Expert Update
COVID-19

Presented by Henderson Brothers®
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EXPECT AN EXPERT

P&C Exposure and Premium Management

As the COVID19 pandemic has spread around the globe, the economic impact has been almost immeasurable. As operations have ceased, businesses are seeing a substantial drop in payrolls, revenues, inventory values and other assets. In an effort to help cash flow management, there are several areas of your program that should be reviewed:

Insurance Exposure Considerations

- Workers Compensation policies are rated on payroll and most General Liability policies are rated on payroll, revenues or owned/occupied square footage.
- While any change in exposure is typically addressed at the end of the policy term by an audit, many insurance carriers have agreed to endorse exposure changes midterm. This will create premium savings and ideally reduce future premium payments.
- If a business is experiencing a decrease in property inventory or stock, these values can also be endorsed to reflect those changes.
- While operations have ceased, many vehicles sit idle. Certain insurance companies are offering policy premium credit endorsements for the reduced exposure while these vehicles are not being driven.
- Credit Insurers are reducing exposure to bad debts. While there may be a reduction in coverage during your policy term, you should continue to address limits with the carrier to identify if/when coverage can be increased.

Premium Payment Considerations

- Many carriers have stopped issuing notice of cancellations for payments that are not made. While this will offer some short-term relief, it is important to know that these payments will need to be made at some point during the policy period. Many carriers are being very accommodating and can potentially offer payment plans, when in the past they have not been able to.
- If a carrier is unable to offer installments, insureds can also be placed on a premium finance agreement to help spread out the payments. These plans typically include a 10-25% down payment and equal installments throughout the year. Premium Finance companies have also been very accommodating in dealing with premium payments for those agreements already in force.

Insurance companies are reviewing all requests from agents on a case by case basis. We recommend that these items be discussed with your Henderson Brothers representative.

During the time of quarantine and when the economy is opening in phases, we need to be prepared to keep our team members, clients, and the public safe from infection. Henderson Brothers, Inc. has developed a Pandemic Recovery Plan for general industry and construction applications (see link below). The financial impact on businesses will be driven by changes to the physical working environment, employee relations, communications platform additions, and client interactions.

The Center for Disease Control (CDC,) Occupational Safety Health Administration (OSHA,) Department of Health (DOH,) World Health Organization (WHO,) and other government agencies provide guidance and orders focused on the length of time quarantine measures should be in place. This guidance has left a wake of uncertainty on how the work environment will look in the future. As the data is gathered and analyzed, the need to slowly reinsert the general population back into society is being determined. This slow repopulation is placing financial stress on businesses. With this stress comes the need to augment the workplace with social distancing engineering controls and administrative policies for employee and visitor management. These upgrades are required just to open the doors. The establishing of essential and non-essential employees inside of your business could speed up the process of reopening the doors.

Companies will need to absorb new budget items that come along with the pandemic recovery amidst decreasing revenue. Many companies have never had to buy personal protective equipment, and most did not have thermal temperature scanning equipment on hand. The building itself is now taking on additional expenses in the form of social distancing controls and disinfecting requirements. This reoccurring expense could range from $.50 to $1.50 per square foot for a deep cleaning. This new business landscape involves the challenge of serving clients predominately from a virtual standpoint. The addition of a communication platforms to stay in touch with client via telephone and video conferencing has never been so important. These items will now be a rolling expense that will become part of the fabric of our society.

The way a company handles the pandemic response initially, and then the development of a recovery strategy will impact revenue, client retention, employee relations, and the overall stability for the future.

https://www.hendersonbrothers.com/coronavirus/

In the quarter prior to COVID-19, Property & Casualty insurance pricing rose an average of 7.5%, the 6th straight quarter that insureds saw their premium go up, according to Barclays Research. Increases were most heavily seen in the areas of excess umbrella, auto and Directors & Officers liability. Property rates have also been steadily rising since early 2017. In addition to umbrella carriers raising rates, they have also restricted the amount of capacity they have made available to their insureds, requiring their brokers to find additional carriers to maintain existing coverage limits.

While many thought that this market of rising premiums was going to be relatively short, the uncertainty brought on by the Coronavirus will almost certainly have an impact on Property & Casualty pricing, as well as the availability of certain coverages, well in to the foreseeable future. Many carriers have already started to report poor Q1 2020 earnings. The condition of the financial markets has severely impacted their investment income, which will require them to return to underwriting profitability.

With respect to claims, carriers have already had to start assuming the cost of defense in suits alleging the existence of coverage for business interruption claims. Following SARS, carriers began putting virus exclusions on property insurance policies citing that the nature of pandemics make them not only very difficult to underwrite and price, the exposure is simply too large. Business interruption claims are currently being estimated at approximately $380 billion/month. The premium surplus of the entire domestic Property Casualty industry is only $800 billion. Although there would be serious constitutional issues, there are several pieces of legislation, mainly at the state level, that would require carriers to disregard their policy terms and conditions and start paying these COVID-19 business interruption claims.

In addition to business interruption claims, carriers will also have to deal with claims from workers that have been infected at work (or claim to have been infected at work). With businesses reopening in some areas, we can also expect an increase in liability suits from the public claiming that businesses did not do enough to keep them safe.

The Coronavirus has created a time of uncertainty for Property & Casualty insurers, and there is nothing that they like less.

