



# The Gaping Safety Net: Tax Breaks, Mass Layoffs, and Sporadic Severance Pay

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Companies often take taxpayer money and then leave workers unemployed, with little notice and no severance pay. According to new data analysis, 22.5 percent of the workers impacted by mass layoffs since the start of 2020 work at companies that received government subsidies in the past decade. In addition to describing the general problem, this brief will delve into the experiences of workers at Ford, Art Van Furniture, P.F. Changs, and Bed Bath & Beyond.

Ensuring companies pay their fair share would protect the state's unemployment insurance system. If guaranteed severance pay legislation had been in place since 2020 and companies paid lump-sum payments, it could have saved our state \$17 million over that time period. That money would go a long way toward investing in Michiganders. For example, Michigan only spent \$90 million on its Earned Income Tax Credit (EITC) in 2020 after the state cut its federal match from 20 percent to 11 percent in 2011, and advocates are encouraging the state to increase the match to 30 percent.<sup>1</sup> In 2020, over 600,000 Michigan families received the state EITC, and increasing the match to 30 percent would put more than \$600 extra in people's pockets to pay for essentials like food, rent, gas, and childcare.<sup>2</sup>

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<sup>1</sup> <https://mlpp.org/michigan-eitc-a-two-generation-approach-that-promotes-work-and-helps-kids-2022/>

<sup>2</sup> <https://mlpp.org/michigan-eitc-a-two-generation-approach-that-promotes-work-and-helps-kids-2022/>

## The Problem: Mass Layoffs on the Public Dime

Too many companies apply for state subsidies to grow their business and then lay off workers without severance pay or a second thought. The Society for Human Resource Management found that from 2011 to 2017, the number of companies with formal written severance policies dropped from 65 to 55 percent.<sup>3</sup> That same study found that for companies with a minimum number of weeks based on position, the minimum was more than five times larger for the highest paid employees compared to nonexempt ones.<sup>4</sup> Without a state guaranteed severance pay policy, many workers in Michigan have no safety net when management sends a pink slip.

According to the Michigan Bureau of Labor Market Information, companies have posted Worker Adjustment and Retraining Notification (WARN) notices impacting 47,826 employees since the beginning of 2020.<sup>5</sup> These layoffs tend to be large, and the proposed bill provides guaranteed severance pay to workers with a year of service when 20 or more people are laid off. While the Michigan WARN data does not indicate the tenure of workers who are laid off, more than 99 percent of the impacted workers were laid off with at least 19 other coworkers, and thus would have likely qualified for severance pay based on their years of service to their employers, under the proposed legislation.

22.5 percent of the workers impacted by mass layoffs worked at companies that had received state subsidies in the past 10 years or a federal Paycheck Protection Program (PPP) loan.<sup>6</sup> The subsidies going to companies with mass layoffs since 2020 total \$129 million. Executives appear to see little problem with accepting money from the government one day and laying off workers the next. These layoffs occurred across the economy, with 16.9 percent of the layoffs occurring in the automotive sector, 7.4 percent in retail, 12.6 percent in food service, 18.3 percent in hospitality, and 44.8 percent in other industries.

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<sup>3</sup><https://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/severance-policy-and-payout-trends.aspx>

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<sup>5</sup> <https://milmi.org/WARN/> As of September 19, 2022, the WARN Data for 2022 had been posted through June 30, 2022.

<sup>6</sup> To determine the companies that had received subsidies and the amounts, this research brief used Good Jobs First Subsidy Tracker (<https://subsidytracker.goodjobsfirst.org/>) and ProPublica's PPP Tracker (<https://projects.propublica.org/coronavirus/bailouts/>).

## Companies Laying Off Michigan Workers

### *Ford Motor Company*

Ford announced in August 2022 that it would be slashing 3,000 jobs.<sup>7</sup> The severance packages that salaried workers are receiving<sup>8</sup> will provide a critical cushion during a difficult economic transition. Even with severance pay, many workers will struggle to find jobs at the same level of pay, but at least the severance packages give workers a meaningful amount of time to look for a new job without worrying as much about how to put food on the table or keep a roof over their head. All workers deserve a financial cushion when corporate executives decide to pull out the rug from under them.

### *Art Van Furniture*

When private equity firm Thomas H. Lee (THL) acquired midwest furniture retailer Art Van in 2017, it was a healthy 60-year old family-owned company with 117 stores and 3,500 employees.<sup>9</sup> Within three years THL drove Art Van into bankruptcy, forcing the company to default on its obligations to creditors and thousands of employees and customers. On March 8, 2020 the company filed for Chapter 11 bankruptcy.<sup>10</sup>

On March 19, 2020 Art Van abruptly ceased operations citing the unforeseen impact of the novel coronavirus,<sup>11</sup> and terminated 3,100 people without providing the required sixty days advance notice to all employees covered by the WARN Act.<sup>12</sup> As a result, thousands of workers lost both their income and their health insurance<sup>13</sup> at the beginning of a deadly pandemic.

