
SUB-related -----	99.5	0.3	-	0.2	-
Lose recall rights -----	91.3	2.0	1.5	5.2	-
Retain recall rights -----	93.5	1.4	4.2	.7	0.2
Combination -----	84.4	.4	15.1	-	-
No information on recall rights -----	100.0	-	-	-	-
Total -----	95.2	1.0	2.8	.9	.1

Amount of Benefits

Accounting for the resources that workers carry with them upon separation involves consideration of four items: (1) The amount of money they are entitled to under the terms of the plan (gross payments); (2) the amount they actually receive after deductions (net payments); (3) other cash payments due workers under other provisions or terms of employment (e. g., prorated vacation pay); and (4) noncash benefits (e. g., vested pension rights and extended health and insurance plan coverage). Although the latter two categories are not dependent upon the existence of a severance pay or related plan, they may provide separated workers with very important assets, and thus come within the scope of this study.

<sup>9</sup> See ELS Bulletin 1425-2, op. cit.

Gross Payments. The 250 plans supplying data on amounts of gross payments reported sums totaling approximately \$24.2 million due to the group of workers separated in 1962. Since about 2.3 million workers were covered by these plans, the severance payments obviously constituted only a very small fraction of total payrolls (probably about one-fifth of 1 percent). The findings bear out a conclusion derived from Bureau of Labor Statistics studies of employer expenditures for supplementary wage practices,<sup>10</sup> namely, that severance payments in general have not been an important expenditure or cost item to employers.

Based on reports of both the number of severed workers and gross payments for 1962, an average payment of \$467.50 was computed. Wide variations in average payments among the different types of plans, attributable not only to plan provisions but to the average service years of separated workers, are shown in the following tabulation:

Amounts of gross payments, 1962				
Type of plan	Number of plans	Number of separated workers	Gross payments	Average payment per worker
All plans reported -----	250	51,806	\$24,224,205	\$467.59
SUB-related -----	83	22,349	<sup>1</sup> 11,503,827	<sup>1</sup> 515.00
Lose recall rights -----	35	3,059	3,913,203	1,279.00
Retain recall rights -----	122	24,689	7,484,428	303.00
Combination -----	8	1,659	1,269,835	765.00
No information on recall rights -----	2	50	52,912	1,058.00

<sup>1</sup> These figures account only for the severance payments under SUB plans.

The lower average payment of SUB-related plans, in relation to other plans where workers lose recall rights, is in part attributable to the inclusion of the apparel and maritime industries, where large numbers of low-service workers were separated. The average payment for these two industries combined amounted to \$151; excluding these payments, the average was \$895 for SUB-related plans.

The industries in which workers receiving severance pay were most numerous are ranked below in order of average payments:

Industry	Number of plans	Workers receiving severance pay, 1962	Average payment per worker
Food -----	14	2,662	\$1,493.69
Machinery, except electrical -----	11	1,358	1,393.73
Fabricated metals -----	8	1,616	1,180.17
Primary metals -----	13	2,786	912.87
Electrical machinery -----	19	2,116	532.17
Communications -----	52	3,316	516.73
Transportation -----	4	1,596	407.08
Transportation equipment -----	25	15,696	319.27
Ordinance -----	7	4,604	140.31
Apparel -----	35	9,824	109.39

<sup>10</sup> See Employer Expenditures for Selected Supplementary Remuneration Practices for Production Workers in Manufacturing Industries, 1959 (BLS Bulletin 1308, 1962) and Employer Expenditures for Selected Supplementary Compensation Practices for Production and Related Workers, Composition of Payroll Hours, Manufacturing Industries, 1962 (BLS Bulletin 1428, 1965).

The amount of money paid out by individual plans depends on the number of separations, the terms of the plan, the service of separated workers, and pay levels. Five plans reported total gross payments in 1962 of over \$1 million each. Four of the five plans were SUB-related; the other plan also terminated the employment relationship. One of the highest average payments for a large group of separated workers was made by a manufacturing company where awards to more than 900 workers averaged almost \$2,000. An even higher average was recorded in the payments awarded to over 300 workers in another situation.

Deductions. Gross payments may, in some cases, be quite different from net severance pay, the amount of disposable cash available to the separated worker. The chief deductions are income tax withholding, the social security tax, and prior SUB payments. In individual situations, a worker's debts to the company may be deducted from severance pay.

Data for SUB-related plans in the study were requested on the gross payments due, the deductions made because of prior payments of unemployment benefits (and the number of workers involved), and the total net amount (gross amount less all deductions). Data for other types of plans were requested on total gross and net payments, the difference comprising the deductions. Many respondents had difficulty in reporting net payments; hence, the data presented here are suggestive rather than definitive.

Among SUB-related plans, supplementary unemployment benefits paid after a certain date may be deducted from the severance pay due. The critical date differs among plans: In the auto industry, it is the beginning of the extended layoff period which qualifies a worker for severance pay; in the steel industry, it is the date when the worker has gained eligibility for severance pay; while in the rubber industry, at least until 1963, it is the period of the most recent layoff. On the other hand, ILGWU plans provided for no deductions since severance pay is made from the fund in conjunction with, not in lieu of, SUB payments.

Despite the various ways in which SUB payments may reduce severance pay, the amounts deducted and number of employees affected apparently were relatively small in 1962. Among plans that permitted deductions for prior SUB payments, 19 of 41 plans making severance payments in 1962 made such deductions for some workers. Seven other plans were unable to provide information on SUB deductions. Almost half of the workers receiving severance pay under the 19 plans reporting had some amount deducted because of prior SUB payments. The deductions amounted to about 9 percent of the total severance pay of these plans. For those who were affected, deductions averaged almost \$200 per worker.

Number of SUB plans reporting deductions-----	19
Workers receiving severance pay in 1962-----	3,676
Gross severance payments-----	\$3,824,851
Workers with SUB deductions-----	1,725
Amount of deductions-----	\$342,648

Under certain circumstances, the SUB deductions may rise to high levels. One plan reported deductions averaging more than \$900 where gross severance pay averaged about \$1,400. Because the questionnaire focused on severance pay recipients, companies possibly did not report eligible workers who received no severance pay since prior supplementary unemployment benefits equaled or exceeded severance pay to which they were entitled. Nevertheless, it appears that deductions for supplementary unemployment benefits were not significant in terms of the number of people affected among all workers receiving benefits from SUB-related plans. However, they can prove a significant deduction for the individuals who are so affected.

Another kind of deduction involving SUB-related plans, but not included in the above, is the "anticipated receipt of State benefits beyond date of plant closing." The severance pay under these plans is computed in the same way that supplementary unemployment benefits are ordinarily computed, namely, as a percentage of a number of weeks' wages less the State unemployment compensation due the worker for those weeks. In the case of the two plans noting such deductions, the deductions amounted to 43 percent of total gross severance pay.

The composite of all types of deductions (income tax withholding, social security, debts to the company, etc.) is reflected in the following data:

Number of plans reported-----	84
Gross severance payments-----	\$5,776,212
Net severance payments-----	\$4,563,979
Deductions:	
Amount-----	\$1,212,233
As percent of gross payments-----	21

Deductions as a percent of gross payments, where reported, ranged among plans from a high of about 35 percent to a low of about 3 percent, but most plans fell within a few points of the 21 percent average shown above. If this figure can be taken as a reasonable estimate of typical deductions, spendable severance benefits will, on the average, represent about four-fifths of the amounts due workers on separation.

Other Payments at Separation. The plans surveyed were asked to identify other kinds of monetary payments available from the company to employees at time of severance. A certain amount of underreporting is inevitable in a question of this type.

The payment most commonly reported was prorated vacation pay. All but 9 plans in which workers lost recall rights and 10 plans in which workers retained recall rights reported that separated employees were paid for accumulated vacation time. The amount of accumulated vacation pay depended on the time between the last vacation and separation, length of vacation to which the employee was entitled, and the individual's wages. Since both the typical vacation plan and severance pay plan provided benefits graduated by length of service and wages, those employees receiving the higher severance payments will also receive more in prorated vacation pay.

Workers participating in pension plans to which they contribute (not common among collectively bargained plans) are normally entitled to the return of their contributions upon complete separation. Three plans reported that the employer's contributions were also returned to the worker. Twenty-four companies with savings or thrift plans in effect provided for payment of employer and employee contributions upon separation; eight others returned only the employee's share. Among other plans or practices making payments upon separation were savings and vacation plans (8), stock-purchase plans (6), profit-sharing plans (2), and unused sick leave (7). Under the ILGWU plan, workers were entitled to SUB benefits in addition to severance pay, without offset.

Finally, to complete the accounting of the cash resources of the separated workers, their pay for the last payroll period worked must be taken into consideration.

Other Benefits for the Separated Worker. The noncash, but nonetheless valuable, benefits that workers may carry with them upon separation consist

primarily of vested rights to a pension and extended coverage under life insurance and hospitalization, surgical, and medical plans. The companies in the survey were asked to report on the existence of pension and health and insurance plans and their protection available to workers receiving severance pay in 1962.

Of the 415 plans for which these data were reported, all but 5 had pension plans in effect. Of these 410 plans, 253, or about 3 out of 5, had a vesting provision. Such a provision guarantees that separated workers meeting the service (typically 10 or 15 years) and age (typically 40 or 45) requirements will receive a pension from the plan when they reach age 65, wherever they are then employed. Workers who qualify thereby assure themselves of an asset that, in other than cash-in-hand terms, may be more valuable than their severance pay.<sup>11</sup>

Data were reported for only 69 plans on the number of workers separated in 1962 who were vested. Of a total of 15,938 workers receiving payments under these plans, 5,251, or 1 out of 3, had qualified for a vested pension.<sup>12</sup>

Consideration of vested pensions in relation to severance pay raises the question as to whether companies offset one against the other. In response to an inquiry on policy in this regard, 52 of the 253 companies with both a severance pay plan and a vesting provision in their pension plans replied that the amount of severance pay was to be deducted from pensions when the latter payments start.<sup>13</sup> Responding in the negative were 193 companies, and 8 failed to reply. Thus, for 1962, at least 1,530 of the 5,251 severed workers who were vested could expect to have their pensions, when and if paid to them, reduced by the amount of severance pay they had received. The primary and fabricated metals industries accounted for more than half of these workers.

The extension of life insurance and hospital, surgical, and medical insurance coverage, paid for in whole or part by the employer, provides the separated worker with types of insurance that otherwise would not be available to him during any period of unemployment following separation. Such extended coverage is often canceled if the worker finds other employment during the period of extension; hence, in these cases, it is a form of benefit available only if the separated worker remains unemployed. None of the payments or benefits previously discussed has this limitation. Moreover, such extended coverage, where it exists, is usually available to all workers upon layoff; that is, it is not a benefit contingent upon complete separation. SUB-related plans were not included in this inquiry because of the long period between layoff and separation.<sup>14</sup>

Benefit coverage for life insurance and hospital, surgical, and/or medical insurance typically ends at the same time or shortly after employment termination, according to data presented in table 5. The "other" category of end of coverage includes termination of coverage varying with length of service of the separated worker. Fewer than 20 percent of workers covered by these benefits can expect coverage beyond 1 month following layoff or acceptance of severance pay.

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<sup>11</sup> For a full treatment of vesting provisions and their worth, see Labor Mobility and Private Pension Plans (BLS Bulletin 1407, 1964).

<sup>12</sup> Several plans offered workers facing separation the option between severance pay and vesting. These are not included. Also excluded are plans in which workers could retire, with an annuity, upon separation.

<sup>13</sup> The reverse of this practice—that is, the conversion of a vested right to a pension into severance pay, either to supplement severance pay or to provide payment in lieu of severance pay—also exists. An example is found in the case of Mt. Lion Electric Corporation, described in ch. IV.

<sup>14</sup> See Major Collective Bargaining Agreements: Supplemental Unemployment Benefit Plans and Wage-Employment Guarantees (BLS Bulletin 1425-3, 1965).

Table 5. End of Benefit Coverage<sup>1</sup>

When coverage ends	Life insurance		Hospital, surgical, and medical insurance	
	Plans	Workers	Plans	Workers
All plans reporting-----	265	1, 145, 710	266	1, 147, 018
Plans in companies with benefits-----	259	1, 135, 268	255	1, 130, 259
Coverage ends:				
At time of layoff -----	68	311, 225	99	435, 344
With acceptance of severance pay-----	26	133, 498	34	152, 001
At end of calendar month or period for which premiums were paid -----	56	293, 631	60	273, 485
Up to 31 days after layoff, termination, or acceptance of severance pay -----	63	168, 256	35	86, 902
Over 31 days to 3 months after layoff -----	10	58, 575	11	55, 884
6 months or more after layoff-----	15	117, 974	12	111, 743
Other -----	21	52, 109	4	14, 900

<sup>1</sup> Excludes SUB-related plans.

It is advantageous for the separated worker to be able to continue health and insurance coverage after loss of protection under the company's plan, even at his own expense, if group rates are available. In answer to the question "When employee is no longer covered by the company, may he pay for continued coverage at group rate?," the following responses were received:

	Plans	Workers
Life insurance:		
With plan in effect-----	259	1, 135, 268
Workers may continue coverage-----	33	200, 278
Workers may not continue coverage -----	223	924, 890
No information on continued coverage -----	3	10, 100
Hospital, surgical and/or medical:		
With plan in effect-----	255	1, 130, 259
Workers may continue coverage -----	75	397, 304
Workers may not continue coverage -----	177	726, 055
No information on continued coverage -----	3	6, 900

Companies may also arrange for ad hoc extensions of the opportunity to pay for continued coverage at the group rate.<sup>15</sup>

<sup>15</sup> Examples of ad hoc extensions are provided in two of the case studies. In one, workers could pay the group-rate premium of hospital-surgical-medical insurance for up to 18 months beyond normal expiration; in the other, insurance was available at half of the group-rate premium to workers who accepted a special pension because of plant closing and at the entire group-rate premium to those who received severance pay and signed for preferential hiring at another plant.

To complete the accounting of the benefits available to workers receiving severance pay in 1962, the 30,459 workers receiving allowances from the plans surveyed, exclusive of SUB-related plans, were distributed as follows by the period of extended coverage under life insurance and hospital, surgical, and medical plans.

	Percent of workers receiving severance pay, 1962
All workers receiving allowances -----	100.0
<u>Life insurance</u>	
No insurance available -----	.6
Coverage of insurance ends:	
At time of layoff -----	15.9
With acceptance of severance pay-----	3.5
At end of month in which laid off or period for which premiums were paid -----	7.3
30-31 days after termination-----	57.9
At other time -----	14.3
No information on end of coverage-----	.5
All workers receiving allowances -----	100.0
<u>Hospital, surgical, and medical</u>	
No insurance available -----	1.2
Coverage of insurance ends:	
At time of layoff -----	63.1
With acceptance of severance pay-----	4.4
At end of month in which laid off or period for which premiums were paid -----	16.3
30-31 days after termination-----	2.9
At other time -----	11.6
No information on end of coverage-----	.5

#### Plans for Nonsupervisory White-Collar Workers Not in the Bargaining Unit

Most companies with a collectively bargained severance pay plan for their organized workers also had a plan for nonsupervisory white-collar employees<sup>16</sup> not in the bargaining unit. Some information was obtained from the companies surveyed with regard to such plans.

In some cases, the questions on nonsupervisory white-collar workers proved not applicable, either because all such workers were organized or because the plan was administered outside of the company, i. e., in an association. Of the 418 plans surveyed, 3 reported that white-collar workers were in the bargaining unit and 44 provided no information. This section thus relates to 371 companies.

Of the 371 companies, 298 or 80 percent reported plans in effect, covering over 700,000 employees.<sup>17</sup> The incidence of plans was lowest among companies with SUB-related plans for organized workers:

<sup>16</sup> Professional, technical, sales, and clerical employees.

<sup>17</sup> Forty-seven companies did not report employee coverage; 251 reported a total of approximately 681,000.

Type of plan for bargaining unit	Number reporting	Plans for white-collar workers
All plans -----	371	298
SUB-related -----	110	70
Others -----	261	228

Almost four-fifths of the nonsupervisory white-collar severance pay plans were similar<sup>18</sup> to the ones for employees in the bargaining unit, according to respondents.

Type of plan for bargaining unit	Plans for white-collar workers		
	Similar	Not similar	No information
All white-collar plans -----	234	61	3
SUB-related -----	43	27	-
Others -----	191	34	3

The main differences between plans for the bargaining unit and those for other employees appeared to lie in eligibility requirements and allowance scales. For instance, the Auto Workers (UAW) and Electrical Workers (IUE) negotiated SUB-related plans with more generous allowances than those granted most nonsupervisory white-collar workers under similar circumstances. On the other hand, several respondents in the primary metals industry indicated that plans for nonsupervisory white-collar workers paid greater benefits for long service and required shorter service for eligibility than their collectively bargained plans. The same advantages were reported by most plans departing from non-SUB-related negotiated plans. In some cases where organized workers received severance pay and retained recall rights, the plan for nonsupervisory white-collar workers may require complete termination before award of severance pay. A few respondents noted that severance pay for nonsupervisory white-collar workers not in the bargaining unit was handled on an individual basis.

Despite similarities, bargained and nonbargained plans differed in that, under the former, workers are assured severance pay by a contractual right, while under the latter, provisions are subject to company policy. The meaning of the distinction was characterized by one respondent as follows:

The plan  $\overline{\text{for nonsupervisory white-collar workers}}$  is an expression of the company's present policy with respect to separation allowances for salaried employees; it is not a part of any contract of employment and no employee or other person shall have any legal or other right to any separation allowance. The company reserves the right to terminate, amend, or modify the plan, in whole or in part, at any time without notice.

Of 218 plans reporting on experience in 1962, 103, covering about 95,000 workers, indicated that no workers had been awarded severance pay during the year. The balance, 115 plans covering upwards of 370,000 workers,<sup>19</sup> reported a total of 5,779 separated workers receiving payments. Proportionate to total coverage, this volume of separations with payments was about half that of the workers in bargaining units.

<sup>18</sup> The word "similar" was used in the questionnaire without definition. It should not be interpreted to mean identical in every detail.

<sup>19</sup> Employment coverage for eight plans was not reported.

### Chapter III. Practices and Problems Relating to Severance Pay and Employee Separation

The dismissal of regular employees, particularly long-service workers, through no fault of their own is a drastic occurrence in contemporary economic life. In this chapter, an attempt is made to throw light on the practices and problems involved in employee separation and severance pay that appear to have the more significant manpower-mobility implications. The subjects discussed range in scope and in time sequence from the determination of eligibility to the relationship between severance pay and unemployment compensation.

#### Eligibility Requirements

An early source of difficulty in implementing severance pay plans may lie in determining whether workers separated from the company qualify for payments under terms of the plan. If they do not qualify, the company may, of course, decide to waive qualification restrictions, but such a solution may not be feasible when a large number of workers or a precedent is involved. Qualifications for severance pay vary widely among plans.<sup>20</sup> Regardless of the simplicity of eligibility requirements, there are likely to be differences in interpretation of provisions or difficulties in applying administrative rules in particular situations. Among other consequences, these differences and their resolution affect the number of workers receiving severance pay. Some of the problems and implications of decisions and resolutions of the difficulties will be explored in this section.

Where restrictions on eligibility are found in severance pay plans—and the majority of the plans contain some restriction—they may include any or all of the following:

1. Employment status of the worker at the time of plan implementation.
2. Specific reason for separation, relating to work situation.
3. Waiting period after separation.
4. Specific exemption from payment relating to employee behavior.
5. Availability of other work in the company.
6. Employer's control over separation.

These restrictions apply mainly to plans under which workers lose recall rights but may also be included in plans where such rights are retained. Other important restrictions on worker eligibility for severance payments, such as years of continuous service or age of worker, can be easily measured and are therefore not as likely to become subjects of disputes or complex interpretation.

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<sup>20</sup> See BLS Bulletin 1425-2, op. cit.

Employment Status of the Worker at the Time of Plan Implementation.

Eligibility is usually conditional on the worker's status with the company. This should not be confused with active employment; employees already on layoff may be eligible for severance pay, and in some plans layoff is a condition for eligibility. In case studies where there was no such condition, employees on layoff at the time the plan was put into effect constituted up to two-thirds of those receiving severance pay.

Employment status is of particular concern to workers on active duty when notice is given of circumstances making them eligible for severance pay. Depending on the length of notice and opportunities for alternative employment, workers may be torn between a desire to quit so as to be a step ahead of other workers seeking new employment or to remain to qualify and obtain severance pay. Some companies recognize the dilemma and make provision for employees wishing to leave before their scheduled date of separation. Two of the case studies illustrate managerial agreement to modify the employment status provision with the condition that operations were not to be jeopardized. In one case, the company unilaterally permitted employees to leave early if schedules of hours of worker substitutes could be arranged. In the other, the company and union negotiated an agreement at the time of plant shutdown to allow workers to volunteer for layoff if workers with lesser seniority were qualified to do the work. In both cases, few workers left early, even though there was no chance for remaining long with the plant.

Most agreements have explicit statements about an employee's retention of seniority or status on the company's employment rolls. There may be exceptions not contemplated, however, such as the employment status of a person on leave of absence, a person only recently promoted to a position out of the bargaining unit, or a striker. Confusion about employment status can become critical in determining severance pay eligibility. One of the case studies cites three grievances involving this issue, which were settled by the parties at half the value of the claims. In the ladies' garment industry, employment status has been interpreted to mean attachment to the firm, even if the worker is sick, on leave of absence, or employed elsewhere.

Workers on layoff are not necessarily entitled to severance pay. A plan cited in the next chapter was applicable to employees separated within 90 days of complete plant closings; employees laid off prior to the 90-day period did not qualify. When in the course of a shutdown employees were laid off in stages, management extended severance pay eligibility to all workers laid off more than 90 days before closing.

Reason for Separation. Administrators of severance pay plans may face problems when payment is restricted to certain conditions. The problems involve determinations as to whether particular situations are covered by the language of the plan. Since disagreement on interpretation can affect a large number of workers and a decision can serve as a precedent, the issue has been referred to arbitration in a number of cases. In a plan limiting severance pay to "permanent" discontinuance of a plant or department, an arbitrator ruled that an indefinite shutdown of a department which had engaged in military contract work was not "permanent" within the meaning of the clause.<sup>21</sup> In another case, the consolidation of operations in various geographic locations within a radius of 33 miles was interpreted not to be a "force reduction furlough" since the employer offered jobs at the new location to those claiming severance pay.<sup>22</sup> In a third case, an

<sup>21</sup> Bethlehem Steel and United Steelworkers of America, 23 LA 618.

