Put Out the Fire

Responding to the Immediate Impact of COVID-19 on Your Organization

Bolton

Introduction

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OVERVIEW 01

Putting Out the Fire

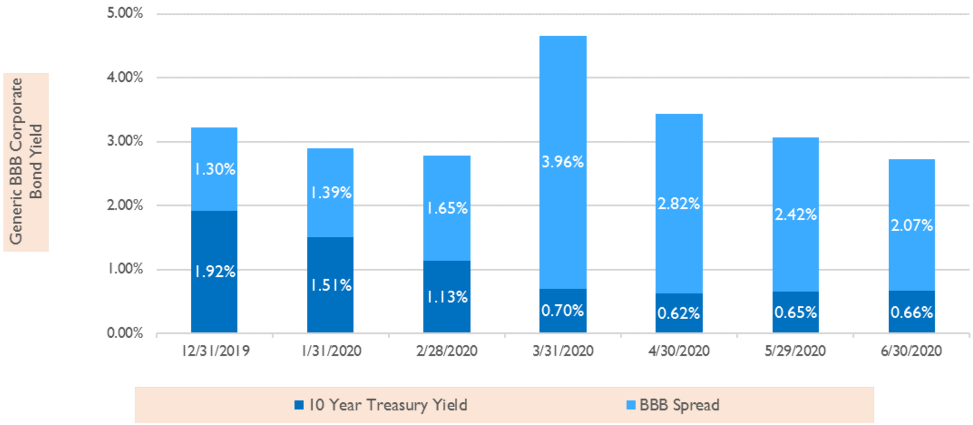
The fundamental challenges are similar for many plan sponsors:

- Understanding the changing landscape
- Identifying and assessing their options
- Making difficult decisions
- Searching for stability

INVESTMENT 02

Dramatic Shifts in the 1st Quarter of 2020

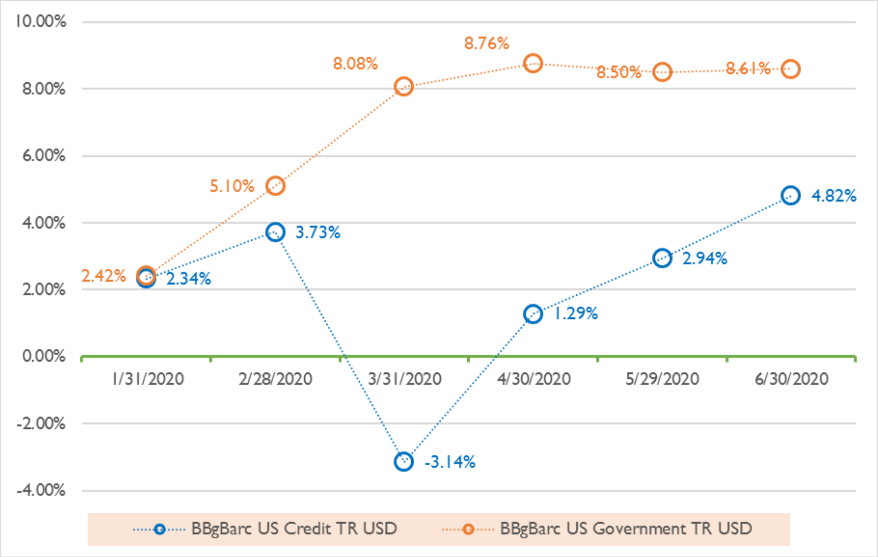
In the first quarter of 2020, the yields of U.S. Treasury securities fell to record lows, producing high returns for that sector. At the same time, the “spread” on U.S. corporate bonds (the difference between their yield and the yield of a Treasury bond of the same maturity) rose significantly.



Bond yields and prices move inversely. A bond is issued with a coupon fixed at the current interest rate. As rates rise or fall, the bond’s market price adjusts so that a buyer earns the new prevailing interest rate.

Dramatic Shifts in the 1st Quarter of 2020

The sharp rise in credit spreads produced negative returns for corporate bonds, both investment grade and high yield.



For a security with credit risk, credit spread is the yield margin above a Treasury security of the same maturity. Investors require more return for holding a security with higher volatility and/or risk of default.

