

What Will Happen to My Severance Payments if My Employer Files for Bankruptcy?

Creditor's Rights Toolkit

CONTACTS

David M. Fournier | Kenneth A. Listwak | Evelyn J. Meltzer | Tori Lynn Remington

This article was reprinted in the April-May 2025 issue of [Pratt's Journal of Bankruptcy Law](#).

Pursuant to Section 503(b)(1)(A) of the Bankruptcy Code, “wages, salaries, and commissions for services rendered after the commencement of the case” are treated as administrative expense claims. Additionally, Section 507(a)(4) of the Bankruptcy Code grants priority status to “wages, salaries, or commissions, including vacation, severance, and sick leave” earned within 180 days of the bankruptcy case. While both sections aim to protect employees’ compensation in the event of an employer’s bankruptcy, they apply to different time periods and have different priority levels, thus affecting severance payments differently.

This article will discuss different scenarios in which bankruptcy can affect a severance payment. To access this article and read other insights from our Creditor's Rights Toolkit, [please click here](#).

RELATED INDUSTRIES + PRACTICES

- [Bankruptcy + Restructuring](#)
- [Debtor + Committee Representations](#)
- [Distressed Mergers + Acquisitions](#)
- [Trade Creditors Representation](#)