<sup>22</sup> Teleregister Corporation and American Communications Association, 23 LA 526.

arbitrator ruled that employees whose work was reassigned to other employees and who were given new duties did not qualify for a "technological displacement allowance" intended to apply in job termination because of changes in plant, equipment, or process operations.<sup>23</sup> In a fourth case in which severance pay would be awarded if "employment is terminated either directly or indirectly as a result" of the employer's decision to close part of a plant, an employee laid off 14 months prior to his department's closing was declared ineligible for severance pay, not because of the length of layoff but because the decision to close had not been reached at the time of the layoff.<sup>24</sup>

Although severance pay was denied in these cases, it is likely that some of the unions involved prepared to seek remedial action to cover a situation which it believed to be included in the existing severance pay plan or which had not been contemplated previously. This occurred in one of the case studies. The collective bargaining agreement included provision for a plant closing allowance to employees separated because of complete plant abandonment. When a partial shutdown permanently removing work from a plant resulted in termination of a substantial portion of the work force, management refused to grant the allowance. Although the union could not persuade management to change its stand, the next agreement contained a new provision with the same scale of allowances to cover partial shutdowns and extended layoffs.

Extension of language by administrative interpretation rather than by arbitration or negotiation has occurred in the ILGWU plan. The plan provides for payments to workers separated when "an employer . . . goes out of business for any reason whatsoever . . . ." As shutdowns have taken place, it has become necessary to define eligibility rules to preserve the intent of the plan. The administrators of the plan have decided that a change of a firm's name or nominal owners, seasonal closings, or a minor geographic relocation of a firm does not constitute going out of business. Since work sharing usage in the industry prevents permanent layoffs among regular employees, at least in theory, the plan administrators have focused their attention on employment opportunity. If there is complete termination, partial shutdown, or reorganization of the business so that there are fewer permanent members of the work force, separated employees may apply for severance pay.

Waiting Period After Separation. At what point a temporary layoff becomes permanent is resolved in some plans by specifying a period after which a worker becomes eligible for severance pay. Particularly in SUB-related plans in which workers qualify for some benefits while on layoff, the length-of-layoff criterion is prevalent. Workers waiting to establish eligibility in companies with fluctuating employment opportunities may be faced with a dilemma, as one case study illustrates. The plan provided for severance pay to be awarded to employees on layoff for 6 months. Employees at the top of the seniority roster, however, could be recalled temporarily and laid off again so that they were not able to accumulate 6 consecutive months of layoff to collect severance pay.

The company may decide to waive the waiting period for severance pay upon determination that reemployment is unlikely. Twelve plans requiring extended waiting periods for severance pay permitted some employees to apply for severance pay in 1962 before completion of the normal waiting period: three because of plant closings, eight others because separated employees did not qualify for a pension, and one for a "miscellaneous" reason.

<sup>23</sup> Celanese Corporation of America and Textile Workers' Union of America, 22 LA 148.

<sup>24</sup> Hubbard and Company and United Steelworkers of America, 32 LA 1009.

Employee Behavior. Frequently, agreements contain a list of conditions which exempt the employer from paying severance pay. This list may relate to individual behavior leading to separation, to the availability of other work, or to employer's responsibility for separation.

Severance pay is generally regarded as a reward for loyal service as well as an aid through possible periods of unemployment. Because of its origins and usual applications, employers are loathe to award severance pay in instances they regard as contrary to their best interests. Three types of employee behavior leading to separation usually bar severance pay: Discharge "for cause," strike activity leading to plant shutdown, and voluntary termination.

The exemption of severance pay in cases of discharge for cause has produced many arbitration cases in the publishing industry, primarily because discharge for cause is one of the few reasons exempting an employer from granting severance pay. The American Newspaper Guild has long had agreements with many newspapers calling for severance pay for employees discharged for reasons other than "gross neglect of duty or gross misconduct." In a number of arbitration and court cases, actions that were not deemed gross neglect of duty and misconduct involved: A reporter discharged for habitual tardiness who had energetically carried out his duties and worked at home,<sup>25</sup> a reporter discharged for refusing to accept a temporary transfer of duties without reduction in pay,<sup>26</sup> and an employee discharged for arriving to work late after consuming four or five martinis and subsequently making "somewhat incoherent" remarks at a business meeting.<sup>27</sup> Gross misconduct or neglect of duty has been upheld in cases where an employee resigned upon being offered the choice of discharge or resignation after causing a misprint that resulted in widespread repercussions in the community<sup>28</sup> and where an employee was discharged for abuse of sick leave benefits.<sup>29</sup> In none of these cases was there a dispute about the employer's right to discharge; the subject for arbitration was whether the discharged person was entitled to severance pay. In many of these cases, arbitrators have attempted to distinguish between "simple" and "gross" neglect by a variety of criteria, including intent of the conduct, the discharged person's past record, and effect of the conduct on the employer's business and on the morale of other employees. It would seem that, with the standard eligibility clause in the newspaper industry, a discharged person would have to inflict serious damage to forfeit severance pay.

Another reason for which employers have attempted to avoid severance payments by specific or implied exclusion is strike activity of employees. Eligibility for severance pay of employees separated during a strike depends on the terms and intent of the plan. An arbitrator granted severance pay to employees laid off because of a strike of a union other than their own, since the separation was beyond the control of the employees and severance pay to nonstrikers is "an ordinary, incidental cost of business operation."<sup>30</sup> In another case involving separated nonstrikers, the arbitrator ruled that closing of operations could not be considered a normal "layoff or reduction in staff" intended by the parties in creating their severance pay plan.<sup>31</sup> Two other cases involved one employer. In the first, an arbitrator disallowed the claim for severance pay of employees who had observed a picket line of fellow employees represented by another union, at which time the employer had suspended operations; the violation of the no-strike

<sup>25</sup> A.S. Abell Company and American Newspaper Guild, 32 LA 908.

<sup>26</sup> Post Publishing Company and American Newspaper Guild, 22 LA 231.

<sup>27</sup> Post Publishing Company and American Newspaper Guild, 24 LA 173.

<sup>28</sup> Publishers Bureau of New Jersey and American Newspaper Guild, 40 LA 77.

<sup>29</sup> Stremich v. A.S. Abell Company, Maryland People's Court, 1958.

<sup>30</sup> Bell Aircraft Corporation and United Automobile Workers of America, 24 LA 324.

<sup>31</sup> Sea-Land Service and Office Employees' International Union, 40 LA 1248.

clause voided the employer's obligation to pay the claimants.<sup>32</sup> When the employer permanently closed his business a few years later, an arbitrator ruled that employees on strike at time of the closing were eligible for severance pay since the strike was only one of the reasons leading to the employer's decision to close, and the union's demands during the strike were not excessive or responsible for the closing.<sup>33</sup>

A problem of a different kind arises when employees otherwise ineligible attempt to qualify for a benefit plan. Such instances may arise, for example, when a firm grants severance pay to all terminated employees except those terminating voluntarily. In several instances, a newspaper executive reported, employees intending to leave of their own volition attempted to behave in such a way that they would be discharged. Conversely, the union sometimes charged management with harrassment to force an employee to quit rather than to dismiss him. No recourse to eligibility rules will solve such problems.

Availability of Other Work. The desire on the part of management to retain certain workers as well as the existence of other provisions in the collective bargaining agreement may engender other conditions under which severance pay will not be awarded. The integration of severance pay with seniority has at times presented difficulties concerning eligibility for severance pay. In some companies, employees otherwise eligible for severance pay must exhaust their rights to other work in the company to which their seniority status entitles them before they are awarded severance pay.<sup>34</sup> A decision of the War Labor Board held that employees in steel companies were not eligible for severance pay if they were entitled to an equivalent job in the same plant or accepted such a job with the company in the same general locality.<sup>35</sup> Defining substantially equivalent employment can prove troublesome, depending upon whether pay rates, hours, working conditions, location of the work, or a combination are the criteria employed.

Voluntary acceptance of lower rated work might appear to indicate employee willingness to remain with the employer so as to assure continuity of employment. Nevertheless, one arbitrator ruled that employees whose seniority entitled them to lower rated work and who accepted such work has suffered a break in service according to the terms of the contract and therefore were eligible for severance pay.<sup>36</sup> In another case where employees accepted lower rated jobs in other plants of the employer in the same area after their plant had closed, the arbitrator granted the employees severance pay since the purpose of the provision requiring employees to exercise seniority rights was to protect against reduction in job class as well as loss of employment.<sup>37</sup>

The problem is more complex when employees have no choice in the matter of lower paying jobs offered to them.<sup>38</sup> Some plans specify that employees must accept work with lower pay, up to a given percentage of their present wage rates. Other plans remain vague and rely on the seniority provisions of the agreement to guide administrators and arbitrators. One arbitrator ruled that an employee who refused an offer of lower paying work was not "laid off" as required for severance pay eligibility.<sup>39</sup> The exact opposite view was expressed by an

<sup>32</sup> Brooklyn Eagle, Inc., and New York Typographical Union, 26 LA 111.

<sup>33</sup> Brooklyn Eagle, Inc., and American Newspaper Guild, 32 LA 156.

<sup>34</sup> See BLS Bulletin 1425-2, op. cit.

<sup>35</sup> Basic Steel Companies, War Labor Board, 1945.

<sup>36</sup> U.S. Steel Corporation and United Steelworkers of America, 27 LA 438.

<sup>37</sup> Republic Steel Corporation and United Steelworkers of America, 30 LA 392.

<sup>38</sup> See BLS Bulletin 1425-2, op. cit.

<sup>39</sup> R.H. Worrall Company and International Association of Machinists, 22 LA 30.

arbitrator in a similar case, largely on grounds that forcing an employee to accept a lower rated job to which he is entitled by seniority would give such employee less freedom of choice than employees with lesser seniority who did not enjoy such "rights."<sup>40</sup> This is the crux of the matter. The junior employee offered lower rated work may have the option of choosing the work or severance pay; the senior employee has the option of accepting the work or "quitting." In some instances, as one case study illustrates, the senior employee may actually prefer to forfeit severance pay and other benefits and leave. Recognition has been given this problem in some steel industry plans which now disqualify from severance pay employees entitled by seniority to a job in the same job class but permit employees entitled by seniority only to a job in a lower job class to receive both the job and severance pay.

Employer's Control Over Separations. Exemptions from the severance pay obligation may also be conceded to employers in circumstances over which they have no control.<sup>41</sup> What constitutes separation beyond the control of the employer has proven to be a problem in some instances. "Acts of God" generally qualify as being beyond the employer's province. In one case where the pertinent clause provided exceptions to severance pay when separation was due to "fire, flood, utility failure, or other similar circumstances beyond the control of the company," an arbitrator ruled that employees laid off because of a strike by other employees should receive severance pay; the cause of layoff, though beyond the sole control of the company, was not in the same vein as the listed exceptions.<sup>42</sup> In another case, a company was excused from severance payments to employees separated because of supply shortages, but had to pay other employees performing related work who were also separated because their separation was motivated by business reasons and therefore within the company's control.<sup>43</sup>

Other Problems. There may be similar difficulties in defining terms found in other clauses of the agreement which bear directly on severance pay eligibility. Does a laid-off employee who accepts a trial on a new job and is found wanting break his period of "continuous layoff"? If management feels it has insufficient evidence to press a dismissal for cause and therefore lets an employee "resign," is the employee to be regarded as leaving voluntarily or involuntarily? What time not worked since the employee's commencement of employment with the company should be credited for determining benefit (including severance pay) eligibility? Questions such as these are indicative of the interrelationships among conditions of employment.

#### Options to Severance Pay

When a worker is marked for displacement from his job, other work with the company or layoff with preferential recall may be available to him. As the previous section indicated, the availability of other work prior to separation may disqualify the worker from severance pay eligibility, although many plans contain safeguards protecting the worker from forced acceptance of onerous or downgrading transfers. The offer of other work or layoff with preferential recall may also be made to workers whose eligibility for severance pay is not in question, either in addition to, or as an alternative to, severance pay. This section is concerned with the latter, that is, offers which pose a choice between severance pay and another job with the company or a chance of a job through preferential recall.

<sup>40</sup> Princeton Worsted Mills and Textile Workers Union of America, 25 LA 587.

<sup>41</sup> See BLS Bulletin 1425-2, op. cit.

<sup>42</sup> Joy Manufacturing Company and Office Employees International Union, 31 LA 341.

<sup>43</sup> Color Corporation of America and various unions, 25 LA 644.

When a worker accepts an available option, he continues to have a job or a claim to a job, with rights to severance pay in any future separation usually remaining intact; when he rejects an option, he takes his severance pay but surrenders the opportunity for other employment in the company. Workers' decisions in this regard are presumably based on available alternatives, the amount of severance pay involved, and their evaluations of job opportunities elsewhere. The related mobility issues for which information was sought through this study are: What kinds of options are available to workers facing separation? To what extent do workers reject alternatives involving a different job, moving, a lower rate of pay, or different combinations of such disadvantages? The first question is also pertinent to the subsequent discussion of employer efforts on behalf of workers facing displacement or after displacement. The second question leads to a broader inquiry regarding worker motivation, e.g., is the severance payment, which may be substantial, an incentive to give up an employment opportunity which otherwise might have been acceptable?

Because the timing of the options and workers' choices differ between SUB-related plans and other types, the two categories are discussed separately below.

Other than SUB-Related Plans. Of 271 plans represented by responses to an inquiry as to general practice, 151 were indicated as having one or more options available to workers (table 6). Including multiple options, 85 companies offered workers another job with the company at the same or higher rate of pay in the same area, and 116 companies offered another job with the company at a lower rate of pay. Transfer to another plant of the company in a different geographic area (an option obviously possible only in multiplant companies) was offered by 95 companies. Exclusive of plans under which workers retained recall rights, 31 companies offered layoff with preferential recall rights as an alternative to severance pay. Ten companies reported other options.

Table 6. Options to Severance Pay in Other Than SUB-Related Plans by Type of Plan

Plan options	All plans		Lose recall rights		Retain recall		Combination		Other	
	Number of plans	Workers covered	Number of plans	Workers covered	Number of plans	Workers covered	Number of plans	Workers covered	Number of plans	Workers covered
Total number of plans-----	271	1,158,368	72	219,913	183	778,855	11	152,350	5	7,250
Plans with no options-----	120	483,411	31	88,380	84	387,781	1	1,200	4	6,050
Plans with 1 option or more -----	151	674,957	41	131,533	99	391,074	10	151,150	1	1,200
Another job in the same area with at least same rate of pay -----	85	334,576	22	55,281	59	217,995	4	61,300	-	-
Another job in the same area at a lower rate of pay -----	116	535,749	31	103,406	74	279,993	10	151,150	1	1,200
Layoff with preferential recall -----	31	153,387	27	94,137	-	-	3	58,050	1	1,200
Another job in a different area-----	95	444,063	23	76,910	68	304,453	4	62,700	-	-
Other -----	10	68,100	6	41,950	4	26,150	-	-	-	-

NOTE: Plans and workers covered in each option are nonadditive since some plans reported more than 1 option.

The affirmative responses to this inquiry should not be construed to mean that every worker facing separation in these companies had an option set before him. Options are not guarantees. Company policy may not be operative in the event of a large-scale layoff or under other circumstances which rule out any possibility of a job offer or a job promise.

To a further inquiry regarding experience in 1962 in worker acceptance or rejection of options, only 32 companies were able to supply data. Their plans covered a total of 159,766 workers, and made severance payments to 3,335 employees in 1962. The responses did not account for all separated workers; hence, it must be assumed either that options were not offered to a large proportion of workers receiving severance pay or that records were incomplete. This limitation plus the low rate of response suggest caution in generalizing on the basis of the figures presented below.

The companies were not asked for the number of employees who had accepted the option of another job with the company in the same plant or area, since the process of placing workers in other jobs involves the seniority and "bumping" procedures in effect and may stretch back too long in time to account adequately for what happened. They were, however, requested to report the number who had rejected such options for severance pay, and the number who had accepted and rejected other options.

Only 74 workers rejected another job in the same plant or area with at least the same rate of pay, but 421 workers rejected another job with a lower rate of pay. Only 23 workers accepted the latter option with no appreciable difference in rate of acceptance noted between plans where workers retain or lose recall rights when awarded severance pay. Among plans in which workers lose recall rights upon receiving severance pay, 167 workers accepted an option of layoff with preferential recall rights, while 284 workers rejected this option. Transfer to another plant in a different area at the same rate of pay or higher was accepted by 299 workers and rejected by 353. Transfer to a lower rated job elsewhere was accepted by 2 and rejected by 20 workers. Perhaps the chief conclusion to be drawn from these data is that a substantial proportion of workers tend to reject jobs involving disadvantages such as moving, a lower rate of pay, or layoff in place of severance pay. What they would have done in the absence of severance pay is, of course, not determinable.

The acceptance rate of options may be the result of several, sometimes conflicting factors. One company with an elaborate program of interplant job offers and relocation allowances explained the ineffectiveness of the program as follows:

Employees eligible for severance pay are normally long-service employees, and they are extremely reluctant to start at another company location at the bottom of the seniority roster and on a lower rated job with the possibility of working on the second or third shift.

Two of the case studies suggest, moreover, that options may be accepted temporarily to gain eligibility for a specific benefit rather than to ensure further employment.

With regard to options to transfer to another location, companies were asked whether it paid part or all of the moving expense of employees accepting transfer. Eighteen of 45 companies replying did pay moving expenses. Thirteen companies with this practice reported their experience in 1962 as follows:

	Workers accepted option to transfer	Workers rejected option to transfer
Moving expenses paid in whole or part-----	252	314
Moving expenses not paid-----	41	58

These tentative data indicate that while the payment of moving expenses has a strong influence on workers' decisions to transfer, in many cases it does not counteract other reasons against transferring.

SUB-Related Plans. Companies with SUB-related plans reported options as follows:

Option	Plans	Workers
Total number of plans-----	147	1,709,879
Plans with no options-----	83	707,498
Plans with 1 option or more-----	64	1,002,381
Another job in same area		
at lower rate of pay-----	41	462,201
Another job in different area-----	32	422,551
Other-----	25	297,950

In the "other" category, respondents most frequently indicated other jobs in the same area at the same or higher rate of pay, and layoff with recall. Other SUB-related plans are known to offer an option of layoff in addition, after workers have satisfied minimum waiting-period requirements.<sup>44</sup> The incidence of layoff as an option underscores the fact that other possibilities are likely to have been exhausted before the employee qualifies for severance pay. Also, among SUB-related plans, extended layoff may provide some workers with more money in supplementary unemployment benefits than they would receive from severance pay provisions without affecting their seniority rights. Six SUB-related plans which awarded severance pay to 1,118 workers in 1962 reported on options that had been rejected:

Option	Number rejected
Another job in same plant or area	
at lower pay-----	45
Another job in different area with	
at least the same rate of pay-----	104
Other-----	15

Administrative Problems. The arbitration cases cited in the previous section illustrate some of the problems in distinguishing between offers that are alternatives to, or preclusions of, severance pay. Agreement by the parties as to what constitutes an option may not remove all difficulties, however. In one situation brought to arbitration, employees had the option of severance pay or layoff with retention of seniority. The company did not announce its decisions regarding severance pay eligibility until after employees had been laid off. The arbitrator ruled that the layoff had not been presented as an option at the time of separation and that therefore employees could claim severance pay within a period following the company's announcement of its decision.<sup>45</sup>

According to some procedures, options may be offered only to those making formal application. In one case study, for instance, only 60 of 500 eligible workers indicated an interest to transfer to another location and could be offered the option; about 40 accepted the option.

Employees who become dissatisfied with an option they have accepted create another kind of problem. Without a specific procedure to cover such an eventuality, employees may have no choice but to quit, a prospect that may

<sup>44</sup> See BLS Bulletin 1425-2, op. cit.

<sup>45</sup> U.S. Steel Corporation and United Steelworkers, 37 LA 302.

affect their original decision regarding the option. Companies may avoid the problem by giving employees moving to another community a period of time during which to renounce the option without penalty. Less liberal treatment is usually afforded to employees becoming dissatisfied with options in the same plant or area.

### The Payment Process

Plan regulations and administrative machinery determine the timing of receipt of severance pay by the displaced worker and thus affect its expenditure. This section explores the payment process, including procedures for preparing severance payments, waiting periods, and the manner in which the payments are made.

Administrative Delays. This study brought to light some of the variety of approaches taken with respect to employee application for severance pay. Sometimes the procedure is automatic, that is, the company determines the amount of severance pay due each worker and sends that amount. The procedure is more complex in other cases, especially when the worker is faced with a choice between severance pay and other options. Then the company or the union may wish to explain the choices and the implications of various decisions. Such explanations have been given by letter, through newspaper stories, and in group meetings. Some companies have found it advisable to follow up explanations with individual discussions with workers, particularly at the time each one is ready to signify his choice. These last-minute sessions were designed not so much to influence a worker's decision as to make sure that all questions had been answered and that the worker fully understood what rights and benefits would be gained and lost by the choice.

When a worker is faced with a choice, the company may want to have his decision in writing to signify that the decision is binding. Formally signed applications for severance pay, however, may be required even when there is no choice for the eligible worker. Where severance pay is financed through a trust fund arrangement, signed applications may be necessary to authorize the payments. Applications may also be designed to permit laid-off workers to indicate by mail their understanding of the conditions under which severance pay is awarded. A principal reason for severance pay applications requiring signatures is the recognition by specific statement that the severance payment ends all rights and claims the signer may have with the company.

In a multiemployer severance pay fund, such as that of the ILGWU, applications serve still another purpose. The fund administrators may not know of the worker's claim for severance pay until he has submitted an application which triggers a validating investigation. After the fund has determined that an employer has gone out of business, affected workers have 30 days in which to apply for benefits if they have not done so already. Fund administrators estimate it takes 4 to 5 months after an employer shuts down to establish severance pay eligibility and to calculate the payments due applicants.

Once applications have been received and/or eligibility has been established, the employer must calculate the amount of severance pay due the separated worker and prepare the payment. In some firms this is a simple matter, but in multiplant firms, funded plans, and multiemployer plans the process may take several weeks. Various echelons or parts of the corporate organization as well as the trustees of the fund may be required to check eligibility and amounts due before the payment can be made. One of the case studies traces the path of severance pay authorizations: from plant to the local union, back to the plant, to corporate headquarters, to the plant and corporate headquarters again, and finally to the bank which keeps and disburses the fund; the entire procedure took up to 8 weeks. The addition of central data processing for payroll and personnel recordkeeping has provided a channel for severance pay authorizations in other

companies. In general, the more steps that are added, the greater is the possibility of extending the delay between application and actual payment. In some companies, however, the applications are begun sufficiently before actual separation to permit payment close to day of separation; in the cases studied, this procedure was not the norm.