Why Did Active Managers Underperform?

Active managers of intermediate maturity US fixed income portfolios are generally categorized as Core or Core Plus. Core managers invest almost entirely in the investment grade securities included in the Bloomberg Barclays US Aggregate Index. About 90% of the index is accounted for by three large sectors:

3/31/2020	2020 YTD
Broad US Bond Market Average:	
BBgBarc US Agg Bond TR USD	3.15
Core US Investment Grade Sectors:	
BBgBarc US Government TR USD	8.08
BBgBarc US MBS TR USD	2.82
BBgBarc US Corp Bond TR USD	-3.63

Even for a Core manager, any diversification away from the Government sector resulted in underperformance. The Index ranked in the 15th percentile of the Core category.

Why Did Active Managers Underperform?

Core Plus managers invest a portion of their portfolios in sectors outside of the Aggregate index. Below are the returns through March 31 of several common “Plus” sectors:

Typical "Plus" Sectors		
BBgBarc US Treasury US TIPS TR USD	1.69	*Inflation exposure*
BBgBarc Global Treasury Ex US TR USD	-1.53	*Foreign currency*
BBgBarc EM USD Sovereign TR USD	-11.36	*Emerging Markets (ex currency)*
BBgBarc US Corporate High Yield TR USD	-12.68	*US non-investment grade*

Even small allocations to these areas produced significant underperformance relative to the Aggregate Index.

Will Active Manager Recover This Year's Underperformance?

- In March, corporate bonds faced two problems: A loss of liquidity in the market, and the prospect of a prolonged economic recession and higher defaults by borrowers.
- Since March 31, liquidity has improved, and corporate spreads have narrowed. By April 30, the Core Plus managers we follow had reduced their margin of YTD underperformance by about half.
- Liquidity was increased by having the Federal Reserve buy bonds, which also freed up capital at banks when those banks were sellers
- Credit remains an outstanding issue, as the depth and persistence of the current recession remain unknown. But spreads have narrowed for both investment grade (shown above) and high yield bonds.
- When a bond is issued, its coupon and principal value are fixed (in simple terms, there are exceptions). If the bonds held by active managers are sound, then much of this year's underperformance should be earned back over the remaining life of the bonds.

A market for an asset is described as more "liquid" when buyers and sellers can easily transact at the most recent price. It helps if the asset class is homogenous – that is part of why Treasury bonds are more liquid than houses.

What are the Future Implications for Investors?

We think it is possible that the fixed income market has a "new normal," with lower risk-free (US Treasury) rates and higher credit spreads.

- Moderate returns will be accessible to fixed income investors, but will likely come with higher volatility, because both the risk-free rate and the spread can change.
- Securing those returns will likely require holding a higher proportion of securities with a credit spread, which historically have had a higher correlation with equity returns.

Correlation Matrix

Time Period: 5/1/2005 to 4/30/2020

		1	2	3
1	Russell 3000 TR USD	1.00		
2	BBgBarc US Government TR USD	-0.34	1.00	
3	BBgBarc US Corp Bond TR USD	0.38	0.43	1.00

1.00 to 0.80 | 0.80 to 0.60 | 0.60 to 0.40 | 0.40 to 0.20 | 0.20 to 0.00
0.00 to -0.20 | -0.20 to -0.40 | -0.40 to -0.60 | -0.60 to -0.80 | -0.80 to -1.00

- This may create a choice between low returns to provide true diversification, and seeking more complex assets (real estate, infrastructure) that could be non-correlated.
- Investors seeking to annuitize will find that process more expensive.

Investors construct a diversified portfolio in order to reduce the overall volatility of their returns. Correlation describes whether the returns of two assets move in the same direction.

