Surviving the Economic Aftershocks of COVID-19

How rising unemployment is about to create a perfect storm of increased costs and complexity—for 2021 and beyond.

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The major challenges and massive uncertainties small and medium-sized businesses faced in 2020 will likely lead to rate hikes in 2021 and beyond. How can you plan now to best ensure your long-term survival?

The unpredictable nature of a pandemic means many regions could see more shutdowns before the COVID-19 crisis is over. You may be struggling with cash flow issues, and we have already seen additional fallout from economic aftershocks from several quarantines.

For most businesses, staying staffed and profitable has required a lot of contingency planning and resilience.

Total labor cost is a major concern for businesses right now. How can you best handle temporary or permanent workforce reductions? When and how should you plan to re-onboard employees? If this is your first time experiencing layoffs or furloughs, your management and/or HR team may be overwhelmed by questions.

What steps should you be taking to survive? And now that 2020 is behind us, what will be the knock-on effects for 2021? How can you best set up your organization to mitigate the revenue impact and other risks?

How you handle these employee-related expenses will be felt in your business for years to come. One thing is certain: the cost to handle administration of employees is going to rise. But how much it rises, and for how long, will depend on the work you do now.

This eBook will run you through some implications of and pitfalls around workforce reduction and re-expansion—like unemployment insurance taxes and benefits administration— and help to flag places where good decision-making today, or the help of experts, can help reduce the impact of both current risk and future economic hits.

Let’s get started.

Unemployment Tax Rates

Unemployment rates in 2020 were the highest we have seen since the end of the Great Depression—which means they are also the highest they've ever been since shortly after the introduction of unemployment insurance in 1935.

That means state unemployment insurance funds are being decimated at unprecedented, unsustainable, and alarming rates. In fact, many states are exhausting their unemployment funds. The system has never been so strained.

A tax tsunami is coming.

Ultimately, it is employers who will have to pay the tab to replenish and support those funds. Beginning in 2021, it is likely that employers will see hikes in employer- paid state unemployment tax rates.

How much you pay will correspond with two variables:

- your own number of unemployment claims; and
- the general rates for the coming year.

Most employers already know that their rates will rise if they lay off workers. You may be less aware that, even if you didn't lay off any workers, you will still be paying a significantly higher rate for unemployment taxes in 2021—and possibly for years to come.

That is because the general funds in each state are now depleted and will need to be renewed—and all businesses bear some of the cost of refilling those tanks. To make it worse, federal unemployment rates are also affected, and will likewise rise in 2021—applying to the first $7000 you pay to each employee, annually.

And finally, similarly to unemployment insurance, workers compensation has been strained, and those rates can also be expected to rise. This is due to a steep increase in COVID-related health issues stemming from work. It all rolls up to a hefty price tag, on top of your other economic challenges. How you handle these employee-related expenses will be felt in your business for years to come. One thing is certain: the cost to handle administration of employees is going to rise.

Mitigating the Impact of Rate Hikes

How can businesses navigate the complexities and reduce the impact of these increases?

When it comes to taxes and benefit rate increases due to layoffs, employers do have some choices to make around how they separate from employees and for how long. Furloughing, salary reductions, unpaid leave, and short-term compensation with partial pay or benefits are all ways employers might be able to avoid unemployment claims that could drive up rates.

You will also want to check with your legal advisors to ensure there are no risks or adverse impact from your layoff choices—arising from EEOC or ADA guidelines— that could open you up to costly legal action.

Some companies may decide to restructure their organization by combining accounts or through merger and acquisition activities.

An even better risk management strategy is to work with a professional employer organization (PEO). As a PEO, Current HR aggregates multiple businesses together which can help you in several important ways:

- In states that allow PEO-sponsored unemployment insurance, Current HR can help you navigate the complexities of unemployment insurance by reviewing, tracking, and following up on or appealing claims for you. If Current HR moves your employees to our entity, it can bring your costs down immediately, as Current HR may bear the brunt of unemployment insurance tax increases for 2021 and beyond.
- Working with Current HR can also help mitigate and offset future rate increases in worker's compensation.
- Working with Current HR will help to insulate your business against potential legal actions.
- Current HR has infrastructure to better answer employee concerns and manage cases, lifting that burden from your management or HR team.