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<sup>7</sup><https://www.wsj.com/articles/ford-confirms-layoffs-says-it-is-cutting-about-3-000-jobs-primarily-in-u-s-and-canada-11661180161>

<sup>8</sup><https://www.freep.com/story/money/cars/ford/2022/08/26/ford-salaried-workers-who-lost-jobs-no-w-review-severance-offers/65458898007/>

<sup>9</sup> <https://www.furnituretoday.com/business-news/art-van-sold-private-equity/>

<sup>10</sup><https://www.clickondetroit.com/business/2020/03/09/art-van-officially-files-for-chapter-11-bankruptcy/?fbclid=IwAR2EtKAy5GvmvtZ1yPzd4EwUwhJKYmW4Biv6e-Uv8ZlkUWwXZNCWCCOW8X0>

<sup>11</sup>[https://www.michigan.gov/documents/leo/2020-03-23\\_Art\\_Van\\_Furn\\_\\_Revised\\_WARN\\_684852\\_7.PDF](https://www.michigan.gov/documents/leo/2020-03-23_Art_Van_Furn__Revised_WARN_684852_7.PDF)

<sup>12</sup><https://www.wxyz.com/news/former-art-van-employees-sue-company-after-losing-healthcare-in-the-middle-of-covid-19-pandemic>

<sup>13</sup><https://www.detroitnews.com/story/business/2020/03/20/art-van-closes-stores-lays-off-employee-s-due-covid-19/2888658001/>

Art Van received three PPP loans,<sup>14</sup> and the total amount was forgiven even though the PPP program began on April 3, 2020,<sup>15</sup> which was after Art Van had closed its stores. One of the loans was even submitted as part of the second PPP round in 2021. In 2015, Art Van also received a 12-year, 50 percent property tax reduction from Warren, the city where their headquarters had been located.<sup>16</sup> Despite efforts from the city council, the city was unable to claw back the tax breaks that had not led to job creation.<sup>17</sup>

### ***P.F. Changs***

The private equity firm TriArtisan Capital Advisors LLC purchased P.F. Chang's in March of 2019.<sup>18</sup> When the pandemic started, they received \$10,000,000 from the Payment Protection Program in April 2020.<sup>19</sup> Instead of protecting Michigan jobs, they turned around and submitted WARN notices to lay off 600 workers at 8 restaurants from Dearborn to Lansing to Grand Rapids.

### ***Bed Bath & Beyond***

At the end of August 2022, Bed Bath and Beyond announced that it would close 150 of its stores and cut 20% of its staff.<sup>20</sup> As of April 2022, Michigan had 30 stores, which was the seventh most in the country.<sup>21</sup> With the current round of layoffs, workers are reporting in online forums that Bed Bath and Beyond is giving many workers a difficult choice: receiving a small severance package now or shifting to part-time work.<sup>22</sup> It's not clear if those who stay will be offered severance in the future. Workers should not have to worry that this is their only chance to receive it. Unfortunately, Michigan workers already know that Bed Bath and Beyond does not always give public notice when it comes to layoffs, since the company never posted a WARN notice earlier in 2022<sup>23</sup> before closing the Jackson,

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<sup>14</sup> <https://projects.propublica.org/coronavirus/bailouts/loans/art-van-of-cadillac-llc-5495928402>

<https://projects.propublica.org/coronavirus/bailouts/loans/art-van-of-cadillac-llc-9188727109>

<https://projects.propublica.org/coronavirus/bailouts/loans/art-van-of-owosso-6196247201>

<sup>15</sup> <https://www.fool.com/investing/2020/05/07/ppp-round-1-who-did-the-money-go-to.aspx>

<sup>16</sup> <https://www.macombdaily.com/2020/03/14/warren-takes-steps-to-revoke-art-van-tax-break/>

<sup>17</sup> <https://www.macombdaily.com/2020/03/14/warren-takes-steps-to-revoke-art-van-tax-break/>

<sup>18</sup> <https://www.triartisan.com/p-f-chang-s>

<sup>19</sup>

<https://projects.propublica.org/coronavirus/bailouts/loans/p-f-chang-s-china-bistro-inc-6149107104>

<sup>20</sup> <https://www.npr.org/2022/09/02/1120801175/bed-bath-beyond-layoffs-store-closures>

<sup>21</sup>

<https://www.sec.gov/ix?doc=/Archives/edgar/data/0000886158/000088615822000047/bbby-2022-0226.htm>

<sup>22</sup> <https://www.thelayoff.com/t/1iC91hwj>

<sup>23</sup> <https://milmi.org/WARN/>

MI store.<sup>24</sup> Currently, there are few statutory penalties when a company does not provide adequate notice under the WARN statute.

### **Saving Michiganders Unemployment Insurance Expenses**

Passing guaranteed severance pay legislation would save Michiganders money by forcing companies to pay their fair share in severance before workers draw on unemployment benefits. Michigan workers who receive severance pay do not receive unemployment insurance for weeks where their remuneration is more than 1.5 times their weekly benefit amount.<sup>25</sup> The maximum state benefit is \$362/week,<sup>26</sup> and if all of the workers impacted by mass layoffs since 2020 received lump sum payments, it could have saved the state up to \$17 million.

### **Conclusion: The Gaping Safety Net**

Severance pay provides a necessary cushion for workers during unexpected economic hardship. Workers know that they can be laid off with no warning, no compensation, and no penalty to the company. Executives sometimes promise severance pay to keep workers through a company's liquidation and then never pay it out, using bankruptcy as a shield. 22.5 percent of companies with mass layoffs in Michigan since 2020 have taken public subsidies in the past 10 years. Executives have been taking Michiganders' money but not taking care of their workers before closing their doors. There is a gaping hole in Michigan's safety net, and the Guaranteed Severance Pay bill provides much-needed protections for workers in their most vulnerable moments.

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<sup>24</sup><https://www.usatoday.com/story/money/shopping/2022/01/05/bed-bath-beyond-store-closings-2022/9105471002/>

<sup>25</sup> <https://www.michigan.gov/leo/bureaus-agencies/uia/tools/fact-sheets/severance-pay>

<sup>26</sup> <https://mlpp.org/a-not-so-happy-labor-day-for-365000-unemployed-michigan-workers/>