Getting Severance Right: An Overview of Current Policies and Practices at US Life Sciences Companies

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2014 Severance & Change-in-Control Survey

If you're an HR professional tasked with redesigning your company's broad-based severance policies, you'll typically want to begin by benchmarking your current practices against industry standards. While it's fairly easy to find information on executive severance practices by combing through SEC proxy filings, detailed information on severance plans for all employee levels—from the CEO on down to support functions—is much harder to come by.

That's why we conducted and published Radford's 2014 Severance & Change-in-Control Practices Survey for the technology and life sciences sectors. Serving as an update to our well-received 2011 survey, this report covers the treatment of cash, benefit and equity rewards programs upon involuntary termination or change-in-control (CIC) scenarios on an organization-wide basis. We also examine other related plan design features and practices for every job function.

In 2014, the life sciences sector segment of our survey included data from more than 100 private and public participants. These companies hail from a number of key industries, including commercial biopharmaceuticals, pre-commercial biopharmaceuticals and medical devices.

At their core, severance programs in the life sciences sector—from both a plan design and plan prevalence perspective—did not shift dramatically in the three years since Radford last published survey results in this area. However, we did observe meaningful changes in plan design practices at the periphery. Understanding these changes is essential for any human resources or compensation professional that plays a role in developing severance policies.

Below, we provide lists of the top five key takeaways for both executive officers and broad-based employees from this year's survey results. To learn more about our survey, including purchasing a copy of detailed results, please contact Lauren Mullen at lmullen@radford.com.

To view a similar recap of summary results for the technology sector, please click here.

Key Findings for Broad-Based Employees

Among life sciences sector participants, Radford's 2014 Severance & Change-in-Control Practices Survey revealed the following key findings for broad-based employees at the Director-level and lower:

- **A majority of companies offer not-for-cause severance coverage to employees.** In 2014, 61% of companies provided not-for-cause severance benefits to Directors. This declines to 56% for the Support function. Only 27% of companies report having a separate change-in-control policy for Directors. In all cases, these results are higher than 2011, when Directors were eligible for not-for-cause and change-in-control (CIC) coverage at 48% and 23% of companies, respectively.

- **Cash is more popular than benefits.** About 75% of companies have cash continuation programs at the Director level and below. Whereas 45% to 50% of companies provide employee benefits during the cash severance period; an additional 18% of firms offer other benefits, including health insurance, and in some cases dental or vision coverage for a different time period.

- **Using a combination of employee level and tenure is the most common formula for determining severance plan payouts.** Around 40% of companies have a cash severance plan tied to both inputs. An equal number of firms, 17% in both cases, use only tenure or only job level to determine payouts. Furthermore, severance length is often determined using a baseline plus a variable component based on tenure.

- **Capping severance is common, but not an overwhelming practice.** A slight majority of companies, 59%, have a cap in place on the number of weeks of severance that can be paid. Of those companies with a cap, a majority are above 25 weeks in length at the Director level.

- **Most companies, 69%, report that they haven't changed their severance plans in the past three years.** When we look at not-for-cause plans, 12% of companies disclosed an increase in benefits while 8% reduced benefits. Meanwhile, 73% of companies reported no change for change-in-control severance with the remainder increasing benefits.

Key Findings for Executive Officers

Among life sciences sector participants, Radford's 2014 Severance & Change-in-Control Practices Survey revealed the following key findings for executive officers:

- **The prevalence of CEO severance plans remains robust, despite shareholder pressure.** In 2014, 85% of companies provided not-for-cause severance benefits to their CEO and named executive officers (NEOs). Change-in-control (CIC) benefits were offered at 80% of companies. Both are very consistent with 2011, when 81% of CEOs were eligible for both not-for-cause severance and CIC coverage.

- **Double trigger requirements for change-in-control agreements are on the rise.** Today, 77% of companies that offer CIC severance coverage to executives now require an employee to be terminated in order to receive change-in-control benefits. This figure was closer to 72% in 2011.

- **Most companies provide a protection period of a year under a double trigger change-in-control event.** CEOs, NEOs and vice presidents typically receive CIC coverage for any termination occurring within 12 months of a change-in-control event.

- **CEO base salary and benefits continuation packages typically range from 12 to 24 months in value for both CIC coverage and not-for-cause severance.** For NEOs and vice presidents, that range is typically six to 12 months in length, on average.

- **Companies are divided over the use of equity acceleration.** Around 40% of companies accelerate CEO and NEO equity for not-for-cause severance. However, only 29% do so for the vice president level. Equity acceleration is more popular in connection with change-in-control events, where 72% of companies provide this benefit (about 33% of this group is single trigger).

Conclusion

Radford's 2014 Severance & Change-in-Control Practices Survey for the technology and life sciences sectors has been distributed to all participants and is now available for non-participant companies. To learn more about our survey, including purchasing a copy of detailed results, please contact Lauren Mullen at lmullen@radford.com.

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