

# Conducting Layoffs and Furloughs Resulting From COVID-19 Business Impact

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As a result of the coronavirus pandemic, many employers are being forced to make tough workforce decisions to deal with the significant economic impact and uncertainty. Below, we have compiled a list of some of the most common questions to consider when deciding on a furlough or reduction-in-force strategy designed to conserve costs during the coronavirus pandemic.

- What is a furlough?
  - A furlough does not have a precise legal definition but generally refers to a mandatory period of time off work without pay. Sometimes the term “temporary layoff” is used. A furlough is similar to an unpaid leave of absence except that it is initiated by the employer, whereas most leaves of absence are initiated by the employee. Generally, the employee remains on payroll and remains eligible for benefits, including health insurance coverage, while on furlough, and has an expectation of reinstatement. Furloughs are used in periods of significant economic downturn and during seasonal business cycles.
  - An employer may furlough employees rather than permanently laying off and terminating employees because the business downturn is expected to be temporary. A furlough helps an employer reduce its compensation costs and potentially also hiring costs when it brings furloughed employees back to work instead of having to hire and train replacements.
- How is a permanent layoff different from a furlough or temporary layoff?
  - A permanent layoff generally refers to when an employer terminates an employee’s employment without any right to be recalled and reinstated if business conditions improve. Unlike a furlough, benefits typically are terminated when an employee is laid off, including health benefits (subject to the employee’s right to continue that coverage pursuant to COBRA).
  - An employer may permanently lay off employees when the employer is less certain that business conditions are such that the employer will need to reemploy the employee. The employer also saves the costs of benefits during any layoff period. Unless otherwise dictated by an employer policy or collective bargaining agreement, layoffs typically involve a technical termination of employment and the employee is removed from the payroll.

## Federal Worker Adjustment and Retraining Notification Act (“WARN”) and Similar State Laws

- What employers are covered by WARN?
  - The federal WARN Act applies to any business that employs 100 or more employees. The law contains special rules for the counting of part-time employees in determining whether an employer is covered by the law.

- What does WARN require?
  - WARN generally requires covered employers to provide 60 days' advance written notice to affected employees and state and local government officials of a "plant closing" or a "mass layoff."
- When is notice required under WARN?
  - WARN is triggered by a "plant closing" or "mass layoff." There must always be at least 50 employees affected at a single site of employment during a 90-day period for WARN to be triggered. A *plant closing* is defined as 50 or more "employment losses" at a single site of employment that results from shutting down the site or an operating unit, division, department or other functional portion thereof. A *mass layoff* occurs when at least 50 employees and 33% of the employees at the site suffer an employment loss; or, alternatively, at least 500 employees suffer an employment loss regardless of the percentage affected.
  - Note: Not all employees are counted. Part-time employees are excluded, which notably includes any employee who was hired in the previous six months.
- Is notice required under the federal WARN Act for temporary layoffs or furloughs?
  - WARN's notice provisions are only triggered when the applicable number of affected employees suffers an "employment loss." A layoff or furlough lasting less than six months does not constitute an "employment loss."
  - Accordingly, an employer may temporarily lay off or furlough over 50 employees at a site of employment for less than 6 months without triggering any WARN notice obligation.
- Is WARN notice required when employees' hours are reduced?
  - WARN's definition of employment loss only applies to a reduction in hours of more than 50% each month for six consecutive months. A reduction in hours as a result of a furlough or layoff for any period of time shorter than six months does not qualify as an "employment loss."
  - For example, if an employer furloughs 100 of its 150 employees for a period of three months, after which time all 150 employees return to work, no WARN event has occurred because there has been no employment loss.
- Does WARN contain an exception that applies to the coronavirus pandemic?
  - The WARN Act contains two exceptions to the 60-day notice requirement that could potentially apply to the coronavirus pandemic: (1) the natural disaster exception; and (2) the unforeseeable business circumstances exemption.
  - The DOL regulations state that the natural disaster exception includes "floods, earthquakes, droughts, storms, tidal waves or tsunamis and similar effects of nature". 20 C.F.R. § 639.9. This exception has not been applied to any public health crisis by any court and generally only covers the direct effect of a natural disaster. Accordingly, absent further guidance, the law is uncertain as to whether this exception applies to the coronavirus pandemic.
  - The "unforeseeable business circumstances" is more likely to apply to the indirect effects of the coronavirus pandemic. The DOL regulations state that the exception applies to "plant closings and mass layoffs caused by business circumstances that were not reasonably foreseeable at the time that 60-day notice would have been required." 20 C.F.R. § 639.9(b). The application of this exception, however, will depend on the facts and circumstances of each individual business should consult counsel about their specific circumstances .

