A man, aged 60, who had no plans for early retirement, had worked for a manufacturing company for 20 years as a managerial employee-at-will when he had a conversation with the company's president about the man's post-retirement goal of extensive travel around the United States. A month later, the company president handed the man a written, signed resolution of the company's board of directors stating that when and if the man should decide to retire, at his option, the company, in recognition of his past service, would pay him a $2,000-per-month lifetime pension. (The company had no regularized retirement plan for at-will employees.) Shortly thereafter, the man retired and immediately bought a $30,000 recreational vehicle for his planned travels. After receiving the promised $2,000 monthly pension from the company for six months, the man, now unemployable elsewhere, received a letter from the company advising him that the pension would cease immediately because of recessionary budget constraints affecting in varying degrees all managerial salaries and retirement pensions.

In a suit against the company for damages, will the man win or lose?

A. Lose, because he had been an employee-at-will throughout his active service with the company.

B. Lose, because the board's promise to him of a lifetime pension was an unenforceable gift promise.

C. Win, because he retired from the company as bargained-for consideration for the board's promise to him of a lifetime pension.

D. Win, because he timed his decision to retire and to buy the recreational vehicle in reasonable reliance on the board's promise to him of a lifetime pension.

Explanation:

Promissory estoppel

Allows enforcement of promise when no valid contract exists if:

promisor reasonably expected to induce reliance on promise

enforcing party reasonably relied on promise

reliance caused enforcing party to suffer substantial detriment *and*

injustice can be avoided only by enforcing promise

Even when there is **no valid contract** (as seen here), a party may recover damages under an equitable theory of relief. For example, the doctrine of **promissory estoppel** allows a party to recover damages stemming from another's promise if:

the promisor reasonably expected to induce reliance on the promise

the enforcing party **reasonably relied** on the promise

reliance on the promise caused the enforcing party to suffer **substantial detriment** *and*

injustice can only be avoided by enforcing the promise.

Damages for promissory estoppel may be limited as justice requires. Often, this means **reliance damages**—ie, damages based on out-of-pocket expenses—are awarded. However, in some instances, courts have awarded **expectation damages** to put the enforcing party in the same position as if the promise had been performed.

Here, there was no contract between the man and the company. But the man can recover under the equitable theory of promissory estoppel. That is because—in addition to the other requirements—the man reasonably relied upon the promised pension and suffered substantial detriment (unemployment). Therefore, the man is either entitled to reliance damages of $30,000 (for the recreational vehicle) or possibly expectation damages of $2,000 per month in lifetime pension.

(Choice A) Employment is at will if (1) there is no employment contract or (2) the employment contract does not specify a term of employment. But the man's status as an at-will employee does not affect his recovery here.

(Choice B) A gift is a gratuitous transfer of property or services without a return promise. A promise of a gift is unenforceable under contract law (no consideration). But a party may still recover under an equitable theory of relief (eg, promissory estoppel).

(Choice C) The lifetime pension was not promised in exchange for the man's retirement but in recognition of his past service to the company. Therefore, an argument that the man's retirement was consideration for the pension is misplaced.

Educational objective:

Even when there is no valid contract, a party may recover damages under an equitable theory of relief such as promissory estoppel.

References

Restatement (Second) of Contracts § 90 (Am. Law Inst. 1981) (promissory estoppel).