Proactive Management of Lay-Offs, Retirement and other Post-Employment Concerns*

Jorge V. SIBAL**

ABSTRACT

Not much has been written about separation and post-employment concerns such that when companies need to dismiss employees for varying reasons – intense competition, introduction of new technology, transfer of location, etc. - they find themselves groping in this inevitable last phase of HRM functions. This paper will present post-employment programs and practices, and documented case studies of companies that have successfully implemented some of these interventions. Among the common post-employment HR programs are the following: outplacement counseling services; skills building for post- employment which include livelihood and entrepreneurship; knowledge in investing money in banks, quasi-banks and corporations/cooperatives; private pension funds such as provident fund, employee stock option plan; and granting of retirement benefits under SSS or GSIS, among others .

INTRODUCTION

Intensified global competition among enterprises has caused widespread outsourcing of work processes. Jobs are becoming less permanent compared with the past and workforce

* This paper was written for "Seminar-Workshop on Best Practices in Managing Separation and Post-Employment Concerns" conducted by the UP School of Labor and Industrial Relations, Bonifacio Hall, Diliman, Quezon City on October 10-11, 2002. It was updated on August 2004.

** Associate Professor, U.P. School of Labor and Industrial Relations; Director of the Center for Labor and Grassroots Initiatives, U.P. SOLAIR, Diliman, Quezon City.

reduction, employee separation and post-employment concerns have become common occurrences.

There is now a need to be more proactive in all phases of human resources management from recruitment, training and development, compensation and retention, and eventually, laying off and retiring employees.

Companies not prepared for lay-offs, retirements and other post-employment concerns have suffered from various forms of employee hostilities such as work slowdowns, strikes or even sabotage of work processes. These negative consequences of ill-prepared and hastily executed post-employment interventions may even lead to enterprise bankruptcies.

Specifically, there is a need to be more prepared and proactive in implementing lay-offs and retirement programs. There are indicators that companies that have invested in these proactive HR interventions have gained grounds in the process. Well-conceptualized post-employment programs have contributed not only in minimizing the expected negative consequences of lay-offs and retirements, but also in making enterprises more efficient and competitive by maintaining employee morale among those retained, separated and retired.

LAY-OFFS

Article 283 of the *Labor Code of the Philippines* (Azucena, Jr. 1997) justifies employee dismissals or lay-offs based on the following authorized causes: installation of labor saving devices, redundancy, retrenchment to prevent losses, or closure of business due to grave financial losses.

In cases of such dismissals of employees, the company shall provide separation pay of one month pay per year of service for the first three cases, and ½ month pay per year for business closure.

Lay-offs occur when there is temporary or long-term lack of work. While it is the prerogative of management to lay-off people, the employees have also the right to know when and how the lay-off is to be implemented. There are 3 conditions of lay-off (Dessler, 1978):

1. There is no work available.
2. Management is expecting a no-work situation.
3. Management is expecting to recall the laid-off employees if the work is available.

There are several alternatives in softening the impact of lay-offs to employees. Among these measures are:

1. Reduction of work hours
2. Voluntary time-off of employees, like taking of vacation leaves, study leaves, etc.
3. Plant shut-down for maintenance and scheduling of training activities and other company-sponsored activities during these plant shut-downs
4. Granting of part-time work to employees as alternative to lay-off
5. Job rotation, multi-skilling and retraining
6. Transfers and reassignment of employees
7. Early retirement options

In cases when lay-offs are inevitable, the usual lay-off policies are:

1. Lay-off non-permanent employees first (contractuals, project hires, casuals or seasonal workers, employees on probation, apprenticeship, etc.)
2. First-in, First-out (FIFO)- First to go are the most senior employees normally through an early retirement option. The elder employees are perceived to be less flexible for reassignments, job rotations and multi-skilling/reskilling. The disadvantage of this policy is that it entails bigger cash outflow requirements that a financially-troubled company may not be able to afford. Other companies however, have already made preparations for this event through savings, private pension funds, etc.
3. Last-in, First-out (LIFO)- This is the most desirable and less controversial since it will not strain the company's cash position. The disadvantage is that the company may have to sacrifice and let go of young and trainable employees.

4. Voluntary lay-off policy- Employees are given incentives to voluntarily be laid-off in exchange for a premium in lay-off rate above the requirement of the law or the company policy.

