

TERMINATION PROVISIONS: DESIGNING FOR CERTAINTY WHEN IT MATTERS MOST

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Termination provisions may read like fine print, but when an executive transition occurs they become one of the most consequential elements of the compensation framework. They determine cost, influence behaviour, and shape perceptions at precisely the moment when scrutiny is highest. These terms have lasting implications, so getting them right the first time is paramount.

Four principles consistently matter:

- **Different exits warrant different outcomes** – not every departure should be treated the same.
- **Termination outcomes should reflect compensation philosophy and culture**, not just market norms.
- **Clarity reduces friction**, but excessive structure can reduce flexibility when it may be needed.
- **Treatment of outstanding long-term incentives (“LTIP”)** is often more nuanced and consequential than treatment of cash.

Executive turnover underscores the importance of getting this right. These transitions may feel infrequent for any given company, but, in a broad market context, they are a regular occurrence. According to research from The Conference Board, Egon Zehnder, and Semler Brossy, CEO succession among S&P 500 companies increased to 12.5% in 2025, up from 9.8% in 2024¹. In an environment where leadership change is increasingly common, termination provisions are not a technical detail – they are an increasingly important governance tool.

1: [Source](#)

What Termination Provisions Usually Include

Termination provisions define how compensation and benefits are treated across the most common exit scenarios.

Well-designed provisions typically:

- Define how and when employment may be ended by either party
- Clearly articulate key definitions (e.g., “for cause,” “without cause,” “good reason”), including notice and severance periods
- Specify severance mechanics, including the compensation basis (e.g., base salary, short-term-incentive, or total cash compensation) and applicable multiples
- Address post-termination obligations such as benefit continuation, non-competition, non-solicitation, and confidentiality

Where companies meaningfully differentiate themselves is not in listing these components, but in the way outcomes are calibrated. Conservative frameworks tend to default to forfeiture and emphasize discretion; organizations that prioritize continuity, retention, or long-term stewardship often provide clearer treatment and “good leaver” pathways, resulting in smoother transitions. Company age, maturity, ownership structure, and strategic trajectory all influence where that balance ultimately lands.

What We See In Practice

Termination provisions can vary based on industry, geography, company maturity, strategic objectives (including the likelihood of M&A), and executive role or career stage. Some companies choose to defer to legal requirements, rather than individual agreements; this approach ensures consistency and simplicity but may impact the attraction of new executives.

- **Voluntary resignation and termination for cause** – These scenarios are typically the least generous with no cash severance entitlements and unvested LTIP generally being forfeited. Treatment of vested but unsettled awards varies, ranging from immediate forfeiture to settlement shortly following termination.
- **Termination without cause (“TWOC”)** – TWOC scenarios are often the most actively negotiated. Cash severance is typically expressed as a defined number of months of base salary plus short term incentive (where short-term incentive is calculated either as the prior year’s actual value, target value, or an average of prior years). We generally observe 18–24 months for CEOs and 12–18 months for other NEOs, with the CFO occasionally differentiated.

LTIP treatment for TWOC scenarios spans a wide range. Vested awards are generally settled shortly after termination, while unvested awards may be fully forfeited under more conservative approaches or pro rated under more generous frameworks.
- **Retirement, death, and disability** – These scenarios typically do not include cash severance but often provide more favourable LTIP outcomes.
 - *Retirement* commonly allows pro-rated, or continued, vesting, subject to age and service thresholds. Increasingly common practice allows continued normal course vesting subject to certain provisions such as non-compete/solicit and proper facilitation of succession.
 - *Disability* often preserves normal-course vesting, reflecting the possibility of return rather than accelerating outcomes prematurely.
 - *Death* frequently results in full acceleration of unvested awards.
- **Change in control (“CiC”)** – Change-in-control provisions can be the most varied; however, prevailing market practice is to require a double-trigger whereby both a transaction and a qualifying termination occur. Cash severance is typically aligned with, or in a small minority of cases modestly higher than, TWOC outcomes. Long-term incentives may default to a rollover of value into the surviving entity, with discretion to accelerate and pay in full at transaction close.

Common Pitfalls and Lessons Learned

Even thoughtfully designed provisions can create challenges if not executed carefully. Common pitfalls include:

- **Ambiguous definitions**, particularly around good reason, retirement, or CiC coverage periods.
- **Failure to meet statutory minimums**, given variation in required minimums across jurisdictions.
- **Misalignment between policy and practice**, including precedent set by recent exits.
- **Unintentionally discouraging retirement**, where TWOC outcomes are more attractive than retirement treatment.
- **Ensure cohesion of terms** between the plan text and individual employment agreements and understand which terms of one may supersede the other.
- **Termination provisions are sticky**; once established, there are limited opportunities to revise or amend, and downward discretion can not be applied.

Why Termination Provisions Matter

Termination provisions are often reviewed less frequently than other elements of executive compensation, yet they can have an outsized impact when tested. As incentive plans evolve, and executive succession runs its course, termination outcomes should be revisited to ensure alignment with philosophy, culture, and market expectations.

Ultimately, strong termination provisions are not about generosity or restraint – they are about intentionality. When designed thoughtfully, they provide clarity, preserve flexibility where it matters, and support orderly leadership transitions when companies need them most.



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