



In light of the growing Covid-19 pandemic, federal, state and some local jurisdictions are taking measures to mitigate its spread, which is creating dramatic economic fallout for many of our clients. We've had at least a dozen conversations in the last week with clients facing layoffs, so we are sending out this information to give you some food for thought as you ponder how to lead your company through this unprecedented and unpredictable time. We know that safety is at the forefront of the government's recommendations to isolate us from each other but it saddens us that so many of you are struggling with very hard decisions right now and we fear this is the tip of the iceberg.

While layoffs may be necessary in some cases, you may want to consider alternatives to this measure, or additional action steps. Forecast ahead a few months and make sure the cuts you make will get you through the immediate crises and the economic recovery. Below are some options that can potentially help you retain your employees, avoid recruiting time and costs when business picks up, while showing concern for your team, and thus facilitating a more rapid recovery.

1. Let Contract and Temporary Employees Go

First things first - you don't have the same commitment to these workers as to regular employees so let them go first if possible.

2. Reduction in Hours

This is our current favorite recommendation. Best of class way to manage this (if you can afford it) looks like moving to a four-day work week and reducing compensation across the board (including your own compensation) by 20%. That is an equitable and fair approach. Employees work 20% less and make 20% less. This could also be five six-hour days - whatever works best for your business model.

Employees may qualify for partial unemployment benefits if their hours and wages are reduced due to lack of work.

https://www.edd.ca.gov/Unemployment/Partial_Claims.htm

3. Pay Cuts

Pay cuts are a reduction to employee wages that may be temporary or permanent. Employees must be given advance notice that their pay will be cut; in other words, no compensation reductions can be done retroactively. Best of class is having everyone - owners and managers as well - take the same cut they are giving to employees. This might look like a 30% cut, with well-communicated revenue goals which will increase people back up to 100% (maybe in 10% increments) and then perhaps even a 5% raise on top of that - if revenue goals are met.

Super important! If you are going to reduce pay, either as a standalone or in conjunction with reducing work hours, you must keep your exempt employees above the minimum salary basis or convert them to hourly employees. If you have 25 or less employees, that number is \$49,920. If you have 26 or more employees, exempt employees can't be paid less than \$54,080.

4. Reduce Benefits and Perks

If you have open enrollment coming up, ask employees to pay a larger portion of their benefit premiums, stop covering family members, dial back retirement contributions (within plan rules), stop the free lunches, coffee, etc. to cut costs. Cutting back is better than laying off.

5. Offer Vacation Time Use

Employees may want to spend extra time with their families, complete home projects, take that online course they've been talking about. Now might be the perfect time for them to use their accrued vacation time or, if they don't have the time accrued, using unpaid time off.

6. Incentivize Employees to Leave (and Ask for Volunteers)

We've heard several stories of employees who are working through a lot of fear and want to be at home. Lay them off before you lay off others who want to work so they can collect unemployment while waiting out the virus and feeling safe.

Ask employees to take voluntary layoffs, offer a buyout to end the employment relationship, or offer early retirement to eligible employees.

7. Furloughs

A furlough is temporary mandatory unpaid time off (as in the case of a layoff). Furloughs can be intermittent or continuous. Furloughed employees typically know that their job will resume at some point in the future. This could work if you are closing doors for three weeks and know you'll be back open after that. If you are uncertain of when (or if) your doors will open, this might not be the best option.

8. Work Sharing Program Through the EDD

Work Sharing is an employer-driven Unemployment Insurance program that provides partial unemployment benefits to employees whose hours and wages have been reduced through no fault of their own.

The Program is paid for by the employer in the same manner as for regular Unemployment Insurance (UI) benefits.

The benefit is that the employees can earn slightly more under the program than they would with Regular UI.

Maximum UI benefit - \$450 per week or \$1,800 per month. With Regular UI, if a person makes over \$600 in a week, they will not qualify for UI benefits.

Under the Work Sharing Program, employees can get UI benefits even if their earnings are over \$600/week.

Example: Employee makes \$1,000 per week and has a 20% reduction in hours. Weekly earnings will be \$800. Work Share will pay 20% of weekly maximum \$450 (\$90) so the employee's total weekly earnings will be \$890. Under regular UI, it would be \$800 because they would be denied benefits due to making more than \$600 for the week.

There is some administrative burden with the Work Sharing Program. Employers must apply for the Work Sharing Program by submitting the Plan Application Form [DE8686](#). The application is a bit daunting and it has to be mailed to the EDD. The set up and approval time is approximately 10 days. All Work Sharing plans are approved for

one year.

More information can be found here: [Work Sharing Program](#).

9. Tax Assistance

The EDD has offered employers experiencing a hardship to apply for a 60-day extension to file their state payroll taxes.

NLS is here to support our clients through this uncertain time. We can assist with planning, paperwork, messaging and more. If you need our help, please call us at 415.876-NEXT.

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