The most immediate benefits related impact that employers are managing due to COVID-19 is the workforce, compensation and subsequent benefit changes related to reduction in hours, furloughs and layoffs. With the federal government's enactment of the Families First Coronavirus Response Act ("FFCRA") and the Coronavirus Aid, Relief, and Economic Security Act ("CARES"), employers have received guidance on key absence and benefits coverage issues related to this pandemic. Some of those key provisions include:

- For (most) employers under 500 lives, paid leave requirements for situations created due to COVID-19 including quarantine, positive testing and childcare considerations, with tax credits to offset the increased cost;
- Health plans required to cover the cost of coronavirus testing and the related costs of testing with no member cost-sharing, including participants in Qualified High Deductible Health Plans;
- Over-the-Counter medications can be purchased using pre-tax account funds.

COVERAGE ISSUES

In response to the above legislation and the change in risk exposure that the pandemic creates, insurance carriers have responded by making the following coverage and plan management considerations:

- Coverage Extension – Most insurance carriers have extended coverage for employees not activity at work due to furlough, layoff, etc. as long as premium continues to be paid by the plan sponsor for those covered employees. This includes health insurance and stop loss carriers.
- Grace Period Extension – Where states have not provided guidelines or prohibited the cancellation of policies for non-payment, most carriers are reviewing extension requests on a case-by-case basis.
- No Premium Increase – Many life and disability carriers are renewing policies that fall within the COVID-19 crisis period at no increase, to assist employers during these challenging economic times.
- Premium Reduction – Most dental and vision carriers are providing premium discounts for several months as dental and vision services are deferred during the pandemic shutdown period.
- Cost of COVID-19 treatment – Most health carriers are covering the cost of treatment for coronavirus at no cost-share to members. Self-insured plans can elect to waive cost-sharing provisions.
- Cost of telemedicine/virtual care – Most health carriers are waiving member cost-sharing associated with telehealth on a temporary basis. Self-insured plans can opt in to this benefit.

Cost Impact

The COVID-19 outbreak is expected to result in billions of dollars of additional health care expense with the federal government and private insurers footing the majority of the cost. The overarching concern for employers is the cost that COVID-19 will have on employer sponsored health plans. With so much uncertainty surrounding infection rates and severity, employers are unsure of how to prepare for the increased cost burden this may bring.

Experts are predicting coronavirus could increase healthcare costs 2%-7% on top of an underlying national annual health cost inflation rate of 4%-6%. Cost variance is influenced by infection spread in various geographies, population demographics, industry and the underlying health status of a population. It is widely speculated that health insurers will be looking to recoup losses for unexpected COVID-19 expenses in the spring of 2020 and a possible second round in the fall of 2020, and rate for continued COVID-19 exposure into 2021.

To assist employers in understanding the cost exposure and potential impact on their own health plan, Henderson Brothers has developed a COVID-19 Health Care Cost Model. By taking the key influencing factors into consideration, we can project the impact to an employer's plan across a spectrum of low, medium and high exposure rates. Cost considerations include the cost of testing, treatment and the deferral of care dynamic associated with the pandemic. COVID-19 cost modeling has significant value for all employers, whether fully-insured or self-funded, in adjusting their current year budgets and preparing for cost adjustments going into 2021.

Other Key Considerations

As the COVID-19 pandemic cycles, employers are focusing on several other issues emerging in the crisis:

- Increased and sustained utilization of virtual medicine which creates both cost and productivity savings;
- Growing mental health resource needs as plan members deal with increased stress and anxiety;
- Retirement plan performance and tools to help employees manage their finances;
- New remote working arrangements;
- Employee engagement and leveraging technology to communicate with employees.

Covid-19 has significantly impacted the investment markets and contributed to periods of market volatility. There are many considerations at both the corporate and individual level.

Corporate Level Considerations:

• With the passing of the CARES Act legislation, retirement plans can elect special loan and distribution provisions, which may lead to increased outflow of retirement plan assets.

• As employers consider the future of matching contributions to retirement plans, additional considerations regarding plan compliance, impact to ADP/ACP discrimination testing, Safe Harbor plan designs, and plan amendment requirements need to be addressed.

• While amendments to retirement plan documents are not immediately required to adopt the CARES Act provisions, it is important to document the decisions that were made to ensure the plan operates in a manner consistent with the future amendment.

• There is the potential for future increases to payroll and benefit costs if employees are unable to retire on time and working longer than originally anticipated due to the market impact on their retirement plan balance. This delayed retirement of the workforce may also impact the ability for younger employees to advance through the organization, possibly leading to turnover and loss of talent.

• With the impact of market volatility on retirement plan assets, employers and plan providers may need to evaluate current recordkeeping costs and participant costs. This may lead to an increase in the plan cost, or the need to consider alternative method of paying plan fees.

Employee Considerations:

• Recent market events or family situations may cause employees to modify their intended retirement date. The change in market conditions may impact their attitude and risk tolerance, causing some employees to consider different financial and investment opportunities.

• Economic and market volatility associated with COVID-19 may lead to increased financial stress and present the need for employers to consider offering robust financial wellness programs to employees.

Cost Considerations:

• The suspension or reduction of employer contributions may be considered to provide the organization with additional financial resources.

• Employers may consider the delay of implementing, or possible elimination of Automatic Enrollment and Automatic Escalation provisions to limit the future liability of required employer matching contributions associated with deferrals to the plan.

• If employers are currently paying plan fees outside of the plan, organizations may consider the transfer of plan costs to employees, payment of fees through use of an ERISA Budget/ Expense Plan Account or plan forfeitures accounts. Examples of fees that may be paid for by the plan are consulting/advisory, third-party administration, plan audit and participant communications expenses.

• Organizations may consider delaying the funding of retirement plan employer contributions until tax filing deadline. This can be done for both 2019 and 2020 contributions.

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