RETIREMENT

Retirements on the other hand are more predictable than lay-offs. All employees, upon reaching age 60 are given the option to retire. The compulsory retirement age is 65. All employees in the private sector are mandated to be covered by the Social Security System (SSS) retirement program. The public sector employees, on the other hand, are covered by the Government Service Insurance System (GSIS) retirement program. (Azanza 2000) In addition to the mandatory coverage by the SSS or GSIS, there are also private retirement funds that can be availed of. These are voluntary on the part of the employer or the employee.

There are two schemes in retirement benefits: the mandatory retirement coverage by the SSS or the GSIS, and the voluntary private company-based retirement/pension program.

SSS Retirement Plan

Article 287 of the *Labor Code* states that an employee who has reached the age of 60-65 and who has served the company for at least 5 years may retire and be entitled to a retirement pay of ½ month for every year of service. Employees who have paid at least 120 monthly contributions to the Social Security System (SSS) are provided monthly pensions while those with less than 120 contributions will be paid a lump sum equal to the employee and employer contributions plus interest.

The monthly pension will depend on the total monthly contributions paid by the employee, the years of credited membership and the number of dependent children. A member who has paid at least 240 monthly contributions is entitled to a minimum monthly pension of 1,200 pesos, while a member with a minimum of 120 monthly contributions is entitled to 1,000 pesos monthly pension. In addition, there is a 13th month pension every December. Dependents of the member below 21 years old are also entitled to 10% of the retiree's pension or 150 pesos whichever is higher. (Azanza 2000)

GSIS Retirement Plan

The government employee pays the Government Service Insurance System (GSIS) a retirement premium of 5.5 % of his basic salary as retirement premium with the government adding in a counterpart premium at 6.5%. At age 65, if the employee has rendered at least 15 years of service, he is automatically retired. If he is below 60, he may opt to retire and be paid a retirement benefit of one month salary for every year of service for the first 20 years; 1 ½ month's salary for every year of service in excess of 20 up to 30 years; and 2 month's salary over 30 years. This will be based on the highest salary received.

Those with combined total of 87 for age and service may also qualify as shown below: (Azanza 2000)

Age	52	53	54	55	56	57	58
Service	35	34	33	32	31	30	29

Private Pension Plans

Private pension plans are designed to supplement the compulsory social security benefits. They are usually tax deductible. Some are insured plans wherein the pension fund is packaged and managed by an insurance company or cooperative. Some are profit-sharing pension or provident funds where the funds are taken as a percentage of the profits, surplus or savings of the organization. There are usually two ways of financing these plans.

1. Contributory plan- the employer and the employees share the cost of the plan
2. Non-contributory- The plan is financed entirely by the employer. (Carrell, Elbert & Hatfield 2000)

COMMON POST-EMPLOYMENT PROGRAMS

Post-employment HR programs should be a regular feature of the company's operations since lay-offs and retirements are unavoidable and predictable. Among the common post-employment HR programs are:

1. Outplacement counseling services- the process by which a terminated employee is trained and counseled in the techniques of self-appraisal and in securing a new job or other forms of earning a living.
2. Skills building for post-employment which include livelihood and entrepreneurship.
3. Knowledge in investing money in banks, quasi-banks and corporations/cooperatives
4. Travel guide for retirees especially those desiring to travel locally or abroad and those with children residing abroad
5. Private pension funds such as provident fund, employee stock option plan (ESOP), etc.
6. Retirement benefits under SSS or GSIS
7. Unemployment benefits which is not very common in the country such as unemployment insurance, medical benefits after employment, etc.
8. Employment recall system where laid-off employees are given priority in future hiring should vacancies occur.

Dessler (1978) identified the most common pre-retirement HRD programs as follows:

1. Explanation of social security benefits (97%)
2. Leisure-time counseling (86%)
3. Financial and investment counseling (84%)
4. Health counseling (82%)
5. Living arrangements (59%)
6. Psychological counseling (35%)
7. Counseling for second careers outside the company (31%)
8. Counseling for second careers inside the company (4%)

PRACTICES IN POST-EMPLOYMENT HR PROGRAMS

1. ESOPs

An example of a profit sharing pension fund is the employee stock option plan (ESOP). The objectives of ESOP are to:

a. attract and retain talents/employees,
b. enable the employees to become stockholders and create a culture of co-ownership within the enterprise,
c. inculcate in the employees the value of productivity consciousness since they earn part of the company profits,
d. improve the performance of the employees and the organization, and
e. assist the employees when they retire from the company by selling their stocks to the market or back to the ESOP fund.

