The impact of Covid-19 on local governments and K-12 schools

Sponsored by: UnitedHealthcare

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Presented by
Health Plan Advisory Council

1 Covid-19

2 Local and state budgets

3 K-12 schools

4 Benefits

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Covid-19

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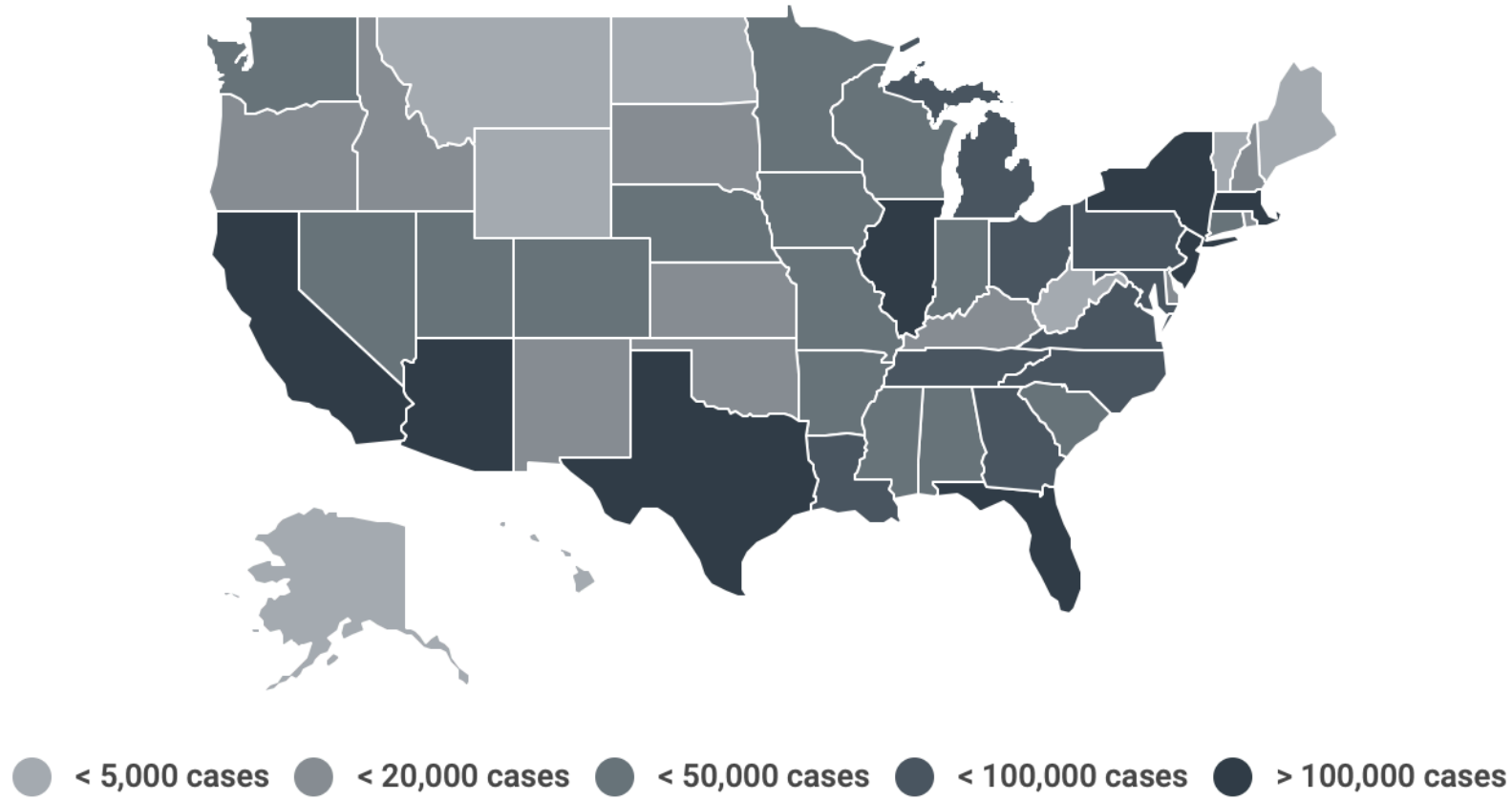
Coronavirus cases in the United States

Current as of July 8, 2020



Current COVID-19 cases

At least 3,014,100 cases

402,928 cases in New York

At least 131,329 deaths

Original estimates of possible effects

96 million cases

4.8 million hospitalizations

480,000 deaths

Source: "Coronavirus Disease 2019 (COVID-19) in the US," CDC, March 11, 2020. "One slide in a leaked presentation for US hospitals reveals that they're preparing for millions of hospitalizations as the outbreak unfolds," Business Insider, February 27th, 2020.

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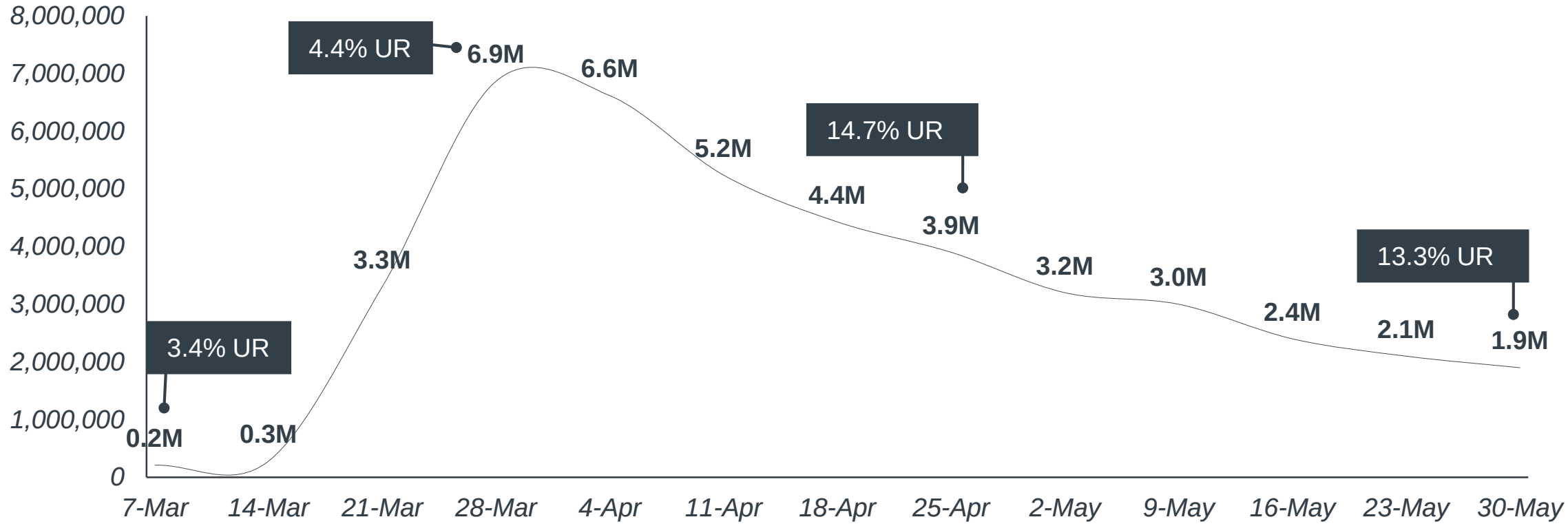
Policies to reduce virus spread left many unemployed

UR[1] spiked to the highest since the Depression era but trend heading back down

New unemployment insurance claims by week, seasonally adjusted, in 2020



Source: US Department of Labor, 2020; Swagel, Phill, "Updating CBO's economic forecast to account for the pandemic," *Congressional Budget Office,* April 2, 2020; Stankiewicz, Kevin, "Fed's Bullard says US economy not in free fall despite 32% unemployment projection," *CNBC,* April 5, 2020; Luthi, Susannah, "Could Obamacare save jobless Americans from coronavirus?," *Politico,* March 26, 2020.

