COVID-19 PULSE SURVEY

SUSTAINING ORGANIZATIONAL WELLBEING & RESILIENCY THROUGH A CRISIS

2020

U.S. Edition

Gallagher

Insurance | Risk Management | Consulting

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For help with questions about the survey or this report, please contact:

Thomas Cummins, CCP

Managing Director

Research & Insights

Thomas_Cummins@ajg.com

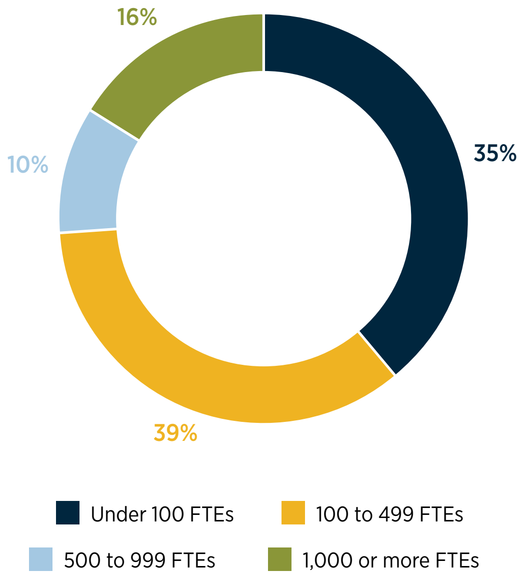
SURVEY OVERVIEW

Gallagher's COVID-19 pulse survey, Sustaining Organizational Wellbeing & Resiliency Through a Crisis, shares insights into how employers are fostering greater workforce resiliency and wellbeing. Key topics include outlooks on business and planning, total rewards and benefit changes, workforce wellbeing, communication, and absence management. As specific areas of interest over the longer term, organizational priorities, revenue projections for 2022 and workforce reductions are also covered.

More than 400 organizations of all sizes in various industries participated in the survey between August 6 and August 28, 2020. Findings clearly suggest that employers remain committed to sustaining total rewards, including their healthcare plan design.

Leadership concerns about stress, burnout and declining wellbeing among their employees were evident from plans to expand existing total rewards or add new programs. Most employers were also focused on improving wellbeing and communication, encouraging the use of paid time off (PTO) and modifying leave policies for greater flexibility.

WORKFORCE SIZE—FULL-TIME EMPLOYEES (FTEs)



PARTICIPATION BY INDUSTRY

Manufacturing and healthcare	**10%–15%**
Business services, financial services, technology, social services, public entity and K–12 education	**5%–9%**
Hospitality/restaurant/entertainment, construction, energy, wholesale-distribution, law, religious institutions, life sciences, pharmaceutical, higher education, transportation, associations, retail and real estate	**1%–4%**

