

# Cost Containment Strategies

During Uncertain Times

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The COVID-19 Pandemic is transforming the world of work and having massive impacts on business operations. Some organizations faced with higher demands are scrambling to attract and retain talent – think health care providers, grocery stores, web conferencing service providers, cleaning supply or COVID-19 test kit manufacturers, food/consumer good distribution companies, and more. Other organizations, grappling with significant reductions in customer demands, will unfortunately have difficult decisions ahead, some as drastic as layoffs and complete business shutdowns. It's a balancing act as employers work to support employees while sustaining business operations during these uncertain times.

**"Some organizations are faced with higher demands while others have difficult decisions ahead."**

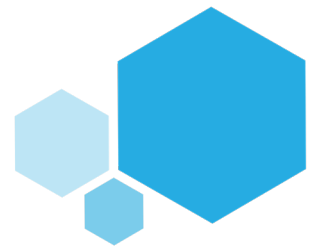
## So, what can employers do to realize employment costs savings?

Strategy	Consideration/Risks	Savings
<b>Layoff</b> Temporarily or permanently cease employment of select employees	<ul style="list-style-type: none"> <li>Consider what the organization can financially sustain as this will hurt employee lives and company morale</li> <li>Support impacted employees with guidance on how to file an unemployment claim and, if possible, provide severance and/or outplacement services</li> </ul>	High
<b>Furlough/Hours Reduction</b> Temporarily reduce the hours, days, or weeks that employees can work; may be voluntary or mandated	<ul style="list-style-type: none"> <li>Employees may be eligible to collect unemployment for reduced hours/lost wages (see Department of Workforce Development website for details)</li> <li>Talk with your health insurance carrier to see if impacted employees can remain benefits eligible; some carriers are temporarily waiving minimum hours worked/FTE requirements</li> <li>Let impacted employees know that there is a chance that hours will be restored when/if customer demand returns</li> <li>Ensure enough coverage for essential business operations</li> </ul>	High

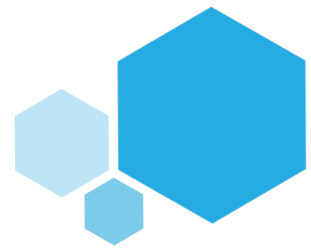




Strategy	Consideration/Risks	Savings
<b>Base Pay Reduction</b> Reduce all or select employees' base pay by a set percentage	<ul style="list-style-type: none"> <li>Ensure all employees are paid according to local, state, and federal wage and hour laws</li> <li>Internal equity and market competitiveness may be disrupted</li> </ul>	<b>High to Moderate</b>
<b>Voluntary Unpaid Time Off</b> Encourage employees to voluntarily take unpaid time-off (e.g., 5-15 days spread over a 3-month period)	<ul style="list-style-type: none"> <li>Consider how being in an unpaid status for any period of time may impact employee benefits eligibility and deductions</li> <li>Ensure enough coverage for essential business operations</li> </ul>	<b>Moderate</b>
<b>Freeze or Reduce Incentive Compensation Plans</b> Temporarily stop or reduce incentive plan payments	<ul style="list-style-type: none"> <li>Verify if these payments are guaranteed in employees' offer letters or employment agreements</li> <li>Consider how financially dependent employees are on these incentives</li> <li>Some incentive plans (e.g., sales incentives) may be excluded from this adjustment</li> </ul>	<b>Moderate</b>
<b>Temporarily Suspend Employer 401K Match</b> Temporarily stop contributing towards employees' 401Ks	<ul style="list-style-type: none"> <li>Confirm that your 401K plan allows you to make this change (e.g., Safe Harbor plans may not be eligible)</li> <li>Consider the impact on HCE testing requirements</li> <li>Be sure to include the organization's trustee to help file the appropriate amendment</li> </ul>	<b>Moderate to Low</b>
<b>Temporarily Suspend Cafeteria Benefits Contributions</b> Temporarily stop contributing to any cafeteria plans	<ul style="list-style-type: none"> <li>Depending on the Cafeteria Contribution vehicle, the contribution may be easy to adjust. If the contribution is not reportable on the 1095c form, then it would be easier to adjust. If reportable on the 1095c form, then employers need to ensure that any reduction in contributions will not result in adjusted employee premiums exceeding 9.78% of employees' household income (for employers with 50 or more FTEs).</li> </ul>	<b>Moderate to Low</b>
<b>Voluntary Separation Programs</b> Offer employees the option to take a separation from employment package	<ul style="list-style-type: none"> <li>Severance pay is commonly provided at 1-2 weeks of pay per year of service</li> <li>Consider providing outplacement services and COBRA benefits support</li> </ul>	<b>Moderate to Low</b>
<b>Limit Overtime</b> Require employees to get supervisor, or perhaps executive, approval before incurring any overtime	<ul style="list-style-type: none"> <li>Employers are legally required to pay overtime, if any is incurred, so closely monitor hours worked</li> </ul>	<b>Moderate to Low</b>