RETIREMENT 03

Immediate Impacts

Investment Market Impacts

Q1 2020 returns: -10%

Q2 2020 returns: +13%

Employer

Income / Revenue

Shutdowns

Workforce

Remote work

Furloughs or layoffs

Illness / Death

Return to work

Government Actions

Relief legislation

Deferrals

Holidays

Immediate Impacts

Investment Market Impacts

Create cash call

Hurt balance sheet

Negative cash flow – buy high and sell low

Employer

Difficulty in making payments

Competing cash needs

Ability to raise cash

Trickle down impacts in governmental sector

Workforce

Admin functions delayed or changed

Lower payroll reduces contributions

Potential higher benefits – line of duty incidents

New policies-safe, protected

Government Actions

CARES Act – ERISA single employer

Potential Taft-Hartley relief

Public Sector policies and options

Actions to Take

Manage crises but keep an eye on the future

- Contribution deferrals and holidays have a lasting impact
    - Analyze and understand range of outcomes

Establish polices/procedures to restore missed payments if rebound occurs

- Preset policies work better than ad hoc decisions

Actions to Take – Employee Facing

Workforce management

- Reduced turnover or retirements?
- In-person retirement counseling

How exposed are employees to risk?

- On-site or off-site requirements

Will benefit policies help ease employee concerns?

- Expanded illness or death benefits

Avoid expensive precedents

- Presumptive rules need limits and guiderails

Wrap-Up

This recession is different

Pandemic on top of
economic contraction

Many of the tools from prior downturns still apply

Cash management
Staffing changes

Assess
Compare
Act

HEALTH 04

Legislative and Regulatory Updates Due to COVID

- Look Back Measurement Method and COVID-19 – No legislative changes
- Optional Section 125 Mid-Year Elections for Fully Insured and Self-Funded Health plans and FSA/DCA plans
    - Notice 2020-29 provides temporary flexibility for mid-year health plan and FSA/DCAP prospective election changes under a Section 125 cafeteria plan during calendar year 2020
- Required COVID-19 Benefit Plan Deadline Extensions for Fully Insured and Self-funded Plans
    - Deadlines are extended for special enrollment under HIPAA, COBRA and claims appeals and for ERISA required notices and disclosures by disregarding the period from March 1, 2020, until 60 days after the announced end of the National Emergency
- Families First Coronavirus Response Act (FFCRA) – Requires certain employers (private sector employers with under 500 employees and certain public sector) to provide employees with paid sick leave and expanded family and medical leave for specified reasons related to COVID-19
- The Coronavirus Aid, Relief, and Economic Security Act of 2020 (the CARES Act)

COVID Return-to-Work Action Plan

Three-Phase Approach:

01 **Evaluate back-to-work risk**

- Geographic distribution and intensity
- Inherent employee and member risk

02 **Model costs** (direct and indirect) and explore possible solutions (symptom tracking, testing, increased telehealth)

03 **New Normal** – make direct investments in human capital

- Establish appropriate ways to communicate possible workplace exposures
- Create plans to guide ill employees to seek medical care and testing
- Provide patient advocacy and navigation assistance
- Integrate medical treatment with mental health
- Manage chronic conditions and close care gaps

COVID Return-to-Work Action Plan

New Paradigm: Everyone Shares in the Risk

- Employers
- Employees
- Health plan and vendor partners
- Everyone wants the same thing: safety, comfort, productivity

RTW and Health Risk Assessment

- Approaches run the gamut and very much reflect business/culture
- Employee opinion surveys and new systems to receive feedback
- Use best practices (CDC, public health principles, other employers)
- Track and continuously update geographic risk profiles (hot spots)
- Integrate RTW strategy with population risk management
- Data mining and member risk stratification (age, RUB scores, specific conditions)
- Overlay geographic and demographic considerations

COVID Return-to-Work Action Plan

Risk Mitigation

- Engage carrier and vendor partners to leverage their tools, technology, and best practices
- Provide PPE, education, and symptom tracking tools
- Conduct claims data mining and share results
  - Vendors can help close care gaps and provide advocacy
  - Employees can be motivated and engaged to improve their own health
- Smart phone apps
- Telehealth and asynchronous healthcare
  - CCM
  - Mental health
  - Elective surgery

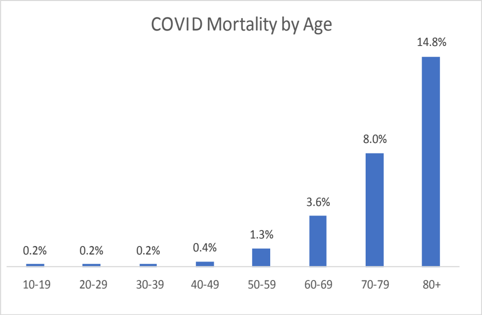
Overview of Approach to Addressing COVID-19 Risk