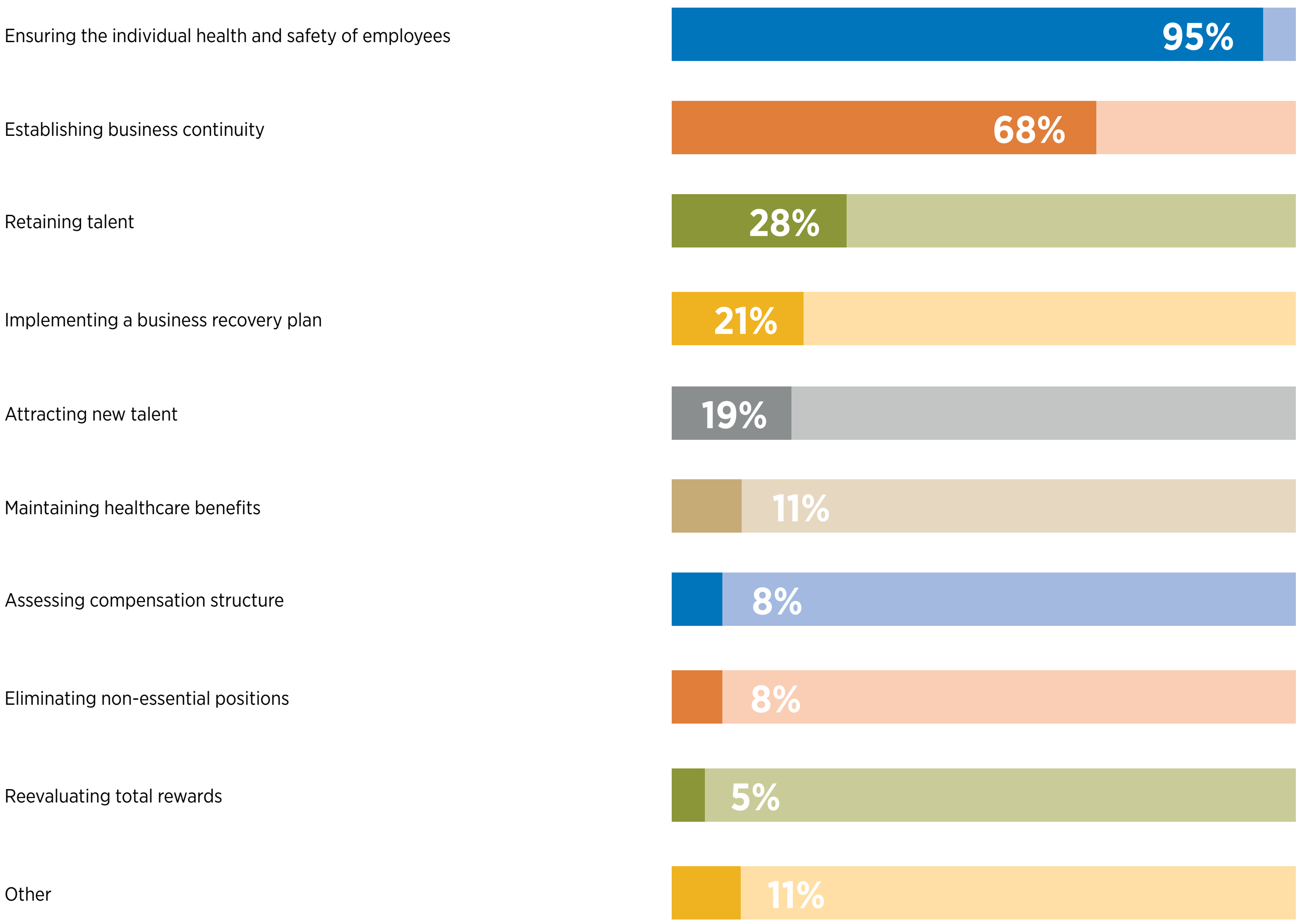
BUSINESS OUTLOOK & PLANNING

Ensuring the individual health and safety of employees continued to rank first among employers' organizational priorities related to COVID-10 (95%). In second and third place, at considerable distances, were establishing business continuity (68%) and retaining talent (28%), followed by implementing a business recovery plan (21%) and attracting new talent (19%). Topmost concerns for less than 15% included maintaining healthcare benefits (11%), assessing compensation structures (8%), eliminating non-essential positions (8%) and reevaluating total rewards (5%).

As the key priority for employers, recovery planning dropped by over half from 44% in April to 21% in August. And signaling some optimism for rebuilding and future growth, the focus on talent attraction rose from 6% to 19% over that four-month period.[1]

Implementing a business recovery plan ranked as one of the highest priorities for 35% of business services, as well as 30% of healthcare and public entity employers (vs. 21% overall). In contrast, the importance of attracting new talent was elevated for those in healthcare and technology, both at 27% (vs. 19% overall). And at a rate of 41%, healthcare employers were also 13 points more likely to cite retaining employees as one of their top three (vs. 28% overall).

TOP PRIORITIES IN RESPONSE TO COVID-19 CHALLENGES



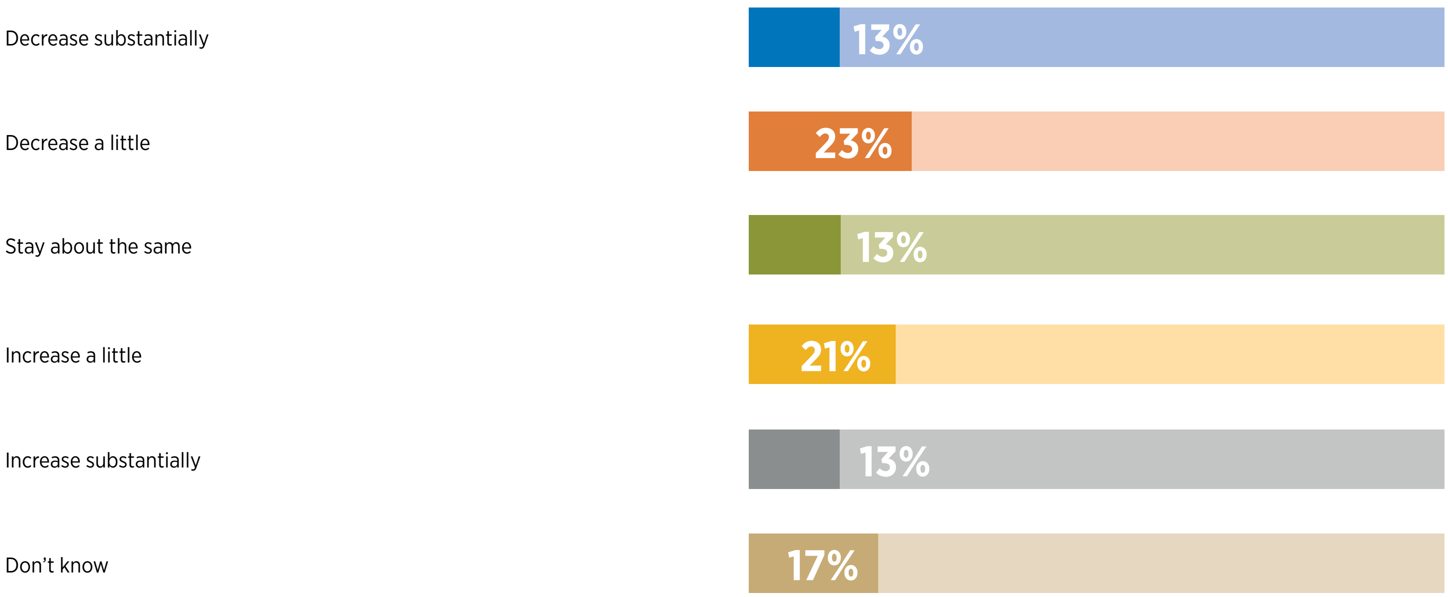
[1]Gallagher, "COVID-19 Employer Response Pulse Survey," May 2020