1. Unemployment rate.

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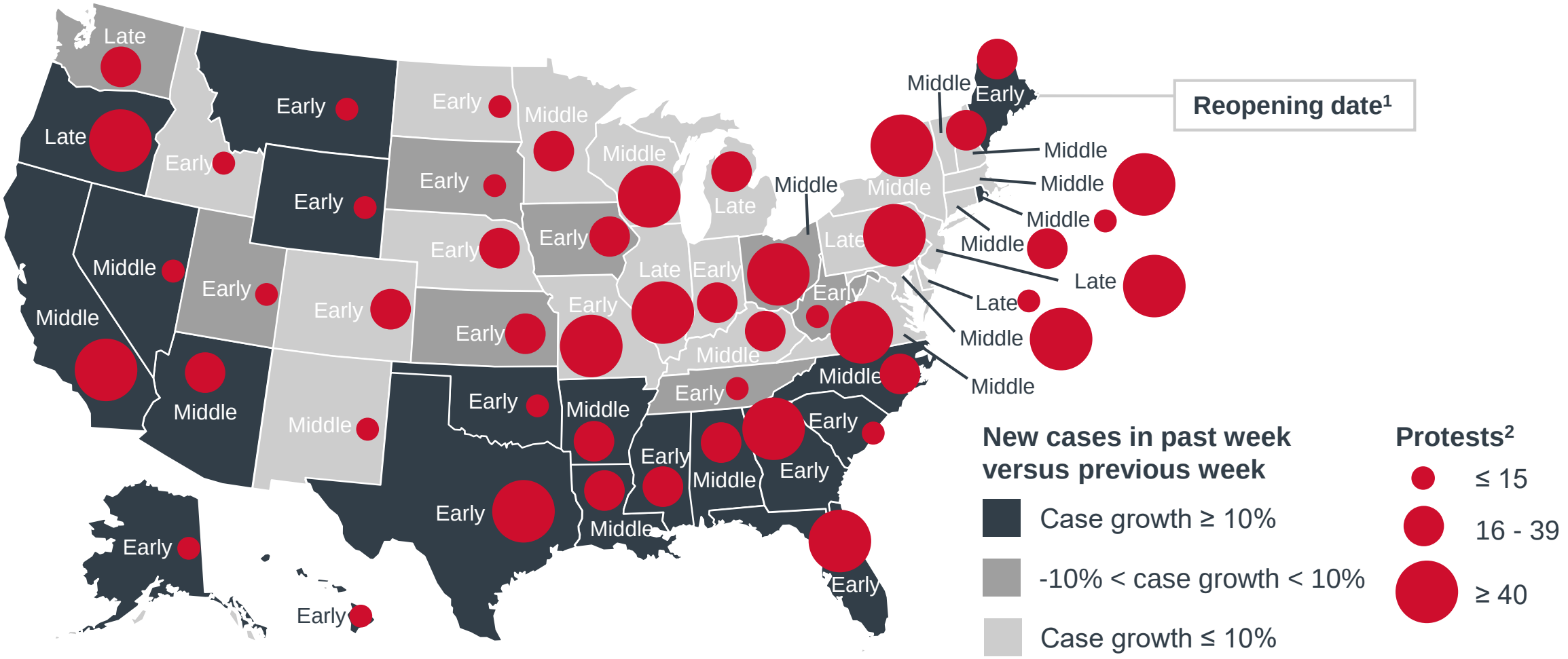
Health Plan Advisory Council interviews and analysis.

18 states saw uptick in cases in June



1. "Early" is before May 8, "Middle" is before May 25, and "Late" is after May 25
2. As of June 12, 2020.

Source: Smith, A. "Tracking protests across the USA in the wake of George Floyd's death," *USA Today*, 2020; George, S. and Regan H. "Here's where coronavirus cases are increasing across the US," *CNN*, 2020; Mervosh S. et al. "See How All 50 States Are Reopening," *The New York Times*, 2020.

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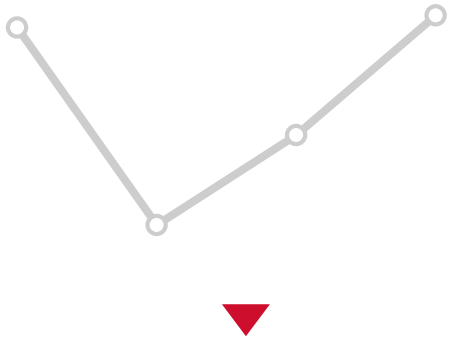
EQ Lab interviews and analysis.]

Let’s learn about shapes

How we respond now will dictate which of these four recovery paths we will see

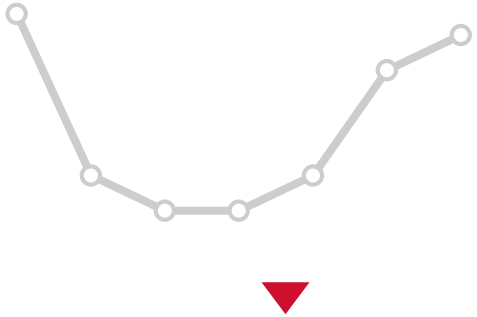
Types of recessions by length of recovery

V-shaped
Steep decline, quick recovery



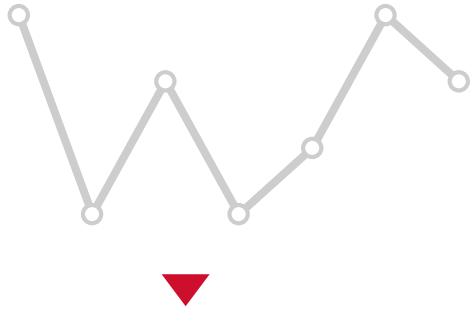
Wide scale testing to make sure people are able to get back to work

U-shaped
Long period between decline and recovery



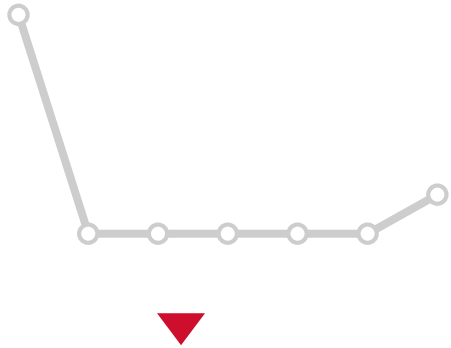
Coronavirus takes longer to control delaying reopening of states and businesses to go bankrupt

W-shaped
Rapid recovery followed by a second decline



Ending social distancing prematurely resulting in a second wave of cases and economy closures

L-shaped
An extended downturn



No coronavirus controls, year long lockdowns, decline in lending by banks

Source: Rodeck, David, “Alphabet Soup: Understanding the Shape of a Covid-19 Recession,” *Forbes*, June 8, 2020.

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Local and state budgets

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Covid-19 hits state budgets hard and fast

State revenues are plummeting while their expenditures are skyrocketing

Decreased state revenues

15-20% Projected decline in state tax revenues

16.3% Decline in US retail sales in April 2020[1]

Increased state expenditures

$1B In unemployment benefits paid by CA between March 15 and April 11

$569M Additional cost to Michigan from new Medicaid enrollment in 1Q20

1. Seasonally adjusted from March and down 21.6 percent unadjusted year-over-year

Source: Romm, T, "Mass layoffs begin in cities and states amid coronavirus fallout, threatening education, sanitation, health and safety", *The Washington Post*, April 2020; Stewart, E, "States and cities are "falling off a cliff" as the economic crisis sets in", *Vox,* April 2020; Marcus, S, "N.J. losing billions in epic tax revenue shortfall. These stunning examples show how bad it is.", *NJ.com*, May 2020; Chaney, S, "States Burn Through Cash for Unemployment Payments" *The Wall Street Journal,* April 2020; Gibbons, L, Coronavirus prompts projected $3.2B drop in Michigan tax revenue, more losses expected", *Mlive,* May 2020; Shearman, J, "April retail sales drop nearly twice as much as March during coronavirus pandemic", *National Retail Federation,* May 2020.

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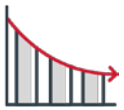
Houston, we have a problem

Localities also seeing their revenues shrink while their expenditures explode

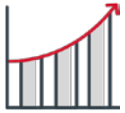
Decreased local revenues



The city of Detroit is projecting a **$348 million** revenue loss in the upcoming fiscal year

88% of cities expect a revenue shortfall this year as a result of Covid-19 due to declining taxes, fees, and charges

Increased local expenditures



Counties expect a **$30 billion** increase in expenditures from the pandemic through FY 2021

New York City has now spent at least **$2 billion** in its response to the coronavirus pandemic[1]

Source: Romm, T, "Mass layoffs begin in cities and states amid coronavirus fallout, threatening education, sanitation, health and safety", *The Washington Post*, April 2020; Stewart, E, "States and cities are "falling off a cliff" as the economic crisis sets in", *Vox,* April 2020; Gibbons, L, Coronavirus prompts projected $3.2B drop in Michigan tax revenue, more losses expected", *Mlive,* May 2020; "Covid-19 Spending Tracker", *Independent Budget Office of the City of New York,* June 2020.