- Note: Notice must be given as soon as practicable after the unforeseeable business exemption becomes foreseeable. Accordingly, notice to affected employees should be given as soon as practicable once the unforeseen business circumstances become reasonably foreseeable if the employer believes that the circumstances may result in a mass layoff or plant closing.
- Does state law create any WARN-like obligations?
  - Yes, approximately seven states have enacted legislation similar to WARN with broader provisions. Many of these states enacted “mini-WARN” statutes in the years following the 2008 financial crisis, and some contain longer notice periods or different triggering thresholds for which notice is required. Covered employers are required to comply with any more expansive provisions required by state law in addition to complying with federal WARN provisions.
  - For example, we recently highlighted the New Jersey Mass Layoff and Plant Closing Statute, which was just signed into law in January 2020. <https://www.vedderprice.com/new-jersey-significantly-expands-state-mass-layoff-and-plant-closing-statute>
  - The Illinois WARN Act includes different triggering levels compared to the federal WARN Act. The Illinois WARN Act defines “mass layoff” as an employment loss of 250 or more employees (regardless of percentage) at a single site; or an employment loss of 25–249 employees and 33% of employees at that site. Accordingly, the notice provision of the Illinois WARN Act can be triggered by an employment loss of 25 employees, rather than the 50-employee threshold under the federal WARN Act.
  - The New York WARN Act covers employers of 50 full-time employees or more and requires 90-day advance notice of a plant closing, mass layoff, or relocation of operations. It defines “mass layoff” as an employment loss 250 or more employees (regardless of percentage) at single site; or and employment loss of 25-249 employees and 33% of employees at that site. Plant closings or relocations of operations resulting in a loss of employment for at least 25 full-time employees are also events requiring 90-days’ advance notice.
  - The California WARN Act also contains numerous differences compared to federal law. Notably, for purposes of executing temporary layoffs and furlough strategies, the California WARN Act does not incorporate the federal WARN Act’s definition of “employment loss.” A temporary layoff or furlough of less than six months can constitute a “layoff” counted for purposes of determining whether the California WARN Act’s notice provisions are triggered.
  - Note: California has issued guidance indicating that the coronavirus pandemic meets the “unforeseen business circumstance” tests under the California WARN Act. See <https://www.gov.ca.gov/wp-content>. An employer may be exempt from the California WARN Act’s notice provision if certain requirements are met.

## Wage and Hour

- Does an employer have to pay employees on furlough or temporary layoff?
  - Nonexempt employees only need to be paid for hours that are actually worked under the FLSA. Accordingly, if a nonexempt employee is furloughed, they generally do not need to be paid for those hours absent a contractual obligation.
  - Note: Several state laws require show-up pay or contain notice requirements, so state law should be consulted if advance notice of the furlough is not provided. In addition, paid sick leave and other paid leave laws may be implicated if a qualified leave begins before an employee is furloughed. Finally, a small but growing number of states and localities have enacted “predictive scheduling” laws and ordinances. While these laws vary in approach and coverage, they generally require employers to set

schedules as much as 14 days in advance and to pay employees a premium or flat amount if the schedule is changed. Most of these laws include force majeure provisions; however, such provisions will need to be reviewed to determine if they apply to the coronavirus pandemic.