ESOPs also provide hidden advantages such as:

a. serving as tool by the owners in retaining and/or sharing with the employees control of the business,
b. providing the enterprise with additional capital for investments,
c. giving the company and the employees tax benefits, and
d. serving as a tool for mutual-gains labor-management relations that contribute to industrial peace and harmonious working relations. (Bayani and Valdevilla 2003)

The mechanics of putting up an ESOP pension fund are as follows:

a. An ESOP fund is created where both the employer and the employees are contributors.
b. The fund is used to purchase company shares which are credited to the employees depending on their contributions.
c. During employment, the employee is given the option to collect cash or stock dividends.
d. Upon retirement, or a minimum number of years stipulated in the plan, the employee receives his shares from the plan which he may retain, or sell to the public or the ESOP fund.

ESOP enterprises in the Philippines are still very experimental. Among the first ESOP enterprise in the country was the Manila Electric Company (Meralco). It was initiated in late 1960s with its first offering made in July 1989. It has a very limited application as the American-adapted IR/HR technology was offered only to the old timers of 15 years or more in seniority and limited to only one share per employee. Later called the "Ilaw ng Kinabukasan" (Light of the Future), Meralco ESOP was revitalized in 1989 and by 1996, its participation rate among the employees reached 99%. (Enierga 1997)

Meralco's ESOP, as well as other ESOPs implemented by other big companies like Philippine Long Distance Company (PLDT), ABS-CBN, Maynilad Water, Philippine Airlines (PAL), etc. were limited in coverage and none of these ESOPs have been able to seat an employee in the Board of Directors. It is a consolation however, that studies conducted by U.P. SOLAIR showed that these ESOPs have positively contributed to employee productivity and increased employee commitment as well as economic benefits to the employees especially the retirees.

2. Outplacement Services

The Aluminum Company of Canada Ltd. (Alcon) had to cut back 200 middle-aged managerial employees. The company created a special unit to undertake the program and hired 2 external consultants with the assistance of an HR manager and a staff psychologist. (Pigors and Myers 1978)

The company undertook the following steps:

a. Termination interview
b. Meeting with the managers of the units affected by the lay-off
c. Counseling and reorientation about the outside world
d. Interviews with consultants and staff psychologist
e. Psychological reassessment
f. Temporary relocation to a new office
g. Help on resume preparations and the circulation of said resume
h. Discussion on benefits due
i. Time-off from employment in seeking a new job

The results of the program are summarized as:

a. Some 90% to 95% of the terminated employees found new jobs in less than 4 months.
b. The employees received equivalent pay, and some even better.
c. The employees expressed new confidence in themselves.

3. After Retirement Benefits

The United Laboratories (Unilab) of Metro Manila started in 1945 as a single drug store of Jose Y. Campos. It is the 28th largest corporation in the Philippines in terms of gross revenues and the largest pharmaceutical company in Southeast Asia operating in the Philippines, Hong Kong, Jakarta, Bangkok, Singapore, Kuala Lumpur, Ho Chi Min City and expanding to Pakistan, Republic of Korea and China. (David and Salter 1999)

Unilab established the Bayanihan Foundation not in response to lay-offs but to act as the company's link to employees after retirement. Part of the corporate philosophy of the company is that "the retired employee is still considered a part of the firm's family". (Amante 1994)

Retirement in Unilab can be availed of either upon reaching age 60 or 30 years of service. Optional retirement is upon reaching 20 years of service. Some employees retire at a young age of 47. Upon retirement, the retired employee can join the foundation. Among the foundation's activities include financial counseling and investing lump-sum retirement pay, livelihood projects, etc. (Amante 1994)

4. Contributory Retirement Fund

The U.P. Provident Fund, Inc. is a contributory retirement, separation and death benefit fund established by the U.P. Board of Regents in March 24, 1994 pursuant to its Charter and the General Appropriations Act of 1994. The Fund's guiding principle is to "maximize benefits to the retirees" (U.P. Provident Fund, Inc. *2001 Annual Report)* As of December 31, 2001, the Fund has 10,682 members from U.P. campuses in Manila, Quezon City, Los Banos, Laguna, Visayas, Baguio City and Davao City. Its total assets in 2001 is 402.27 million pesos which grew at an average annual rate of 16% during the last 4 years. The return on members' contribution is 47%.

The employer contribution to the fund averaged 1,200 pesos per member from 1999-2001. The employees, on the other hand contributed 1% to 10% of their basic salaries to the Fund. Membership is voluntary and is automatically terminated upon retirement, resignation or separation from U.P. The fund is owned and managed by the employee-members themselves and is exempted from income taxes.