Employer outlook for 2022 revenue has shifted considerably as a result of the pandemic.

Prior to the pandemic, revenue changes employers projected would occur by 2022 were split — between a decrease for just 6%, little to no change for 24% and an increase for 70%.[2] But in August, 36% expected a decrease, which is a jump of 30 points. Comparatively, just 34% expected revenue increases, which is a 36-point decline. The remaining 30% either believed results would be similar or didn't yet know.

The pandemic's immediate effect on revenues will become clearer as FY 2021 draws nearer, but industries that provide consumer tax sources such as restaurants, entertainment and community services are among the hardest hit. Data shows that roughly half of social services (52%) and public entity (50%) employers anticipated revenue decreases.

EXPECTED REVENUE CHANGES BY 2022



[2]Gallagher, "Benefits Strategy & Benchmarking Survey," September 2020

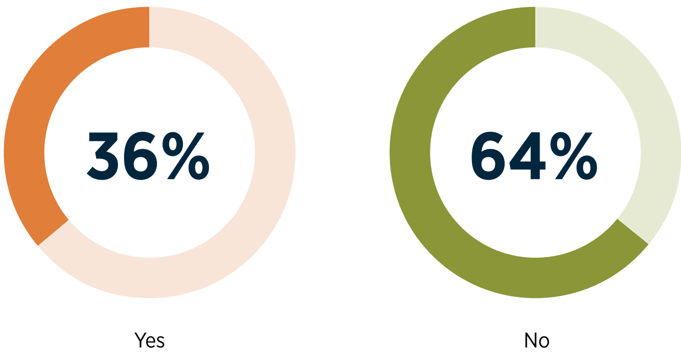
FURLOUGHS & LAYOFFS

Continuing economic pressures have led nearly half (48%) of employers to either implement (36%) or plan (12%) furloughs or layoffs.

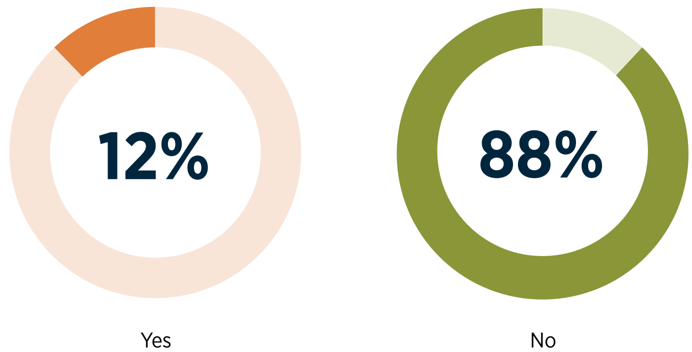
Industries that experienced the greatest percentages included manufacturing (61%), business services (57%), social services (51%) and healthcare (48%).

Within technology (36%), public entity (33%) and financial services (25%) organizations, the impact has been milder.

HAVE FURLOUGHED OR LAID OFF EMPLOYEES



WERE CONSIDERING FUTURE FURLOUGHS OR LAYOFFS

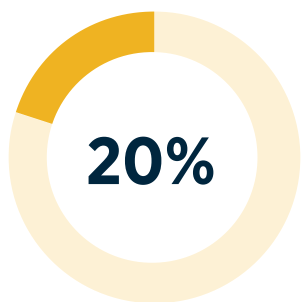


Industries most likely to amend health plan eligibility had higher rates of furloughs and layoffs.

In an effort to curtail the financial effects of furloughs, layoffs and leaves, 21% of employers addressed health benefits eligibility and continuation for affected employees by amending the plan terms.