1. Cumulative total Covid-19 spending.

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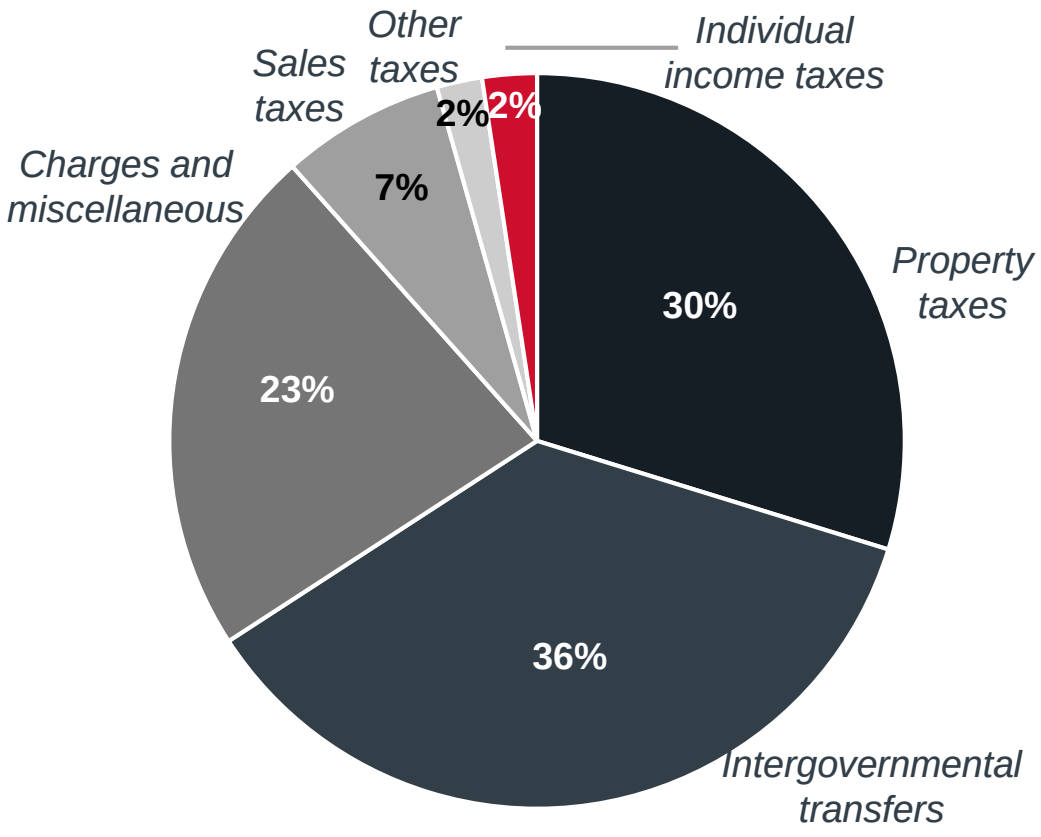
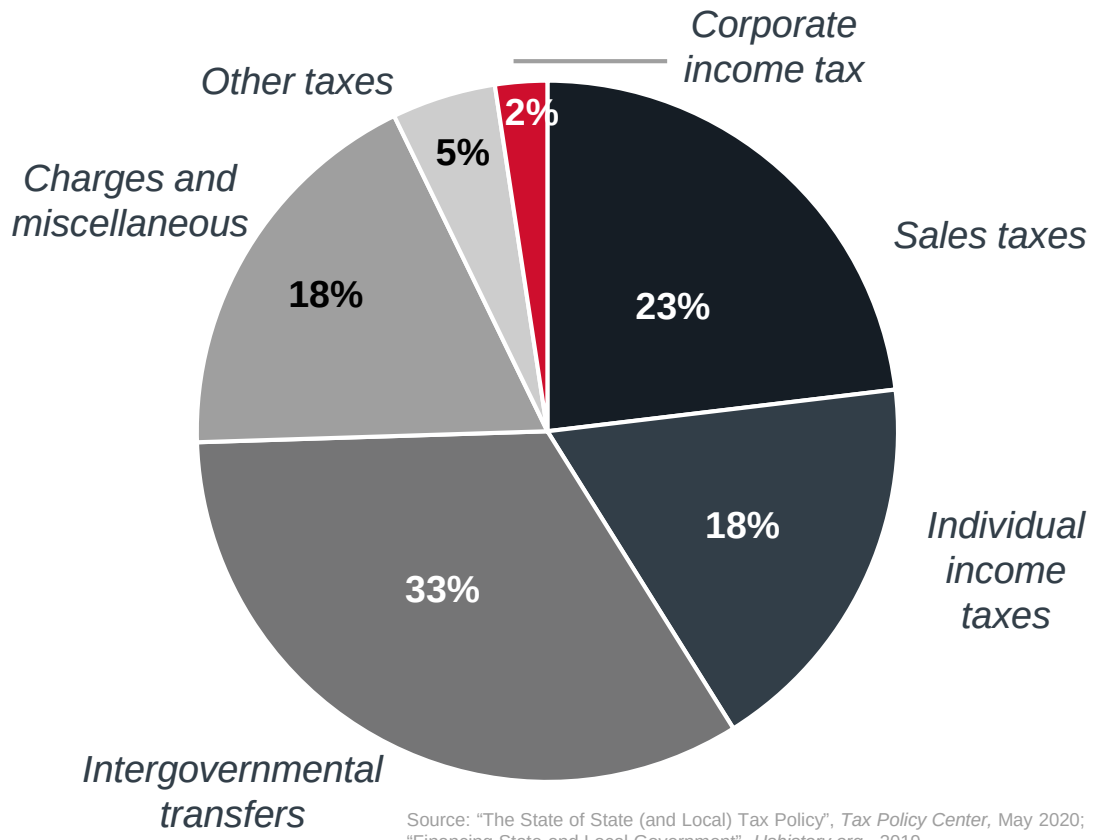
Where’s my money going then?

The financial devastation of Covid-19 will trickle down to all levels of government

Local government general revenue sources



State government general revenue sources



Source: “The State of State (and Local) Tax Policy”, *Tax Policy Center,* May 2020; “Financing State and Local Government”, *Ushistory.org* , 2019.

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It’s going to be ugly, very ugly

States and localities are facing gigantic budget shortfalls due to Covid-19

Local government budgets will be devastated without federal relief

> “It’s [the Covid-19 pandemic] going to impact the funding of those who teach, those who protect, and those who otherwise serve...”
>
> *Dale Folwell, North Carolina State Treasurer*

> “The decline in some of our revenues, in the short term at least, are going to be beyond what any of us have ever seen before"
>
> *Tony McDowell, Asheville Assistant Director of Finance*

> ““For cities that rely on sales, it’s not like a downturn that we’ve ever experienced before. This is just an immediate shutting off of the spigot.”
>
> *Michael Pagano, dean at the University of Illinois at Chicago*

DATA SPOTLIGHT

$650B Estimated total budget shortfall for states over the next three years

Source: Price, J. “With COVID-19 Expected To Cut Into Local Budgets, Cities Consider Cuts, Furloughs”, *WUNC North Carolina Public Radio,* May 2020; “Covid-19 State Budget Shortfalls Could Be Largest On Record”, *CBPP,* April 2020; Masters, J, and Siripurapu, A, “How the Coronavirus Will Harm State and City Budgets”, *CFR,* May 2020.

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Using a band-aid to cover a bullet wound

Governments received the CARES Act but it wasn't enough

Three limitations of The CARES Act[1]

1

Amount

- The CARES Act provides state and local governments $150 billion through the Coronavirus Relief Fund
- State and local governments are calling for between **$300 billion and $1 trillion more** in federal aid

2

Distribution method

- This money was only distributed to states and local governments with **populations exceeding 500,000**
- Localities of all sizes require funds, not just the largest ones, with greater funding in areas that were more impacted by Covid-19

3

Flexibility

- The CARES Act funds can only be used to cover necessary expenditures related to Covid-19
- States and localities require aid that can be spent flexibly and can be used to help relieve budget constraints **not directly related to Coivd-19**

1. The Coronavirus Aid, Relief, and Economic Security Act

Source: Muro, M, "The next COVID-19 relief bill must include massive aid to states, especially the hardest-hit areas", *Brookings,* April 2020; "The CARES Act Works for All Americans", *U.S. Department of the Treasury,* March 2020.

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Spiraling out of control

The financial devastation of Covid-19 will trickle down to lower government levels

1. Covid-19 pandemic decimates the United States
2. Fed govt. chooses not to provide more financial aid to states/localities
3. States are facing tremendous budget pressures and are unable to bail out failing localities
4. Local governments provide less funding to its departments
5. Many public employees laid off

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Failing to plan is planning to fail

Some areas better prepared to handle the financial storm caused by Covid-19

Key factors that will vary Covid-19's financial impact on a region

1 **Preparedness**
How deep were the state's/locality's reserves prior to the outbreak of the virus?

2 **Industry and tax reliance**
Is the region reliant on vulnerable industries like tourism? Is the region reliant on unstable taxes like severance tax?

3 **Covid-19 prevalence**
How high are expenditures related to Medicaid and unemployment? How many Covid-19 cases occurred?

Source: Goodman, J, "Rainy Day Funds Help States Weather Fiscal Downturns", *Pew,* April 2020; Krauss, C, "Oil Prices Are Coming Back as Demand Rises", *The New York Times,* May 2020; "Drop in travel spending in the United States due to the coronavirus (COVID-19) pandemic in 2020", *Statista,* March 2020.

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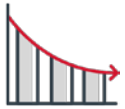
Saving for a rainy day

Reserve funds don’t exist in all states, come with strings, and are not enough

Three main challenges with relying on reserve funds



Reserves aren’t fat everywhere

While reserves are high in some states, others like Illinois, Kansas, New Jersey, and Pennsylvania have little to no reserves

Challenge 1

They come with strings

- Missouri requires that any funds withdrawn be repaid with interest over the next **3** fiscal years
- Idaho can use only **50%** of its rainy day balance in a year

Challenge 2

Those who have, don’t have enough

- States’ rainy day funds reached a record high in FY 2019, yet the median rainy day fund balance is only **8%** of state expenditures
- At the start of 2020, the median number of days a state could run on rainy day funds was estimated at about **28 days**

Challenge 3

Source: Cammenga, J, Walczak, J, “State Rainy Day Funds and the COVID-19 Crisis”, *Tax Foundation,* April 2020; Goodman, J, “Rainy Day Funds Help States Weather Fiscal Downturns”, *Pew,* April 2020; Hoff, M, “We surveyed the 'rainy day' funds of 6 states to see how prepared they were for a major emergency. The results paint a grim picture for the country's economic recovery.”, *Business Insider,* May 2020; Walczak, J, “State Strategies for Closing FY 2020 with a Balanced Budget”, *Tax Foundation,* April 2020; Malanga, S, “The Crisis’s Impact on Budgets”, *City Journal,* April 2020.

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Closed for business

Regions reliant on vulnerable industries will feel the financial impacts more

Mining/oil and gas

Ex. Alaska, North Dakota, Wyoming

<$0

US oil futures contract fell below zero for the first time in April 2020

500K

Projected decrease in barrels per day of crude oil produced in the US in 2020

Leisure and hospitality

Ex. Florida, Hawaii, Nevada

80%

Projected revenue losses by hotels in 2Q20

$355B

Predicted drop in US travel spending in 2020

Source: Krauss, C, "Oil Prices Are Coming Back as Demand Rises", *The New York Times,* May 2020, "Drop in travel spending in the United States due to the coronavirus (COVID-19) pandemic in 2020", *Statista,* March 2020; Simon, E, "Research breaks down COVID-19's impact on hotels, travel plans", *Hotel Management,* April 2020; Rapier, R, "Short Term Energy Outlook Shows Impact Of COVID-19 On Energy Sector", *Forbes,* May 2020; "COVID-19's Impact on the Hotel Industry", *American Hotel & Lodging Association,* June 2020.