Administrative action of another sort may delay severance payments following separation from employment. Where severance payments are conditional on a particular set of circumstances, determination of whether the circumstances have been fulfilled may take time. Determination can take the form not only of checking, as in the case of the ILGWU fund, but also waiting for a given action to occur. Thus, one plan which required complete plant shutdown to establish severance pay eligibility waited many months after a major layoff before announcing the closing of the plant. Workers had received other benefits in the interim but could not collect their severance pay until after the plant closing announcement.

Sometimes the delay is not due to internal administrative procedures but to external problems. In one case, a severance pay fund was liquidated as quickly as the securities in which the fund was invested could be prudently sold. The rate of benefit applications outpaced the rate of security disposal, thereby causing a backlog of applications for 2 months.

Waiting Periods. Another reason for delay of severance payment following layoff is that it is a requirement of the plan. Under some plans, the waiting period amounts to another eligibility requirement.<sup>46</sup> Perhaps the extreme practices are found in SUB-related plans; the auto industry plans, for example, require a year of layoff before a worker can apply for severance pay; rubber industry plans require a longer period.

Respondents having non-SUB-related plans were asked, "Is there a waiting period between the time employment is severed and the time the employee receives severance pay?" "If 'yes,' how long is the waiting period?" A different approach was necessary in the case of SUB-related plans; this method is discussed separately.

Almost a fourth of the 271 plans that were not SUB-related indicated the existence of a waiting period. Whether a waiting period was required by the plan or occurred through the administrative procedures established for payment, was not determined.<sup>47</sup> The practice was more frequent among plans in which workers retained recall rights, as shown below.

Type of plan	SUB-related plans					
	No waiting period		Waiting period		No information	
	Plans	Workers	Plans	Workers	Plans	Workers
Lose recall rights -----	61	189,513	9	22,400	2	8,000
Retain recall rights -----	127	556,748	53	216,658	3	5,449
Combination-----	9	147,900	2	4,350	-	-
No information on recall rights -----	1	1,300	1	2,000	3	3,950

Most of the plans which maintained the recall rights of workers made payment within a month after layoff. Longer periods, up to 12 months or more, were required in 12 plans of this type, and in 6 plans in which recall rights were lost.

<sup>46</sup> See BLS Bulletin 1425-2, op. cit.

<sup>47</sup> The question did not make a distinction between these two causes. Presumably, some companies took administrative delays into account.

<u>Length of waiting period between termination of employment and payment of severance pay</u>										
<u>1 month or less</u>		<u>More than 1 but less than 3 months</u>		<u>3 to less than 6 months</u>		<u>12 months and more</u>		<u>Depends on circumstances</u>		
Plans	Workers	Plans	Workers	Plans	Workers	Plans	Workers	Plans	Workers	
Lose recall rights-----	1	1,200	-	-	3	5,800	3	12,050	2	3,350
Retain recall rights-----	41	185,815	9	24,525	1	1,250	2	5,068	-	-
Combination-----	-	-	-	-	1	3,250	-	-	1	1,200
No information on recall rights-----	1	2,000	-	-	-	-	-	-	-	-

Companies with SUB-related plans were asked if the plan provided for a waiting period before laid-off employees, who presumably are eligible for regular SUB payments, became eligible for severance pay. Of those who responded in the affirmative, several additional questions were asked, designed to bring out experience in 1962 relating to waiting periods and possible relaxation of waiting requirements.

Of 146 plans responding to this inquiry, 43, with approximately 45 percent of total worker coverage, indicated that a waiting period was required.<sup>48</sup> In response to the question "Did the company in 1962 permit some employees to apply for severance pay before completion of the normal waiting period?" 12 companies replied in the affirmative, of which 6 mentioned disability or retirement without a pension as the only reasons.

One way of evaluating the importance to workers of an eligibility waiting period is to see how quickly they respond to the offer of severance pay once they become eligible. SUB-related plans were asked to supply information on the number of employees becoming eligible for severance pay in 1962 and the number of these applying for severance pay as soon as eligible. Of the 43 plans with waiting periods, 15 plans had no separations and 16 others were unable to supply the information. The remaining 12 plans reported that 1,043 workers became eligible for severance pay during 1962, but only 360 of these applied for severance pay during the year. Other workers eligible from prior years applied, too, raising the total number receiving severance pay from these companies. It would seem, on the basis of these returns, that all workers do not seek to obtain severance pay the moment they become eligible, even if they have had to wait to establish eligibility. On the other hand, one company supplying supplementary information for 1963 reported that 1,300 to 1,335 workers applied for severance pay as soon as eligible; similarly, one-half of the companies reporting on the number of workers becoming eligible and applying for severance pay as soon as eligible indicated that all workers applied immediately on becoming eligible.

Method of Payment. Another time factor is introduced by the method of payment, that is, whether taken as a lump sum or in installments. In the former instance, the worker receives all of his severance payment at once; in the latter, his weekly pay is usually continued until his balance is exhausted, e. g., 20 payments over a 20-week period.

In SUB-related plans, it was presumed that severance payments would normally be made in a lump sum. Other types of plans were queried as to their procedures, with the following results.

<sup>48</sup> Information on length of waiting period is provided in BLS Bulletin 1425-2, op. cit.

Type of plan	Method of payment of severance pay							
	Lump sum only		Regular installments only		Optional or other		No information	
	Plans	Workers	Plans	Workers	Plans	Workers	Plans	Workers
All plans other than SUB-related plans -----	201	901,960	21	38,702	44	209,556	5	8,150
Lose recall rights-----	51	149,007	9	18,506	11	49,400	1	3,000
Retain recall rights-----	148	696,753	12	20,196	22	60,806	1	1,100
Combination-----	1	55,000	-	-	10	97,350	-	-
No information on rights-----	1	1,200	-	-	1	2,000	3	4,050

Among the plans designated as "optional and other" were those which gave the option to the workers, or to the employer, or varied the method of payment according to certain circumstances.<sup>49</sup> Some of the plans indicating payment in installments added that small amounts, e. g., less than 4 weeks' pay, would be paid off in a lump sum. A few plans indicated that the method of payment affected the status of recall rights, i. e., workers electing lump-sum payments surrendered recall rights or preferential hiring rights they would maintain if receiving severance pay in installments.

Waiting periods and installment payments raise a subsidiary issue. Traditionally, severance pay plans have not made payments contingent in whole or part on the worker remaining unemployed. That is, the separated worker was entitled to his full severance pay even if he found a job immediately upon dismissal. A direct question to plans other than SUB-related elicited the information that only 15 plans, covering close to 23,000 workers, did take the status of the worker after separation into account. Nine of the plans covering half of the workers, were plans under which workers retained recall rights. Seven of the 15 plans had a waiting period of over 1 month between separation and payment of severance pay; 2 of the 7 always paid severance pay in installments. An additional five plans reported that employment status following separation became a determinant for eligibility only if the separated worker elected an option for weekly benefits. It is possible that some respondents who stated that unemployment was a condition of eligibility confused employment with the company and employment with others. Even so, the number remains small, leaving the traditional nature of severance pay plans intact.

Liberalizing or Reducing the Severance Pay Obligation. Most SUB-related severance pay plans are funded; the exceptions occur chiefly in the primary and fabricated metals industries. Where severance pay is awarded from a SUB fund, severance payments can be—and, in some cases, have been—reduced if the fund falls below a minimum level. Of 81 funded SUB-related plans reporting, 42 indicated that severance payments are subject to reductions depending on the level of the fund, and 20 of the 42 reported that in the past, payments had been reduced. Some of these plans also reported that severance payments may be deferred if fund levels so require.

<sup>49</sup> See BLS Bulletin 1425-2, op. cit.

One multiemployer plan reported that individual employers covered by the plan sometimes awarded extra severance pay. Outside of this instance, only seven of the plans studied (three in which workers lose recall rights and four in which workers retain recall rights) answered in the affirmative the inquiry as to liberalization of stipulated plan benefits. Reasons such as hardship and "compassionate" payments were cited. The case studies illustrate types of liberalization of the severance pay obligation at the time of implementation, including distribution of excess funds, waiver of requirement of active employment within 90 days of plant closing, and increase of minimum awards to represented employees to levels commensurate to those granted nonrepresented employees.

Company Services

The survey of companies presented an opportunity to find out the extent to which assistance other than severance pay is available to workers facing separation and after separation. Although such services need not be restricted to separated workers receiving severance pay, they can affect the significance of severance pay for recipients by providing directions to other employment.

The extent of company services for separated workers is likely to be understated in a survey of this type. Company efforts may begin long before worker separation is certain. Furthermore, many practices may be informal, e.g., those engaged in by supervisors on their own initiative. Despite these limitations, the replies indicate the general nature and extent of current practices.

The questionnaire asked "What company services have been available to employees before and after severance?" Specific inquiry was made concerning four types of services: Training for other jobs with the company, testing and guidance, company-sponsored employment referral, and training for jobs outside of the company. Respondents could also indicate other pertinent services. The results were as follows:

	Plans	Workers	Workers with severance pay, 1962
Total -----	418	2,868,247	52,838
No services -----	165	725,496	11,301
1 or more services -----	247	2,133,795	41,537
Selected services:			
Training for jobs with company -----	156	1,220,054	24,612
Before -----	137	1,082,446	21,663
After -----	2	13,250	672
Before and after -----	17	124,358	2,277
Testing or guidance -----	114	761,181	16,187
Before -----	90	492,583	11,171
After -----	-	-	-
Before and after -----	24	268,598	5,016
Company-sponsored employment referral -----	157	1,261,911	35,350
Before -----	53	384,647	12,302
After -----	<sup>1</sup> 46	504,729	10,184
Before and after -----	58	372,535	12,864
Training for jobs outside of company --	18	151,689	4,061
Before -----	5	19,415	2,030
After -----	7	35,174	984
Before and after -----	6	97,100	1,047
Other -----	5	20,650	295
No information on services -----	6	8,956	-

<sup>1</sup> Includes 35 plans associated with ILGWU fund, which offers union-sponsored employment referral after employment termination.

Services classified as "other" include financial assistance for educational purposes and aid in enrolling laid-off employees in retraining programs, such as those authorized by the Manpower Development and Training Act.

The overwhelming majority of workers who received severance pay in 1962 had recourse to one or more services from their employers. Except for SUB-related plans, most companies with services offered more than one type. About three-eighths of other-than-SUB-related plans provided three or more types of services.

Companies are naturally interested in programs from which they are likely to benefit. It is not surprising, therefore, that services which encourage retention of workers—and, incidentally, save the expense of severance pay—should be offered principally only before severance. This is apparent in the case of training for jobs with the company.

	Type of plan					
	SUB-related			Lose recall rights		
	Plans	Workers	Workers with severance pay, 1962	Plans	Workers	Workers with severance pay, 1962
Training for jobs with the company:						
Before severance---	21	527,960	4,839	23	86,750	1,326
After severance----	-	-	-	2	13,250	672
Before and after severance -----	-	-	-	-	-	-
	Retain recall rights			Combination		
Training for jobs with the company:						
Before severance---	90	406,736	14,913	3	61,000	585
After severance----	-	-	-	-	-	-
Before and after severance -----	11	35,558	1,229	6	88,800	1,048

Many companies have regular training programs to upgrade worker skills and to prepare workers to accommodate to technological changes. Some companies provide special programs to rescue workers whose skills are obsolete and who would otherwise be slated for termination. In-company training programs also permit displaced workers to offer additional experience and vocational skills when seeking other employment.

Substantially less common than the previous service, testing and guidance was available to one-fourth of workers covered by severance pay plans.

	Type of plan					
	SUB-related			Lose recall rights		
	Plans	Workers	Workers with severance pay, 1962	Plans	Workers	Workers with severance pay, 1962
Testing and guidance:						
Before severance---	6	149,521	615	14	72,400	1,002
After severance----	-	-	-	-	-	-
Before and after severance -----	10	150,640	2,218	3	15,850	674
	Retain recall rights			Combination		
Testing and guidance:						
Before severance---	67	269,312	9,494	3	7,350	60
After severance----	-	-	-	-	-	-
Before and after severance -----	5	13,308	1,076	6	88,800	1,048

Despite the lower incidence, twice as many separated workers had this available "before and after" separation as training for a job with the company. The difference is accounted for largely by SUB-related plans. Testing and guidance can prove helpful in channeling the worker's efforts toward subsequent employment.

The most prevalent service is company-sponsored employment referral.

	Type of plan					
	SUB-related			Lose recall rights		
	Plans	Workers	Workers with severance pay, 1962	Plans	Workers	Workers with severance pay, 1962
Company-sponsored employment referral:						
Before severance---	16	258,410	4,093	12	11,950	1,044
After severance----	41	485,402	10,102	-	-	-
Before and after severance -----	12	160,540	2,951	5	23,300	846
	Retain recall rights			Combination		
Company-sponsored employment referral:						
Before severance---	25	114,287	7,165	-	-	-
After severance----	5	19,327	82	-	-	-
Before and after severance -----	35	99,895	8,019	6	88,800	1,048

This alone of the three major services is clearly provided to help employees after final separation. If company-sponsored employment referral is not a matter of company policy, it may be invoked on an ad hoc basis. In all of the case studies in which a large number of workers could not be offered other employment with the company, the company gave consideration to finding other employment possibilities. Where no system was established, it was due to lack of other employers in the area who could use the available skills. Typical sources

in locating other employment opportunities were personal contacts, professional societies, and industrial associations. Thus, in several of the case studies, personnel directors called on their counterparts in other companies as well as local organizations to uncover suitable openings for workers affected by plant shutdowns. Large-scale formal efforts have not been uncommon in recent years and have included newspaper advertisements, mailing of brochures and resumes, and "job-hunting task forces." The effectiveness of all these efforts remains largely unmeasured. Where there is success, the separated worker probably gets what he wants most—another job.

Company-sponsored training for jobs with other companies is uncommon. Where available, it can lead separated workers to employment opportunities elsewhere.

Type of plan						
SUB-related				Lose recall rights		
	Plans	Workers	Workers with sev- erance pay, 1962	Plans	Workers	Workers with sev- erance pay, 1962
Training for jobs outside of company:						
Before severance---	1	8,865	2	1	1,650	113
After severance---	1	3,300	-	3	16,750	903
Before and after severance -----	1	10,000	-	-	-	-
Retain recall rights				Combination		
Training for jobs outside of company:						
Before severance---	3	8,900	1,915	-	-	-
After severance---	3	15,124	81	-	-	-
Before and after severance -----	-	-	-	5	87,100	1,047

Highly publicized experiments in retraining displaced workers were underwritten by the Armour Automation Fund Committee.<sup>50</sup>

### Role of Union

Throughout this chapter, the role of the union was inferred rather than explicitly stated. In these plans, which are all under collective bargaining, the union represents and advises the workers involved in layoff and separation situations, and is also responsible for requesting, and bargaining over, modification in plan provisions. Unions may also affect the extent of plan implementation. The case studies uncovered some special instances of union participation which merit mention.

The union may provide various kinds of services to workers at time of separation, which parallel or supplement the services offered by employers. When workers are faced with decisions, union officers may sit with management officials to advise workers who are ready to make a commitment. In one case, the union was assigned the responsibility of informing workers already separated

<sup>50</sup> See Monthly Labor Review, August 1961, pp. 851-857 and January 1964, pp. 53-57.

of a newly negotiated severance pay plan. In efforts to locate employment opportunities for displaced members, union locals have established worker committees to visit other employers in the area. A more extensive effort in one situation was the establishment of a union committee at an office of the State employment commission, to offer special assistance to displaced workers. More elaborate and usually more successful employment assistance is provided by unions with permanent, continuing facilities. Other union services include arranging meetings for workers to hear about tax implications of severance pay, training opportunities, public assistance programs, and similar topics.

### Severance Pay and Unemployment Insurance

The relationship between severance pay and unemployment compensation depends upon State statute or interpretation. As of January 1964, seven States did not permit payment of unemployment compensation for the week in which severance pay was awarded; 15 other States reduced the weekly benefit by the weekly prorated amount of the severance payment, as follows:

No benefit is paid for week of receipt of severance pay:

Alabama	Montana
Arizona <sup>51</sup>	North Carolina
Arkansas	West Virginia
Connecticut	

Weekly benefit is reduced by weekly prorated amount of the severance payment:

California	New Hampshire
Indiana	Ohio
Maine	Oregon
Maryland	Pennsylvania <sup>52</sup>
Minnesota	Utah
Mississippi	Virginia
Missouri	Wisconsin <sup>53</sup>
Nebraska	

There have been reports that at least one other State, Oklahoma, has ruled that unemployment compensation was not payable while severance pay was being prorated.<sup>54</sup> In a few States, however, severance pay is specifically mentioned in the statute as not disqualifying the recipient for unemployment compensation; for example, Michigan and Rhode Island.<sup>55</sup> In other States, similar conclusions have been reached by administrative agencies and courts.<sup>56</sup>

The Ohio regulation regarding severance pay and unemployment compensation may illustrate the manner in which total benefits are reduced by prorating severance payments.

<sup>51</sup> Individual not ineligible for unemployment benefits if severance payment has no direct relationship to regular wages and is not allocated to any specific period.

<sup>52</sup> Excludes severance payments up to \$100 per week made to employees, permanently separated, upon their relinquishment of all accrued rights and benefits from services with separating employer.

<sup>53</sup> Reduction as wages only when the severance payment definitely allocated by the close of such week, payable to the employee for that week at the full applicable wage rate, and the employee had had due notice of such allocation.

<sup>54</sup> Edwin Young, "The Armour Experience: A Case Study in Plant Shutdown," in Adjusting to Technological Change (New York, Harper & Row, 1963), p. 149.

<sup>55</sup> Michigan Employment Security Act, Sec. 48; Rhode Island Employment Security Act, Sec. 28-44-59.

<sup>56</sup> For example: Colorado, Industrial Commission v. Serokman, 1957; Georgia, Meankins v. Commissioner, 1959; Illinois, Kroger v. Blumenthal, 1958; South Carolina, Southern Bell Telephone & Telegraph Company v. South Carolina Employment Security Commission, 1962.

Source: U.S. Department of Labor, Bureau of Employment Security, "Comparison of State Unemployment Insurance Laws as of January 1, 1964," BES No. U-141.

Severance pay will be deducted from any claims for benefits filed with respect to the period covered by severance pay. The Bureau will allocate severance pay on basis of claimant's normal weekly wage to the first calendar week following separation and to each succeeding week until the total severance pay has been allocated. Normal weekly wage is full workweek without overtime.

Of the 15 States listed as reducing benefits by weekly prorated amount of severance pay, only one State, Pennsylvania, distinguishes between various types of severance pay plans. It restricts disqualification largely to employees who retain recall rights.

Interpretations on eligibility for unemployment compensation must also be rendered in situations that deviate from simple separation. Should the offer of employment options to severance pay be considered as "suitable work?" If so, what happens if the worker accepts an option and subsequently voluntarily terminates? The manner in which severance pay is accepted may also be critical. A 1958 decision of the Pennsylvania Supreme Court ruled that a worker who voluntarily elects to receive severance pay when forfeiting seniority rights in a technological displacement is disqualified from eligibility for unemployment compensation.<sup>57</sup>

The disparity of treatment of severance pay with respect to unemployment compensation among the States may be largely explained by divergent views of severance pay. Those favoring prorating of severance pay to offset unemployment compensation regard severance pay as compensation for wages lost after separation. In this view, severance pay and unemployment compensation are redundant. The employer is financially penalized if he is forced to pay twice (severance pay and unemployment compensation contributions) for benefits covering the same purpose. Those who favor leaving unemployment compensation unaffected by receipt of severance pay relate severance pay to the worker's past service to the employer. Hence, severance pay is considered as an accrued benefit, or deferred wages, not related to the worker's employment status after separation. Both views have legal precedent. The Social Security Act and the Federal Unemployment Tax Act exempted severance payments from the definition of "wages" subject to tax between 1939 and 1950. Prior to 1939 and after the effective date of the amendments, severance payments have been included in the definition of "wages" for contribution purposes.

Although it is not possible to determine how many workers eligible for severance pay are affected by State rulings on unemployment compensation, a rough indication of the significance of State practices is possible. Of 525 major agreements with severance pay plans, 353 were limited to a single State and covered one-third of the total number of workers with severance pay provisions in their collective bargaining agreements. More than half of the workers covered under these 353 plans may be affected by State unemployment compensation statutes or interpretations on severance payments, although the type of plan or the precise wording of the statute might eliminate some from application.

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<sup>57</sup> Herbster v. Unemployment Compensation Board of Review and American Viscose Corporation, 42 LRRM 132.



## Chapter IV. Severance Pay Plans in Operation—Five Case Studies

To reveal the operation and effects of severance pay plans that lie beyond the scope of agreement analysis and a mail questionnaire, five case studies were undertaken. Each study focused on a partial or complete plant shutdown in which severance pay was awarded. To place the severance pay plan in perspective, the entire shutdown procedure was studied, including timing of separations, other work opportunities offered by the company, and services provided to separated workers.

The studies were conducted by reviewing company and union records and interviewing company, union, and community officials, representatives of State employment services, and to a limited extent, displaced workers who received severance pay.

An attempt was made to find five diversified situations for study. Since the plant shutdown had to be recent, the choice was greatly limited. Thus, these situations are not necessarily representative. In order to assure as complete a reporting as possible, the names of the cooperating companies, unions, and the communities have been disguised, with only one unavoidable exception—the identity of the union in the fifth case.

## 1. Mt. Lion Electric Corporation

### Introduction

The Coleville plant of the Mt. Lion Electric Corporation, manufacturers of electrical equipment, was closed in July 1963. Its production was shifted to the company's main manufacturing facilities and headquarters about 500 miles away. Approximately 300 workers were employed at the plant at the time of the shutdown and an additional 800 workers with seniority were on layoff status.

The plant had been opened by another company in 1932 and was acquired by Mt. Lion 6 years later. Many of the employees affected by the plant closing had worked there continuously since the days of the predecessor company. Peak employment occurred in 1953, when more than 2,000 workers were employed. A steady decline followed: By 1958, employment had dropped to 600; by 1962, to less than 300. In addition to the long-term decline, seasonality created temporary variations in employment; some employees could expect only 4 to 8 months of work a year.

The work force contained a large number of women employed on wiring and assembly work. In the fall of 1962, 75 percent of the work force was female, mostly semiskilled. The range of skills among the men was more evenly distributed: 40 percent skilled, 25 percent semiskilled, and 35 percent unskilled. Because of the usually long list of laid-off employees with recall rights, there had been no hiring in recent years. Consequently, the average age of employees working in the summer of 1962 was 45; the minimum seniority, with one exception, was 13 years.