This practice is more common within the healthcare (43%), social services (33%) and business services (31%) industries. And rates are much lower among public entities (9%) and financial services organizations (0%).

ADDRESSED BENEFITS ELIGIBILITY AND CONTINUATION FOR EMPLOYEES WHO WERE FURLOUGHED, LAID OFF OR ON LEAVE BY AMENDING HEALTH PLAN TERMS

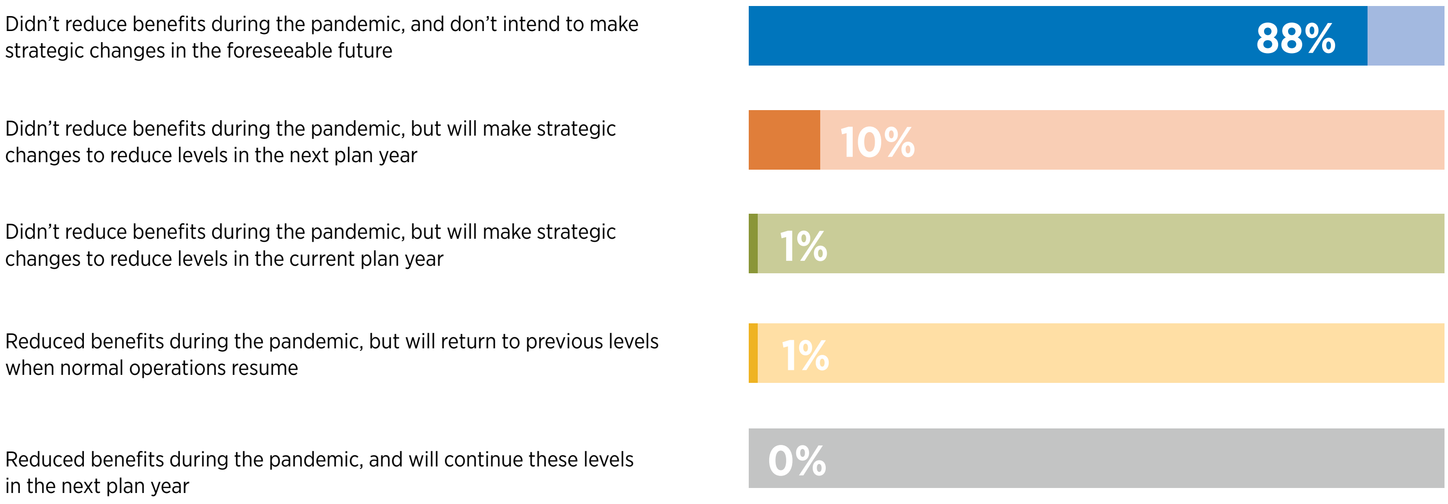


Despite reduced revenue expectations through 2022, most employers aren't reducing healthcare or other benefits.

Overall health plan design strategies were strikingly consistent when comparing May and August survey results, which reveals that COVID-19 cost pressures have not driven large-scale changes. There's been a slight uptick of 2 points in employers that haven't reduced these benefits over this three-month period or don't intend to, from 86% to 88%. The findings were consistent across all industries.[3]

Just 1% reduced benefits but expected to restore them to previous levels, which was the same rate reported in May. Another 1% foresaw making changes during the current plan year, compared to 2% three months earlier. And the portion that hadn't made changes but was expecting them in the next plan year was still 10%.[3]

ANTICIPATED OVERALL DESIGN STRATEGY FOR THE HEALTH BENEFITS PLAN



[3]Gallagher, "COVID-19 Return to Workplace Pulse Survey," June 2020

Roughly 8 in 10 employers were considering only minimal or no changes to 2021 health plan benefits due to COVID-19 cost pressures.

Looking ahead to the 2021 plan year, between 79% and 85% of employers expected minimal or no changes to their health benefits, depending on the type of modification. The range for those considering moderate adjustments was 13%–20%, with slight variations across the premium contribution structure (20%), cost sharing (17%), health plan design (16%) and health plan choices (13%). Only 1%–2% expected major changes within these categories.

Healthcare employers were the most likely to implement major or moderate changes affecting health plan design and health plan choices. Manufacturing employers were the most likely to implement those changes for premium contribution structure and cost sharing.

LEVEL OF CHANGES CONSIDERED FOR 2021 HEALTH PLAN BENEFITS APPROACH

Type of change	Major	Moderate	Minimal or none
Health plan design	1%	16%	83%
Premium contribution structure	1%	20%	79%
Health plan choices	2%	13%	85%
Cost sharing (copay, coinsurance, deductible)	1%	17%	82%

Anticipated additions or expansions to total rewards in 2021 far surpassed reductions.

