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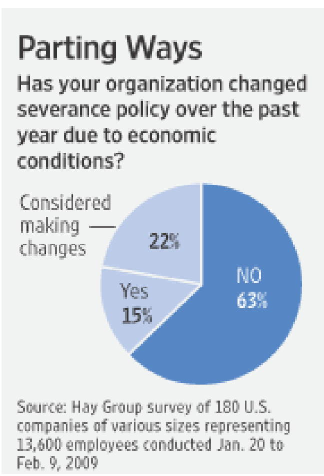
Severance Plans Face Squeeze Amid Scramble to Preserve Cash

By SARAH E. NEEDLEMAN

Just a month before a fourth round of layoffs in December, Geonerco Management Inc. reduced its severance plan. Laid-off workers would get just two weeks of pay, rather than a package based on length of service.

"We needed to take every reasonable step to conserve cash to make it through this very tough time," says Greg Szymanski, director of human resources for the Seattle-based real-estate development firm.



Geonerco's policy change is part of a broader effort by some employers to curb severance costs. Some 20% of companies polled in December by Hewitt Associates Inc., a human-resources consulting firm in Lincolnshire, Ill., said they plan to change severance policies and 31% are considering such a move.

For the most part, employers that are downsizing severance packages say they are facing mounting financial pressures. Hewitt's survey found that 43% of firms planning severance-policy changes expect to reduce cash payments, while 21% intend to trim other benefits.

Similarly, a survey conducted earlier this year by Hay Group Inc., shows that 61% of employers planning or considering changes aim to do so by downgrading their offerings to laid-off workers.

What's more, "a lot of companies are talking about making changes, but they're not sure how to do it yet," says Lori Wisper, a senior compensation consultant at Hewitt.

The Hewitt findings, to be released Thursday, include responses from 228 large U.S. companies representing 4.5 million workers in a range of industries.

Companies appear to be revisiting their severance packages more frequently in this downturn and making policies more formal. Typically, employers re-evaluate their severance practices just once every five years, says David Wise, a senior consultant at Hay Group. "It's highly unusual for companies to revisit their severance programs regularly," says Mr. Wise. "The fact that so many companies have considered changes over the last year is very significant."

Hewitt found 72% of employers now have or expect to have formal, written severance policies in place this year. In the past, says Ms. Wisper, severance plans were little more than a few general statements in a manual that guided package creation.

"When you are dealing with terminations one individual at a time, you can afford to be more flexible," adds Laurence J. Stybel, president of Stybel Peabody & Associates Inc., an executive-outplacement firm. "When a company is terminating 10% of its U.S. work force, policies have to be established and they need to be easily administered."

Deciding to trim payouts isn't easy. Many of the people laid off under the new severance rules at Geonerco, which wasn't surveyed, had been with the company for several years, says Mr. Szymanski. The firm has gone from 200 employees to 55 since late 2007, and before the changes laid-off workers received two weeks pay for the first year of service and one week for each year thereafter. "When you're laying people off and they see that in the past that others had gotten larger amounts, it makes the decision even more painful," he says.

Employers that downsize their severance packages may hurt their chances of recruiting top talent when the economy turns around, says Mr. Wise, adding, "You don't want a lot of disgruntled ex-employees out there in the market because of the reputational harm they can do."

Downsized severance policies may also mar a company's image among surviving workers, says Leonard Greenhalgh, professor of management at the Tuck School of Business at Dartmouth College. "If surviving employees don't feel that their company is committed to their economic well-being, they will view the relationship as more transactional," he says. "When a better offer comes, they will take it."

Of course, not all policy changes are for the worse. A survey conducted in February by Watson Wyatt Worldwide Inc. shows that among the 52% of firms that said they administered layoffs in the past 12 months, 29% offered enhanced pay, benefits coverage and/or job-search assistance to severed employees. Watson Wyatt's survey included responses from human-resources executives at 245 U.S. firms.

Write to Sarah E. Needleman at sarah.needleman@wsj.com

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