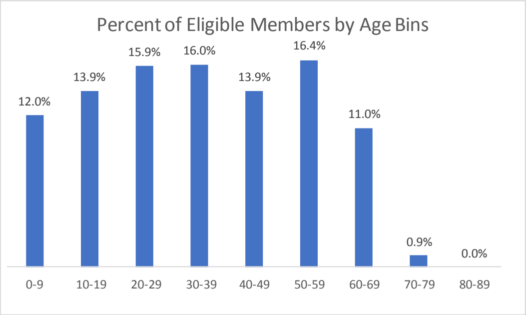
- Keep it as simple as possible
- Data presented at location level
- Overall risk
- Overlay geographic hotspot data
- Frequently update COVID-19 hotspot data
- Financial impact modeling
- Be flexible (second wave intensity may alter strategy)

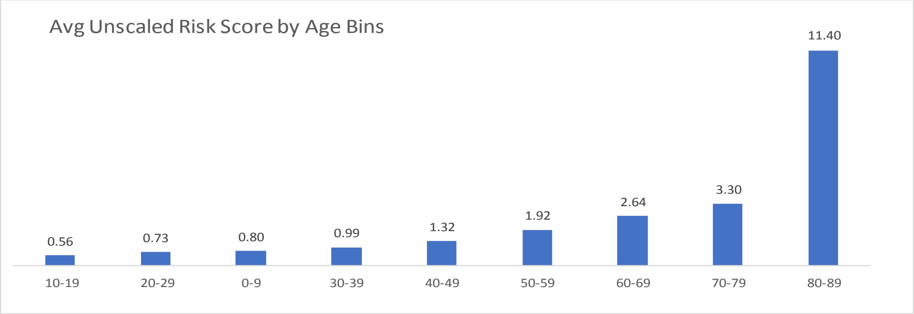
Risk Assessment for COVID-19

Total Potential Age-banded Fatalities – Eligible: **527**

Total Potential Age-banded Fatalities – Enrolled in Benefits: **481**







Average Unscaled Risk – Total Population **1.27**

Risk Profiles for COVID-19

Member Condition	Count Enrolled Members	% Enrolled Members	Average Age	Average Unscaled Risk Score
Age 50+	14,862	28%	58.5	1.75
Diabetes	2,314	4%	54.4	3.02
Heart Disease	736	1%	59.2	4.93
Hypertension	4,431	8%	55.1	2.31
Chronic Resp Disease	1,551	3%	36.2	2.17
Cancer	476	<1%	51.5	3.65
HIV	56	<1%	46.7	2.93
Immunosuppressant Claim	1,025	2%	49.1	3.62

Evaluating Risk by Office Location

Office Location	Current Count Eligible Members	Current Count Eligible Employees	Location Rank by EE size	Current Percentage of Enrolled Members-Moderate RUB	Current Percentage of Enrolled Members-High/Very High RUB	Current Percentage of Enrolled Members- (HCC-Med+Rx)	Current Percentage Eligible Members Age 50+	Current Percentage Enrolled Members with COVID-19 HR Comorbidity	"X" out of 5
Average	61,172	30,356		64.0%	19.7%	0.7%	24.7%	23.8%	
Location 1	959	478	17	70.6%	25.9%	1.3%	29.3%	30.2%	5
Location 2	664	353	24	66.6%	23.6%	1.0%	30.3%	27.1%	5
Location 3	133	63	63	69.9%	28.5%	0.8%	42.1%	33.3%	5
Location 4	851	424	18	63.7%	21.9%	1.1%	30.6%	29.4%	4
Location 5	404	187	36	68.4%	22.9%	0.3%	32.4%	26.1%	4
Location 6	2,661	1,333	3	61.6%	20.0%	0.8%	21.3%	24.9%	3
Location 7	1,380	709	8	65.2%	20.0%	0.4%	22.2%	28.6%	3
Location 8	1,775	949	5	64.6%	18.2%	0.9%	22.5%	22.6%	2
Location 9	202	105	49	59.2%	15.8%	0.5%	43.1%	30.1%	2
Location 10	1,552	815	6	58.0%	17.3%	1.0%	19.7%	19.8%	1
Location 11	1,516	735	7	62.8%	19.2%	0.5%	17.3%	24.0%	1
Location 12	4,814	2,340	2	63.0%	17.0%	0.7%	23.6%	18.9%	0
Location 13	2,072	1,020	4	62.2%	19.0%	0.5%	19.9%	23.7%	0