Employees of the Coleville plant, organized since 1938, were represented by a national union affiliated with the AFL-CIO. Both management and union characterized their relationship as "excellent." The only strike occurred in 1954. There had been three arbitration awards between 1951 and 1962.

Coleville had a population of 32,000. One hundred industrial establishments, the largest of which were plants of major manufacturing corporations, employed 9,000 workers. Home owners occupied 65 percent of the city's dwelling units. The unemployment rate, which had been quite high in late 1961, was in category C (3.0-5.9 percent) during the latter half of 1962, and had fallen to under 3 percent by spring 1963.

Despite the continued decline in production, employees were not disheartened at the start of collective bargaining negotiations in 1962. Since the previous agreement had been signed, the Mt. Lion Electric Corporation had been purchased by a large diversified manufacturing corporation, which allowed Mt. Lion to operate as an autonomous subsidiary. The prevailing feeling among employees was, "They would not have bought us just to close the plant." Moreover, many employees believed the company actually planned to increase production and employment at Coleville in the immediate future.

A 2-year agreement was reached in May 1962. Included in the agreement were several provisions that the union regarded as concessions to encourage expansion of Coleville operations:

(1) Omission of a 5-cent per hour wage increase granted employees of the main manufacturing facilities in the same bargaining round. However, the parties did negotiate a wage increase for the second year of the agreement, to be effective in May 1963.

(2) Flexible assignment of overtime if certain skills were required. Previously the union had insisted that overtime work be offered and assigned strictly according to plant seniority.

(3) Retention of accumulated seniority by those leaving the bargaining unit. Employees promoted out of the unit formerly lost all their seniority, thus becoming ineligible to return because of the preferential recall rights of laid-off bargaining unit employees.

Any optimistic expectation about the future was quickly shattered after Labor Day. When the local union president arrived at work on September 7, 1962, he noticed the plant manager dressed in a black suit and asked, "Whose funeral are you going to?" The reply: "Ours." Shortly afterwards, members of the union plant committee were called to the plant manager's office and were read the text of a telegram sent from headquarters that morning. The telegram announced the closing of the Coleville plant early in 1963 because of "insufficient economic justification to maintain separate manufacturing facilities."

Apart from the 256 employees in the bargaining unit then working in the plant, approximately 800 workers were on layoff. Among the latter group, seniority ranged from 3 to 13 years and length of layoff from 6 months to 3 years. It was estimated that from 150 to 200 of those on layoff, mostly men, were working elsewhere at regular full-time jobs. About 300 workers on layoff, as well as all working members of the bargaining unit, were eligible for benefits from the pension-termination pay plan.

The Pension-Termination Pay Plan

As in several other plants of Mt. Lion, a funded benefit plan was established at the Coleville plant as the result of collective bargaining in 1949. The plan, effective January 1, 1950, provided benefits for eligible employees at retirement, death, or termination of employment for any other reason. There had been no pension or termination pay plan for hourly paid employees before 1950. The prime motive for creating the plan was to provide pensions for retiring employees. Female employees at the main plant, unsure of the length of their working careers, were concerned that they might not share in negotiated pension benefits. The union thereupon successfully included termination pay provisions in the plan. The Coleville negotiations, which followed the company pattern, included identical provisions.

Employees could qualify for three kinds of pensions: a normal full pension available to employees at age 65 with at least 10 years of service upon retirement; an early pension, actuarially reduced in amount, to employees age 55 with at least 15 years of service; and a deferred pension (vesting) to be paid at age 65 to those leaving the company with a minimum age of 50 and 10 years of service. Employees qualifying for early or deferred pensions could elect termination pay in lieu of a pension.

Termination pay, in the form of a lump sum, was available to employees with 3 years of service who were terminated for any reason other than retirement. Acceptance of termination pay ended all employment rights of the employee. The amount of pay was the product of the number of hours actually worked after the effective date of the plan and a given cents-per-hour figure, according to the following scale:

Hours worked during	Basis of pay per hour
1950-55-----	\$0.05
1956-----	.07
1957-----	.09
1958-63-----	.10

Interest was computed on accumulated termination pay at the rate of 2.5 percent compounded annually. Although termination pay was based on hours worked since 1950, prior service could affect the amount of termination pay accrued, since seniority determined preferential right to overtime work and protection against layoff.

The plan provided that no part of termination pay due to an individual could be sold or assigned, with one exception negotiated in 1960. Up to that time, laid-off employees had no access to accrued funds in the plan without terminating their employment and relinquishing their seniority. After 1960, employees who had exhausted their State unemployment compensation could apply for a loan of up to 50 percent of termination pay due as of December 31 of the previous year. If an employee had obtained a loan and subsequently terminated his employment for any reason, his termination pay was reduced by the outstanding amount of the loan.

The pension-termination pay plan was funded by employer contributions. The fund covering Coleville workers was kept in a bank in another city.

There had been two major grievances early in the history of the plan. The first arose from overfunding as the result of increased social security payments and consequent lower pension payments which were integrated with social security. The union contended the company had reduced its contribution beyond a permissible amount. Although the union won the grievance when it went to arbitration, the problem was eliminated at the next negotiation with a provision for pension payments independent of the level of social security payments. The second grievance was settled before arbitration. The company had been withholding interest from accrued amounts in the fund when an employee was on layoff. The union was successful in its protest that interest should be included regardless of an employee's work status.

One problem that periodically plagued the plan's administration was a delay in receipt of termination pay after application. The issue had been serious enough to be raised in contract negotiations. The routing of application forms between company and union offices in Coleville, company headquarters, and the bank took time. Frequently 6 to 8 weeks passed between the date an employee filed for severance pay and his receipt of the payment. It was found possible to reduce the time for processing the paperwork to 2 weeks.

Despite liberal rules for termination pay qualification, local management and union officials agreed that few employees had left the company principally to obtain termination pay. Approximately 50 to 60 workers had applied for termination pay from 1959 to 1961; several hundred others qualified but preferred to remain on the seniority rolls on layoff status. In part, this may have been due to the late accumulation of significant amounts of accrued pay, and then only by more senior personnel. The more cogent reason seemed to be that retention of seniority outweighed any immediate monetary gain.

A choice between termination pay and layoff or between a pension and termination pay could be influenced by eligibility for group insurance. The company provided, on a noncontributory basis, life insurance and hospital-surgical-medical (Blue Cross-Blue Shield) insurance to employees. It also provided for and paid two-thirds of the cost of Blue Cross-Blue Shield insurance for dependents. When an employee went on layoff, the company paid for 13 weeks of continued life insurance coverage and 2 months of Blue Cross-Blue Shield protection. Continued coverage of the latter insurance could be maintained at the group rate for 10 months if the employee paid the full premium to the

company. In the 1962 collective bargaining negotiations, the company agreed to provide Blue Cross—Blue Shield insurance to employees who retired after the effective date of the agreement and to extend the group-rate option to laid-off employees for the entire period of layoff.

### Special Personnel Procedures

Following announcement of plant shutdown, local management promptly proceeded to effect an orderly shutdown. A tentative layoff schedule of employees still working at the plant was posted at the end of October. Although actual layoffs differed somewhat from the schedule because of unexpected production increases, the schedule fixed the order of layoff and permitted employees to anticipate their approximate length of employment and amount of wages. A comparison of scheduled and actual layoffs is shown below.

Approximate date	Scheduled		Actual	
	Men	Women	Men	Women
October 11-26 -----	8	39	7	47
November 9 -----	2	12	-	-
November 16 -----	4	12	-	-
November 23 -----	-	-	-	3
December 7 -----	9	11	-	-
December 14 -----	5	19	-	23
December 28 -----	12	18	-	-
January 4-----	6	33	-	-
January 11-----	-	19	-	-
January 14-21-----	-	-	6	25
January 28-----	-	-	-	12
February 1-----	-	14	-	-
February 6-----	-	-	11	28
February 15-----	-	-	9	30
Until closing-----	17	16	30	25
Total-----	63	193	63	193

Lists of benefit eligibility were also compiled. All 256 employees working at the plant at the time of the shutdown announcement plus 297 on layoff, a total of 553, qualified for benefits under the pension-termination pay plan. Over half of those on layoff had borrowed against their accrued termination pay. The distribution of benefit eligibility follows:

Regular pension -----	6
Early pension -----	45
Deferred pension-----	70
Termination pay-----	432

Both local union and company officials made separate efforts to develop job leads in the area. The union drive consisted of delegations from the plant committee visiting plants in the area. The delegations were received cordially but produced few jobs. More successful was the work of the Mt. Lion personnel manager who had developed many informal relationships with colleagues and employers in the area and utilized the resources of the county personnel association. The personnel manager circulated work resumes of white-collar employees and job descriptions of production employees. He telephoned associates to notify them of available skills. Some employers interviewed prospective applicants on Mt. Lion premises; others preferred that applicants come to them. In either

case, interviews could take place on company time. The presence of another plant of the parent company in Coleville led the personnel managers of both plants to arrange preferential hiring rights for qualified employees displaced by the shutdown. The State employment service also registered employees on company time, although interviews were scheduled for after-working hours at the service's offices.

The company encouraged employees to leave ahead of their scheduled layoff date if they had an offer of regular employment elsewhere. If the other job proved temporary or unsatisfactory, the employee could return and work until the time he would have been terminated with others of comparable seniority. Only 1 or 2 of the 12 employees who left early took advantage of the company's offer to return.

The company prepared letters for November distribution to employees who were on layoff at the time of the shutdown but had not applied for benefits from the pension-termination pay plan. The letters outlined the nature and amount of benefits available, the options among benefits from which the employee could choose, and a procedure by which the employee could apply for benefits by mail.

Besides receiving benefits from the pension-termination pay plan and pay for accrued vacation, employees working as of the shutdown announcement and subsequently terminated were given 2 months of Blue Cross-Blue Shield coverage by the company. When all insurance programs ended on April 1, 1963, employees were paid an amount equivalent to their group insurance premium.

The union kept in close touch with company actions. When the president of the union local was laid off in December, his place was filled by the vice president of the local. Frequent union membership meetings were scheduled to hear special speakers discuss company benefits, public assistance programs, tax implications of termination pay, and training opportunities in adult academic and vocational courses in the schools of the community. Publicity for these meetings was given not only through local newspaper and radio media but also through those of neighboring metropolitan areas so that as many employees as possible would hear of the meetings. At each meeting union officers would also report progress of union attempts to gain special benefits for employees affected by the closing.

One union attempt to gain special benefits was to file a petition with the U.S. Tariff Commission under the Trade Expansion Act of 1962 on behalf of 256 Coleville employees working since the effective date of the act. The union argued that the workers were being displaced by increased imports which had resulted from tariff concessions. In May 1963, the commission gave the petition an unfavorable decision. There could be no appeal.

### Transfer Agreement

The main union objective was to obtain for Coleville employees transfer rights to the main plant about 500 miles away. Several impediments existed: An existing layoff situation at the main plant, a long-standing rivalry between the locals, and an adverse precedent in Coleville itself. From 1942 to 1954, there had been a second Mt. Lion plant in Coleville, staffed with Negroes and organized by the same union. When that plant closed, its employees were given preferential hiring rights at the main Coleville plant; the hired workers retained their benefit credits but started as new employees in terms of seniority. Mt. Lion was now prepared to offer Coleville employees the same terms for employment at the main plant. However, court decisions in the Glidden and other cases

encouraged the union to demand more. These decisions held that seniority was not necessarily related to a particular agreement or site; transfer of seniority must therefore be extended to the company's current employees at a new location to which work is moved.

In answer to a union civil suit asking for transfer with full seniority, the company agreed to negotiate the matter if the two locals consented. With the intercession of union headquarters, an agreement regarding transfers was reached by the two locals and agreed to by the company in December 1962. The agreement provided that all Coleville employees on the seniority rolls "with a hiring date prior to December 31, 1953, would be eligible to transfer" with their seniority to the main plant. Transfer was conditional upon recall of main plant employees with the same seniority, and all transfer rights would end on August 1, 1963.

There would be two opportunities for employees to indicate their interest by signing transfer lists—March 1 and June 1, 1963. The two dates were designed to give employees a chance to consider the offer and to stretch out transfers over a longer period. There was no guarantee that transferring employees would receive offers identical with prior jobs. Moreover, laid-off workers would receive no moving or travel allowances nor special benefits while awaiting transfer. Those who did transfer were assured of an exemption from a physical examination, an identical job classification without a further qualifying examination, transfer of seniority, a comparable wage scale, and elimination of the waiting period for benefit eligibility.

The agreement on transfer opportunity was reported in the local newspaper accompanied by an announcement that eligible people could indicate an interest in transfer by signing up at union meetings or the plant. The agreement was also explained in detail at union meetings. Union leaders urged qualified people to sign transfer lists even if they were doubtful about actually going; signing the lists was no commitment, but ensured maintenance of all rights.

Neither union nor management urged workers actually to make the transfer. Privately, leaders of both groups doubted whether many of the workers would be satisfied with transfers. The financial cost and emotional ordeal of moving, the differences in the size and age of the communities, and the reputation of the main plant local union were considered major obstacles. The only workers who were urged to accept transfer were those hired before 1953 who needed relatively few hours to qualify for termination pay or full pension.

### Administrative Issues

Both union and management agreed that on the whole the processing of personnel affected by the shutdown was accomplished smoothly. Normal policies and special procedures described above were implemented without difficulty. There were no formal grievances; questions were resolved by conferences and checking of records. The only problems reported were confusion about the transfer agreement, rumors about the benefit fund's solvency, delay in liquidation of the fund, and a dispute over uncommitted money remaining in the benefit fund.

A rumor of insufficient funding of the pension-termination pay plan spread through the plant and community before completion of the transfer agreement. Because the pension-termination pay plan provided for a priority of payment in event of the fund's liquidation, there was a minor rush by some laid-off employees to collect their termination pay before those still working could apply for their

benefits. In fact, the plan was overfunded, but union and management attempts to reassure employees were only partially successful. The union was particularly concerned because participants in the run on the fund were jeopardizing their inclusion in other benefits the union hoped to obtain.

The time between application for and payment of benefits once again became extended. The delay was in part due to the administrative work involved in processing a large number of applications. A more significant reason was the necessity of achieving liquidity of the benefit fund. As soon as the plant shutdown was announced, the bank trustees of the fund drew up a schedule for disposing of securities in which the fund's money was invested. The rate of benefit applications outpaced the rate of disposal so that payments were held up for a number of weeks. Three workers who left at different times reported receiving their termination pay 7 to 8 weeks after applying for it. Management was concerned about the payment delay and bothered by inquiries from employees.

The delay did not create as much of a problem as disposition of money left in the fund after negotiated commitments had been met. Two reasons accounted for excess money in the benefits fund; generous funding and employee choices among options. As of the day of the plant shutdown announcement, total assets of the fund were \$1,592,000 and total liabilities \$1,047,000. Employees eligible for early or deferred pensions had the alternative of receiving termination pay based on actual hours worked since the effective date of the plan. The amount invested in an individual's pension annuity was more than the amount he would receive in termination pay. The union estimated that acceptance of termination pay by all those eligible for a deferred pension would have reduced payments from the fund by \$300,000. Prior to the shutdown, the union had usually urged eligible employees to accept a pension. Now the union remained silent and, indeed, some union leaders were themselves faced with the choice. A large number of people elected termination pay in preference to a deferred pension. The most common reasons given for the choice were: (1) Being able to use a substantial sum at once, and (2) not knowing who would be responsible for benefit funds or to whom later application for pensions should be directed.

The problem of excess money in the fund was not resolved until February 1964. The company had been arguing that money remaining after negotiated obligations had been met reverted to the company. The union's contention had been that all money in the fund was due workers displaced by the shutdown and should be apportioned among them. The agreement provided that:

1. Employees with 3 years or more of service were entitled to the full value of their pension benefits. Thus, those who had elected termination pay would receive the difference between pension benefits and termination pay already awarded.
2. Employees with less than 3 years of service who were on the payroll when the shutdown was announced would also receive the difference, if any, between their pension benefits and termination pay previously awarded.
3. Employees with less than 3 years of service on layoff at the time of the shutdown announcement were entitled to severance pay.

### The Choices Made

Of the 553 eligible for some kind of benefit from the pension-termination pay plan, all but 24 had made a decision by December 1963. A summary of employee benefit eligibility and decision is presented as follows:

Benefit	Number eligible <sup>1</sup>	Number accepting, December 1963			
		Pension	Termination pay	Transfer	Not applied
Regular retirement -----	6	6	-	-	-
Early pension -----	45	27	13	4	1
Deferred pension -----	70	1	60	4	5
Termination -----	432	-	398	16	18
Total -----	553	34	471	24	24

<sup>1</sup> As of September 1962.

The overwhelming majority of the eligible employees (78 percent) qualified only for termination pay with an option to transfer. An even larger number actually received termination pay. Fully 86 percent of employees eligible for a deferred pension and 29 percent of those eligible for an early pension chose termination pay in lieu of a pension. Only 1 of the 70 qualified for a deferred pension accepted it.

Transfers. Approximately 60 of 500 eligible workers had indicated a desire to transfer by signing the transfer lists. The company had expected that only 20 would actually make the move when the offer was made and the time for transfer had arrived. Thirty Coleville employees transferred to the main plant: 24 who qualified for benefits and 6 others. Most of the latter group worked the limited number of hours necessary for them to gain eligibility for termination pay. Among the 24, those eligible for early pension benefits transferred to build up their social security benefits as much as their pensions. Twenty-two of the transferees were women, mostly unmarried or widowed. It was considered likely that more men would have transferred if the employment situation in Coleville had been more difficult. The distribution of transferring employees by sex, age, and seniority is as follows:

Age	Women	Men
60 years and over -----	3	-
50-59 years -----	7	3
40-49 years -----	7	4
30-39 years -----	5	1
Total -----	22	8
Seniority		
2 years and less -----	6	-
3-9 years -----	6	-
10-14 years -----	3	-
15-19 years -----	-	1
20-24 years -----	6	3
25 years and over -----	1	4
Total -----	22	8

The employees who transferred were, on the whole, reported as satisfied with the opportunity to continue employment with Mt. Lion. The reception by the local union was different from expectations; it was friendly and helpful both on and off the job. Several employees who had transferred with the intention of returning to Coleville after a few months enjoyed the new location to the extent of remaining there. Among those who returned to Coleville, the reason given was difficulty in adjusting to urban living rather than dislike of either plant or job.

Termination Pay. A total of \$686,568 was awarded in termination pay between September 1962 and June 1964. Individual gross termination pay ranged from \$216 to \$2,366, depending on the number of hours worked after the effective date of the plan. Workers at the lower end of the benefit scale could receive much less in net pay since they were more likely both to have been laid off and to have borrowed up to one-half of their future termination pay. The maximum paid to men was \$2,366, to women \$2,050, the difference due largely to more overtime opportunities for men. Most of those working at the time of the shut-down announcement who were eligible for termination pay received more than \$1,500. A distribution of termination pay awarded between September 1962 and June 1964 follows:

Termination pay	Number of employees	Termination pay	Number of employees
\$200-\$299-----	2	\$1,400-\$1,499-----	22
\$300-\$399-----	2	\$1,500-\$1,599-----	24
\$400-\$499-----	24	\$1,600-\$1,699-----	28
\$500-\$599-----	26	\$1,700-\$1,799-----	33
\$600-\$699-----	26	\$1,800-\$1,899-----	36
\$700-\$799-----	26	\$1,900-\$1,999-----	49
\$800-\$899-----	30	\$2,000-\$2,099-----	43
\$900-\$999-----	20	\$2,100-\$2,199-----	18
\$1,000-\$1,099-----	11	\$2,200-\$2,299-----	6
\$1,100-\$1,199-----	18	\$2,300-\$2,399-----	3
\$1,200-\$1,299-----	16		
\$1,300-\$1,399-----	26	Total-----	<sup>1</sup> 489

<sup>1</sup> The number of employees receiving termination pay includes 18 employees who accepted termination pay between December 1963 and June 1964. These employees had transferred or had not previously applied for benefits.

Although there was no extensive study of termination pay expenditure, individual cases did come to the attention of the company, the union, and the BLS representative. Analysis revealed two major categories of workers who received termination pay: One consisted of employees, almost all men, who had other jobs when they left Mt. Lion or found them shortly thereafter. The second included women who were primarily long-time secondary wage earners in the family. In both cases, termination pay was likely to be largely invested in savings accounts, home mortgage payments, and debt liquidation. In one instance, termination pay was used to pay for remodeling of a home, a project begun before the announcement of plant shutdown; the owner insisted the job would not have been undertaken had she expected the shutdown. There were no known instances of creditors insisting that termination pay be applied to outstanding debts, although some creditors did check to see if debts could be met. At least two employees used the money to start their own businesses, one of which failed within 3 months. Others bought new homefurnishings, one a car to look for work, another a car for a son. Pay received around Christmas contributed to money spent on gifts. Relatively few people used termination pay for self-maintenance; those who did were people who were their own self-support and who had exhausted their unemployment compensation. In no known instance was termination pay spent in an obviously frivolous manner; i.e., not in conformity with normal expenditures of available cash.

Other Jobs. A major distinction in placement of male and female employees was obvious—men got jobs relatively quickly. Mt. Lion was the only major industrial employer of women in the community. Other employers were reportedly reluctant to employ women, not so much because different skills or physical effort were required but because State legislation on overtime work for women reduced employer flexibility in meeting variable production loads.

As far as was known, all men displaced by the shutdown were working at regular jobs by November 1963. Approximately 24 men were employed at the local parent company plant, a result of the preferential hiring arrangement worked out by the personnel managers. Women, on the other hand, had little opportunity for employment; age was often another obstacle they had to overcome when applying for jobs. Their principal opportunity lay in retail store selling. Many women were reluctant to apply for such jobs, however, preferring the atmosphere and work of manufacturing jobs with which they had long been associated. Nevertheless, a number did accept retail store work when it was available. Others became waitresses or typists if they had the skill. A few found factory jobs; one woman admitted the only reason she was employed temporarily on a second shift was because of "inside pull." One woman received training as a medical secretary under the Manpower Development and Training Act of 1962. Most women remained unemployed. All those interviewed claimed they would have remained working until retirement if the plant had not closed. Further, they would return to work if the plant were to reopen or if another manufacturer could utilize their services.

### White-Collar Employees

The situation of white-collar employees was different from that of workers in the collective bargaining unit. Instead of a pension-termination pay fund, salaried workers had a pension plan with vesting provisions which permitted a lump-sum settlement in lieu of a deferred pension. Until the change in ownership a few years earlier, salaried employees also participated in a profit-sharing plan, benefits of which could be accumulated or withdrawn periodically. These two sources could provide salaried workers from very little to a substantial amount of money. A manager with 25 years' service received over \$10,000. One man who remained with the company had available an individual account of \$70,000 in accrued benefits. On the other hand, some white-collar employees received less money when they left than blue-collar employees with similar service periods.

