

Reversing Precedent, Pennsylvania High Court Rules Voluntary Early Retirees Entitled to Unemployment Benefits

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Overruling more than 30 years of precedent, the Pennsylvania Supreme Court has ruled that the “voluntary layoff” provision of the Pennsylvania Unemployment Compensation Law permits employees to receive unemployment compensation benefits when they accept an early retirement incentive offered as part of a reduction in force. *Diehl v. Unemployment Compensation Bd. of Rev.*, No. 51 MAP 2011 (Pa. Dec. 28, 2012). Earlier case law held that employees who received early retirement incentives in a reduction in force were not eligible to receive unemployment compensation. The Supreme Court found that those cases were unsupported by the unemployment compensation law’s plain language.

Background

Harold Diehl, age 63, worked as a shipping clerk for ESAB Welding and Cutting Products (“ESAB”). In 2008, ESAB announced a reduction in force due to financial conditions. As part of that reduction in force, ESAB planned to offer an early retirement program to encourage high seniority employees voluntarily to leave so that the less senior employees would not be laid off. The early retirement incentive included full payment of health insurance for three years, partial payment of insurance for two years, and unused vacation.

Diehl accepted the early retirement package and subsequently applied for unemployment compensation. His claim was denied, and Diehl appealed the decision administratively and then to the Pennsylvania Commonwealth Court. The Commonwealth Court affirmed the denial of benefits based on case law holding that employees who received early retirement benefits were ineligible for unemployment compensation. The Supreme Court granted Diehl’s petition to address this issue.

Applicable Law

The voluntary layoff provision of the Pennsylvania Unemployment Compensation Law states, in relevant part, that “no otherwise eligible claimant shall be denied benefits for any week in which his unemployment is due to exercising the option of accepting a layoff, from an available position pursuant to a labor-management contract agreement, or pursuant to an established employer plan, program or policy.” 43 Pa. Stat. § 802(b).

For the last 30 years, Pennsylvania courts repeatedly have declined to apply the voluntary layoff provision to employees accepting early retirement.

In cases involving unemployment compensation claims, Pennsylvania courts must interpret “the benefits sections liberally and broadly to alleviate the distress of the involuntarily unemployed.” *Penn Hills School District v. UCBR*, 437 A.2d 1213, 1215 (Pa. 1981). Benefits can be denied only by explicit language excluding the worker from coverage. Further, a presumption exists that “an unemployed worker who registers for unemployment is eligible for benefits, regardless of whether the unemployment is temporary or permanent.”

Voluntary Layoff Provision Applies to Early Retirement Offers

The Court first noted that in earlier decisions addressing the voluntary layoff provision, none of the courts analyzed the provision's language. Given the absence of statutory analysis in prior decisions, the Court reviewed the provision's language and concluded that it should be interpreted "broadly" in favor of the employee as a section providing eligibility.

Examining the voluntary layoff provision's language, the Court determined that, by its terms, the provision forbids the denial of benefits merely because an employee has accepted a voluntary layoff in an employer-initiated workforce reduction. There was nothing specific in the provision's language indicating that employees who voluntarily accepted early retirement packages should be precluded from obtaining benefits. Had the Legislature wanted to exclude early retirees from receiving unemployment compensation, it should have specified its intent "clearly," the Court stated.

The Court then examined whether early retirement constituted a layoff. Diehl argued that the plain meaning of the term "layoff" referred to both temporary and permanent terminations, and, thus, encompassed retirement. The Court agreed with Diehl, noting that the term layoff, although undefined in the statute, applied to both temporary and permanent employment terminations. Noting that any ambiguities in the statute should be construed in the employee's favor, the Court determined that early retirement appeared to "fit within this definition" because it was a "termination of employment that was offered at the will of the employer." Accordingly, the Court overruled the longstanding interpretation of the voluntary layoff provision, holding, instead, that employees who accept an early retirement plan offered pursuant to an employer-initiated workforce reduction may be eligible to obtain unemployment compensation benefits.

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As a result of this decision, Pennsylvania employers who offer early retirement incentives as part of a workforce reduction likely will see an increase in claims for unemployment compensation by participants in such incentives. *Diehl* reminds all employers, not just those in Pennsylvania, that they should consider those increased costs when deciding whether to offer an early retirement option and the types of incentives to be included in such a plan.

If you have any questions about this or other workplace developments, please contact Partner Patricia Diulus-Myers in Pittsburgh, at (412) 338-5141 or DiulusMP@jacksonlewis.com, or the Jackson Lewis attorney with whom you regularly work.

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