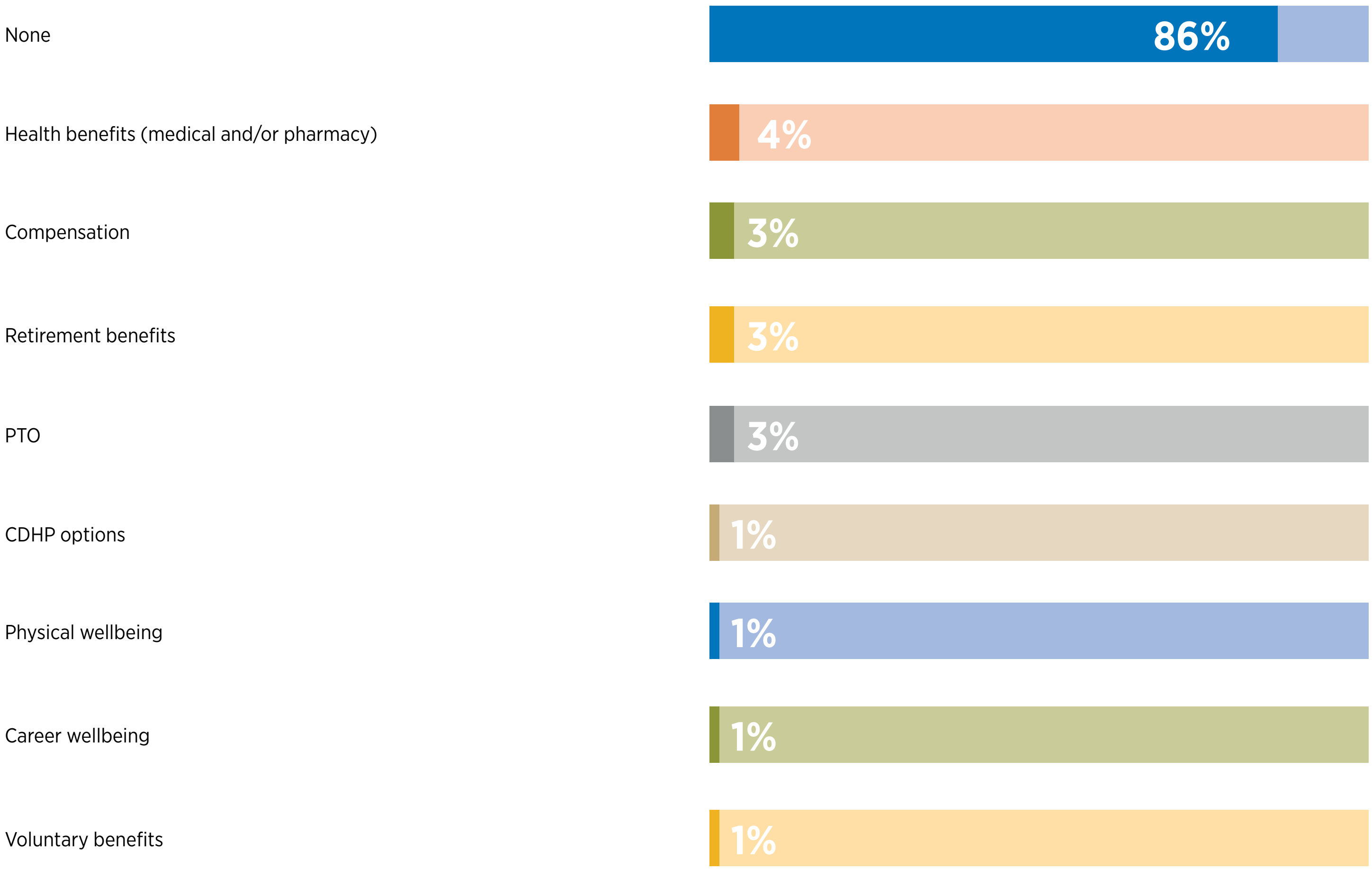
As of August 2020, just 14% of employers anticipated reductions in total rewards for 2021. And no more than 4% of this group expected the changes would affect health benefits (4%), compensation (3%), retirement benefits (3%), PTO (3%), consumer-directed health plan (CDHP) options (1%), physical wellbeing (1%), career wellbeing (1%) or voluntary benefits (1%).

Comparatively, far more employers were planning to offer new total rewards or expand what they currently had (55%). The top areas of focus included emotional wellbeing (30%), employee communication programs (21%), physical wellbeing (20%) and financial wellbeing (19%). These benefits align with workforce needs amplified by the pandemic.