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No magic bullet to reopening strategies

Different states at different stages experiencing both rising and falling cases

Covid-19 cases spiking as states re-open

Politico

Florid Hits Record Number of New Cases

NPR

More than 10,000 new cases reported in Texas

SAUL MARTINEZ FOR THE NEW YORK TIMES

Several factors influencing Covid-19 spread as states re-open

- Testing rates
- Social distancing
- Population density
- Weather
- Contact tracing
- Outbreak timing

Source: "How We Reopen Safely," Covidexitstrategy, May 26, 2020; Treisman, R, "Texas Sets State Record With More Than 10,000 New Coronavirus Cases Reported Tuesday", *NPR*, July, 2020; Muller, J, "Florida reports record number of coronavirus cases amid nationwide surge", *Politico*, July, 2020.

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While the Covid-19 pandemic will likely devastate local and state governments' budgets around the country, some areas will be harder hit than others. Localities located in states that have low reserve funds, are reliant on vulnerable industries, and have seen large numbers of Covid-19 cases will likely see the greatest budget shortfalls

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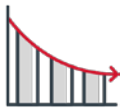
Local governments are low on options

They might cut spending, borrow money, raise taxes, or even go bankrupt

Potential local government responses by likelihood



Cut spending

- Often the first step localities take to balance budgets
- Departments, such as education and police, will likely be asked to reduce their budgets

Take on municipal debt

- Localities often borrow money to pay for infrastructure with large upfront costs
- Municipal bonds often can't be used for normal operating expenses

Raise taxes

- Localities can adjust the property tax rate to offset changes in property values
- Localities will likely be met with tremendous resistance if they attempt to raise taxes

File for bankruptcy

- Bankruptcy is a last resort, but provides two key advantages for localities: time and legal protection
- The damage to a municipality's image may cause residents to leave

High — **Likelihood to occur** — **Low**

Source: Walczak, J, "State Strategies for Closing FY 2020 with a Balanced Budget", *Tax Foundation,* April 2020; State and Local Government Debt and COVID-19", *Congressional Research Service,* April 2020; : Price, J. "With COVID-19 Expected To Cut Into Local Budgets, Cities Consider Cuts, Furloughs", *WUNC North Carolina Public Radio,* May 2020; "Covid-19 State Budget Shortfalls Could Be Largest On Record", *CBPP,* April 2020; Masters, J, and Siripurapu, A, "How the Coronavirus Will Harm State and City Budgets", *CFR,* May 2020.

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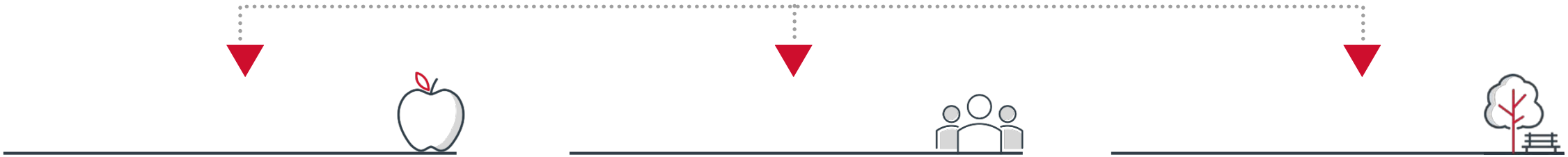
Cutting an already lean machine

Localities' spending cuts will have long term implications on many departments

Areas likely to be impacted by budget cuts



Education

- K-12 education is local governments' largest expenditure and will see large cuts
- After school activities and athletics will see large cuts

Public safety

- 800,000 local government employees lost their jobs in April alone
- Reduced funding to police and fire departments

Infrastructure

- Reduction in maintenance and reconstruction of infrastructure
- Reduction in public services like trash pickup

Source: Gordon, T, "State and Local Budgets and the Great Recession", *Brookings,* December 2012; Roza, M, "How the coronavirus shutdown will affect school district revenues", *Brookings,* April 2020; Griffith, M, "The Impact of the COVID-19 Recession on Teaching Positions", *Learning Policy Institute,* April 2020; "Employment Situation Summary", *U.S. Bureau of Labor Statistics,* June 2020; Turner, C, "A Looming Financial Meltdown For America's Schools", *NPR, May 2020.*

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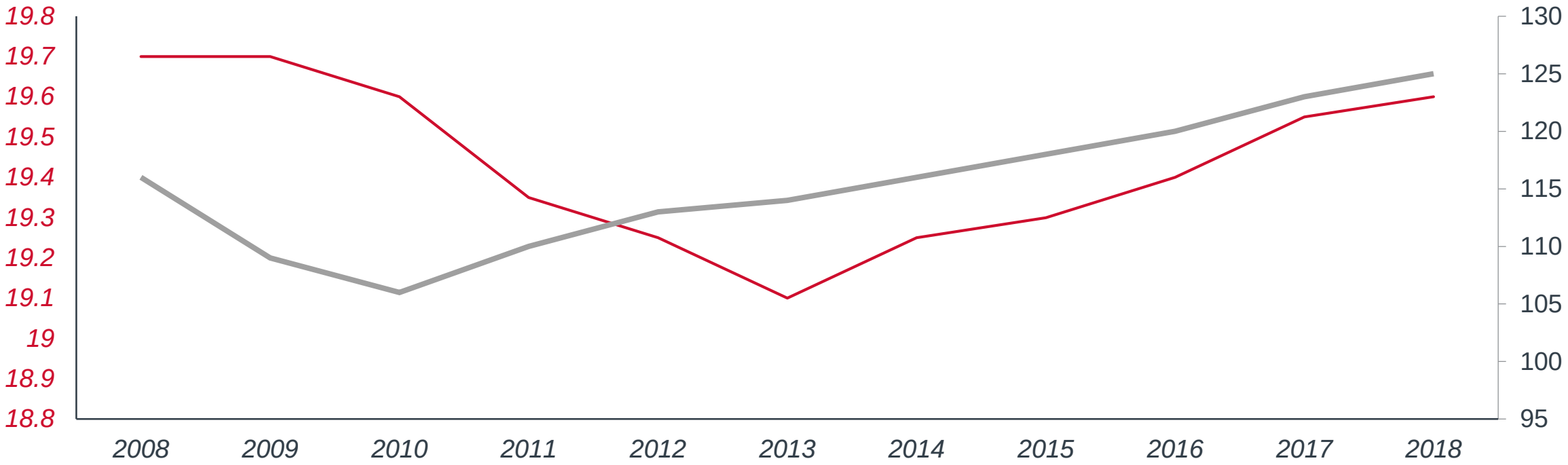
Pump the brakes

The public sector will take longer to recover lost jobs than the private sector

Total US employment since the Great Recession, in millions of people[1]



1. Right hand y axis is for the private sector and left hand y axis is for the public sector. Public Sector includes all state and local governments nationally.

Source: US Census Bureau, Annual Survey of Public Employment and Payroll (ASPEP), https://www.census.gov/programs-surveys/apes.html.; U.S Department of Labor, Bureau of Labor Statistics, Current Employment Statistics Survey (National), https://www.bls.gov/ces/

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Local governments will be forced to make some very tough decisions in order to balance their budgets. Spending cuts are certainly on the way for local governments, which means large cuts to education, public safety, and infrastructure. It also means furloughs and layoffs for hundreds of thousands of public employees. Raising taxes could help localities make up for some lost revenues, but it could also anger residents who've already been financially impacted by the pandemic.

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K-12 schools

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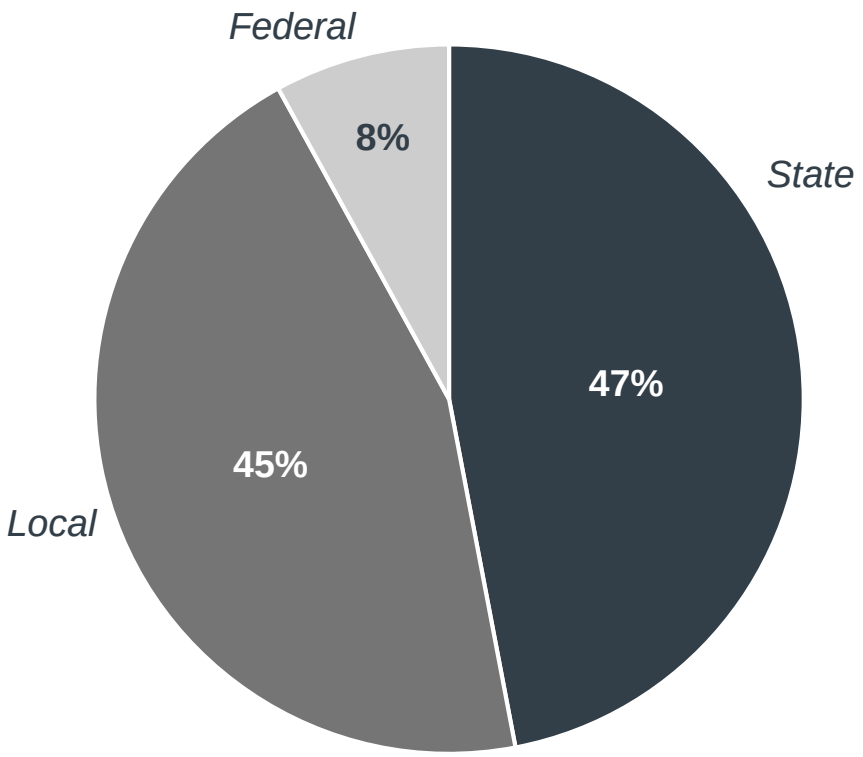
Footing the bill

Education is primarily funded by state and local governments

Share of total K-12 education funding, 2016[1]



Three main education funding models

1 Foundation model

The state decides the minimum amount that should be spent per student, calculates each district's ability to pay, and fills in the gap

2 Guaranteed tax base

State commits to providing a minimum amount for each percentage of property tax

3 Centralized school finance

The state assigns a standard property tax rate for all districts and guarantees roughly the same funding per student across districts

Source: "How do school funding formulas work?", *Urban Institute,* Nov 2017; "10 Facts About K-12 Education Funding", *U.S. Department of Education,* 2005; Figueroa, E, and Leachman, M, "K-12 School Funding Up in Most 2018 Teacher-Protest States, But Still Well Below Decade Ago", *CBPP,* March 2019.