Strategy	Consideration/Risks	Savings
<p><b>Reduce or Shift Health Care Benefit Premium Percentage from Employer to Employee</b></p> <p>Require employees to pay a larger portion of health care premiums</p>	<ul style="list-style-type: none"> <li>Employee selection during open enrollment was based on their/family's needs and their budget; consider how this will affect employees' ability to sustain coverage</li> <li>Ensure that adjusted premiums do not exceed 9.78% of employees' household income</li> </ul>	<p><b>Moderate to Low</b></p>
<p><b>Reduce or Suspend Merit Pay Increases</b></p> <p>Reduce the dollars allocated for merit increases or consider delaying or canceling merit increases for the year</p>	<ul style="list-style-type: none"> <li>May have a negative impact on employee morale</li> </ul>	<p><b>Low</b></p>
<p><b>Suspend Mileage, Cell Phone, and Meal Expense Reimbursement</b></p> <p>Temporarily suspend reimbursing employees for work-related mileage, cell phone usage, or meals</p>	<ul style="list-style-type: none"> <li>Select states have laws requiring employers to reimburse mileage and business expenses, so talk with your financial advisor before pursuing this strategy</li> </ul>	<p><b>Low</b></p>
<p><b>Suspend Non-Essential Subscriptions and Memberships</b></p> <p>Temporarily suspend subscriptions and/or memberships to magazines, professional associations, etc.</p>	<ul style="list-style-type: none"> <li>May have a negative impact on employee morale</li> <li>Employees may miss out on important information related to their role/profession</li> </ul>	<p><b>Low</b></p>
<p><b>Remove Pay Premiums</b></p> <p>Temporarily suspend special pay programs like shift differentials, on call/call back pay, language differentials</p>	<ul style="list-style-type: none"> <li>Some states and municipalities require pay premiums such as on call or call back pay, so be sure to consult with your employment attorney before electing this strategy</li> </ul>	<p><b>Low</b></p>



## Other items for consideration to reduce costs during this time:

- Reduce online sponsored posts or advertisements
- Adjust or shorten business hours
- Cancel outsourced services (e.g., housekeeping, cleaning services) and have current employees complete
- Evaluate all investments and see what can be put on hold
- Review vendor contracts to see what can be reduced
- Evaluate attrition when an employee leaves to not backfill and move the work around to others
- Centralize operations to limit the number of brick and mortar locations
- Request temporary rent reduction from Landlords
- Extend payment terms with suppliers
- Reduce inventory (provided you can sell it right now)

## Before electing any of these employment cost saving strategies, it is important that employers mitigate associated risks by:

- Evaluating that no discrimination of a protected category of employees is occurring
- Ensuring that policies are developed to support these strategies
- Consulting with legal and financial counsel, where appropriate, to ensure the action is in accordance with local, state, and federal laws
- Clearly communicating the changes with employees, including what change is occurring, why it is occurring, who it impacts, and for how long

Hopefully, your organization will not need to elect these strategies or, if it does, it will only be for a temporary time until our economy recovers from the COVID-19 devastation. We need to be empathetic and supportive of employees to the extent possible to emerge stronger on the other side of this.

None of these employment strategies are easy. It takes a lot of thought and preparation. Contact us if we can be of assistance to your business as you work through these strategies and any other HR needs.

### ABOUT THE QTI GROUP

The QTI Group, headquartered in Madison, WI, is a privately owned human resources (HR) organization providing staffing solutions, professional and executive recruiting, HR consulting, and HR partnership services to businesses and organizations. Our key services help businesses reach their full potential through people. The QTI Group has been an active member of the business community since 1957. With a rich history of growth, innovation, and community engagement, QTI has nine offices in Wisconsin. For more information about how The QTI Group can help you with your human resources needs, call 608.257.1057 or email [qti@qtigroup.com](mailto:qti@qtigroup.com).