All salaried personnel, including clerical personnel, were offered jobs with the company, though not necessarily at their previous levels. At the same time, the company did not discourage people from looking elsewhere and leaving at their convenience. Local plant officials were active in aiding placement of salaried personnel. Many decided to leave the organization and remain in the local area. A few went into business for themselves.

### Impact on the Community

The small number of people actually working at the time of plant closing, together with a rapid increase in area employment, minimized any serious adverse effect that the shutdown might have had on the local economy. Community businessmen pointed out, however, that the larger group of employees on Mt. Lion's seniority rolls were already on layoff at the time of plant closing. Many of these employees experienced long periods of unemployment and had thus been a loss to the economy prior to the formal closing. Continual employment erosion at Mt. Lion since the mid-1950's may also have restrained consumer purchases among those fearing future layoffs. Both points suggest that the effect of the shutdown began long before the plant closing.

## 2. The Navysail Corporation

### Introduction

The Navysail Corporation manufactures a variety of consumer and industrial products in many plants throughout the United States. Its Ohio plant was part of a division whose headquarters were 350 miles away. The plant had begun operations in 1951 in a building erected for the company by the community at a cost of \$120,000. Navysail had agreed to a 10-year lease of the building, at the expiration of which it renewed the lease through 1966.

In July 1963, the Ohio plant of the Navysail Corporation was closed.

The Ohio plant was located in a city of about 5,000 people in the Appalachian region of southeastern Ohio. A decline in coal mining had created a substantial excess of workers over available jobs in the area. Some light industry had been introduced, including a shoe company that was the only other major employer in the city.

In 1963, the Ohio plant employed approximately 130 wage and salary employees, somewhat lower than its peak employment in the mid-1950's. The employees were organized by an affiliate of the AFL-CIO in 1952. (The division headquarters plant had been organized earlier by another affiliated union.) Relations between management and union were peaceful and no time had been lost due to work stoppages.

Of the 116 employees in the bargaining unit in March 1963, 71 were women and 45 were men, distributed among nine labor grades, as follows:

Grade	Wage rate	Women	Men
2-----	\$1.78	62	2
3-----	1.87	9	1
4-----	1.98	-	5
5-----	2.10	-	2
6-----	2.26	-	1
7-----	2.42	-	7
9-----	2.73	-	15
10-----	2.91	-	10
11-----	3.03	-	2

The 116 employees were distributed by age and length of service, as follows:

Age	Years of service							
	1-4		5-9		10-14		Total	
	Men	Women	Men	Women	Men	Women	Men	Women
29 years or less-----	1	-	2	2	-	1	3	3
30-39 years-----	-	1	10	17	8	14	18	32
40-49 years-----	4	-	7	20	6	16	17	36
50-59 years-----	-	-	1	-	4	-	5	-
60 years and over-----	-	-	-	-	2	-	2	-
Total-----	5	1	20	39	20	31	45	71

Because of the steady work, above-average wages, and working conditions, the plant was regarded as a highly desirable place to work. Many employees felt the company was "the best thing that ever happened to the area."

## Plant Shutdown

On March 19, 1963, management announced its intention to close the Ohio plant, starting in May and ending in September. The announcement stated that termination pay provisions would be in effect when the plant closed.

The decision to close the plant was based exclusively on economic considerations. The cost of transporting raw and finished materials, and of overhead in multiple plants outweighed the advantages of continuing separate operations, including the wage and efficiency differentials the company enjoyed in southeastern Ohio. The decision was part of the company's continual realignment of production facilities. Although the Ohio plant was the first in its division to be closed, experience with shutdown procedures in other divisions proved applicable.

Reaction to the plant closing announcement was shock and disbelief among employees, the union, and the community. There had even been some hope of production being moved from division headquarters. City and union leaders volunteered "to do whatever is necessary" to keep the plant open. Only after they had been assured that the decision was irrevocable did they turn their attention to coping with the shutdown.

Community officials were concerned with the mortgage remaining on the plant building and the loss of business resulting from the plant closing. The company offered a financial settlement for the outstanding portion of the lease. The city attempted to interest other employers in locating in the city, but 1 year after the shutdown announcement no new industry had been attracted.

Union leaders met with management to discuss and negotiate plant closing procedures. The major revision in existing provisions was "reverse seniority in layoffs," i. e., a senior employee had the right to choose layoff if a junior employee scheduled for layoff could perform the work. This change was designed to permit senior employees to accept other jobs without forfeiting severance pay. The company also unilaterally offered to extend severance pay eligibility to employees laid off more than 90 days before plant closing; this change in the severance pay plan was implemented without being negotiated.

Management, meanwhile, was busy preparing movement of equipment, scheduling layoffs, and explaining benefits available to employees. The rate of layoffs depended on the rate of moving equipment which, in turn, was largely dependent on the ability of the division headquarters plant to absorb additional machinery. The first schedule of layoffs, posted about May 1, spread layoffs from May until September. The rate of shutdown, however, proceeded more rapidly than management had expected, largely because of the number of Ohio plant mechanics who accepted employment at division headquarters. By early June, the local newspaper reported movement of one-half of the production machinery and a revised anticipated closing date of August 1. The movement of equipment was actually completed on July 10, and the keys to the plant returned to the city on the next day.

Approximately 10 days before layoff, employees met with the plant manager who explained in general terms the available benefits and the steps necessary to obtain them. Each person was then given a form with details of benefits, including amounts, dates due, and procedures, as they applied to the individual. (See last page of this section.)

The company decided not to sponsor any employment referral program since there were no other employers directly interested in the skills possessed by Navysail workers. Cooperation was given to the State employment service, and all employees were referred there for job placement counseling as well as filing unemployment compensation claims.

Some management anxiety about the process of closing the Ohio plant proved unwarranted. There was no instance of employees leaving before scheduled layoffs apart from the few employees who exercised their right to leave if junior employees could fill their positions. Moreover, there was no last minute filing for workmen's compensation, as the company had experienced in some other plant closings.

Management's principal personnel concern was administration of the policies and programs proposed unilaterally by the company or previously agreed to in collective bargaining: Offers of jobs at other company locations; monetary payments available at the time of plant closing including severance pay, savings and retirement account, and savings and security account; and other benefits, such as pensions and insurance plans. Each of these will be discussed in turn.

#### Job Offers with Navysail

Shortly after the initial announcement of plant closing, the company informed employees that, in accordance with policy established in prior plant closings, it would give preferential consideration to terminated employees interested in employment at division headquarters. Interest would be indicated by an employee signing a list, but this act did not commit either the company to offer a job or an employee to accept a job. Those who accepted employment at division headquarters would be considered new employees for layoff purposes but would be able to transfer length-of-service credits for benefits, such as pensions and vacations. Although employees accepting employment would receive no moving expenses, they would get severance pay and would otherwise be treated as terminated employees. While no one was excluded from employment consideration at division headquarters, the company was most interested in offering jobs to the 35 mechanics at the Ohio plant. From experience in other plant shutdowns, management did not expect that many employees would accept employment at division headquarters.

About 20 employees, including three women, indicated interest in being considered for employment at division headquarters. The plant manager made job offers on the basis of seniority and job availability. The division headquarters' wage scale was approximately 10 percent higher than that of the Ohio plant, and no one was offered a job at a lower grade than at which employed when the plant closed. Although some employees withdrew their applications, 15 went to division headquarters, beginning at the end of May. They went as soon as their machines were moved, or as soon thereafter as suited them. Only 1 of the 3 women, accepted a job. The 14 men, most of whom were in their late thirties, were mechanics. While not all of the senior mechanics went to division headquarters, the company was pleased that so many did, for this facilitated the movement of equipment.

Employees who did not express interest in or accept employment at division headquarters offered a variety of reasons, including financial and community differences, employment factors, and personal considerations. Moving involved immediate out-of-pocket expenses. Most people owned homes which were likely to be sold at a loss. The headquarters community reputedly had higher cost-of-living and tax rates. Even its superior school system was viewed as a deterrent by parents who feared their children would have to transfer into a lower grade. Another objection frequently raised was the absence of layoff seniority for employees moving to division headquarters, which made employment appear tenuous. Futile attempts to work out an arrangement for transfer of seniority were complicated by different union representation at the two plants. There were also individual reasons for choosing to remain. All of the company employees regarded southeastern Ohio as their home. Proximity to relatives and lifelong friends was hard to give up. Perhaps most important of all, those who remained believed that they would be able to find employment somewhere in the area.

The attitude of those who chose from the outset not to leave was reinforced by those who went to division headquarters and then returned. Only 6 of the 14 men who went in the summer of 1963 remained there by spring of 1964. These six had moved their families before beginning work at division headquarters. Each of the other eight was head of a family who was "trying out" the job and living conditions before moving his family. Some of the returnees felt that they had to work harder at division headquarters than previously. Being assigned to instruct employees who had more seniority, moreover, aggravated their uneasiness over job security. Maintaining two places of residence and commuting 350 miles each way on weekends proved expensive. Distance also created family disruptions. Some men quit to return to seek work in Ohio. Most of those who returned, however, waited until they were certain of employment near home to avoid missing a paycheck.

#### Payments Available at Time of Plant Closing

Several plans and provisions provided terminated employees with financial resources: A savings and retirement plan, a savings and security plan, and a termination pay plan.

The savings and retirement plan, begun in 1942, was designed to serve a variety of purposes and to meet "special problems peculiar to our company . . . such as the large percentage of women in our employ, many of whom leave before retirement age." The plan provided an annuity at time of retirement or disability, a death benefit, or termination pay for employees leaving for any other reason. Employees who elected to join could participate in the plan after 1 to 3 years of service, depending on the employee's age at time of employment (3 years for those hired before their 35th birthday, 2 years for those between their 35th and 40th birthdays, 1 year for those after their 40th birthday). Benefits were paid from individual employee savings accounts accumulated from a 3-percent payroll deduction, and annual share of 6 percent of the company's net profits before taxes, and interest. The company made additional contributions of one-half of employee accumulated contributions in case of laid-off and retired employees. No attachment to or withdrawals from membership accounts were permitted during employment. Over 98 percent of employees participated in the plan. Member accounts were frozen in 1961, when the company converted the plan into a noncontributory pension plan.

The contributory and profit-sharing provisions of the savings and retirement plan were incorporated into a new plan, the savings and security plan. Members contributed 3 percent of earnings through payroll deductions, and the company contributed 6 percent of net profit before taxes annually. Employees could withdraw money from their accounts after 12 months of participation. The plan encouraged thrift and permitted withdrawals at time of layoff or emergency. Its primary purpose, however, was financial aid at retirement or separation from employment.

In the 1960 collective bargaining negotiations, management proposed a termination pay plan to be effective the first of the following year. Union negotiators at the Ohio plant accepted it. The plan also applied to nonrepresented employees in organized plants and employees in unorganized plants of the company. The termination pay plan was limited to employees involved in complete plant closings. Employees laid off within 90 days of plant closing were deemed eligible for benefits. The amount of pay awarded was related to length of continuous service, with 8 hours' pay at straight-time hourly rates for each of the first 5 years of service, and 40 hours at such rate for each year thereafter. Experience with the plan indicated no administrative difficulties. Management attributed this record to the simplicity and clarity of the agreement provision.

Every hourly paid employee on the company's rolls at the Ohio plant at time of plant closing announcement was eligible for termination pay. A memorandum on the amount of termination pay due each employee was sent to the company's central computing and payroll headquarters. Termination pay was then mailed together with the individual's final week of wages approximately 1 week after separation. A total gross amount of \$45,198 in termination pay was paid to the 116 employees in the bargaining unit: \$19,812 to 45 men and \$25,386 to 72 women. An additional \$708.59 was awarded to four women clerical and staff personnel, and \$1,927.16 to the two foremen of the plant. Individual termination payments of bargaining unit personnel ranged from \$14.96 for a grade 4 man employed 1 year to \$931.20 for a grade 11 man with 12 years of service. Termination payments were distributed as follows:

Termination pay	Men	Women	Totals
\$0-\$99-----	5	1	6
\$100-\$199-----	2	8	10
\$200-\$299-----	9	18	27
\$300-\$399-----	1	13	14
\$400-\$499-----	8	25	33
\$500-\$599-----	6	6	12
\$600-\$699-----	5	-	5
\$700-\$799-----	7	-	7
\$800-\$899-----	1	-	1
\$900-\$999-----	1	-	1
Total-----	45	71	116

Aside from taxes, the only deduction from termination pay was outstanding amount of "employee sales," i. e., sale of company products at reduced prices and on credit to employees. Maximum credit of such sales was restricted to \$250, but only 10 percent of employees had outstanding debt at any one time.

Other payments were available from the company at time of separation. Almost every employee was a former member of the savings and retirement plan, and a substantial though smaller proportion had chosen to subscribe to the savings and security plan. To some employees, one satisfaction from the shutdown situation came in being able to get their otherwise untouchable savings and retirement funds. Terminated employees could apply to close their savings accounts or leave them for 18 months to draw additional interest; no employee chose the latter option. Processing applications for closing of savings accounts took approximately a month. Amounts received from the savings plans varied more widely than those of termination payments, since the amount of employee contributions depended on rate of pay and actual hours worked. For a man at the top of the pay scale with 10 years of service, the largest return from the savings and retirement plan could be over \$3,000; senior women employees would receive about two-thirds of that amount. The short period of effectiveness of the savings and security plan and the spotty participation in the plan made it of lesser significance, but payments to participants ranged up to \$400.

Maximum total payments at termination from all sources were over \$4,000. More typical perhaps were the following amounts: A grade 6 employee with 11 years of service received \$2,675 in total, of which \$630 was termination pay; a grade 9 employee with 8 years of service, over \$1,600, of which \$400 was termination pay; a grade 3 employee with 9 years of service, over \$1,700, of which \$375 was termination pay.

The amounts of money, substantial in many cases, were spent in various ways: To meet debt obligations, to make new purchases, or to invest in savings or similar programs. Most people used at least part of the amount to pay outstanding debts or to meet future obligations. Typical expenditures of this type were mortgages, car payments, and other forms of installment-purchase debt. Many employees had incurred new financial obligations shortly before the announcement of shutdown that they otherwise would have avoided; in this category were new automobiles and home remodeling projects. While there was no feeling of creditors unduly pressuring to collect or accelerate repayments, at least one woman had to surrender a car for delayed payments, and others were concerned about their ability to keep up payments without new sources of income. As far as could be determined, few people made additional purchases on the strength of their severance pay; only two instances were cited of people buying a new car or taking an elaborate vacation after receiving shutdown payments. Some workers had already committed part of their shutdown payments; as one employee who had been extended credit at a local auto service station on condition of repayment from severance pay. Management believed that employees who moved their families to division headquarters probably used shutdown payments to defray moving expenses. Returnees who were interviewed had given thought to spending the money as a down payment on a trailer or a house, in the new community, but found other uses for the money. As of March 1964, no former employee had moved except to division headquarters. Only one undertook training for another trade by enrolling at a barber school. Finally, some workers banked the money "for a rainy day" or, more rarely, "as a kind of pension." Money banked for future emergencies sometimes slipped away more quickly than planned. Workers subsequently earning lower incomes had the problem of maintaining former standards of living. Those without current income had a more acute problem. One man, unemployed 9 months, claimed to have exhausted his shutdown payments of over \$2,000 as well as previous savings. Workers who retained much of their shutdown payments were likely to be women whose husbands were working at well-paying jobs or men who quickly found other employment at comparable wages and who, in both cases, made a conscientious effort not to touch the money. These workers were very few; the overwhelming majority had little, if any, of their shutdown payments left after 9 months.

### Other Benefits

Besides the financial payments, benefits were available at time of plant closing, from the current pension and insurance plans.

The noncontributory pension plan instituted in 1961 provided for normal retirement at age 65, early retirement at age 55 with 15 years of creditable service, and vesting at age 40 with 10 years of creditable service. For service prior to 1961, creditable service was defined as continuous service less 1 to 3 years, depending on age when joining the company, as in the case of eligibility for the former savings and retirement plan. One employee received an immediate full pension, and three others qualified for a vested pension. Since individuals eligible for a vested pension had to get in touch with the company when they reached 65 years of age, it was imperative that they understood their eligibility. Interviewed employees knew of no cases of pension vesting. In any case, pensions vested in 1963 would have been small, for they would amount to 1 percent of total compensation earned after September 1, 1961, i. e., probably under \$100 annually after age 65.

The company provided employees and dependents with group coverage of life insurance and hospital-surgical-medical insurance. The former terminated at the end of the last month of employment but could be continued at group rates for 18 months if the employee paid the full premium. The latter normally ended

at the end of the month following the month in which employment terminated. Employees were offered continued coverage for 18 months by paying the entire premium at the group rate to the company in monthly installments. The cost for a family was \$14.88 per month. Fifty-one employees (45 percent of those eligible) took advantage of the option. Cost was the most frequent reason given by those not maintaining the insurance; in several instances workers were hospitalized at heavy expense after the termination of their insurance with the company.

### State Unemployment Compensation

Payments from the State unemployment compensation system were available to all terminated employees without other work. The compensation lasted for 26 weeks and consisted of a maximum basic weekly rate of \$42 plus maximum "dependents' allowance" of \$11. An official of the system estimated that about one-half of the employees involved in the Navysail shutdown had used up the full 26 weeks of eligibility by March 1964. Some workers accepted employment at wage rates that yielded less than unemployment compensation, to preserve eligibility for unemployment compensation for a time when they would again be laid off. Others chose to remain on unemployment compensation until obtaining "suitable" employment.

At the time of the shutdown, the receipt of termination pay did not affect employee eligibility for unemployment compensation. Effective October 1963, the Ohio law was revised to affect instances where termination pay was awarded. Had this provision been in effect 6 months earlier, terminated employees would have been disqualified for up to 8 weeks of unemployment compensation.

### Subsequent Employment Experience

The employment situation in southeastern Ohio in early 1964 was much the same as it had been in the latter half of 1963. The county in which the Navysail plant had been located had an unemployment rate of 7.8 percent. The figure was low relative to neighboring counties because a substantial portion of the county's labor force was employed in government services and nonprofit institutions. The next county, in which there was more manufacturing, had an unemployment rate of 18.9 percent; women constituted one-fourth of the unemployed. The job situation was aggravated by the simultaneous closing of Navysail and a furniture manufacturer employing 160 in a nearby community. Nevertheless, most former Navysail employees had other jobs by March 1964, although some had been without work for many months.

Almost all employees who remained in southeastern Ohio registered for employment placement with the State employment service, if only to establish eligibility for unemployment compensation. Some registered at several offices in the area to improve chances for finding employment. Each office could offer job vacancies in its own area since the interoffice clearance system provided openings only for skilled and professional personnel. Although no separate figures were collected, State employment service staff believed that they placed a significant number of Navysail employees, especially after a new plant opened in the area in the summer of 1963. In addition, the service conducted special surveys for potential employers interested in locating new industry in the area.

The outstanding success of the State employment service placement program was with a rubber company plant, which commenced operations in July 1963. By spring 1964, employment had climbed to 300. The employer's

initial requirements were rigid, including minimum height, weight, and intelligence test scores. The tests were selected and administered by the State employment service office to about 650 workers. As the company's labor requirements rose in early 1964, some screening requirements were waived. Over time, several dozen former Navysail employees found jobs at the rubber company, though at substantially lower wages than they earned formerly. Others interviewed stated that they would gladly have accepted employment there but had been turned down.

Other former Navysail employees who had found jobs by March 1964 did so singly or in small groups. Work was frequently obtained through referral by friends. One woman was hired at a local shoe factory 3 weeks after termination; six other women were hired there 9 months later. Several women obtained manufacturing work at a lens company. Some accepted cooking and service jobs at nonprofit institutions at less than \$1 an hour, or one-half of their former wage. A local hospital employed two women as nurse's aides. Some men accepted jobs in glass, clay, aircraft, and service industries. Commuting 30 to 60 miles for work was not uncommon, with some going as far as 80 miles from home each day. In the absence of other work, construction was always a seasonal possibility for men, if only to qualify for further unemployment compensation. Most of those interviewed regarded construction as a temporary and unsatisfactory solution. One man worked 3½ months on construction until laid off in November; he had not obtained other employment by the following March. Another worked 5 months on residential construction before being laid off. Both men stated that they would be willing to work at lower paying but steadier jobs. Even those able to get regular full-time work were not certain of future employment; layoffs and bumping threatened to displace some of those with jobs or to cut their wages to the point where they felt they could no longer afford to commute to work.

With the exception of two women who chose to withdraw from the labor force, all of those without jobs in March 1964 claimed to have looked extensively for work by applying directly to employers and through State offices within a 60-mile radius. Wages above a given minimum also were not a prime concern of these people, who were willing to work at less than 60 percent of former wages. None of the unemployed attributed age as a deterrent to being hired since they could point to older coworkers of similar skills who had been hired. Yet, the director of the local State employment service office admitted that age became a factor when people reached 40. All of those interviewed who were not employed were 40 years of age or older.

The desire for "good" employment was stressed repeatedly, even by those who had jobs. "Good" was interpreted as secure jobs with the possibility for future advancement opportunity. In concrete terms, the concept explains the eagerness to gain employment at the rubber company rather than at the local shoe factory and similar institutions. Ironically, Navysail had been regarded as a place of "good" employment. The plant closing experience had convinced some that the future of local manufacturing would remain tenuous and that the only "good" employment remaining was in utilities, government, or nonprofit institutions.

All of the interviewees, when asked, expressed interest in training if it would lead to a job in the area. Few had any ideas of what sort of training would be advantageous, and none had seriously considered the possibility of training. The interviewees would have been willing to pay tuition for training leading to a job if they had money available.

## Exhibit 1

## Form Given Employee Prior to Termination

Date \_\_\_\_\_

Name \_\_\_\_\_

S. S. No. \_\_\_\_\_

The following is general information concerning your "Layoff Lack of Work Due to Plant Closing:"

1. Last day worked will be \_\_\_\_\_.
2. \_\_\_\_\_ will be your day of the week to report to the unemployment office to register for unemployment compensation.
3. The following are some of the more important points relating to continuing your group insurance coverage following your separation from the payroll.

(a) Your life insurance and H-S-M insurance may be continued monthly up to 18 months following your separation from the payroll.

(b) Life insurance premiums are payable on the date of your separation for the following month. The present monthly rate is \$.310 per \$1,000 of insurance. This amount is subject to change from time to time at which time you will be so notified. Each subsequent payment is due on or before the 20th of the month.