Benefit Solutions to Consider Post-COVID

Digital Musculoskeletal (MSK) Solutions

Convenient access to virtual exercise therapy, coaching and education, resulting in reduced MSK health care costs

Telehealth

Virtual access to medical care while reducing the number of office visits, urgent care visits and emergency room visits providing significant plan savings and reducing absenteeism

11% of workers used telemedicine services in 2019 compared to 46% polled in 2020; and we expect to continue to see utilization rise

Health Care Navigation and Advocacy

Provides employees and their families with the experts and tools they need for the challenges they encounter in their health care journey

Open Enrollment Strategies to Consider

- Use a digital first strategy by emphasizing transparency, frequency, and health/safety considerations
- Virtual benefit fairs
- Active vs. passive elections
- Communication enhancements, digital brochures, and guides
- Platform enhancements (links, risk assessments, avatars)
- Virtual benefit enrollers/one-on-one enrollment sessions and/or virtual decision support tools
- Multiple enrollment options – device-friendly enrollment solutions
- Voluntary benefit offerings – now is a good time to consider offering or expanding voluntary benefits available to your employees (hospital indemnity, life insurance)
- Compliance with state and local regulations regarding holding meetings/events, etc.

CONCLUSION 05

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Moving Forward

There remains much uncertainty ahead on the road to recovery.

COVID-19 has forced a lot of change and opened the doors for employers to consider other changes to better position them for future success.

Save the Date

Join our Investment, Retirement, and Health practice leaders as we continue our series with these upcoming webinars:

Road to Recovery:
Positioning Your Organization for Success in a Post-COVID World

Wednesday, September 16, 2020
2:00 – 3:00 p.m.

Looking Forward:
How to Set Up Safeguards for the Future

Thursday, November 12, 2020
2:00 – 3:00 p.m.

Thank you for your time today.

Visit our website or click below for recent COVID-19-related articles from our experts:

- Bolton's "Top 10" to Help Manage Health Plan Costs
- COVID-19 Pension-Related Impacts: Line of Duty Benefits
- Employer Solutions: Navigating Return to Work Plans, Telehealth, and Wellness
- IRS Guidance on Remote Notarization of Retirement Plan Consent Documents

APPENDIX

The following pages provide additional detail on the complex health benefit topics discussed during today's program.

Legislative and Regulatory Updates Due to COVID

Look Back Measurement Method and COVID-19

- Under the look-back measurement method, full-time employee status in a stability period is based on hours of service in the prior applicable measurement period
- This is the case regardless of whether the employee experiences a leave of absence or reduced hours of service during the measurement period or stability period
- If the measuring method involves special unpaid leave, the employee must be a continuing employee upon return
- For continuing employees, the measurement and stability periods continue to apply regardless of break in service

Employer Action – No Action Required

- No federal guidance for ACA's employer shared responsibility rules in light of COVID-19
- General rules for determining employee status still apply (legislation has not applied any changes to this method)

Optional Section 125 Mid-Year Elections for Fully Insured and Self-Funded Health plans and FSA/DCA plans

- Notice 2020-29 provides temporary flexibility for mid-year health plan and FSA/DCAP election changes under a Section 125 cafeteria plan during calendar year 2020 (may permit an employees to prospectively make new election, revoke current election, increase/decrease existing election without a qualifying event)
- Notice 2020-33 permanently increases the health FSA carryover limit to $550

Employer Action – Optional Action

- Employer determines the extent to which relief changes will be offered (if any) and apply for plan amendments and notify employees of changes by Dec 31, 2021 (changes may be applied retroactively back to Jan 1, 2020)

Legislative and Regulatory Updates Due to COVID

Required COVID-19 Benefit Plan Deadline Extensions for Fully Insured and Self-funded Plans