Among the benefits of the Fund are:

a. *Equity loans and multi-purpose loans-* features low interest rates at 12% per annum, speedy processing and with very minimal service fee. In 2001, 4,109 members loaned a total of 17.6 million pesos.

b. *Retirement/resignation/death benefits-* Retirement and death benefits are administered by the Fund management itself while the death benefits are handled by Sunlife group insurance.

c. *Earnings on members' equity-* In 2001, the total amount of earnings and surpluses transferred to members' equity amounted to 43.70 million pesos.

5. Organization of Worker Cooperatives

In 1992, San Miguel Corporation (SMC) implemented a program to cushion the impact of rightsizing among some employees who were retired simultaneously from different SMC plants in Metro Manila, Pampanga and Laguna. Among the career training options undertaken by the retirees was the setting up of worker cooperatives among them. (Lopez 2000)

One of the most successful worker cooperative was a group of 40 retirees from Manila glass plant in Parola, Manila. In 1993, they pooled their cash benefits together and organized the Progressive Skills (Proskills) Service Cooperative. They took advantage of SMC's training in "Entrepreneurship and Cooperative Management" which lasted for 6 months and 1½ years of business consultancy. They made businesses out of SMC's warehousing and third party product distribution operations, their former jobs.

SMC participated actively in outsourcing businesses to their worker coop by shouldering the development cost of Proskills until they were able to independently operate on their own. Downsizing was humanized and the mutually beneficial partnership between SMC and its former employees was cemented.

Today, Proskills is able to help more than 300 families. Its projects have expanded to engineering, fabrication, mould repair, brokerage and manpower services. From a capital of 900,000 pesos, they registered a ROI of 110% in their first 6 months of operations. Their assets grew from 5 million pesos to 28 million pesos in the middle of 1996 with a net worth of 45 million pesos. They now have 8 ten-wheeler trucks, 8 forklifts, several lathe machines and equipment, including the maintenance and management of a 2,000 square meter lot for their future warehouse in Cavite.

Another worker coop organized by SMC was the SMC Plastic Multi-purpose Cooperative. It was organized in 1995 as a traditional credit cooperative after a series of training and consultation. With a successful savings and lending business, the coop expanded to canteen operations and in operating the SMC's plastic crushing project.

Today, the coop has expanded to manpower services and is accredited by the Department of Labor and Employment. It provides manpower services to SMC. With a net worth of 5 million pesos, the coop employs 102 regular members and 50 workers in operating the non-core functions of SMC.

Another worker cooperative is the Excellent Partners Cooperative (EPC) which was organized in January 1998. It was later beefed up by early retirees from Coca Cola Bottlers Phils. Inc (CCBPI). With 60 members, they went through a series of coop training. They were able to raise initially 2.8 million pesos from members' investments and share capital contributions. They started manpower services, engaging in janitorial and messengerial services to Philippine Business Bank, and supplying leadmen and drivers to CCBPI Manila plant. Eventually, EPC was able to subcontract CCBPI's 3rd party product distribution operations to wholesalers. EPC's recent acquisition include seven 12-pallet trucks for Paranaque sales and 24 trucks leased by CCBPI to the coop to handle CCBPI's 3rd party distribution of north bay sales office. EPC employed 37 and 127 workers respectively in the said operations. At present, EPC's net worth is 6.1 million pesos.

This case of worker coop involves contractual agency workers. The International Exchange Bank was encountering low productivity and low motivation from its agency service workers. Through a series of training and consultation services lasting for 6 months, the bank initiated the formation of a worker coop. After it was registered, it awarded the service contract for the head office of the bank. The bank was satisfied with the coop's services and more contracts were awarded covering other bank branches in Makati City.

Today, the coop owns motorcycles, janitorial equipment and other tools. It has a net worth of 4.1 million pesos and deploys more than 200 workers and members in all the bank's 50 branches in Metro Manila.

6. Early Retirement Program (ERP)

The privatization of the Metropolitan Waterworks and Sewerage System (MWSS), known as the biggest privatization event in the world, was characterized by massive lay-offs. In order to achieve financial viability and efficient operations, the MWSS, as recommended by an IFC study in 1995, has to downsize from 8,292 employees to between 3,150 to 5,500 by 1999.

The study of Clarence Pascual (2000) concluded that the MWSS was overstaffed with 60% of its personnel lacking qualifications. It has a ratio of 1,068 employees per 100,000 connections which is very high compared to Bangladesh (550), Kuala Lumpur (250), and the USA (280 to 330). By 1999, at 4,092 employees, the MWSS ratio has improved to 470, nearing the target ratio of 372 to 424.