(c) Your H-S-M insurance premium is payable on or before the 20th of each month following your separation. The present rates are \$4.31 for single coverage and \$14.88 for family coverages. These amounts, also, are subject to changes from time to time. Failure to submit your insurance premium on or before the 20th of each month will result in automatic cancellation of your insurance.

(d) Your first life insurance premium, due on the date of your separation, is to be made at the Ohio plant. Each subsequent payment and your H-S-M premium payments are to be paid by check or money order made payable to: "Navysail Petty Cashier" and mailed to:

Personnel Department  
Division Headquarters  
Navysail Corporation

(e) Following the 18-month period, you may convert your insurance policies to a direct payment plan by contacting your local insurance agent. The rates for this will undoubtedly be higher than under the group plan.

4. You will receive \_\_\_\_\_ hours of termination pay for plant closing based on your present straight-time hourly rate.
5. You will receive your regular pay, accrued vacation pay, and termination pay on \_\_\_\_\_. Balances due on employees purchases will be deducted from your final check.
6. You may cancel your employee stock purchase plan by completing Form ESP 41 which will allow the funds credited to your account to be refunded in cash or allow you to purchase full shares applicable from the funds credited to your account and the remainder of such amount to be refunded in cash.
7. Former S & R members may withdraw the funds credited to your pension account or withdraw the funds anytime subsequent to your separation up to 18 months at which time you will be so notified to withdraw. After the Ohio operation ceases, the forms are available upon request from the Personnel Department at Division Headquarters.
8. S & S members may make a normal withdrawal of funds credited to your account 30 days following your separation date.
9. Important items to remember:

(a) Change of address notices should be mailed to Personnel Department, Division Headquarters, Navysail Corporation.

(b) Forms for H-S-M claims should be requested from the Personnel Department at Division Headquarters.

(c) All insurance claims will be handled by the Personnel Department at Division Headquarters.

### 3. Moonwitch Company

#### Introduction

The management of Moonwitch Company announced in the summer of 1962, that it would close one of its two plants and shift production to the other plant in a nearby community. Over 800 employees were affected by the shut-down, less than 15 percent of whom were women. The majority of Moonwitch jobs were semiskilled or unskilled; skilled jobs constituted less than 20 percent of manual employment.

Moonwitch, established in the late 19th century, was a fabricated metal manufacturer. The company made a line of consumer products under the "Be-witched" trade name and a variety of other articles on a contract basis. Through a 1937 merger, the company expanded its operations to a second location, 23 miles away. A subsequent purchase of the company by Hecate Corporation was challenged as a violation of antitrust statutes. The corporate entity and name of Moonwitch Company were reestablished with the sale of operations to a new group of owners in 1961.

The company was situated in a highly industrialized, heavily unionized area. It had been organized in 1937. There had been only one full-fledged strike, in 1946, when workers staged a 6-week sympathy strike with workers in basic steel. Labor relations at the newer plant were regarded as more restless, as exemplified by a problem with "wildcat" strikes. Nevertheless, both management and union termed relations between the parties in both plants as "good."

Since 1952, the two plant locals of the union negotiated jointly for a master contract with the company. In general, the agreements followed the pattern of the basic steel contracts, although there was sometimes a substantial time lag; for example, severance pay was first included in the Moonwitch agreement in 1952, whereas it originally appeared in the U.S. Steel contract in 1947. The Moonwitch agreement also contained pension and supplemental unemployment benefits.

Seniority for layoff and transfers was determined by departmental length of service; there were separate seniority lists for men and women. Employees retained seniority following layoff for a period equal to length of continuous company service prior to layoff.

The shifts in corporate ownership affected financial responsibility for, but not the substantive language of, benefit programs contained in the labor agreement. As part of the purchase of Moonwitch, Hecate Corporation received by transfer a \$3,500,000 pension fund established for Moonwitch employees, which it merged into its own pension fund. No further contributions to the fund were made during Hecate's ownership. In the 1961 sale agreement, Hecate agreed to finance pensions already granted, to pay for past service costs for vested pensions at the newer plant, and to give Moonwitch \$500,000 for its pension fund. The new owners would assume the past service costs of the pension plan at the older plant, and current charges for both plants. In addition, Hecate Corporation would be responsible for severance pay costs up to \$500,000 in the event of a plant closing within 3 years, a provision which brought Hecate into the negotiations following announcement of the shutdown.

### The 1958 Department Shutdown

In an effort to cut costs and improve efficiency during its period of ownership, Hecate consolidated the manufacture of all Bewitched products into the newer plant in 1958. The headquarters of the Bewitched Division was moved at the same time. Part of the older plant was closed, resulting in the termination of approximately 300 employees. This was the first time the severance provisions of the collective bargaining agreement were applied.

The severance pay plan was similar to plans negotiated in the basic steel industry. Employees with at least 3 years of continuous company service gained eligibility if they were terminated as the result of a permanent plant or department closing and were not entitled by seniority to another job. The company could offer an option of employment in the same job class and general locality. Moreover, all eligible employees could elect a limited period of layoff with supplemental unemployment benefits and retention of seniority, the SUB to be deducted from severance pay if the employee was not recalled. The scale of severance pay was 4 to 8 weeks' pay based on recent average hourly earnings.

The union advised acceptance of the layoff option by those employees close to retirement or vesting of their pension rights. Though employees choosing layoff had no transfer rights to the newer plant, management and union informally agreed that these employees would be considered for employment at the newer plant as new employees.

Between 30 to 50 employees who were terminated chose layoff in preference to severance pay. Many of these people were employed at the newer plant, but some applicants were turned down. Eventually all of the employees who selected layoff were recalled to the older plant, the last being recalled in May 1962.

### The 1962 Plant Shutdown

In early 1962, Moonwitch decided to close one of its plants. Financial problems and the sales volume of Bewitched products made retrenchment necessary. Management's principal consideration in choosing between the two plants seemed to be marketability of the plant facilities. (By October 1963, the general offices and warehouse of the newer plant had been sold; the main factory building remained unsold.)

On July 9, 1962, the union was notified of the impending plant closing and movement of production of the Bewitched line to the older plant. On the following afternoon, notice was given to employees through an announcement on the plant bulletin boards. The story appeared in local newspapers on July 11.

Employees at the newer plant were stunned; they had believed that the more modern and efficient facilities foreclosed the possibility of a shutdown at the newer plant before the older one. Even after reading the official announcement, some employees refused to accept it and counted on an upturn in business to save the plant. That such hopes were unrealistic was realized only with the receipt of individual notice of employment termination.

Employment at the newer plant had declined long before the closing announcement. From 1957 to 1961, employment dropped from 1,100 to 400 employees with only one major reversal—i. e., when 200 employees were recalled in 1958 because of the transfer of production from the older plant. At the time the plant closing was announced, almost two-thirds of the employees who eventually received severance pay were on layoff.

Management anticipated initially that the transfer of operations to the older plant would be completed in March 1963. The auction sale of metal stamping presses at the end of October 1962 left assembly and shipping work for 250 people. Additional major layoffs occurred in December 1962 and March 1963, and the headquarters of the company was returned to the older plant in September 1963. By January 1964, 10 employees remained working at the newer plant because of lack of space elsewhere.

### The Shutdown Agreement

The announcement of the plant closing brought forth union demands for a special agreement. The union wished to obtain protection of pension and employment rights and more security than the regular agreement granted. Because Hecate was still involved in financing pensions and severance pay, tripartite negotiations were conducted with representatives of Hecate, Moonwitch, and the union. The two companies wanted to limit their financial liability. Moonwitch was also concerned with the effect of the shutdown on employee morale in the older plant.

The content and conduct of bargaining had repercussions within union and management. Employment rights of terminated personnel were subject to bargaining. The sensitivity of this matter for the union locals concerned was heightened by the previous rejection of employment rights for personnel affected by the 1958 shutdown. When preferential hiring and transfer of seniority of newer plant employees were first discussed in 1962, the resultant hostility between the locals required the mediation efforts of the international union. Another reaction occurred because top officials of the corporations and international union did the actual bargaining. Local union and management personnel at the newer plant were too involved with the shutdown to take a major roll in bargaining, but they were kept informed of the progress of negotiations. Even though company and union personnel at the older plant were affected by the outcome of negotiations, persons on neither side were consulted in the process. Only when the final agreement had been reached did they learn of its significance for operations.

The shutdown agreement enlarged the scope and applicability of pension and insurance benefits available to affected employees but restricted choice among benefits and other options relating to the SUB plan. The agreement also introduced interplant employment rights for certain terminated employees. There was no change in severance pay provisions. The effective date of plant closing for determination of benefits was established as October 31, 1962.

The changes in company benefits affected by the shutdown agreement are summarized in exhibit 1, page 70. The company's pension plan was modified to permit younger, long-service employees to qualify for immediate pensions. The only choice for employees eligible for a pension was between a regular or a special early retirement pension; the choice became relevant with consideration of insurance features. Employees aged 60 to 64 with at least 20 years' service who wanted life and medical insurance coverage had to decide whether it would be more advantageous financially to choose a regular actuarially reduced pension and company-paid insurance or a special full pension with the company contributing 50 percent of the insurance premiums.

Although seniority was to cease with termination of employment, certain employees receiving severance pay were to be offered preferential hiring rights as new employees at the older plant. Qualifying for preferential hiring were employees on the active payroll any time after November 1, 1961; employees laid off before that date if 38 years old with 13 years' service; or employees with a minimum of 15 years' service. Eligible employees were to indicate in writing whether or not they wished to be considered for employment at the older

plant. Company insurance at group rates would be available to employees awaiting employment offers. Job openings at the older plant not filled by employees on the seniority list would be offered to the ranking employee on the preferential hiring list who had "the ability to perform the work." An employee who failed to accept a job offer "without reasonable cause" was to be removed from the list. Employees entitled to preferential hiring but requested by the company to remain at the newer plant would have their seniority at the older plant begin as of the day employment there was offered. All preferential hiring rights were to remain in effect until October 29, 1964. These rights were designed to enable employees with the greatest interest in the pension plan, and least chance for other employment, an opportunity to continue with the company and accumulate new pension rights.

Employees on the preferential hiring lists would be able to purchase life, hospital, and surgical insurance at group rates if they did not obtain equivalent coverage on a noncontributory basis elsewhere. The only choices for employees eligible for severance pay and preferential hiring were whether to enroll for such employment rights and, if so, whether to buy life and medical insurance from the company plans.

#### Implementing the Shutdown Agreement

The negotiations for the special shutdown agreement were not concluded until mid-November 1962. The protracted negotiations caused confusion among management and workers. For instance, the shutdown agreement terminated all SUB payments as of October 31, 1962. Employees laid off from the newer plant were still hopefully applying for SUB during November, awaiting the outcome of negotiations.

Parts of the agreement were actually implemented before the end of negotiations but after the outline of principal benefits was settled. Employees were asked, first informally and later officially, if they wanted to transfer. The addition of the insurance benefits persuaded some employees who had little interest in working at the older plant to sign for preferential hiring.

A more formidable problem was raised by the union in September 1962 after preferential hiring rights had been discussed in negotiations. The union objected when the older plant hired 12 former employees who had severed employment in 1958. Hiring new employees, the union argued, would jeopardize the employment rights of terminated employees. The 12 workers were laid off and their jobs offered immediately to employees with the most seniority at the newer plant who had preferential hiring rights.

Once the shutdown agreement had been negotiated, the parties began to make arrangements for compliance. The company drew up lists of employees eligible for benefits, a summary of which follows:

	Number
All employees on seniority list -----	824
Employees eligible for pensions-----	120
Regular full pensions-----	6
Regular early pensions-----	11
Special pensions-----	103
Severance pay -----	680
Eligible for preferential hiring-----	327
Not eligible for preferential hiring-----	353
Employees not eligible for benefits-----	24
Recalled to older plant-----	13
Insufficient qualification-----	11

Of employees eligible for severance pay, 327 men qualified for preferential hiring rights. No preferential hiring lists were drawn up for women since a large number of women at the older plant were on layoff, with little prospect of recall.

Separate letters were composed for employees eligible for pensions and severance pay (exhibits 2a and 2b, pages 71 and 72). The appropriate letter with pertinent data typed or checked was sent to each employee at his last mailing address in late December 1962. Two days later, an announcement appeared in the newspaper that severance pay or special retirement pay could be obtained at the company offices in the newer plant beginning December 24. Employees still working in the newer plant in December 1962 would get their benefits upon employment termination.

Some employees chose to discuss their choices with company officials. Line management was given no specific role in explaining the shutdown agreement or advising on decisions. The personnel manager, contacted informally by a number of employees, urged eligible employees to sign for preferential hiring in order to qualify for group insurance.

Union staff was available to employees who wished to discuss benefit rights and choices. The local president received office space in the plant and leave of absence from his job for 10 weeks to devote full time to assisting members. In addition, the union opened a special downtown office where employees could obtain information. Close cooperation between company and union was illustrated by the fact that the union checked with the company personnel office to establish individual employee rights and benefits under the agreement. The union also encouraged members to take advantage of preferential hiring and insurance opportunities.

Employees coming to the company office for benefit pay met with the personnel manager of the newer plant and the union pension representative. These men described the available benefits and choices, and answered employee questions. The employee then signed a form releasing his claim against the company and, if appropriate, signed applications for insurance benefits and preferential hiring. Filing of applications could be postponed until the deadline date, but the release forms had to be signed before an employee received a benefit payment.

Severance pay was paid in lump sums. Standard deductions from gross pay for Federal and local taxes were about 20 percent. The company made further deductions from the pay of three employees who had collected supplemental unemployment benefits while ineligible.

Four employees protested the amount of severance pay received and four others, their alleged ineligibility for shutdown benefits. The company corrected discrepancies in amounts due upon finding errors in the basis of computation. One employee was granted a pension when his birth certificate showed an earlier date than the one on his original employment application. Company denial of three requests for severance pay because of the employment status of the petitioners at time of shutdown were promptly presented as formal grievances. By mutual agreement of the parties, the grievances were submitted at the third step of the grievance procedure and were settled at 50-percent payment of the claims.

The company permitted employees who had found other employment to request early termination or, if laid off, to refuse recall to the newer plant without jeopardizing seniority and benefit status. The company arranged schedules or found substitutes for all 10 workers requesting early releases. Most active employees continued working as long as possible because of the scarcity of alternative employment opportunities in the immediate area. Laid-off employees with preferential hiring rights who had found other jobs while awaiting employment at the older plant were likely to refuse recall to the newer plant.

As of October 31, 1962, an estimated 200 workers eligible for shutdown benefits were still employed at the newer plant; at least 360 were working elsewhere; and approximately 240 were without work. The employment outlook in the area in which the newer plant was located at this time was still critical: Throughout 1962, the area was classified as "D" (6- to 8.9-percent unemployment) by the U.S. Department of Labor. Only with the upturn of the steel business in spring 1963 did employment increase sufficiently for the area to be classified in the "C" category (3- to 5.9-percent unemployment).

Company and union provided employment assistance in relatively few instances. Long unemployment of some workers, few openings in the community, and the existence of preferential hiring rights inhibited any major effort. The personnel manager attempted to place some skilled workers in local companies where he had personal contacts. The union looked for work in the local area; it did not receive requests from members for work in other areas. Most workers who found jobs did so on their own or through the offices of the State employment service.

### Results and Reactions

A total of \$633,000 in severance pay was awarded by the company in connection with the plant shutdown. Individual gross payments ranged from \$368 to \$1,242.64. (Distributions of employees receiving severance pay are presented in exhibit 3, page 73, by selected characteristics and severance pay amount.) The maximum number of weeks' pay was given to more than 90 percent of employees receiving severance pay. Although women generally had more continuous service than men, generally lower job classifications provided them with lesser amounts of severance pay. The median gross severance pay among men was in the \$800-\$899 range; among women, \$700-\$799. Only 26 percent of the men and 19 percent of the women were under age 40 when they received severance pay. Twenty-six percent of the men and 30 percent of the women receiving severance pay were more than 50 years old.

When the shutdown agreement was negotiated, management privately estimated that employment openings at the older plant might eventually accommodate 125 workers eligible for preferential hiring. It anticipated that many employees would refuse employment offers because the job would not necessarily be identical to the last one held and because some would consider working conditions inferior. Moreover, the 23-mile distance between the two plants and lack of public transportation would create difficulties and expense for many employees with preferential hiring rights.

Opportunities materialized more quickly and in greater number than had been expected. By June 4, 1963, the two preferential hiring lists had been exhausted. The result of employment offers was as follows:

Total eligible for preferential hiring -----	327
Rejected option to enroll -----	20
Rejected offer of employment-----	75
Accepted offer, quit by October 1963 -----	20
 Total with preferential hiring rights employed at the older plant October 1963-----	 212

Some employees went directly from active employment at the newer plant to the other; others had an involuntary break without knowing how long it would last. Among the latter, some accepted employment in other companies but returned to Moonwitch when jobs became available at the older plant. A few people left for homes outside the State and returned upon being offered jobs at the older plant. Some employees were unable or unwilling to find another job while waiting for employment offers.

The 353 workers eligible for severance pay but not for preferential hiring had various employment experiences. A sizable proportion, perhaps over one-half of the group, was already employed by another company when they received their severance pay. Another group was unemployed at the time of severance payment but obtained employment thereafter. A final group remained unemployed almost a year after final termination from Moonwitch.

The State employment service calculated that the plant shutdown had led to a 3-percent increase in area claimants for unemployment compensation. The State office placed about 70 workers, but women and older men usually had to accept lower-paying jobs in nonmanufacturing industries. Four displaced employees qualified for an automotive course sponsored under the Manpower Development and Training Act.

Although neither union nor company made special inquiries about the use of severance pay, some generalizations and specific illustrations can be cited. Many of those who had long been out of work mentioned to the personnel manager that they would use their severance pay to meet overdue bills. The union believed that only a few employees, not more than 3 percent, squandered their severance pay. A small group of workers, mostly older persons and without preferential hiring rights, moved to Florida or California but returned to the local area when they were unable to secure employment. Another man purchased a second-hand car with his severance pay to be able to commute to the older plant and accept a job offer. Several people failed to claim their severance pay by October 1963.

There were no reports of creditors harrasing workers who received severance pay, including those long unemployed with accumulated debts. However, both company and union received inquiries from employee creditors about names and amount of individual severance payments; the union furnished no information; the company provided only names of recipients. Loan company officials maintained that they instituted no special collection procedures when they learned of severance, in the announcement in the local newspapers. A credit manager of a major department store stated that overdue accounts are reviewed and special collection efforts made by his organization whenever special lump-sum payments of any nature became known.

According to management, union officials, and employees who were interviewed, most of those involved in and affected by the administration of severance pay were satisfied with the procedures used in the plant shutdown. Primary criticism was directed at the timing and method of shutdown negotiations. The span between announcement of the shutdown and conclusion of shutdown negotiations made for uncertainty, confusion, and, in the eyes of some employees already laid off, an unnecessary delay in their being awarded severance pay. Management also recognized that it would have been desirable to involve the staff of the older plant in negotiations.

A more fundamental issue regarding severance pay was raised by some members of management. They questioned the propriety of awarding severance pay and preferential hiring rights to the same individual. While employees with preferential hiring lost competitive seniority and had no guarantee of a job offer, they received benefits not available to workers terminating employment. According to these officials, a distinction should have been made between temporary and permanent loss of employment, with severance pay reserved for the latter. A union leader, asked about the possibility of scales of severance pay depending on an individual's employment status with the company, believed that such a suggestion would have encouraged rejection of preferential hiring rights, particularly since job opportunities at the older plant originally appeared limited.

## Exhibit 1

## Changes in Benefits Resulting from Shutdown Agreement

Benefit	Existing provision	Modification by shutdown agreement
Pension	Eligibility for regular pension: Full—age 65, 15 years' service. Reduced—age 60, 15 years' service. Vested—age 40, 15 years' service.	No change.
	Eligibility for special full pension only in case of plant closing:  Age 55, 20 years' service, within 2 years of closing.	Same, except that those age 53 with 18 years' service would be eligible immediately for actuarially reduced pension.
Life insurance Hospital-surgical insurance	Offered at no cost to those in first two categories of regular pension.	Offered at 50 percent of premiums to those on special pensions because of plant closing.
	Not available to terminated employees.	Available at 100 percent of premiums to employees on preferential hiring lists. (See below.)
Severance allowance	Eligibility: 3 years' service (no pension).	Same.
	Option to employment termination for layoff with SUB.	Option withdrawn. All SUB payments to cease on effective date of shutdown.
Preferential hiring rights	None.	Two groups gain eligibility: <ol style="list-style-type: none"> <li>1. On active payroll any time after November 1, 1961, or, if laid off before that date, at least 38 years old with 13 years of continuous service on effective date of termination.</li> <li>2. Others receiving severance pay with at least 15 years' continuous service.</li> </ol>

## Exhibit 2a

## Sample of Letter Sent to Employee Eligible for Pension

December 28, 1962

Dear \_\_\_\_\_:

Under the terms of the pension plan and the applicable company-union agreements covering the shutdown, your employment is terminated effective \_\_\_\_\_, 1962.

Company records establish that you are eligible for immediate:

- Normal retirement (65/15)
- Early retirement (60/15)
- Special retirement (55/20) or (53/18)

Our records show that you are eligible for a special retirement payment in an amount equal to \_\_\_ weeks of vacation pay, or \$ \_\_\_\_\_. This special retirement payment is in lieu of the first three (3) monthly pension payments.

Further, if you are eligible for normal retirement (65/15) or early retirement (60/15), you will be provided limited life insurance and limited hospital-surgical coverage without cost.

If you qualify for special retirement (55/20 or 53/18), you may elect limited life insurance and/or hospital-surgical insurance coverage under the company's group insurance program by paying one-half ( $\frac{1}{2}$ ) the cost of such insurance. The company pays the other half.

If, by February 28, 1963, you have not elected to participate in the company's group insurance program, you will be considered to have elected not to receive such insurance coverage.

To receive the benefits to which you are entitled, you must apply to:

Personnel Manager  
Personnel Office  
Moonwitch Company

Employees applying for a pension must furnish a birth certificate.

If you have any questions regarding any of the above matters, please contact the personnel office.

Yours very truly,

Manager, Industrial Relations

## Exhibit 2b

## Sample of Letter Sent to Employee Eligible for Severance Pay

December 20, 1962

Dear \_\_\_\_\_:

In accordance with the provisions of applicable company-union agreements, your employment is terminated effective \_\_\_\_\_, 1962.

Our records establish that you are eligible to receive \_\_\_\_ weeks of severance pay in the amount of \$\_\_\_\_\_.

Further, two preferential hiring lists have been established for the purpose of according preference to certain employees (exclusive of those eligible for immediate pension) over new hires for employment opportunities at the older plant.

