

Furloughs, Layoffs, and Reductions in Force

What's a boss to do?



With **COVID-19** dramatically upending normal operations, times are tough. Business leaders are faced with hard decisions, and XMI is here to help. As you consider how to stay afloat and provide for your employees, this guide will answer common questions about employee exits.

I hear various terms for lay-offs. What do these words mean?

- › **A furlough** is a way for employers to deal with a reduction of work. During a furlough, employees remain on the employer's payroll but their hours of work or salary are reduced.
- › **A layoff** is a temporary separation from payroll, often when there isn't enough work for the employee to perform.
- › **A reduction in force (RIF)** occurs when an employee's position has been eliminated.

Why would I use one instead of the other?

- › **Furloughs** are used in situations where there is not enough work or the employer needs to cut labor spending. Employers may reduce employees' hours, ask all employees to take a period of unpaid leave, or temporarily adjust compensation.
- › **Employers use layoffs**, rather than terminations, when the conditions leading to the reduction in work are expected to change.
- › **RIF** are typically deployed for budgetary reasons, workforce planning initiatives, position elimination, or other resizing events.

Anything I should be aware of?

Furloughs: Employers should be careful when furloughing employees who are exempt from the Fair Labor Standards Act (FLSA). The FLSA requires that exempt employees receive their weekly salary regardless of the number of hours they work during the week. However the FLSA does not require employers to compensate exempt employees for any week in which they do not perform any work, so employers may elect to furlough exempt employees by reducing their work a week at a time.

Is this permanent, like firing an employee?

- › **Furloughs** are NOT permanent.
- › **Layoffs** are generally intended to be temporary with employees recalled when enough work becomes available. However layoffs can also transition to a reduction in force.
- › **A RIF** is permanent.

Will the impacted employees be eligible for unemployment?

Whether you use furloughs, layoffs, or a reduction in force, employees may be able to collect unemployment if they meet their state's eligibility requirements. To learn more, visit [usa.gov/unemployment](https://www.usa.gov/unemployment).

Visit XMI's resource page at [xmigrowth.com](https://www.xmigrowth.com) for our latest guidance on managing your business through the COVID-19 crisis.

How will this change affect my employees' medical benefits? And what about other benefits, like dental or disability? Will the business continue to pay the employer cost for impacted employees?"

› Furloughs

Whether employee benefits are provided during furloughs will depend on the terms of each plan. In many cases, employees must work a specific number of hours to remain eligible for benefits. If that condition is met, benefits continue "as is."

However, in some cases, furloughs may be treated differently than other types of hours reductions. During the COVID-19 pandemic, some insurance carriers and state regulators are providing additional flexibility to help employers maintain coverage for employees on furlough.

Employee deductions may need to accumulate to collect any missed deductions upon employee's return if temporarily working no hours.

As an alternative, employer has the option to pay full premium.

Employer group plan short term disability and long term disability benefits continue during the furlough.

› Layoffs

As with furloughs, whether a laid-off employee remains eligible for any employee benefits will depend on the terms of each plan.

If the lay-off is permanent, eligibility impact is the same as for a termination.

› Reduction in Force (RIF)

COBRA Eligible Employers

- Benefits terminate upon termination of employment, subject to plan rules.
- Employees can elect to continue medical, dental, and vision. Employees will assume the full costs of coverage.
- Employees participating in Flexible Spending Accounts cannot submit for reimbursement for claims incurred after termination date.
- Employer group plan short term disability and long term disability benefits cease.
- Life and voluntary life options are typically available through a conversion policy which provides continued benefit (with a lower payout) at increased rates.
- Voluntary ancillary products such as cancer, hospitalization, and employee can elect to pay the carrier directly to continue coverage.

Small Employers, not COBRA eligible

- Benefits terminate upon termination of employment, subject to plan rules.
- Employee can elect State Continuation for medical benefits only.
- Employees participating in Flexible Spending Accounts cannot submit for reimbursement for claims incurred after termination date.
- Employer group plan short term disability and long term disability benefits cease.
- Life and voluntary life options are typically available through a conversion policy which provides continued benefit (with a lower payout) at increased rates.
- Voluntary ancillary products such as cancer, hospitalization, and employee can elect to pay the carrier directly to continue coverage.



If you are planning to apply for the CARES Act Paycheck Protection Program, reducing headcount may impact loan forgiveness. Learn more at [sba.gov](https://www.sba.gov).

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To learn how XMI can make work easy during very challenging times, call us today at **615-248-9255** or email info@xmigrowth.com.