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Facing Severance? Tips to Get Savvy

By Andrew Greene March 7, 2016

With more asset management firms looking to rein in costs and trim head count, some employees will find themselves in the unfortunate position of being offered a severance package.

What workers should remember is that while what they get offered will depend on the company, the individual's role and his or her tenure, severance, like all forms of pay, is negotiable, says Alan Johnson, managing director of compensation consultancy Johnson Associates in New York City.

Conversations around layoff packages and buyouts may be becoming more common. Recently, State Street and Waddell & Reed (parent to the Ivy Funds) announced staff reductions, while Franklin Resources and Northern Trust have taken steps toward tightening staffing expenses through buyouts and pay freezes, respectively, as reported. Executives around the industry have likewise warned in recent earnings calls that their companies are watching expenses closely.

In the years since the financial crisis, when mass rounds of layoffs became commonplace, the terms of the severance packages fund shops offer have gotten tighter, says Brian Drum, founder and president of New York–based executive search firm **Drum Associates**.

Prior to the crisis, companies commonly doled out a month's pay for every year of service. In rare cases, long-tenured employees received the equivalent of two years of pay as part of their severance packages.

But companies have since adjusted their formulas. A week to two weeks of pay for each year of service has become the norm, and severance is typically capped at a year or even six months, Drum says.

BlackRock's severance pay formula, for example, provides employees terminated as a result of layoffs two weeks' pay for each year of service, up to a maximum of one year's pay. Prior to 2009, BlackRock issued three weeks of pay for each year of service, regulatory filings show.

Higher-ranking workers often get plusher payouts. Janus, for example, pays named executive officers who are terminated involuntarily between six months to a year in severance compensation, and a pro rata portion of a cash bonus (if the termination occurs after July 1). Those execs also get between six and 12 months of health benefits and a three-month window following termination to exercise any vested stock options, filings show.

Under its severance pay plan for home office employees, Waddell & Reed at its discretion provides between three months and a year of base salary, three months to a year of access to the company health plan with the company's contribution, and payment of any unused vacation. In some cases the company may offer career guidance and job training or placement support, according to regulatory filings.

Such so-called outplacement services, the continuation of health benefits for a period of time and payment of unused vacation are fairly standard, recruiters and consultants say.

Bonuses, which often make up a huge piece of fund workers' compensation, are often paid out on a pro rata basis, depending on when the employee is laid off. But not always: Drum cited one large firm that laid off more than 1,000 staff in December that did not pay out annual bonuses, he says.

A major factor in how generous a company is to the workers it lays off is how severely the company needs to cut costs.

"If things are good and it's just pruning ahead of the storm, you will probably get six months to a year of severance," Johnson says. If the company is bleeding assets, three to six months of pay is probably more likely. And, typically, the earlier in the cycle of cuts the offer comes, the more generous the package. "You're lucky to be on the front end of cuts, not the back end," he says.

Either way, Johnson says employees faced with a severance package should think about the offer and, if they deem it unfair, try to negotiate. Items to barter for might include unvested stock or options.

More senior-level staffers can negotiate vesting schedules, or the official date that they are removed from payroll. Such tweaks can mean collecting a portion of the equity earned over their careers, Johnson says.

"The most important advice I can give is that as long as you negotiate professionally and with a smile, there's no harm in asking," Johnson says.

Employees should take some time to consider the severance package so they can approach it without emotion, and perhaps have a lawyer review the terms. Laid-off employees should also remember that they have only one crack at negotiating the terms of their severance, so they need to carefully weigh the most important aspects, he says.

"You only want to ask once and you don't want to ask for nickel-and-dime stuff like Cobra [temporary health coverage]," he says. "But if you can move your leave date by two months, that's a lot. A month or two can be something substantial."

If the severance is especially paltry, the employee can try to appeal to the company's sense of fairness, says Tim Sackett, a human resources consultant and president of **HRU Technical Resources**, an IT and engineering contract staffing firm.

Companies want to conduct layoffs as quickly and humanely as possible, he says. As a result, negotiating elements like continued health coverage for an affected staffer who is pregnant or who has a pregnant spouse, can often be successful. "Most companies feel for an individual," he says.

But companies also want to protect their interests. Often employees who accept the severance terms sign an agreement that indemnifies the company. These agreements will often prohibit the company and the employee from making any disparaging remarks about one another and cover other items, such as sharing proprietary information, he says.

Then there is what Johnson, the compensation consultant, calls the "nuclear option" of negotiating severance. Such tactics can include using embarrassing or damaging information about the company or its executives to secure huge severance payouts.

Such strategies can work for those who feel particularly unfairly treated in wrestling more money from the company, but they are risky, Sackett says.

"Understand that when you take that path, you're all in, and at that point they can pull any offer," he says.