The "First Preferential Hiring List" (designated as List 1) consists of the following employees ranked in the order of continuous service at the new plant:

1. All persons on the active payroll list at any time since November 1, 1961, and all persons who, on October 31, 1962, were at least thirty-eight (38) years of age and had at least thirteen (13) years of continuous service.

The "Second Preferential Hiring List" (designated as List 2) consists of the following employees ranked in the order of continuous service at the new plant:

2. All persons not on List 1 who, on October 31, 1962, had at least fifteen (15) years of continuous service.

Our records establish that you are eligible to be placed upon

( ) List 1; ( ) List 2; ( ) Neither List 1 or 2.

Those who are placed upon either of the preferential hiring lists may elect to participate in the company's group insurance program by paying the prorated cost per employee.

If you are eligible and desire to be placed upon the applicable preferential hiring list, you must file your request with the company no later than January 31, 1963, or you will be considered to have waived your right to placement on such list.

To receive the benefits to which you are entitled you must apply to:

Personnel Manager  
Moonwitch Company

If you have any questions regarding any of the above matters, please contact the personnel office.

Yours very truly,

Manager, Industrial Relations

## Exhibit 3

Distribution of 93 Percent of Employees Receiving Severance Pay  
by September 1963

Item	Years of continuous service											
	20 or more		15-19		10-14		5-9		Under 5		Total	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Year of birth:												
Before 1903-----	-	-	3	1	12	-	2	-	-	-	17	1
1903-12-----	41	4	56	18	23	2	4	2	-	-	124	26
1913-22-----	117	12	108	21	32	10	3	4	1	-	261	47
1923-32-----	6	-	55	4	51	10	11	3	2	-	125	17
1933 and on-----	-	-	-	-	5	-	6	-	4	-	15	-
Total-----	164	16	222	44	123	22	26	9	7	-	542	91
Amount of gross severance pay:												
			10 or more		7-9		5-6		3-4		Total	
\$1,000 or more-----			71	-	-	-	-	-	-	-	71	-
\$900-\$999-----			152	6	1	-	-	-	-	-	153	6
\$800-\$899-----			153	21	-	-	-	-	-	-	153	21
\$700-\$799-----			124	41	8	-	1	-	-	-	133	41
\$600-\$699-----			7	12	16	8	-	-	-	-	22	20
\$500-\$599-----			2	2	-	1	-	-	-	-	2	3
\$400-\$499-----			-	-	-	-	-	-	1	-	1	-
\$300-\$399-----			-	-	-	-	-	-	6	-	6	-
Total-----			509	82	25	9	1	-	7	-	541	91

#### 4. The Riner Company

##### Introduction

In early 1963, the Riner Company announced the closing of a major portion of its Mayer Street plant. A total of 140 employees were affected by the partial shutdown. Company and union officials realized that there was little chance of recall for most of the employees to be laid off.

The Riner Company was a major manufacturer of paper products and had more than 3,000 employees in 13 plants throughout the United States. Although most of the plants had union representation, they were organized at different times by different unions. Workers at the Mayer Street plant and at three other Riner plants in the same city voted in 1956 for representation by a national union affiliated with the AFL-CIO. The four plants bargained jointly and were covered by a master agreement. According to the company, competing companies in the area remained unorganized.

##### Plant Closing Allowance

At the union's request, a plant closing allowance was included in the 1958 collective bargaining agreement. The clause provided for an allowance to employees who had a minimum of 5 years of continuous company service and who were separated because of complete plant abandonment. The allowance, consisting of a day's pay for each year of service (to a maximum of 20 years), was to be paid to eligible employees who did not choose to accept a job in another company plant. Job posting at other plants was to be waived temporarily on jobs offered to employees from the abandoned plant. Employees who accepted jobs at another company plant were to retain company seniority for benefit purposes and receive reimbursement for expenses incurred in moves of over 30 miles. Although there had been no history of plant closings, it was apparent that some of the company's outmoded facilities were unprofitable and would eventually be abandoned. The threat became a reality before long.

Plant closing allowances were first paid in 1958 when 1 of the 4 Riner plants in the city was closed. Not long thereafter, another of the company's plants in the city was closed in two stages separated by a 6-month interval. An unexpected change in shipping rates led to a decision by management to convert a partial plant closing to a complete one and transfer production facilities to an area closer to customers. According to management's interpretation of the plant closing allowance provisions, only employees affected by the second stage of the closing were technically eligible for the special pay, since the plant had not been abandoned until then. Management agreed, however, to make the provision retroactive to include all employees working in the division before the partial closing.

##### Mayer Street Plant Partial Closing

In April 1963, the company announced that part of the Mayer Street plant would be closed beginning at the end of the following month and production equipment moved to a modern plant in another city 200 miles away. The first notice to employees on the company bulletin board was followed by a meeting in which management explained the decision and applicable personnel policies. The reason

for curtailing operations at the old, multistoried plant was the expectation of improved efficiency in manufacturing and distribution of goods. About 60 workers would be needed to operate the equipment left at the Mayer Street plant; the remainder of the 199 employees in the bargaining unit at the beginning of 1963 would be laid off. The numbers of affected employees by skill and sex were:

	Men	Women	Total
Skilled-----	15	-	15
Semiskilled-----	19	49	68
Unskilled-----	40	17	57
Total -----	74	66	140

The seniority of these employees ranged from almost none to 16 years.

#### Policies in Effect at Time of Layoff

Management discussed with employees affected by the partial closing, the relevant provisions contained in the collective bargaining agreement and policies followed unilaterally by the company. Subjects included pensions and the role of seniority in allocation of jobs.

Employees eligible for a pension had the option of either retiring or of remaining at Riner if they had sufficient seniority to qualify for jobs. Eligibility for pensions required a minimum of 15 years' service (or 10 years if employment commenced before October 1, 1956) and a minimum age depending on type of pension (65 years for a normal pension and 55 years for an actuarially reduced early pension). To qualify for a deferred vested pension, an employee had to be at least 45 years old and have 15 years of service. In case of complete plant abandonment, the age factor was waived for deferred pension eligibility; since the present situation did not involve complete plant abandonment, the waiver of the age requirement was not in effect.

Management was prepared to allocate the remaining 60 jobs in accordance with regular layoff provisions. The plant seniority system was structured by sex and by skill classification in eight grades. In the top three grades, seniority was by grade and skill classification; in the lower five grades, seniority applicable to layoffs was plantwide. A laid-off employee from one of the top three grades could not bump an employee in another skilled grade; he could acquire a semiskilled or unskilled job only if he had more plant seniority than the man with the least seniority in the lower grade. Seniority of laid-off employees was protected for a period equal to length of service up to 18 months. Employees temporarily working at another company plant retained seniority in their home unit; if they accepted permanent work there, they surrendered accumulated seniority in their home plant.

Management proposed to offer laid-off employees jobs at other plants with job vacancies. The plant manager and superintendent were to determine on the basis of employees' past performance who would be offered available jobs. The company was to pay expenses of employees to visit plants offering jobs and to move their households if acceptance of the job required relocation in excess of 30 miles. Employees accepting offers were to carry their company service for purposes of computing benefits, but they were to be regarded as new employees as far as plant and job classification seniority were concerned. Employees rejecting offers incurred no penalties.

A management suggestion of preferential hiring rights for laid-off Mayer Street plant employees at the fourth company plant in the city was rejected by employees of the fourth plant. The suggestion would have permitted the company to bypass posting procedures in offering jobs to qualified Mayer Street employees; refusal of the offer would have meant forfeiting seniority.

On the matter of plant closing allowances, management decided the provision was inapplicable to the situation at hand. The company did not contemplate complete abandonment of the plant, and laid-off employees retained recall rights. A strict interpretation of the provision was necessary, management believed, lest the application of the provision become more liberal than the contractual commitment to the employee. In meetings with management following the closing announcement, the union tried to convince management that jobs were being permanently abolished with the movement of machinery. Management stood firm, although privately some of its members were embarrassed at the prospect of laying off employees with little chance of recall and no special financial compensation. The subject was closed until the next regularly scheduled negotiation in fall 1963.

### Implementing the Policies

Meanwhile, implementation of personnel policies began as plant manager and personnel manager interviewed employees eligible for pensions and those entitled by seniority to remain at the Mayer Street plant. Among the former employees, 10 chose retirement—2 employees received normal full pensions, while 8 of 13 eligible employees elected early retirement with reduced pension benefits. The latter group of employees were told of the job and shift available to them. About one-fourth of the retained personnel had to accept a lower graded job than they previously held; most of the downgrading involved skilled men accepting unskilled jobs, which could mean up to a 30 percent reduction in pay. Two employees who had a choice between continued employment at a lower grade level and pension chose a pension. At least one man refused an offer to a downgraded job and was considered a quit. On the whole, however, employees were willing to accept offers of downgraded jobs to acquire eligibility for retirement or to qualify for possible later promotions.

Beginning in June, management interviewed employees it considered qualified for job opportunities available at other company locations. There was no general announcement about the job program or when it would terminate. Interviewed employees who were interested in an offer would contact the appropriate plant and arrange for an employment interview. The number of available jobs were limited in number and kind, occurring mostly in the skilled classifications. Not all men with a skill in demand received offers of other jobs, nor were offers made on the basis of seniority. For instance, only 6 of 14 laid-off machine adjusters received offers at other plants. Although some people investigated plant and living conditions at other locations, few took advantage of the company's offer to pay for the trips. Apparently they felt that requesting reimbursement involved an obligation to accept offers of employment. The acceptance of jobs was related to the distance of their location from the city of residence. Four job openings available at the fourth plant in the city in June 1963 were quickly filled, as were 6 permanent positions and 30 temporary ones later. Three employees accepted employment at a company plant which required about 2 hours of commuting daily; they were joined by a fourth employee who successfully applied at this plant on his own. Of the eight employees who took jobs in other States requiring a transfer of residence, four soon returned because of the higher cost of living in, and unfamiliarity with, the new community. These two reasons were also given by employees rejecting job offers at other plants, along with the hope for recall or other local employment. Several openings in more distant plants remained unfilled. Management had expected that more employees would take advantage of job offers in other company locations.

### Layoffs

Employees were laid off beginning in mid-May, sometimes with as little as 24-hours' notice of layoff. Employees on layoff received 3 months' coverage of hospital and medical insurance paid for entirely by the company. Pension eligibility accumulated for 18 months after layoff if the employee had acquired an equivalent amount of seniority before layoff. An employee laid off and subsequently recalled, even temporarily, again qualified for a full period of benefits upon layoff.

The union advised employees to remain with the company, if only on layoff status, to protect their seniority. While the union took no position with regard to employees accepting jobs at other plants, it urged employees not to quit on their own or by default. Only a few did so.

By the end of summer 1963, after a few changes in available positions, the disposition of Mayer Street plant employees was as follows:

Disposition	Employees
Working at Mayer Street plant-----	70
Working at other company plants -----	16
Retired -----	10
Quit-----	4
On layoff-----	99
Total-----	199

### Subsequent Employment Experience

Laid-off employees faced a relatively difficult local labor situation. The average unemployment rate in the area for the last 7 months of 1963 was 6.4 percent, ranging from a monthly high of 7.1 percent in June, to a low of 5.3 percent in October. In addition, Riner employees had to contend with limited transferability of some skills, and a history of above average wages that might influence their attitude to available employment. All laid-off employees seeking work qualified for unemployment compensation consisting of a maximum basic payment of \$40 plus dependents' allowance for up to 30 weeks.

To help laid-off employees find new jobs, management and the State employment service offered aid and special programs. The plant manager sent letters to companies in the area which he felt might be able to use the workers' skills. In addition, he arranged for the County Metal Trades Association to send a letter to its membership describing the laid-off personnel and offering to arrange interviews. The plant manager received many telephone calls in response to the mailings. He compiled and distributed to employees a list of 30 companies expressing interest in receiving applications. No followup was made to determine how many workers found jobs by using the list.

The State employment service interviewed 125 employees, including some who were later recalled, and found them above average in aptitude and ability. Employment counselors told of available jobs, contemplated training programs, and application procedures. The counselors urged workers to take a battery of tests on a voluntary basis in order to know their abilities and potentialities better, to receive more meaningful counseling, and to assess their qualifications for specific employment and training programs. Only about one-fourth of those interviewed agreed to take the tests; those who refused seemed to fear the consequences of possible poor results. At least three women were successfully placed as result of tests at a local steel company. Six other workers were also placed, though sometimes at lower wages than they had been receiving.

The employment service was also able to refer workers to training programs established under the Manpower Development and Training Act (MDTA). Despite wide interest in the programs, the number enrolled was limited by requirements of demonstrated or tested ability, age under 50, and willingness to complete the program. Three men took an MDTA training course to become general machinists, and several women to become clerks.

Most laid-off workers apparently sought work on their own through friends, newspapers, and direct factory gate applications. A few employees decided layoff provided a good opportunity for a break with their present occupational skills; although several skilled men had job offers from nonunion companies, they chose to seek physically lighter, though less skilled and lower paid work.

The employment experience of one man following layoff illustrates the difficulties in subsequent employment encountered by many laid-off employees on account of wage differentials, incomplete knowledge of employment opportunities, and uncertain stability of employment because of lack of seniority. The man, a skilled worker in his forties, looked for work solely through friends and direct applications; he avoided the State employment service. His first offer was as a machinist learner at \$1.40 per hour, exactly one-half his former job rate. He rejected the offer since his unemployment compensation was greater than earnings at this job would have been. Three weeks following layoff, the man accepted a job on the midnight shift in a carpet factory. He switched employers after 3 weeks to become a metal buffer on the day shift in a factory nearer home. This job had lasted 6 months when a lack of orders caused an indefinite layoff.

### Displacement Allowance

The collective bargaining agreement expired on October 1, 1963, almost 6 months after the partial shutdown had first been announced and several months after it had been effected. As part of its initial demands, the union proposed a broadening of the plant closing payments to provide a displacement allowance for all employees leaving for reasons beyond their control. During negotiations, the company countered with a proposal that for all intents was the one included in the final agreement. The proposal was framed to supplement the existing plant closing arrangement and to cover employees affected by the partial closing of the Mayer Street plant. Adoption of the proposal came as a welcome surprise to many former employees.

The displacement allowance provision negotiated in 1963 was as follows:

Any employee with 5 years or more of uninterrupted service with the company who is laid off for a period of 6 consecutive months, and who has not declined a lateral or downgrading transfer to which his seniority entitles him, has the following options:

1. At the end of said 6-month period, of accepting an allowance of 1 day's pay for each year of service and forfeiting all recall rights.
2. Decline this displacement allowance and retain the balance of the 18 months accrued to him for recall rights.

Any employee who takes the option 1 above, and is later reemployed by the company will forfeit all accumulated seniority and length of service benefits, and his reemployment will be on the basis of a new employee.

In many ways the displacement allowance provision was similar to the plant closing payment. It differed in that it required a waiting period following the end of active employment, contained no maximum pay limit, and offered a layoff option. It also did not include waivers of age for a deferred pension and of job posting for jobs at other plants.

Employees on layoff from the Mayer Street plant, the only workers immediately eligible for the displacement allowance, were informed by letter from the union of the new provision and of a special union meeting to discuss it. Although the special meeting was poorly attended, many former employees chose to talk informally with local union officials, who provided details of the plan but would not advise on choices. A statement of the displacement allowance and the implications of accepting it were also given by the plant manager and union financial secretary to employees who came to the plant office to apply for a displacement allowance. Both union and company were eager to warn employees close to recall or within 18 months of pension qualification what they would lose if they chose a displacement allowance; several employees reconsidered their choice as a result of these warnings.

Upon receiving an application for a displacement allowance, the company computed the amount due and forwarded the forms to the company's central data-processing center. Displacement allowance checks were mailed from the center to the individual approximately 1 month after the original date of application. Since the checks would not reach applicants until after Christmas, the company agreed to advance partial payments to applicants who came to the office of the other plant in the city; the balance due was mailed to the individual later.

Because the displacement allowance was negotiated relatively late in the 6-month period of layoff of many employees, management and union agreed to extend the deadline for filing applications in this one instance. December 31, 1963, became the deadline for all employees on continuous layoff since the partial closing announcement. If employees had worked at any company plant since July 1, their 6-month waiting period would begin as of the last day of work.

The displacement allowance eligibility and choice among laid-off employees as of January 1, 1964, can be summarized thus:

Eligible for displacement allowance-----	58
Chose displacement allowance-----	38
Chose additional layoff	
(retained seniority) -----	20
Not eligible for displacement allowance-----	41
Insufficient company service -----	37
Insufficient layoff-----	4
Total employees on layoff-----	99

A few workers chose layoff to gain enough seniority to qualify for a pension. The remainder choosing layoff apparently believed either that they were high enough on the seniority list to have a chance of recall or that future events, such as complete plant shutdown, would improve their benefits. Yet, some workers relatively high on the seniority rolls preferred the displacement allowance on

the grounds that recall probably would involve a downgraded job on a late shift, with threat of frequent layoff. Many eligible employees had already secured other jobs; company officials believed that only 2 of the 14 men electing a displacement allowance were without work at the time. One person with a displacement allowance was old enough to qualify also for a deferred pension. A breakdown of employees choosing displacement allowance, by skill, sex, and seniority, follows:

Seniority	Women		Men			Total
	Unskilled	Semi-skilled	Unskilled	Semi-skilled	Skilled	
5-9 years-----	3	6	2	4	-	15
10-14 years-----	4	8	1	2	4	19
15-19 years-----	-	3	-	-	1	4
Total-----	7	17	3	6	5	38

The amount of gross displacement allowance ranged from about \$90 to \$280, with an average payment of approximately \$200. Total cost to the company for the group above was about \$7,500. Deductions from gross pay were limited to income and social security taxes.

Although no special effort was made by company or union officials to follow the disposition made of the displacement allowance, information was received on an individual basis. The employee credit union, which did not have direct call on the displacement allowance, was contacted voluntarily by several former employees who wished to apply their displacement allowance to outstanding loans. Others used money to pay accumulated bills or to buy Christmas gifts; in one case the allowance served as down payment for a car. No reports were received about creditors harassing workers who had received a displacement allowance. Union officials believed that most recipients of the displacement allowance regarded it as a windfall.

#### Employees Remaining at the Mayer Street Plant

Employees who remained at the Mayer Street plant reported that they viewed the events of the partial shutdown with mixed emotions. On the one hand, they were pleased to have steady employment, even if it meant lower wages and less desirable hours. Knowledge that former junior employees were working in other company plants, at their old classification and wage rate, disturbed the more senior employees who had been forced to accept downgrading. On the other hand, the remaining employees were wary about the future prospects of work at the Mayer Street plant. They felt that the plant might close in the not-too-distant future and that the company might move out of the city altogether not long thereafter. Some employees hoped that these closings would take place soon. If the Mayer Street plant were to close completely, lower pension eligibility requirements would permit many of the younger employees to qualify for a deferred pension. Jobs at other company plants, especially in the city, might be scarce, however, and largely filled by employees laid off earlier. To prepare for a possible complete shutdown and to have more skill to offer in the labor area, a few employees went to trade school on their own time and at their own expense to learn new skills and renew old ones.

## 5. The Closing of a Newspaper

The management of a large newspaper in a major city ceased publication with the announcement of the sale of the paper. More than 300 employees were affected by the action. Management was committed by agreement to award approximately 150 employees represented by the American Newspaper Guild (AFL-CIO) up to 42 weeks of severance pay. It offered to give employees in printing departments 2 weeks' severance pay in addition to accrued vacation pay although there was no contractual obligation to do so. This study, in the main, deals with the operation of the severance pay plan as it affected workers represented by the Guild.

### Background

The newspaper had been founded more than 50 years ago. A steady rise in circulation following World War II was reversed in the mid-1950's. In recent years, the paper had suffered a decline in subscriptions despite rapid growth in the population of the metropolitan area it served. A continuing financial loss led to the decision to end publication and to sell the building, property, equipment, supplies, and other assets.

Of the more than 300 workers employed at the time of sale, 287 were considered eligible for union organization. All but those engaged in display advertising, about 30, were represented by unions. A local of the Guild had been established before World War II to represent employees engaged in gathering and editing news, distributing the papers, soliciting advertisements, conducting business and financial operations, and maintaining the building and power equipment. The Guild represented about 150 employees. Craft employees had been organized earlier; they were represented by the International Typographical Union, International Stereotypers' and Electrotypers' Union of North America, International Printing Pressmen and Assistants' Union of North America, International Mailers Union, and Lithographers and Photoengravers International Union.

The age distribution of the 287 employees was as follows:

Age	Number of employees
18-29 years -----	75
30-49 years -----	95
50 years and over-----	117

The seniority distribution followed parallel lines. A number of employees had over 30 years of service, with average length of service about 10 years. Although only men were employed in the mechanical departments, women comprised about 25 percent of the total force.

The sale came without advance notice about a month before expiration of the labor agreement with the Guild. Employees were told by their respective department heads and by posted notices that the last edition of the paper would be printed that day and that all contractual commitments would be met. All personnel engaged in writing, producing, and distributing the paper were terminated at once. Some employees in the business and maintenance departments were asked to remain to help close the paper. If they wished to leave for another job, however,

they were not to be considered as leaving voluntarily (an action that would have disqualified them from receiving severance pay). Ten weeks after the closing, 10 employees were still working full time and several former employees helped on weekends.

### Severance Pay

Only the agreement with the Guild contained provision for severance pay. Although the scale of payments had been increased, the basic terms of the plan had remained unchanged for more than two decades. The clause in the agreement provided for "1 week's pay for every 6 months (or a major fraction thereof) of continuous employment with the publisher, the maximum payment not to exceed 42 weeks' pay which may be paid on a weekly basis at the option of the person entitled to the benefits under the clause." Discharge for "just and sufficient cause" constituted eligibility for severance pay; only workers terminating their employment voluntarily were ineligible.

The pay used in calculating the severance amount was the employee's highest straight-time weekly salary for any 2 consecutive weeks within the 42 weeks prior to dismissal. The Guild had negotiated minimum wage scales for each job, with length-of-service increases. For instance, the weekly salary for a secretary in 1963 was \$55.25 at the beginning and \$64 after 1 year of experience; a seven-step weekly scale for editorial employees ranged from \$65 at the start to \$126 after 5 years. Individual employees could deal directly with management for higher wages than those specified in the agreement. Most editorial and top circulation department employees with more than 10 years' service earned more than the scale negotiated by the union.

Although there was little turnover, and much of that was voluntary, the company had had experience with severance pay. Because pay was awarded to those leaving for any reason other than voluntary termination, occasional difficulty was encountered with management charging that an employee invited dismissal in order to collect severance pay or with the union accusing management of attempting to force an employee to quit rather than dismissing him. Management had expressed to Guild representatives a desire for a "policeman" to oversee application of the severance pay provision so as to restrict payment to employees terminated for reasons beyond their control.