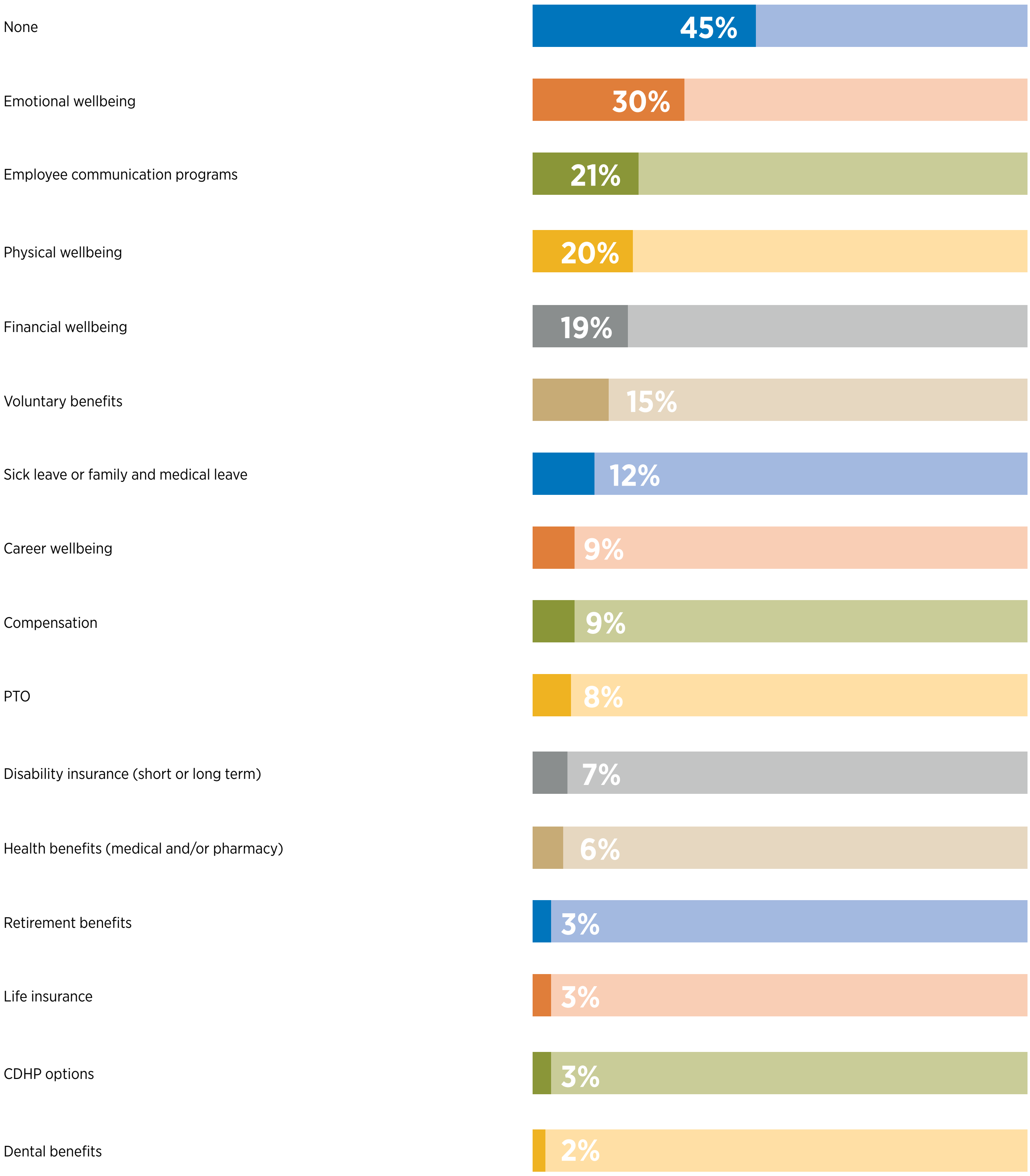
Total rewards that were on the enhancement list for at least 10% of employers included voluntary benefits (15%), and sick leave or family and medical leave (12%). And at lower rates, some were expecting to improve career wellbeing (9%), compensation (9%), PTO (8%), disability insurance (7%), health benefits (6%), retirement benefits (3%), CDHP options (3%), life insurance (3%) and dental benefits (2%).