1. According to the Census Bureau's "Public Elementary-Secondary Education Finance Report, 2016 data"

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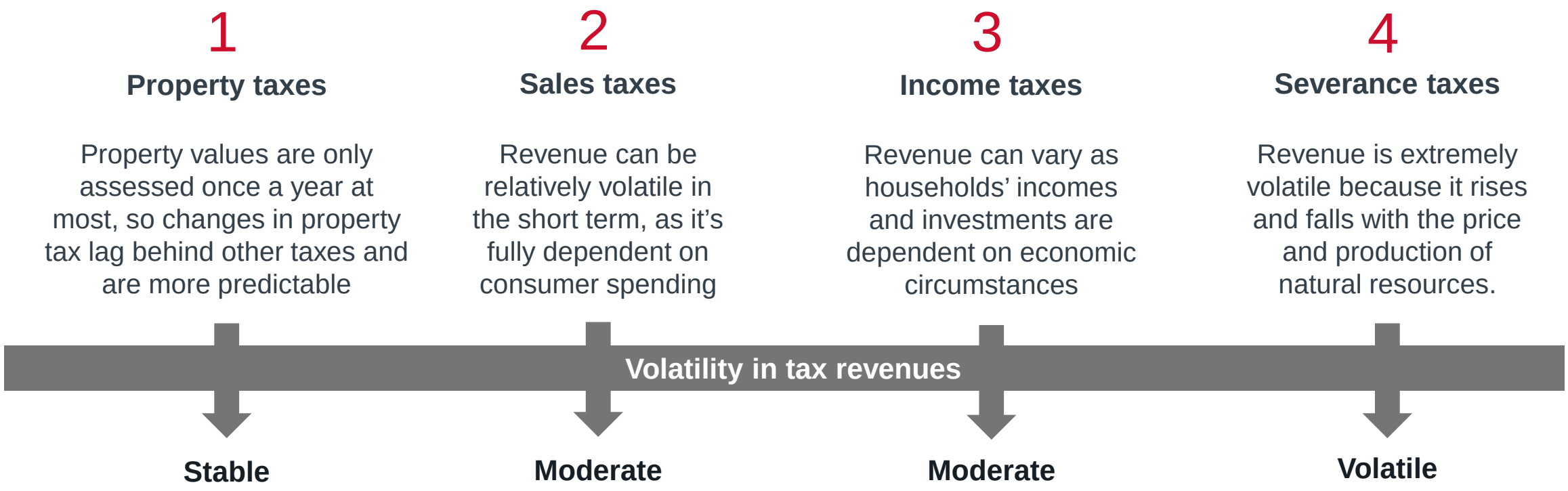
Taxes are out of season

Tax revenues can be particularly volatile during times of economic distress

Types of taxes by their volatility



Source: Randall, M and Rueben, M, "Revenue Volatility: How States Manage Uncertainty, *Tax Policy Center,* Nov 2018; Iyengar, A, Murphy, M, and Zhang, A, "Tax Revenue Volatility Varies Across States, Revenue Streams", *Pew,* Aug 2018.

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Someone call the principal, we’re in trouble

Education funding will take a massive hit as budget constraints become a reality

Schools will be devastated without federal relief

“Cuts to funding at schools will forever impact the lives of children… it’s just as real a threat to them as is the coronavirus.”

Austin Beutner, Superintendent of the Los Angeles Unified School District

"I can't see a school district that won't be looking at budget cuts come this fall“

Michael Griffith, fiscal analyst and school finance expert

"I don’t know how Congress or anyone else expects us to handle this through the usual cost-cutting.“

Michael Casserly, head of the Council of the Great City Schools

DATA SPOTLIGHT

5%-15% Estimated drop in education funding

Source: Richards, E, “Going to see massive cuts': Without more coronavirus relief, schools slash budgets, prep layoffs”, *USA Today,* May 2020; Barnard, C, “The Covid-19 Economic Fallout Is Going to Hurt Education Budgets, Here’s What States Can Do to Protect Vulnerable Students”, *Reason Foundation,* April 2020; Turner, C, “A Looming Financial Meltdown For America's Schools”, NPR, May 2020.

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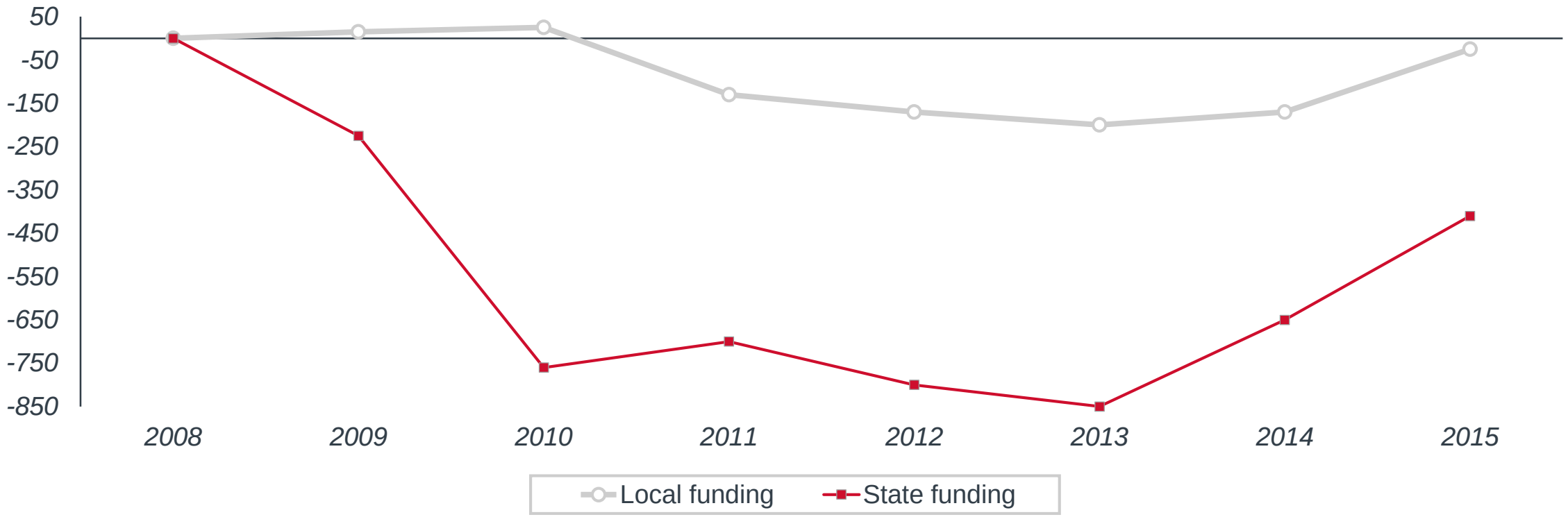
Kids don’t eat free either

Schools shouldn’t be relying on state funding as their savior

Change in funding per pupil since 2008 (inflation adjusted)



Source: Center on Budget and Policy Priorities, CBPP.ORG https://www.cbpp.org/research/state-budget-and-tax/a-punishing-decade-for-school-funding

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Magnifying inequity

Budget cuts will disproportionately impact poor districts already hit by Covid-19

Factors putting some districts at a disadvantage

District income

- Poorer districts are more reliant on state funding as they generate less revenue from property taxes
- These districts often have no reserve funds and more infrastructure needs

Covid-19 prevalence

- Regions reeling from Covid-19 related expenditures and decreased revenues will be forced to make greater cuts to education
- States and localities particularly devasted by Covid-19 may have used up more of their reserve funds

DATA SPOTLIGHT

$1K

Per student funding gap between high and low poverty districts, up from $289 prior to the Great Recession

Source: Knight, D, "Are High-Poverty School Districts Disproportionately Impacted by State Funding Cuts?", *Journal of Education Finance,* Fall 2017; Epstein, D, "Measuring Inequity in School Funding", *Center for American Progress,* Aug 2011.

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Education budgets will be cut by 5-15%. States and localities are facing significant projected budget deficits and this will have large implications for education budgets around the nation. As education is primarily funded by state and local governments, large cuts are being anticipated by school districts.