- Deadlines are extended for the following by disregarding the period from March 1, 2020, until 60 days after the announced end of the National Emergency
- The "final rule" extends the timeframes for health plan participants to:
  - Apply for special enrollment under HIPAA;
  - Elect COBRA continuation coverage, pay COBRA premiums and notify the plan of a COBRA qualifying event; and
  - File benefit claims and appeals and request external review of denied claims
- The Disaster Relief Notice 2020-01 extends time for plan officials to complete ERISA required notices and disclosure

Employer Action – Required Action

- Consider seeking legal consult to determine impact of new guidelines
- Fully Insured Plans: reach out to consultants or carriers about changes to the administration of plans
- Self-Insured Plans: work with group administrators to ensure proper implementation of newly adopted deadlines, should they be adopted
- COBRA Administration: identify required changes to ensure all documentation and processes are updated to comply with the new deadlines
- Employers must consider the impact to which adopting the new deadlines will have on their administrative and financial burden:
  - Providing retroactive coverage on potentially uncollected premiums
  - Disrupting automatic processes (special enrollments, COBRA, claims, etc.)

Legislative and Regulatory Updates Due to COVID

Families First Coronavirus Response Act (FFCRA)

- **Requires** certain employers (private sector employers with under 500 employees and certain public sector) to provide employees with paid sick leave and expanded family and medical leave for specified reasons related to COVID-19
- Emergency Paid Sick Leave
- Emergency Family Medical Leave Expansion Act
- Tax credits for employers who comply with these requirements
- Provisions apply from April 1, 2020 through December 31, 2020
    - Employee is entitled to same health coverage regardless of leave
    - Cost-sharing eliminated for COVID-19 testing and related services under employer sponsored plan

The Coronavirus Aid, Relief and Economic Security Act of 2020 (The CARES Act)

- $2T stimulus bill, economic aid to businesses and family during pandemic
- Expands eligibility of Unemployment Insurance Expansion
- Student loan repayment to employees on a tax free basis

Recommended Changes to Self-funded Employer Sponsored Benefits

- Expansion of COVID testing coverage without cost sharing
- Over-the-counter products are eligible expenses for HSA, FSA, HRA
- Coverage of telehealth under HDHP before deductible

Many fully insured plans have adopted these changes; contact your insurance carrier for more information.

Benefit Solutions to Consider Post-COVID

Digital Musculoskeletal (MSK) Solutions

- Chronic MSK pain and mental health are closely related and have intensified during the COVID-19 pandemic
- 1 in 6 health care dollars are spent on MSK services and roughly 50% of that spend is on ineffective surgeries and medications
- Employees have limited access to providers and have increased stress levels due to concerns about health, safety, and MSK pain
- Digital MSK solutions can offer convenient access to MSK services such as exercise therapy, coaching and education, resulting in reduced MSK health care costs
    - Sensor technology paired with clinical team
    - Unlimited access to PTs and health coaching creates industry's highest adherence rates, 73%
    - Proven outcomes due to surgeries avoided, reduction in anxiety & depression

Benefit Solutions to Consider Post-COVID

Telehealth

- Telehealth is a more convenient way for consumers to access and increase self-care while reducing the number of office visits, urgent care visits and emergency room visits, which can save $300 to $1,500 per occurrence if an ER visit is avoided
- Most health plans offer access to low cost virtual visits and if not, consider contracting with a third-party vendor to offer telemedicine
- 11% of workers used telemedicine services in 2019 compared to 46% polled in 2020 and we expect to continue to see utilization rise
- Action - Encourage more Telehealth visits by eliminating or reducing copays for telehealth visits
- Long-term savings can also be gained from telehealth support for preventative care, managing chronic conditions, and access to lower cost mental health services

Benefit Solutions to Consider Post-COVID

Health Care Navigation and Advocacy

- Health care navigation provides employees and their families with the experts and tools they need for the challenges they encounter in their health care journey
- These range from understanding their benefits to selecting a doctor; from seeking clinical support to connecting with community resources
- Health Advocates help patients and their families get to the right provider at the right time
- Better coordinated care results in a better health care experience for individuals with measurably lower costs to employee and employer alike