- On the other hand, exempt employees under the FLSA's "white collar" exemptions (executive, administrative and professional) must be paid on a "salary basis," which means that they generally must be paid their full salary for each week in which they perform *any* work. Accordingly, subject to limited exceptions, if an exempt employee performs *any* work for that week, the employee needs to be paid his or her full weekly salary. Accordingly, if an exempt employee works all or part of Monday, and then is furloughed, the employee must be paid the employee's full salary for the entire week. Similarly, if an exempt employee performs work while on furlough or shutdown (including checking email from home or performing other work), the employer needs to pay the employee for the full week. Likewise, if an exempt employee works one or two days out of a workweek, they must be paid the same weekly salary. If an employer fails to comply with the FLSA in this respect, the exempt status of all exempt employees subject to the practice can be jeopardized.
- Exempt employees do not have to be paid for any workweek in which they perform no work, including weeks for which they have been furloughed or temporarily laid off.
- Note: If the employer wants to avoid the obligation to pay exempt employees their weekly salary, employers should tell exempt employees they are not authorized to perform any work during any furlough or temporary layoff period, and that any work requires prior approval.
- If an employee is furloughed or quarantined, the employee may use paid leave or vacation time for any partial weeks not worked so long as the employee is paid their full weekly salary. The employee may also be entitled to paid sick leave under the employer's policies or state or local law.
- Note: DOL has also published helpful resources for furloughs and reductions in hours. See Fact Sheet #70: Frequently Asked Questions Regarding Furloughs and Other Reductions in Pay and Hours Worked Issues. <https://www.dol.gov/agencies/whd/fact-sheets/70-flsa-furloughs>.
- Can an employer reduce the salaries of exempt employees during furlough periods or if schedules are reduced consistent with the FLSA?
  - Yes, an employer can reduce the salary of exempt staff consistent with the FLSA if certain requirements are met. The reduction must be on a prospective basis and notice should be communicated to the employees ahead of time.
  - Following the 2008 financial crisis, the DOL issued several opinion letters approving of a reduction in salary based on a reduced schedule when the reduction takes place for a multi-week or multi-month period due to economic conditions. See Wage and Hour Administrator Opinion Letter FLSA 2009-2. The DOL generally has distinguished planned reductions in salary as part of a multi-week or multi-month period reduction in schedule from those where salary reductions are part of "irregular" or "day-to-day" scheduling changes. See Wage and Hour Administrator Opinion Letter FLSA 2009-14.
- Can an employer temporarily reduce the hourly wage or hours of non-exempt employees?
  - Yes, subject to any contractual limitations, minimum wage laws, and state law. Any change to wage rates should be communicated in advance to employees. Moreover, before reducing hours, employers should consider state laws that may require show-up pay or advance notice of scheduling or pay changes.

- Can an employer force employees to use paid time off (PTO, vacation, personal days, etc.) during a furlough or temporary layoff period?
  - Yes, generally, subject to the terms of the employer's policy and any contractual limitation. An employer may require its employees to take paid leave during any period of shutdown or furlough, or it may allow its employees to choose whether or not to use their available paid time off. Allowing employees the option to choose is generally considered a best practice for morale reasons, recognizes that different employees may have different wants and needs in this regard, and enables employees to maximize their entitlement to unemployment insurance benefits. It also conserves cash as some employees will elect to use their paid time later, resulting in the furlough being unpaid, at least in part.
  - With respect to exempt employees, the DOL has stated that an employer may meet the salary basis test for exempt employees by forcing employees to use PTO or other paid leave during temporary periods where the employee is otherwise not required to work one or more days during a given week. The DOL has approved of this practice so long as the employee receives his or her guaranteed salary for that week. See Wage and Hour Administrator Opinion Letter FLSA 2009-18.
  - Note: Many employer PTO and vacation policies do not address furlough or temporary layoff scenarios. An employer should review their policies and determine if any revisions need to be made if they are considering requiring employees to use available paid time off during a furlough or temporary layoff.
- Does an employee need to accrue paid time off benefits (PTO, vacation, sick days, etc.) during a period of furlough?
  - Generally, there is no legal requirement that paid time off benefits provided under an employer policy continue to accrue during a furlough period. However, employers should review their policies to ensure that accruals will not be required from a contractual perspective if the employer wants accruals to cease.
  - In the case of paid sick leave mandated by state or local law, most laws require accrual only based on hours worked and, therefore, likely do not require additional accruals while an employee is on furlough. However, the specific state or local ordinance should be consulted to confirm this.
  - In the case of a permanent layoff resulting in the termination of the employment relationship, all accruals would cease.