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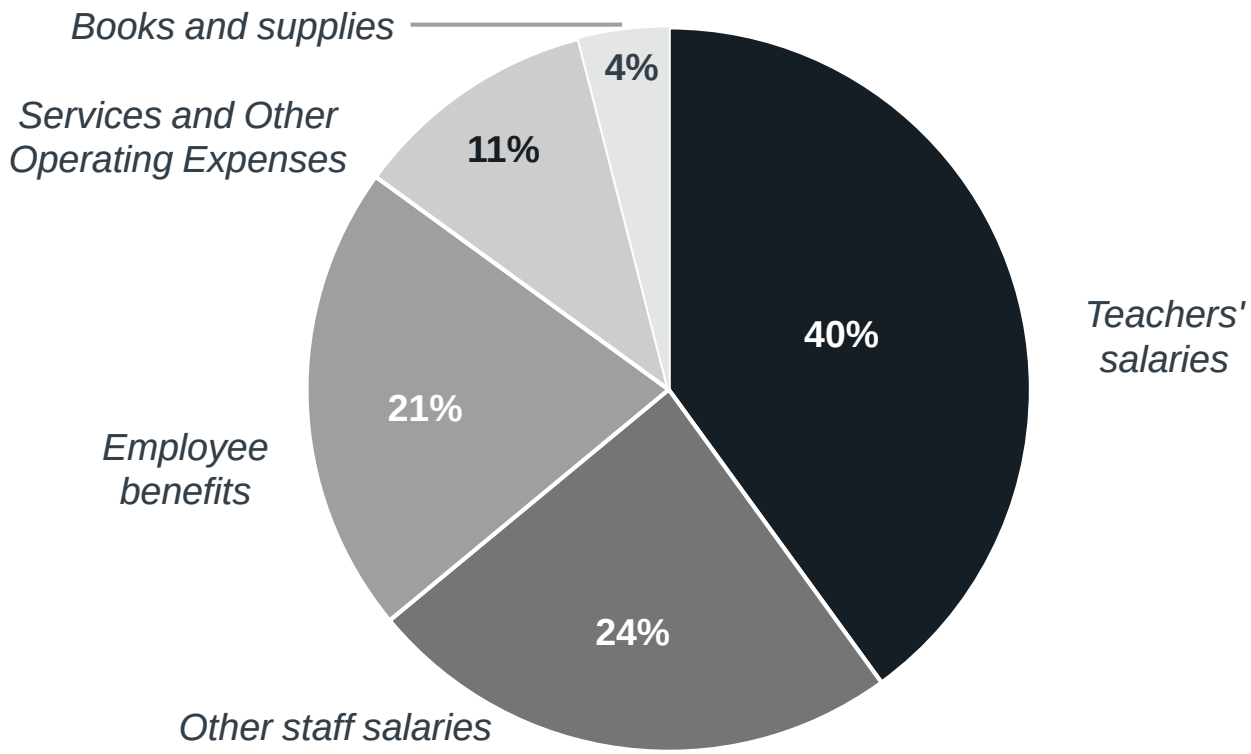
Accounting 101

Salaries and benefits are by far the largest expenditure for school districts

Expenditures from school districts' general funds[1]



1. Excludes spending for capital projects, other outgo, and transfers of indirect costs. Source: Education Data Partnership

Source: Maciag, M, "States That Spend the Most (and the Least) on Education", *Governing,* June 2019; Cavanagh, S, "K-12 Spending: Where the Money Goes", *EdWeek Market Brief,* June 2017

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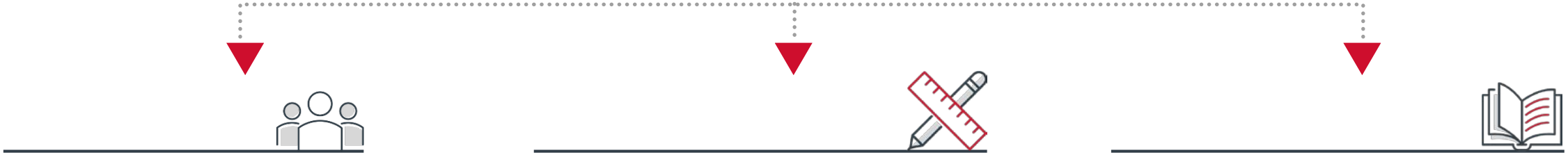
Someone call for help

School districts will be forced to cut staff, programs, and supplies

Areas likely to be impacted by budget cuts



Staff

- Layoffs and furloughs for teachers and school district employees
- Larger class sizes likely mean worse outcomes for students

Programs

- Fewer afterschool activities like clubs and athletics
- Cuts to curriculum, such as music or art classes

Supplies

- Schools will be unable to purchase supplies, such as new textbooks
- School districts will be unable to provide students the electronics they need for distance learning

Source: ; Roza, M, "How the coronavirus shutdown will affect school district revenues", *Brookings,* April 2020; Griffith, M, "The Impact of the COVID-19 Recession on Teaching Positions", *Learning Policy Institute,* April 2020; "Employment Situation Summary", *U.S. Bureau of Labor Statistics,* June 2020; Turner, C, "A Looming Financial Meltdown For America's Schools", *NPR,* May 2020; Romm, T, "Mass layoffs begin in cities and states amid coronavirus fallout, threatening education, sanitation, health and safety", *The Washington Post,* April 2020; Petrilli, M, "How School Districts Can Stretch The School Dollar", *Thomas B. Fordham Institute,* April 2012.

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The hidden half

Job cuts and furloughs have already begun for school staff, with more on the way

School employees that aren't teachers are most at risk of losing their job or benefits

- Half of all school employees aren't teachers and have titles ranging from custodial and cafeteria staff to administrators, speech pathologists, and bus drivers
- These workers are less likely to be part of a union, making them more at risk of losing their jobs and benefits during economic hardships

Education jobs in jeopardy

279,000

Total number of school employees laid off between 2008 and 2013

500,000

Roughly the number of workers schools districts' furloughed or laid off in April 2020

Source: Turner, C, "A Looming Financial Meltdown For America's Schools", NPR, May 2020; Griffith, M, "The Impact of the COVID-19 Recession on Teaching Positions", *Learning Policy Institute,* April 2020; Mahnken, K, "Half of All School Employees Aren't Teachers. This Recession Will Endanger Their Jobs", *The 74,* April 2020.

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The grass ain’t always greener on the other side

Districts struggling to decide on ideal reopening strategy for schools

Reopening strategies that school districts are currently considering

Alternating days

A/B schedules where some students come in on A days and others on B days

Small group cohorts

Students are put into small groups that stay together all day

Hybrid model

Combination of in-person and distance learning to reduce number of interactions

Half days for students

Half of students goes to school in the morning and the other half goes in the afternoon

Selective return

A limited number of lower-risk students and teachers would return to schools, while others remain remote

Continued remote learning

Schools would remain fully online and remote

Several challenges schools face as they look to reopen

Covid-19 risk

Teachers will still see all of these students on various days

Logistics

Coordinating classes and transportation will be difficult

Costs

Schools will need to pay for safety supplies

Source: Kamenetz, Anya, “9 Ways Schools Will Look Different When (And If) They Reopen”, *NPR*, April 2020.

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Reopening won’t be cheap

Schools in all states will need to spend a lot more money to reopen

DATA SPOTLIGHT

$41B

Estimated amount states will need to spend In total to reopen schools

"If we’re cut by 20%, but it’s costing us 20% more to operate, **we’re at a 40% cost difference**.“

Gerald Hill, Superintendent of West Bloomfield

Additional Covid-related expenditures for schools

- Gloves
- Masks
- Plexiglass guards
- Sanitizer machines
- Additional busing
- Thermometers
- Laptops
- Increased janitorial staff

Source: Richards, E, “Going to see massive cuts': Without more coronavirus relief, schools slash budgets, prep layoffs”, *USA Today,* May 2020; Burnette, D, “Too Expensive to Re-Open Schools? Some Superintendents Say It Is”, *Education Week,* May 2020

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Schools are hoping to reopen but it's going to be expensive and challenging. Budget cuts will lead to hundreds of thousands of education jobs lost, larger class sizes, and reduced funding for after school activities and supplies. Even though education funding is being reduced, schools are still expected to implement all the necessary safety protocols.