And remember, whatever decisions you make to try to control the impact of rising rates must be done quickly. With the new year upon us, you should make these decisions quickly to give your organization the best opportunity for success.

Rehiring and Recovery

Though the short-term effects of the COVID crisis have been volatile, it's important to think long-term in your decision-making. We entered 2020 in a tight labor market, and workforce demographics haven't changed. Though it may be difficult to envision, we will surely be in a talent crunch again once the crisis finally subsides.

How will you handle workforce reduction in a way that ensures your survival, but also preserves your employer brand and makes employees want to return to your company when you are growing again?

As long as the pandemic continues, one consideration will be around safety and ensuring you provide the processes and infrastructure needed to assure workers they are safe to return to work—in whatever capacity you determine most effective.

Another element to consider is how workforce reduction and your total rewards packages will impact your workforce re-expansion. In the 2008 financial crisis, unemployment benefits were extended to 99 weeks.

If you have lower wage employees, would laying them off risk disincentivizing them from seeking work until their eligibility runs out? Will it be harder for you to find new lower wage workers if they stay home because it's more lucrative than your offer?

You will also want to track and document carefully as you lay off workers, so that you can address unemployment claims for any employees who might refuse your offer to return to work. Again, this is a place where Current HR can reduce the burden on your organization and help to mitigate the financial impact of invalid claims.

Though the brunt of the unemployment insurance and workers compensation tax hikes will be felt closer to April 30, 2021, working with Current HR is a good long-term strategy for recovery and beyond. There are likely to be additional increases and a long tail for the financial impact on unemployment funds, depending on the length of the crisis and the volume of claims. Most businesses will feel the reverberations of the COVID event in their rates for the next two to three years at least.

Health Insurance, COBRA and other Benefits

COVID-19 is first and foremost a health crisis, and that means we can expect that health insurance rates are going to go up. In years past, health insurance rates have increased by an average of 5-8% per year. You can expect that to rise next year—possibly to 7-10%, or higher. Health insurance is not a place where most employers can easily mitigate costs, so it is worth considering benefit and healthcare strategies to drive overall premiums down, including expansion for telemedicine coverage.

Another option is to work with Current HR to lower costs at scale. This will keep you compliant with ACA guidelines but sidestep the complexities of any annual contracts you might be locked into. It will also allow you access to larger risk pools and lower rates that Current HR is able to negotiate—not only for health insurance but for a wide range of benefits.

If you have already laid off workers, or believe you will have to do so, you will also need to understand your responsibilities around COBRA benefits. While you do not have to pay for COBRA, it is still a complex regulatory burden for small and medium-sized businesses. There are many regulations governing notifications, and you must respond to claims in a time-sensitive way.

It's important to realize that employees taking COBRA will remain in your risk pool until they find a new healthcare option. COBRA is costly, and workers tend to most often take it when they really need it—meaning you will be keeping the most high-risk of employees in your risk pool, which may increase future rates—something especially worrying in the age of COVID-19.

This is another area where outsourcing administration to Current HR can save you time and legal risk, as we have larger pools and can better absorb high-risk former employees. We also have a depth of knowledge for you to draw on with regard to employee notifications and support. This expertise extends to the suspension of other benefits, like 401(k)s, which carry many complications and regulatory requirements.

Finding the Right Path Forward

No matter how you look at it, managing the impact of 2020 will be complicated and costly for businesses. But it's clear that the businesses who get good advice will be the most likely to survive with minimum impact. The best advice we can offer is to work with advisors to be as prepared as possible for 2021, and know which levers you can pull to lower costs and protect both employees and your own bottom line.

Even if you've never thought of your company as a good candidate to work with a PEO, this is a good time to talk with Current HR to see what your options are, and how we might help you to sidestep the coming rate tsunami.

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