## Unemployment

- Will employees be able to receive unemployment insurance benefits if an employer places them on furlough or temporary layoff?
  - Entitlement to unemployment insurance benefits is governed by state law. The fact that the cessation of work is treated as a layoff or furlough generally should not affect the employee's eligibility for unemployment insurance benefits.
  - For example, the Illinois Unemployment Insurance Act ("IUIA") allows employees to receive benefits based on a loss of income versus a termination of employment. In Illinois, an employee is generally able to obtain the maximum benefit for any week in which the employee performed no work or received no income. To be eligible for partial week benefits under the IUIA (i.e., partial benefits for a week in which an employee is working less than full-time because of lack of work), the employee's earnings for the week must be less than the weekly unemployment benefit amount the employee would receive if he or she was totally unemployed for the week (without the application of any dependent allowances). Currently, the maximum weekly benefit under the IUIA for an individual without dependents is \$471 per week.

- The Illinois Department of Employment Security has issued coronavirus pandemic guidance related to unemployment benefits: <https://www2.illinois.gov/ides/Pages/COVID-19-and-Unemployment-Benefits>
- State and federal stimulus legislation may also expand unemployment benefits in the future.

## Employee Benefits

- Is group insurance coverage impacted by a layoff or furlough?
  - If an employee ceases to meet specified eligibility requirements (such as minimum expected hours for a month or week), they may cease to be eligible for group insurance benefits, including health insurance, subject to the plan's provisions governing continuation of coverage during leaves of absence and temporary layoffs. If an employee ceases to be eligible for health insurance benefits, the employee generally would be entitled to continue that coverage pursuant to COBRA. In the case of life insurance benefits, the employee will have the right to convert that coverage to an individual policy.
- Are there qualified plan considerations impacted by layoffs or a furlough?
  - Employers should consider whether the partial termination rules have been triggered with respect to 401(k) plans. In general, if a 401(k) plan's active participant numbers decrease by more than 15%, it may be considered an involuntary partial plan termination, and all affected employees must be fully vested, if not fully vested already. Generally, only employment terminations are counted toward the reduction threshold. A furlough of employees typically would not trigger the partial plan termination rules unless and until the affected employees suffer a termination of employment.

## Labor Relations

- If an employer is subject to a collective bargaining agreement ("CBA"), is there a duty to bargain with respect to layoffs or furloughs?
  - It depends on the language of the CBA. Many, if not most, CBAs have "management rights" provisions that expressly reserve the employer's right to conduct layoffs. In such cases, the employer would not have a duty to bargain over the decision to conduct a layoff in response to the coronavirus pandemic. If, however, the CBA is silent with respect to the employer's right to conduct layoffs, the employer may have a duty to bargain over such a decision. Likewise, a decisional bargaining duty may exist if the layoff is accompanied by other changes such as subcontracting or relocation of bargaining unit work.
  - Even if the employer has no duty to bargain over the *decision* to conduct the layoff, it may very well have a duty to bargain over the *effects* of any layoff or shutdown decision related to the coronavirus pandemic (and it is often prudent to engage in such bargaining even if arguments exist that it may not be required). Such bargaining may be accompanied by requests for information from the union. Employers have a corresponding duty to furnish the union, upon request, information that is relevant and reasonably necessary to enable the union to perform its function as the employees' bargaining representative. We have already seen proactive requests to bargain and requests for information from some unions in connection with the coronavirus pandemic.
- Can an employer lay off or furlough union employees?
  - Again, this question requires an examination of the CBA provisions. Many CBAs contain detailed layoff procedures that provide for selection criteria, recall rights, continued benefits and retention of seniority for a period of time. Additionally, the CBA may outline one set of procedures and rights for permanent layoffs and another set for temporary layoffs (usually, but not always, granting greater flexibility to the employer with respect to temporary layoffs).

Please note that this article is intended as a resource guide and you should consult a Vedder Price attorney with respect to any specific situation. If you have any questions regarding the topics discussed in this article, please contact **Patrick W. Spangler** (Chicago) at +1 (312) 609 7797, **Amy L. Bess** (Washington, DC) at +1 (202) 312 3361, **Eugene Boyle** (Chicago) at +1 (312) 609-7692, **Thomas G. Hancuch** (Chicago) at +1 (312) 609 7824, **Thomas H. Petrides** (Los Angeles) at +1 (424) 204 7756, **Kathryn A. Rosenbaum** (Chicago) at +1 (312) 609 7973, **Jonathan A. Wexler** (New York) at +1 (212) 407 7732 or any Vedder Price attorney with whom you have worked.

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