EXPECTED CHANGES TO TOTAL REWARDS FOR 2021

POTENTIAL TOTAL REWARDS REDUCTIONS FOR 2021



POTENTIAL TOTAL REWARDS ADDITIONS OR EXPANSION FOR 2021



EMPLOYEE COMMUNICATION

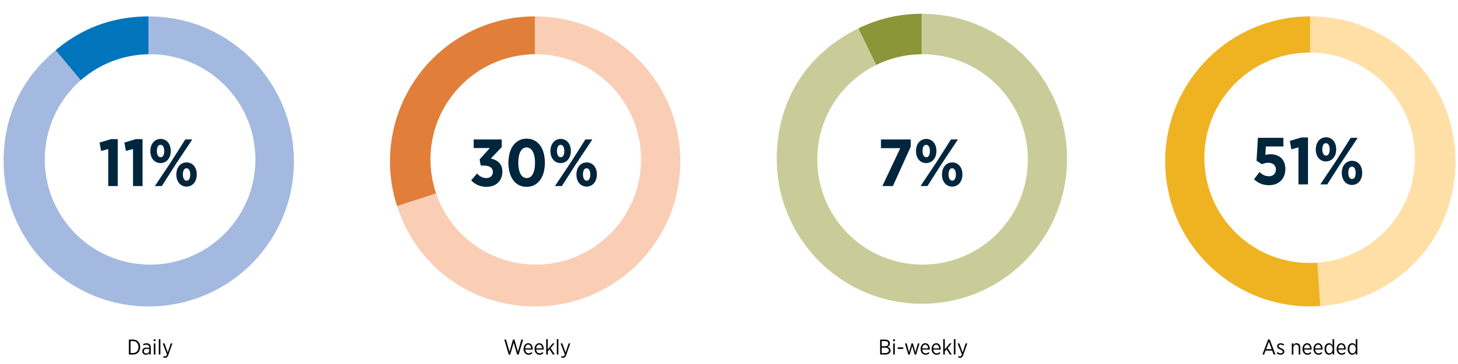
The cadence of communication has changed as employers and employees have adjusted to a pandemic-altered work environment.

Daily or weekly communication fell 24 points since April, when organizations and individuals were in the throes of adapting to changes in infrastructure and work routines. But in August, messages about COVID-19 were sent only as needed by 51% of employers (vs. 32% in April). A brisker pace was maintained either daily by 11% or weekly by 30%, while the other 7% settled on a bi-weekly frequency. Four months earlier, the comparative rates were 31%, 34% and 3%, respectively.[1]

At its root, a pandemic is a health issue, which is why it's not surprising that 67% of healthcare organizations were communicating daily or weekly, more often than any other industry. Technology (24%) and business services (29%) employers were least likely to connect this frequently.

Some organizations are changing not only how much they interact with their people, but also the focus and tone of their messages. As long as the uncertainty surrounding COVID-19 affects everyday life, emotional wellbeing will be a challenge for employees. Providing listening channels, establishing a centralized information hub, communicating consistently in an empathetic manner when appropriate, and offering a reasonable level of flexibility can lessen the impact.

FREQUENCY OF EMPLOYEE COMMUNICATION ABOUT COVID-19 TOPICS



[1]Gallagher, "COVID-19 Employer Response Pulse Survey," May 2020

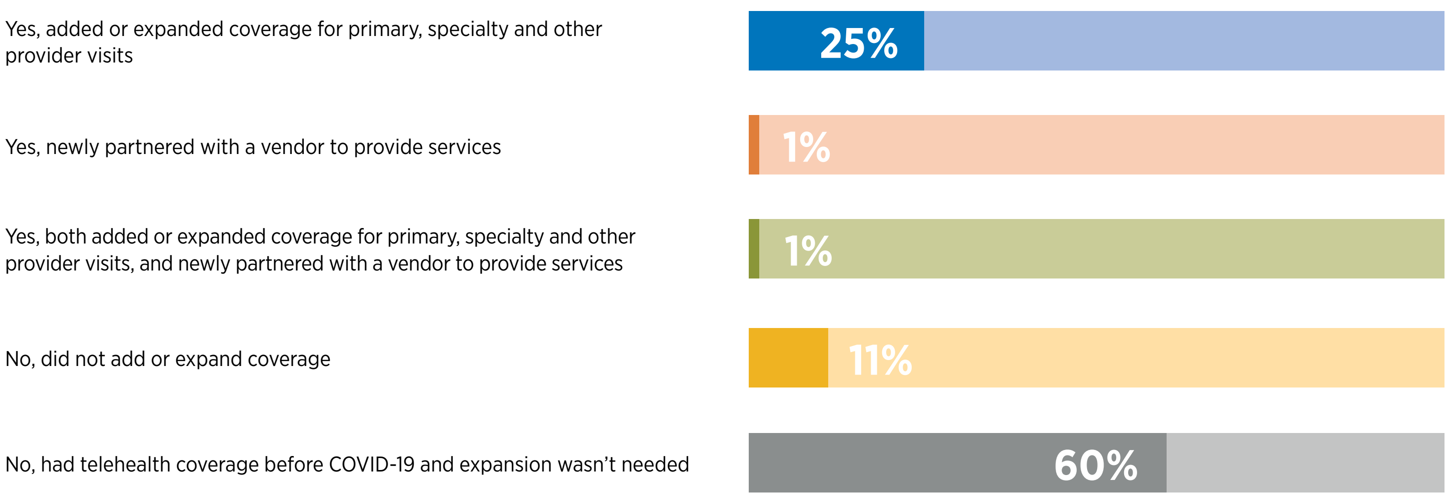
PHYSICAL WELLBEING

COVID-19 continues to accelerate telehealth adoption.