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Benefits

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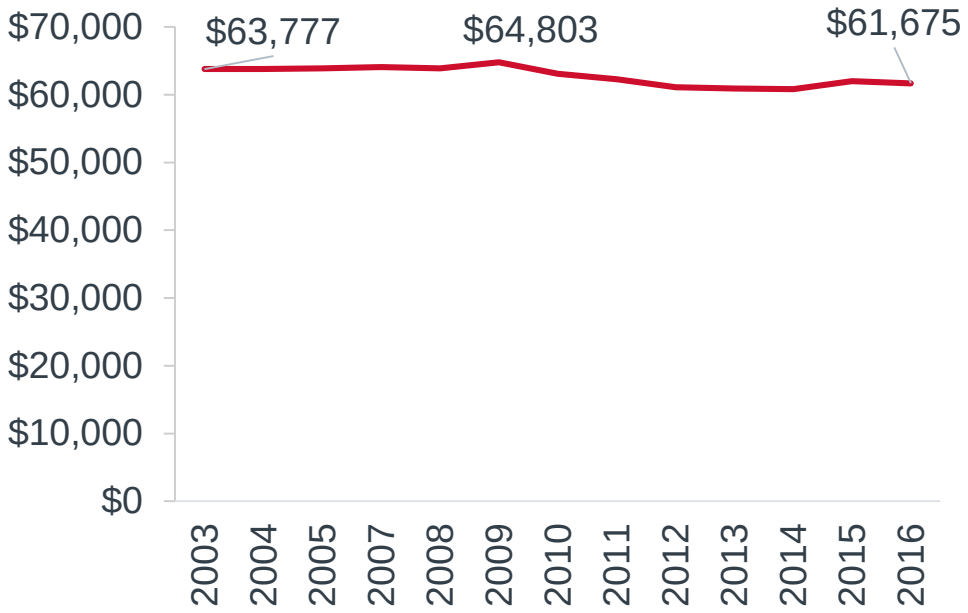
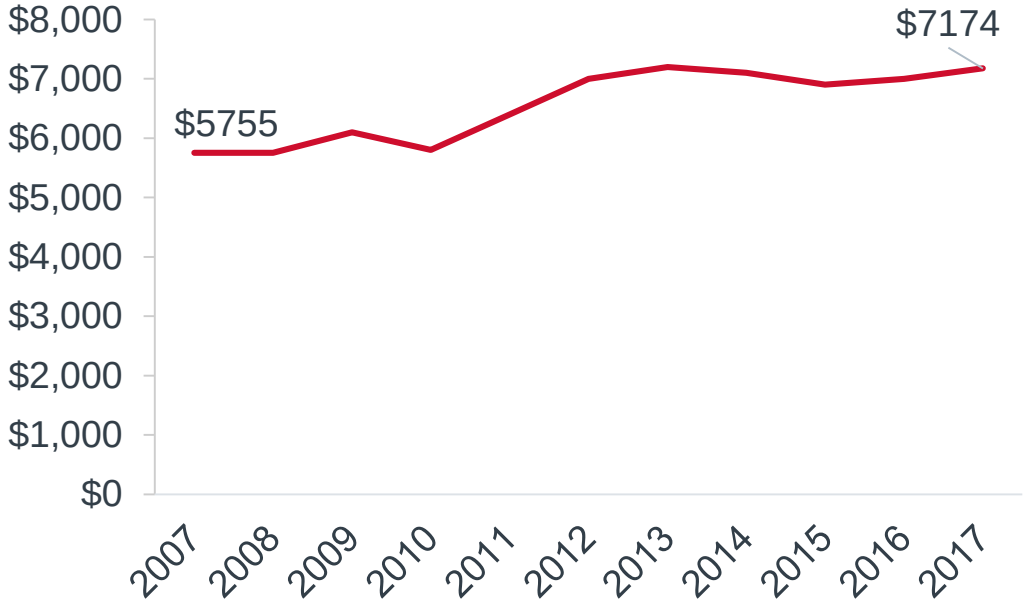
Punishing times for teachers

Teachers pay has remained stagnant as their healthcare costs have increased

Average salary of American public school teachers



Average health insurance premium of American public school teachers[1]



1. This is teacher annual OOP. It's the cost for a family plan for primary, secondary, and special education teachers.

Source: Chang, A, "Teacher pay is falling. Their health insurance costs are rising", *Vox,* March 2018; Costrell, R, and Dean, J, "The Rising Cost of Teachers' Health Care", *Education Next,* Spring 2013

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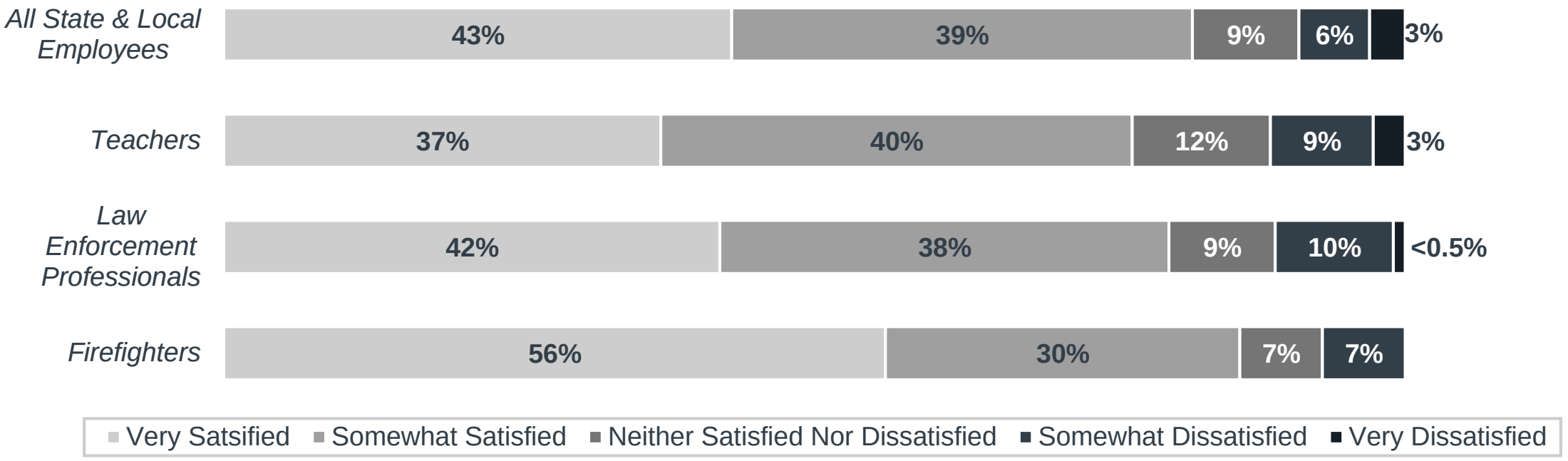
Can I keep my insurance?

Public sector employees tend to be satisfied with their current health insurance

State and local employee satisfaction with their health insurance, 2019[1]

How satisfied are you with the following aspect of your current job: health insurance?

n=1,118



1. As a result of rounding, some categories may not equal 100%

Source: Bond, T, and Kenneally, K, "State and Local Employee Views on Their Jobs, Pay and Benefits", *National Institute on Retirement Security,* Nov 2019.

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Come for the benefits, stay for the benefits

Generous benefits packages draws people to public sector and keeps them there

Benefits attract talent…

85%

Of state and local employees agree that a pension benefit is a major reason **they chose** a public sector job

77%

Of state and local employees say healthcare benefits is one reason for **selecting a public sector job**

…And that's one reason they stay in their jobs

94%

Of state and local employees agree that their pension is a major reason **why they stay** their job

80%

Of state and local employees say they could earn a higher salary **in the private sector**

Source: Bond, T, and Kenneally, K, "State and Local Employee Views on Their Jobs, Pay and Benefits", *National Institute on Retirement Security,* Nov 2019.

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Some employee benefits might be in jeopardy

Pensions and pay most likely to be hit first, followed by healthcare benefits

1

Salaries

Municipalities around the country have already begun instituting pay cuts and salary freezes for local workers

2

Retirement benefits

Half of all state and local pension plans have cut benefits since the 2008 market meltdown

3

Healthcare benefits

Benefits likely to remain but employees may be asked to cover a greater share of their premiums

Source: Kalasi, E, and Johnson, Richard, "How Have Teacher Pensions Changed since the Great Recession?", *Urban Institute*, Feb. 2020, https://www.urban.org/research/publication/how-have-teacher-pensions-changed-great-recession; Burnette, D, and Will, M, "How Coronavirus Is Jeopardizing Teacher Pay Raises", *Education Week*, March 2020, https://www.edweek.org/ew/articles/2020/03/26/how-coronavirus-is-jeopardizing-pay-raises-for.html.

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Despite the fact that public employees tend to really like their benefits, this pandemic could change what those benefit packages look like going forward. Facing enormous financial pressures, schools and local governments may cut some employee benefits to try and save money. Pay cuts and salary freezes have already occurred throughout the country, with retirement benefit cuts likely on the way

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Potential shifts in health care benefits after Covid-19

Cost management

Maintain cost sharing

Micromanage utilization

Rebid for contracts

Clinical access

Lean into virtual wellness

Push telehealth

Support behavioral health

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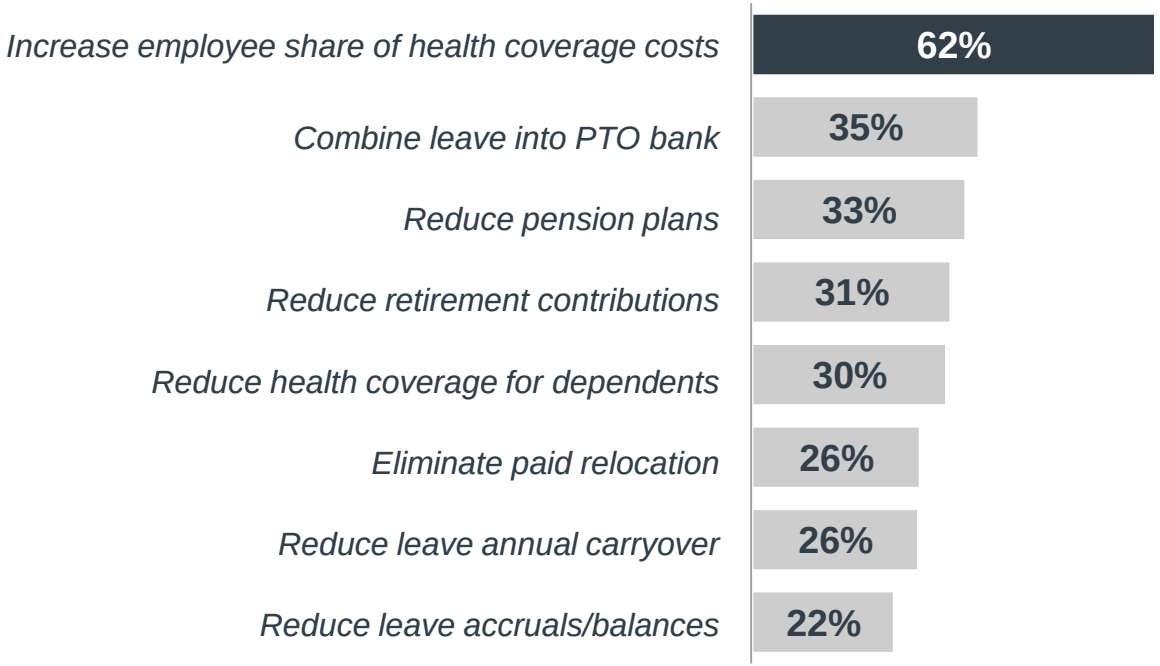
Employee cost sharing a favorite lever in the last recession

