

Why you need a forfeiture clause in every job contract

If your organization writes employment contracts for key employees, it may be making one costly mistake: unconditionally guaranteeing salary and benefits to employees, even if they commit misconduct that would warrant firing.

Solution: Draft employment contracts with an eye toward the future. Make sure to include a "forfeiture clause" that specifies the reasons employees would not earn their promised pay and benefits.

Consider this recent court ruling as your fair warning: A chief operations officer (COO) signed an employment contract that promised him pay and perks over a certain number of years. Some years later, three female employees filed a lawsuit saying the COO had harassed them. After an investigation, the company fired the COO and refused to pay him the remaining three years of promised pay.

The COO sued, claiming breach of contract. A federal appeals court sided with the COO, saying his employment contract didn't include any exceptions to the compensation clause. (*Fields v. Thompson Printing Co. Inc.*, No. 02-2764, 3rd Cir. 2004)

Sample contract language:

A sentence as simple as this in an employment contract could save you much hassle (and expense): "The organization reserves the right to terminate the employee's salary and benefits in the event of a termination 'for cause,' including employee misconduct, nonperformance or any other business-related circumstance."