Although employees covered by other agreements were not entitled to severance pay, management decided to give all employees on the payroll on the day of the closing announcement a minimum of 2 weeks' termination pay. Thus, employees who were not contractually entitled to severance pay received 2 weeks' pay and those covered by the Guild agreement were assured at least 2 weeks' pay, even if they had less than 9 months of continuous employment. In addition, management offered a special plan to terminating employees in nonrepresented departments.

A lump-sum severance payment was mailed to all terminated employees 3 weeks after the announcement of the sale of the newspaper. Employees continuing to work with the paper received the payments on their day of termination. There were no major problems raised about the amounts received; a few clerical miscalculations were corrected, and other inquiries were readily answered.

Because of the nature of the severance pay arrangement, the range of payments actually made was broad. Amount of pay depended on the applicable plan, regular salary, and length of service. A recently employed charwoman or messenger, the lowest paid employees on the staff, would receive \$98. An editorial employee with 21 years' continuous service would be assured at least

\$5,292 and would receive more if, as was likely, his salary was above the scale. It was estimated that up to 45 percent of employees represented by the Guild had sufficient service to receive maximum severance payments, i.e., 21 years. The distribution of payments was:

Severance pay	Number of employees
Less than \$1,000 -----	157
\$1,000-\$2,999 -----	67
\$3,000-\$5,999 -----	46
\$6,000 and over-----	17

Although the total amount paid by the company was not available, it is probable that at least \$500,000 was awarded in severance pay following the sale of the newspaper. Excluding the craft employees who received 2 weeks' severance pay, severance payments averaged about \$2,600.

### Other Benefits

In addition to severance pay, employees were eligible for other benefits at the time of separation following the end of publication.

Arrangements were made to permit employees to convert life insurance and Blue Cross-Blue Shield insurance from group coverage to individual policies.

Employees received up to 3 weeks' salary as vacation pay, depending on length of service and time elapsed since the last anniversary date of employment. Accrued vacation pay was sent together with severance pay.

A variety of pension plans were in effect. The end of publication did not affect the membership of some of the craft employees who were covered by union-operated plans. Nonrepresented employees were part of a company-initiated plan, which was dissolved according to the terms of the plan. A jointly administered noncontributory pension plan for Guild members had been negotiated 3 years earlier. According to this plan, an employee needed 10 years' service to be eligible for normal retirement benefits under the plan. If the plan were dissolved within the first 10 years of operation, accumulated funds would be apportioned on an actuarial basis to employees eligible for benefits, including those already on pension. The plan was terminated upon completion of actuarial studies and approval of the joint pension plan agreement committee and the Internal Revenue Service, as follows:

1. Eligible participants in the plan with calculated benefits of at least \$10 per month at age 65 would receive insured benefits under a group annuity policy contract, purchased with a lump sum from the trust fund. Those 65 years or older would start to receive benefits for life. In the event of death, the beneficiary would receive monthly benefits for the balance of the 60-month period since the benefits originally went into effect.

2. Eligible participants with calculated benefits of less than \$10 per month at age 65 would be paid a cash lump sum in lieu of a pension, regardless of their age.

Employees without immediate employment were qualified to file for unemployment compensation. The State system provided for a maximum weekly payment of \$37 for 26 weeks. Money paid by an employer as wages in lieu of notice lengthened the waiting period for benefits by an equivalent number of

weeks. Severance pay, including that paid to craft employees, was not considered in the same category as wages in lieu of notice, however, and did not affect the amount or timing of payments. All of the newspaper's employees could file for unemployment compensation without penalty.

### Subsequent Employment Experience

The suddenness of the closing of the newspaper prevented employees from planning and seeking other employment in advance. Although the general employment outlook in the area was relatively favorable (3.1 percent of the labor force unemployed), the highly specialized skills possessed by many of the workers presented problems. However, a large number of the displaced workers were employed immediately and many others soon afterward. The speed of these placements surprised all concerned.

Other newspapers in the community were the prime source of immediate employment. The company buying the newspaper offered jobs on the same day as the sale to all district managers of the circulation staff. Those accepting were not guaranteed permanent employment and were hired as independent contractors rather than salaried personnel. Most accepted the offer, although some later left. About 18 of the 50 editorial employees were either retained by the purchasing paper or hired by another newspaper in the community. Several advertising department employees as well as printers and other craftsmen were also employed by these newspapers to help expand their operations.

The company had offered to advertise the available skills and operate a formal employment service, if necessary. The rapid placement of many employees made such large scale formal efforts unnecessary. The responsibility for assisting employees was delegated to department heads, who would know of suitable contacts for positions and could assess the needs and abilities of their staff members.

Management of the editorial department informed employees that telephone interviews for jobs in other cities would be arranged for interested personnel. A number of interviews were arranged. In addition, out-of-town newspapers called to offer jobs to editorial personnel. Among the contacted or contacting papers were several affiliated with the same chain as the closing newspaper. Eight writers and reporters and one circulation man accepted jobs in other cities throughout the country. There was no standard policy regarding the moving expenses of these workers since the matter was left to individual negotiation between the worker and his new employer.

The Guild made separate efforts to assist employees in finding new jobs. Immediately after the sale announcement, the union arranged for a spokesman of the State employment commission to address a meeting of all employees the following Sunday. At the meeting, affected employees were told of the mechanics of unemployment compensation and benefit rights, given forms for initial claims and application for employment, and scheduled for interviews at the placement offices during the next week.

The Guild also established an employment committee. The union received a few calls directly from papers in other cities regarding available jobs. An arrangement was reached with the State employment commission whereby office facilities and staff assistance would be made available to the committee at one of the commission's downtown offices. Volunteers from the union committee manned the special facility for 3 weeks to receive calls from employers, review the commission's employment files and assist workers. During the period, approximately 60 persons of all skill categories, craftsmen as well as

Guild-represented employees, came to the special office to receive information on unemployment compensation claims and available jobs. The Guild announced that approximately 50 Guild members had filed for unemployment compensation.

Employment applications were forwarded for processing to the State employment commission's offices specializing in certain occupational classifications, e.g., industrial jobs, professional jobs. The State employment commission did not maintain separate figures on unemployment compensation claims and placements of the newspaper workers. Commission officials who were interviewed knew of at least five office workers and two mechanical craftsmen who had been placed.

Displaced workers used other resources to locate employment. A few paid private employment agencies to help find suitable employment. A far greater number utilized personal contacts and direct applications. Eight editorial employees joined local public relations and advertising firms. Others decided to freelance or accept jobs with public agencies. Advertising solicitors and classified salesmen not employed by other daily newspapers mostly joined various smaller publications, went into business for themselves, or became salesmen. Office and bookkeeping personnel found similar jobs in other firms. Three workers retired from the labor force and two died shortly after the closing. Three women, formerly in classified advertising, began courses to qualify for positions in real estate and insurance.

Within a few weeks of the sale, over 90 percent of the displaced editorial workers were employed elsewhere. The reemployment record of other groups was not as good. Those formerly engaged in soliciting classified advertisements found age and past wage levels to be definite handicaps. The State employment commission and members of the Guild employment committee believed that at age 45 and over employment opportunities were severely limited. Age indirectly affected employment in another way; older workers were likely to have earned length-of-service wage increases which made it more difficult for them to accept the lower wage rates of available jobs. Several workers still unemployed 2 months after the shutdown were considering job offers or planning to intensify their job campaigns for "suitable" jobs in the local area and elsewhere. For others, including a few older printers, the job prospects were dim.

### Severance Pay Expenditure

Neither the company nor the Guild had comprehensive information on how employees used their severance pay. From interviews with officials and some separated workers, certain impressions were formed. Use of severance pay outside of normal expenditure patterns was exceptional. Some recipients of severance pay paid outstanding bills. Although creditors did not generally press recipients to settle accounts, at least one worker receiving a small amount of severance pay and not reemployed at his former wage level had his mortgage foreclosed. A few others made major new purchases, such as autos, or took extended vacation trips on the strength of severance payments. Those beginning an enterprise invested the money in their businesses. Severance pay also gave three women the opportunity to pursue training in real estate and insurance. Apparently, the majority of recipients of substantial amounts of severance pay banked all or the greater part of their pay. For some, the banked money represented a fund to assist them in meeting current living expenses until re-employed; for others it was an investment or contingency reserve.



# Appendix. Questionnaires

## 2826 A—Conventional Severance Pay Plans

BLS 2826 A

Budget Bureau No. 44-6326  
Approval expires March 31, 1964

**U.S. DEPARTMENT OF LABOR**  
**BUREAU OF LABOR STATISTICS**  
**WASHINGTON 25, D.C.**

**Study of Severance Pay Plans**

IDENTIFICATION:

Location of establishment for which data are  
desired if different from mailing address.

Union \_\_\_\_\_

Number of workers covered by agreement -----

Occupation of workers covered:

Production and maintenance -----	<input type="checkbox"/>
Clerical -----	<input type="checkbox"/>
Professional, technical, sales -----	<input type="checkbox"/>
Other -----	<input type="checkbox"/>

1. In which year was a severance pay provision first included in the collective bargaining agreement?--- \_\_\_\_\_
2. Prior to that time, did the company have a formal severance pay plan for these employees?----- Yes \_\_\_ No \_\_\_
3. How many employees under the agreement were awarded severance pay in each of the following years? (If severance pay was awarded in installments, count employees only in year pay was first awarded. Answer only for years in which plan was under agreement.) Number of employees

1962 (or corresponding fiscal year) -----	<input type="text"/>
1961 (or corresponding fiscal year) -----	<input type="text"/>
1960 (or corresponding fiscal year) -----	<input type="text"/>
4. Of those employees awarded severance pay in 1962, approximately how many were in each of the following categories of length of company service?

Under 3 years -----	<input type="text"/>
3 and under 10 years-----	<input type="text"/>
10 and under 15 years-----	<input type="text"/>
15 and under 20 years -----	<input type="text"/>
20 years and over -----	<input type="text"/>
5. For employees awarded severance pay in 1962, what were the reasons for severance? Check as appropriate and, if possible, estimate the number of employees receiving severance pay for each reason. Check

Involuntary separation due to lack of work (lack of business, closing or consolidation of plants, technological change)-----	<input type="checkbox"/>	<input type="text"/>
Retirement or disability without being eligible for retirement annuity -----	<input type="checkbox"/>	<input type="text"/>
Discharge for cause or inability to perform work-----	<input type="checkbox"/>	<input type="text"/>
Voluntary separation -----	<input type="checkbox"/>	<input type="text"/>
Other (specify) _____	<input type="checkbox"/>	<input type="text"/>

6. How much severance pay did employees receive in 1962?

a. Total gross amount (do not include payments in lieu of separation notice)----- \$ \_\_\_\_\_

b. Total net amount (gross amount less all deductions)----- \$ \_\_\_\_\_

7. Have severance payments ever been liberalized beyond amounts required by the plan? ----- Yes \_\_\_ No \_\_\_

If "Yes," under what circumstances? \_\_\_\_\_

---

8. Is there a waiting period between time employment is severed and time employee receives severance pay? ----- Yes \_\_\_ No \_\_\_

If "Yes," how long is the waiting period? ----- \_\_\_\_\_

9. How are severance payments paid? (Check one)

Only in lump sum ----- \_\_\_\_\_

Only in regular installments ----- \_\_\_\_\_

Other (specify) \_\_\_\_\_

10. Are severance payments in whole or in part contingent on the worker remaining unemployed? ---- Yes \_\_\_ No \_\_\_

11. Does an employee lose all recall rights to employment with the company when he accepts severance pay? ----- Yes \_\_\_ No \_\_\_

12. What company services have been available to employees before and after severance? Check as appropriate. Before After

None -----	_____	_____
Training for other jobs with company -----	_____	_____
Testing or guidance -----	_____	_____
Company-sponsored employment referral-----	_____	_____
Training for employment outside of company -----	_____	_____
Other (specify) _____	_____	_____

13. Options to severance pay:

a. Does an employee have the option to choose between severance pay and each of the following? Check. (If employee loses severance pay when rejecting offer, check "No.")

Another job with the company at the same or higher rate of pay in the same plant or area----- Yes \_\_\_ No \_\_\_

Another job with the company at a lower rate of pay in the same plant or area ----- Yes \_\_\_ No \_\_\_

Layoff with preferential recall ----- Yes \_\_\_ No \_\_\_

Transfer to another plant of the company in a different geographic area ----- Yes \_\_\_ No \_\_\_

Other (specify) \_\_\_\_\_

If an employee has any of the above options, please answer questions "b" and "c."

## 13. Options to severance pay—Continued

- b. During 1962, how many employees were offered and chose each of the following options in lieu of severance pay, and how many rejected one or more of the options in order to receive severance pay? (For employees receiving severance pay, indicate all options offered and rejected by each employee. Because employees may have been offered none, one, or more options, the total number of employees rejecting options to take severance pay will not necessarily coincide with the total number receiving severance pay.)

	Number of employees	
	Accepted option	Rejected option (and received severance pay)
Another job with the company in the same plant or area at the same or higher rate of pay -----	xxx	_____
Another job with the company in the same plant or area at a lower rate of pay ----	xxx	_____
Layoff with preferential recall -----	_____	_____
Transfer to another plant of the company in a different geographic area at the same or higher rate of pay -----	_____	_____
Transfer to another plant of the company in a different geographic area at a lower rate of pay -----	_____	_____
Other (specify) _____	_____	_____

- c. Did the company pay all or part of moving expenses of employees accepting option to transfer to a different geographic location? ----- Yes \_\_\_ No \_\_\_
14. What other kinds of monetary payments are available from the company to employees at time of severance (e. g. , individual thrift funds to which employer has contributed, profit sharing, etc. )? \_\_\_\_\_
15. Does company pay severed employees for accumulated vacation time?----- Yes \_\_\_ No \_\_\_
16. Does company offer employees in the bargaining unit a life insurance plan to which it contributes all or part of premium? ----- Yes \_\_\_ No \_\_\_
- If "Yes," please answer questions "a" and "b."
- a. When does coverage under this plan end? (Check one)
- At time of layoff ----- \_\_\_\_\_
- When employee accepts severance pay----- \_\_\_\_\_
- Other (specify) \_\_\_\_\_
- b. When employee is no longer covered by the company, may he pay for continued coverage at group rate?----- Yes \_\_\_ No \_\_\_
17. Does company offer employees in the bargaining unit hospital, surgical, and/or medical insurance plans to which it contributes all or part of premium? ----- Yes \_\_\_ No \_\_\_
- If "Yes," please answer questions "a" and "b."
- a. When does coverage under this plan end? (Check one)
- At time of layoff ----- \_\_\_\_\_
- When employee accepts severance pay----- \_\_\_\_\_
- Other (specify) \_\_\_\_\_
- b. When employee is no longer covered by the company, may he pay for continued coverage at group rate?----- Yes \_\_\_ No \_\_\_

18. Does company have a pension plan for employees in the bargaining unit? ----- Yes \_\_\_ No \_\_\_

If "Yes," please answer questions "a," "b," and "c."

a. Is there any vesting? ----- Yes \_\_\_ No \_\_\_

b. How many employees receiving severance pay in 1962 had earned vested rights to accumulated pensions? -----

c. Can severance payments be deducted from deferred vested pensions?----- Yes \_\_\_ No \_\_\_

19. Does company offer a severance pay plan to nonsupervisory white-collar employees (professional, sales, technical, clerical) not in the bargaining unit? ----- Yes \_\_\_ No \_\_\_

If "Yes," please answer questions "a," "b," and "c."

a. Is severance pay plan for these employees similar to the one for employees in the bargaining unit? ----- Yes \_\_\_ No \_\_\_

If plan is different, please send copy of the plan or describe briefly the major features of the plan.

-----  
-----

b. How many employees are covered by such a plan?-----

c. How many employees were awarded severance pay under this plan in 1962? -----

20. Would you please comment on aspects of your severance pay plan and its operation which have helped workers find new jobs, learn new skills, or move to new locations. Equally important, we would appreciate your comments on aspects which tend to diminish the effectiveness of the plan as far as mobility of workers is concerned. (Use additional sheets if necessary.)

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Name of person reporting Title Date

2826 B—SUB-Type Severance Pay Plans

BLS 2826 B

Budget Bureau No. 44-6326  
Approval expires March 31, 1964

**U.S. DEPARTMENT OF LABOR**  
BUREAU OF LABOR STATISTICS  
WASHINGTON 25, D.C.

Study of Severance Pay Plans

IDENTIFICATION:

Location of establishment for which data are  
desired if different from mailing address.

Union \_\_\_\_\_

Number of workers covered by agreement -----

Occupation of workers covered:  
Production and maintenance -----   
Clerical -----   
Professional, technical, sales -----   
Other -----

1. In which year was a severance pay provision first included in the collective bargaining agreement?----- \_\_\_\_\_
2. Prior to that time, did the company have a formal severance pay plan for these employees?----- Yes\_\_\_ No\_\_\_
3. How many employees under the agreement were awarded severance pay in each of the following years? (If severance pay was awarded in installments, count employees only in year that pay was first awarded. Answer only for years in which plan was under agreement.)

Number of  
employees

1962 (or corresponding fiscal year)----- \_\_\_\_\_  
1961 (or corresponding fiscal year)----- \_\_\_\_\_  
1960 (or corresponding fiscal year)----- \_\_\_\_\_

4. Of those employees awarded severance pay in 1962, approximately how many were in each of the following categories of length of company service?  
Under 3 years----- \_\_\_\_\_  
3 and under 10 years----- \_\_\_\_\_  
10 and under 15 years----- \_\_\_\_\_  
15 and under 20 years----- \_\_\_\_\_  
20 years and over----- \_\_\_\_\_

5. For employees awarded severance pay in 1962, what were the reasons for severance? Check as appropriate and, if possible, estimate the number of employees receiving severance pay for each reason.

	Check	Number of employees
Involuntary separation due to lack of work (lack of business, closing or consolidation of plants, technological change)-----	_____	_____
Retirement or disability without being eligible for retirement annuity-----	_____	_____
Discharge for cause or inability to perform work-----	_____	_____
Voluntary separation -----	_____	_____
Other (specify) _____		

6. Does the severance pay plan provide for a waiting period (e. g., 1 year in auto industry, 2 years in rubber industry) before laid-off employees become eligible for severance pay? ----- Yes \_\_\_ No \_\_\_

If answer is "Yes," please answer questions "a" and "b."

a. Proportion of employees applying for severance pay as soon as eligible.

(1) In 1962, how many employees became eligible for severance pay after normal waiting period?-----

(2) How many of these employees applied for severance pay as soon as eligible?-----

b. Did the company in 1962 permit some employees to apply for severance pay before completion of normal waiting period? ----- Yes \_\_\_ No \_\_\_

If "Yes," under what circumstances? \_\_\_\_\_

(1) In 1962, how many employees were eligible to apply for severance pay earlier than normal?-----

(2) How many of these employees applied for severance pay as soon as eligible?-----

7. How much severance pay did employees receive in 1962?

a. Total gross amount----- \$ \_\_\_\_\_

b. Deductions because of prior payments of Supplemental Unemployment Benefits ----- \$ \_\_\_\_\_

c. Total net amount (gross amount less all deductions)----- \$ \_\_\_\_\_

8. How many employees receiving severance pay in 1962 had SUB payments deducted from gross severance pay?-----

9. Is severance pay financed from SUB fund?----- Yes \_\_\_ No \_\_\_

If "Yes," please answer questions "a" and "b."

a. Can severance payments be reduced if fund falls below a minimum level? ----- Yes \_\_\_ No \_\_\_

b. Have severance payments ever been reduced because of level of fund?----- Yes \_\_\_ No \_\_\_

10. Have severance payments ever been liberalized beyond amounts required by the plan?----- Yes \_\_\_ No \_\_\_  
 If "Yes," under what circumstances? \_\_\_\_\_  
 \_\_\_\_\_

11. What company services have been available to employees before or after severance? Check. Before After

None-----	_____	_____
Training for other jobs with company -----	_____	_____
Testing or guidance -----	_____	_____
Company-sponsored employment referral-----	_____	_____
Training for employment outside of company -----	_____	_____
Other (specify) _____		

12. Options to severance pay.

a. When an employee becomes eligible for severance pay, does he have the option to choose between severance pay and each of the following? Check. (If employee loses severance pay when rejecting offer, check "No. ")----- Yes \_\_\_ No \_\_\_

Another job with the company at a lower rate of pay in the same geographic area ----- Yes \_\_\_ No \_\_\_

Transfer to another plant of the company in a different geographic area ----- Yes \_\_\_ No \_\_\_

Other (specify) \_\_\_\_\_

b. If an employee has any of the above options, how many employees who received severance pay in 1962 rejected each of the following? (Because employees may have been offered none, one, or more options, the total number of employees in this question will not necessarily coincide with the total number receiving severance pay.)

	Number of employees
Another job with company in the same geographic area at a lower rate of pay-----	_____
Transfer to another plant of the company in a different geographic area at the same or higher rate of pay-----	_____
Transfer to another plant of the company in a different geographic area at a lower rate of pay-----	_____
Other (specify) _____	

13. What other kinds of monetary payments are available from the company to employees at time of severance (individual thrift funds to which employer has contributed, profit sharing, etc.)?  
 \_\_\_\_\_

14. Does company have a pension plan for employees in the bargaining unit? ----- Yes \_\_\_ No \_\_\_

If "Yes," please answer questions "a," "b," and "c."

a. Is there any vesting? ----- Yes \_\_\_ No \_\_\_

b. How many employees receiving severance pay in 1962 earned vested rights to accumulated pensions? ----- \_\_\_\_\_

c. Can severance payments be deducted from deferred vested pensions? ----- Yes \_\_\_ No \_\_\_

15. Does company offer a severance pay plan to nonsupervisory white-collar employees (professional, sales, technical, clerical) not in the bargaining unit?-----Yes\_\_ No\_\_

If "Yes," please answer questions "a," "b," and "c."

a. Is severance pay plan for these employees similar to the one for employees in the bargaining unit?-----Yes\_\_ No\_\_

If plan is different, please send copy of the plan or describe briefly its major features.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Number of employees

b. How many employees are covered by such a plan?-----

c. How many employees were awarded severance pay under this plan in 1962?-----

16. Would you please comment on aspects of your severance pay plan and its operation which have helped workers find new jobs, learn new skills, or move to new locations. Equally important, we would appreciate your comments on aspects which tend to diminish the effectiveness of the plan as far as mobility of workers is concerned. (Use additional sheets if necessary.)

Name of person reporting

Title

Date