Cost sharing continues to increase but there's not much room left to grow

Likely employer benefit changes post-recession (2009)

Percent indicating likely or very likely to make or keep changes after economy recovers

n=329 HR professionals from a random sample of SHRM[1] member companies



Shortfalls and challenges with cost sharing

Blunt: HDHPs lead to delays and reductions in all care below the deductible, including preventive care

Limited: HDHPs do not encourage price shopping for services above the deductible

Unpopular: HDHP enrollment has generally leveled off over the last four years

Apathetic: Less generous health benefits risk public backlash after a health-induced economic downturn

Source: Fronstin P, "The Impact of the Recession on Employment-Based Health Coverage," Employee Benefit Research Institute, May 2010, https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_05-2010_no342_recssn-hlthbens.pdf?sfvrsn=26db292f_0; "The Post-Recession Workplace: Competitive Strategies for Recovery and Beyond," Society for Human Resource Management, September 2010, https://blog.shrm.org/sites/default/files/reports/SHRM%20Post%20Recession%20Workplace_FINAL-sm.pdf.

1. Society for Human Resource Management.

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Three ways employers can micromanage utilization

Don’t expect reference based pricing to quickly become the new norm

Three strategies self-funded employers could use to micromanage health care utilization

High-touch navigation support

+ +

Forced steerage	Network alignment	Reference pricing
• Third party navigation firms • Centers of excellence	• Hyper-narrow networks • Dedicated (or owned) providers	• Value-based cost sharing • Advance price information

Key challenges of implementing reference based pricing

Poor member satisfier especially if member ends up with a huge bill

Cash-strapped providers will be even less willing to enter a RBP program

Forming new vendor relationships and educating members takes a lot of time

2% Of employers in the US used RBP in 2019

Source: Miller, Stephen, “Employers cut health plan costs with reference-based pricing,” *Society for Human Resource Management,* May 17, 2019.

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Going, going, gone

Cost constraints could lead governments to consider more rebidding

Governments had been hesitate to change plans in the past…

Rebidding

…But they may reconsider now as their budgets are slashed and every penny counts

Reasons governments had been hesitant to change plans in the past

1. Concern about the negative impact of plan changes on employees in the short term
2. The politics, cost, and length of collective bargaining agreement negotiations
3. Many states and localities have time consuming competitive bid requirements for plans and TPAs

Case study of Blue Cross Blue Shield of Rhode Island's state bid win in 2019

- BCBSRI won state bid in 2019 based on three-year cost projection of **$563 million**
- RI is self-insured for health insurance and BCBSRI could earn nearly **$4 million** in administrative fees each year
- BCBSRI's bid was only about **$11.5 million** less than the incumbent plan's bid over 3 years

Source: Gregg, K, "Blue Cross wins bid to take over R.I. state employee health coverage", *Providence Journal,* Jul 2019; Sherman, E, "Blue Cross lands multimillion-dollar contract for RI state workers", *WPRI,* Jul 2019; Coggburn, J and Reddick, C, "Handbook of Employee Benefits and Administration", *Routledge*, Apr 2008.

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Employers will lean into virtual wellness

But they will have to demand measurable outcomes and better coordination

As employers encourage virtual wellness post-Covid, they will demand…

$3.6M

Average amount spent by a large employer on wellness programs[1]

1. Measurable outcomes

JAMA, April 16, 2019

"No significant difference in health care spending or utilization for people enrolled in programs... focused on nutrition, physical activity, and stress reduction"

2. Better coordination

638

Number of corporate wellness companies in 2019

Source: Kent, Jessica. "Large Employers to Average $3.6M on Wellness Programs in 2019", *Health Payer Intelligence*, April, 2019, https://healthpayerintelligence.com/news/large-employers-to-average-3.6m-on-wellness-programs-in-2019; Song Z, Baicker K; "Effect of a Workplace Wellness Program on Employee Health and Economic Outcomes", *JAMA*, 2019; Beaton T, "61% of employees dissatisfied with employer wellness programs," *Health payer intelligence,* Dec 2017, https://healthpayerintelligence.com/news/61-of-employees-dissatisfied-with-employer-wellness-programs; "Corporate Wellness Services Industry in the US - Market Research Report", IBIS World, May, 2019, https://www.ibisworld.com/industry-trends/specialized-market-research-reports/life-sciences/wellness-services/corporate-wellness-services.html.

1. 1) >5K employees.

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Covid-19 leads more members to seek telehealth

Employers will be more willing to continue telehealth benefits even post-Covid

Drivers and deterrents influencing telehealth utilization after Covid

DRIVERS DURING COVID-19

$0 Cost share

A free visit is the strongest incentive for consumers

Quicker access to care

During the pandemic, consumers value little to no wait time for an appointment

Avoiding crowded waiting rooms

Consumers (especially those over 55) want to avoid unnecessary exposure to the virus

Remaining concerns about virtual care may limit staying power of current surge

- **Quality of care diagnosis concerns**

Some consumers still feel that diagnoses can be better determined in an office

- **Preferences for provider interactions**

Some consumers prefer to speak with a familiar provider or meet their provider in-person

Sources: "What do consumers want from virtual visits? The Advisory Board Company, 2017; Survey Report: Americans' perceptions of telehealth in the era of Covid-19, Sykes Enterprises, March 2020

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Members use telehealth now, but surge may not fully remain

Widespread adoption of telehealth will diminish without reimbursement parity

Reimbursement parity

Parity for in-person and virtual visits from payers is fundamental to continued utilization and broader adoption

Downstream implications

Virtual-first products

Plans may consider products that require members to start care journeys with a virtual visit

Revision of care standards and pathways

- Capture vitals
- Access RPM and labs
- Integrate virtual visit data into EMR
- Add training and quality protocols

Site of care shifts

Expansion beyond checkups and e-consults to effective hospital-at-home

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Covid-19 to have unprecedented psychological impact

Social distancing, front-line work, unemployment, and deaths take a mental toll

State of behavioral health pre-Covid

56%

Shortage of mental health care professionals[1, 2]

2X

Denial rates of private insurance for BH compared to medical care

13%

Increase in suicides attributable to unemployment during the Great Recession

While need skyrockets, most barriers to treatment remain

- Financial insecurity and job loss exacerbate unaffordability problem
- Stigma and discomfort seeking care for behavioral health
- Physician and nurses concerned about maintaining reimbursement

1. Mental health professionals include psychiatrists, clinical psychologists, clinical social workers, psychiatric nurse specialists, and marriage and family therapists.
3. As of January 2017.

Source: Mental Health Care Health Professional Shortage Areas (HPSAs)," Kaiser Family Foundation; Honberg R, et al., "A Long Road Ahead: Achieving True Parity in Mental Health and Substance Use Care," NAMI; Coe EH and Enomoto K, "Returning to Resilience: The Impact of COVID-19 on Mental Health and Substance Use," McKinsey; Brooks SK, et al., "The Psychological Impact of Quarantine and How to Reduce It: Rapid Review of the Evidence," *The Lancet,* 395, no. 10227 (March 2020): 912-920; Lai J, et al., "Factors Associated With Mental Health Outcomes Among Health Care Workers Exposed to Coronavirus Disease 2019," *JAMA Network Open,* 3, no. 3 (March 2020).

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Tele-BH[1] a necessary short- and long-term investment

Regulatory changes ease implementation

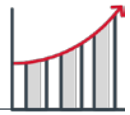
Expanded field of providers

- Trump administration allows therapists and social workers to video chat with patients

Reimbursement parity

- Some insurers reimburse for virtual treatment at the same rate as in-person treatment

Recent tele-BH surges indicate willingness



130%

Increase in tele-BH visits from telehealth company Doctor on Demand over this time last year

4X

Increase in the VA's phone-based mental health check-ins and consultations, from 40K in February to 154K in March

High-priority populations for tele-BH during Covid-19

- Patients diagnosed with Covid-19 and their families
- People at high risk of infection
  - Frontline clinicians working with Covid patients
  - First responders
- People already receiving BH treatment

1. Telebehavioral health is the remote diagnosis and treatment of mental health and substance use disorders. Behavioral health providers include psychologists, psychiatrists, licensed clinical social workers and licensed practicing counselors, among others.

Source: Ravindranath M, "America's Having a Nervous Breakdown. Can Telemedicine Fix It?," Politico, https://www.politico.com/news/2020/04/09/mental-health-online-coronavirus-177499; Shane L, "Veterans' Remote Mental Health Appointments Skyrocket Amid Coronavirus Outbreak," Military Timeshttps://www.militarytimes.com/news/2020/04/13/veterans-remote-mental-health-appointments-skyrocket-amid-coronavirus-outbreak/.

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Most purchasers are more focused on the immediate impact of Covid-19 on HR and benefits such as remote work and safe return to work procedures. But it is only a matter of time before governments start to think about Covid-19's impact on salaries, retirement benefits, and health care benefits. The last recession led to remarkable cuts in benefits and cost-sharing shifts. This time, we expect to see purchasers **maintain cost-sharing as well as micromanage utilization, lean into virtual wellness, support behavioral health, and push telehealth.**

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