Compounding the MWSS problem is its non-revenue water (NRW) record of 56 to 60% of production (Pascual 2000) mainly due to illegal connections, making it the most inefficient in Asia. It has a record of two times higher than the average among other developing countries. In terms of water delivery, MWSS record is only 69% of its coverage areas while in Singapore and Kuala Lumpur, their records are 100%.

The rightsizing of MWSS was implemented through the Water Crisis Act of 1995. MWSS offered an early retirement incentive package (ERIP) in August 1996. The package consist of:

a. one-and-a-half (1 ½) months basic salary per year of service,

b. one (1) month severance pay,

c. one-half (1/2) month retirement pay,

d. cash value of unused leaves, and

e. cash value of the contributions to the Government Service Insurance System (GSIS). (David 2000)

By the end of 1996, 2,218 employees availed of the ERIP. In July 1997, the ERIP was again offered for 18 months, prior to the signing of the Concession Agreement. About 438 employees availed which include union members opposed to the MWSS privatization who were not acceptable to the concessionaires. The last offer of ERIP was in June 1999.

All employees who did not avail of the ERIP were terminated first and hired later by the concessionaires on probation. Those who did not become permanent after the 6-months probation were given full early retirement benefits. Those retained were given employee stock options plans (ESOP) as annual bonuses. After the privatization, the employees retained were assigned to either concessionaires with less than a hundred remaining at the MWSS corporate office.

SUMMARY

In the past, production infrastructures were created to last several lifetimes with jobs and work processes more permanent. This is no longer true today. Jobs and work processes are very flexible and less permanent hence lay-offs, retirements and other forms of post-employment concerns have become very common.

Proactive management of post-employment programs is now a must in this era of post industrialization. If management were not prepared, there are negative consequences, if not company bankruptcies. Investment in HR interventions in post-employment is sensible and viable as illustrated in the good practices of globally competitive companies.

References

Amante, M.S.V. (Ed.). 1994. *Human Resource Approaches in the Philippines: Study of Japanese, Filipino-Chinese and Western-Owned Firms,* Quezon City: U.P. SOLAIR.

Azanza, Patrick Alain. 2000. *Human Resources Management,* Quezon City: JMC Press, Inc.

Azucena, Jr., C.A. 1997. *Everyone's Labor Code,* Manila: Rex Book Store

Bayani, Erlinda and Vera Eileen Valdevilla. 2003. "Employee Stock Option Plan", Quezon City: U.P. SOLAIR (manuscript)

Batasin Jr., Florendo. 2003. "The Privatization of Metropolitan Waterworks and Sewerage System: Its Labor Issues", Quezon City: U.P. SOLAIR (manuscript)

Carrell, Michael R., N.F. Elbert and R.D. Hatfield. 2000. *Human Resource Management*, Orlando: The Dryder Press

David, Christina. 2000. "MWSS Privatization: Implications on the Price of Water, the Poor and the Environment", Philippine Institute of Development Studies Discussion Paper No. 200-14

Dessler, Gary. 1978. *Human Resources Management,* New Jersey: Prentice-Hall, Inc.

Enierga, Elena. 1996. "The Meralco Employee Stock Ownership Plan (ESOP) in the Context of Industrial Relations", *Philippine Journal of Labor and Industrial Relations, Vol. XVII, Nos. 1 & 2,* Quezon City, U.P. School of Labor and Industrial Relations.

Franco, Ernesto A. (Ed.). 1988. *Management in the Philippine Setting,* Mandaluyong City: National Book Store.

Lloyd, Daniel and W. Salter. 1999. *Corporate Social Responsibility and Working Conditions in the Philippines,* Manila: ILO.

Lopez, Ma. Luisa T. 2000. "Worker Cooperatives' Programs and Services", paper presented in a breakfast forum on "Promotion of Cooperatives with the CEOs" sponsored by the Bishops-Businessmen's Conference for Human Development, Makati Sports Club, Makati City, June 22, 2000, (unpublished).

Pascual, Clarence. 2000. "Privatization and Labor: A Case Study of the MWSS", Philippine Center for Policy Studies.

Pigors, Paul and Charles Myers. 1978. *Personnel Administration,* New York: McGraw Hill Book Co.

Sibal, Jorge. 2000. "Employee Cooperative and Enterprises, A New Mechanism in Human Resources Management", "Seminar on Managing Employee Benefits Program", August 12-14, 2000, Bonifacio Hall, U.P. SOLAIR, Diliman, Quezon City, (unpublished).

U.P. Provident Fund, Inc. *2001 Annual Report*