Workforce Reductions are Painful; 5 Ways to be Prepared

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Even before the COVID-19 outbreak interrupted business around the world, experts were warning of an impending recession and related workforce reductions. In fact, citing growing tension in international trade and ever-increasing housing prices, economists from the National Association of Business Economics had previously predicted a recession was likely to occur before the 2020 Presidential Election.[1]

However, recessions and other calamities aren't the only reason employees part ways with their employer. With these situations in mind, ensure your benefits plan is scalable up *and* down, keep your employees aware of their options and stay compliant when it comes time to part ways. Here are five ways to ease the pain of workforce reductions:

1. Keeping in Lockstep
One of the best ways to stay prepared is to keep an open line of communication between departments. Payroll is one of your company's biggest expenses, and the decision to hire or fire should come from many sources.

The relationship between Human Resources and Finance is especially important because reductions in force (RIFs) have as much of an impact on culture and productivity as they have on the bottom line. Even in situations like the COVID-19 pandemic—where employees may understand changes during a crisis are outside their employer's control—remaining workers can experience culture shock from layoffs or furloughs. If a positive company culture is what attracted your talent, you want to make sure it is preserved in even the most difficult times.

2. Staying Mindful of Claims Lag
Whether you are fully insured or self insured, your business is at risk for unexpected medical bills from former employees even after they've moved on.

Unexpected medical bills following workforce reductions is called the "run out" cost.

This phenomenon is most common in hospital stays, where billing may take several weeks or months to be finalized. This is why it's important to account for all potential costs of laying off employees. If you're self funded, you will have stopped receiving payroll deductions from former employee, but you are still on the hook for the bill.

In fully insured programs, your carrier will foot the bill, which could have an impact on your loss ratio. With a smaller headcount, the impact on your renewal negotiations could be dramatic.

3. Easing the Transition
If you know workforce reductions or retirements are coming, it's a good idea to get in touch with your employee benefits broker or consultant. They will help connect you with services such as a COBRA concierge who can help employees decide if it is more cost-effective to enter the exchange for coverage, or if COBRA is the best choice for them. Medicare consultants are also available (even to current employees).

*Watch our **Roadmap to Medicare webinar** on demand for more information.*

Employees should also be aware of their life and disability benefits' portability and conversion privileges. The ability to take plans with them exists in some contracts, and that information should be readily available. They should know what they're entitled to, even if it's at their own cost.

4. Offering What You Can

Being generous and a responsible steward of your employees' best interests should always be a goal, but severance packages can create unexpected costs and issues with compliance.

It's understandable, especially during trying times, to want to offer special consideration for any employee leaving your company. This is especially common in departing or retiring executives. However, extending coverage or offering monetary assistance might be outside of your contract with your insurer, and if offered unevenly, may create issues with precedent.

Though most employers are aware of these considerations for furloughs or layoffs, they also apply to retirement. As mentioned above, Finance and HR should keep in lockstep, and all severance packages should be mutually vetted and agreed upon.

We encourage all of our clients to be good corporate citizens, but regular reviews of these offers are important to keep generosity and compliance on the same page.

5. Building a Rainy Day Plan

There's no wa to truly recession-proof your employee benefits offering, but maintaining a multi-year strategy is always a good step. Your benefits consultant can help you create a strategy that mitigates the impact.

Be frank with our consultant about the health of your business, your ability to withstand rainy days and the organization's five-year outlook. Answering difficult "what if?" questions will paint a clear picture of your overall health and goals. For example, if you're in a growth mode now, but hope to reach a more level playing field in five years, your benefits strategy should reflect that.

Maintaining attractive yet cost-effective benefits and a clear path forward in a workforce reduction are the best strategies to keep current workers loyal and former employees thinking highly of your company, even when the economy is jittery.

Your consultant can help to create a strategy that helps with the typical ups and downs your business will see over time and mitigate those losses. ■

[1]Fortune, "A Majority of Economists Think the Next Recession Will Come by the 2020 Election"

For more information, please call **1.877.426.7779**