Digitally delivered health services provided a much-needed solution for the many employers that adopted them in 2020. They're helping protect employees from exposure to COVID-19, flu and other viruses while shifting patients to a lower-cost setting in a challenging financial environment. Another patient advantage is having a comfortable and convenient outlet for getting some of the medical services they put off. This care delivery model supports both physical and emotional wellbeing, including the possibility of earlier detection of unknown issues.

In response to COVID-19, a quarter (25%) expanded or added telehealth coverage for visits to primary, specialty and other care providers. An additional 1% newly partnered with a vendor to provide telehealth services, while 1% did both. More than 6 in 10 employers covered telehealth prior to COVID-19 and didn't need to expand coverage.

ADDED OR EXPANDED TELEHEALTH BENEFITS IN RESPONSE TO COVID-19

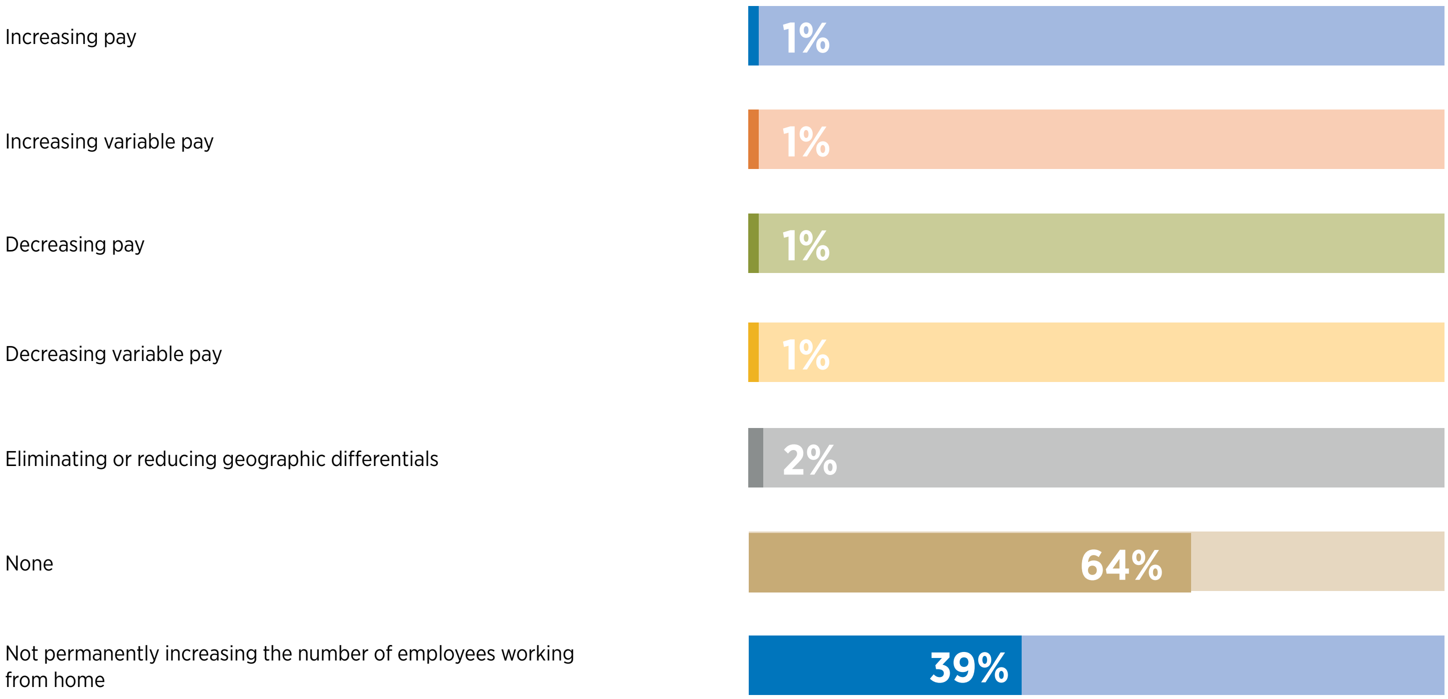


COMPENSATION & FINANCIAL WELLBEING

An increase in employees working at home has shown little effect on direct changes to compensation.

Permanent changes to the number of employees working at home were expected by 61% of employers—yet only 6% were thinking about adjusting compensation as a result. Just 2% identified the potential for eliminating or reducing geographic differentials, and 1% each were considering pay increases, pay decreases, variable pay increases or variable pay decreases. Interest among industries was consistently below 5% for each method, except 12% of technology employers were looking at eliminating or reducing geographic differentials.

CHANGES CONSIDERED TO COMPENSATION FOR EMPLOYEES WORKING AT HOME



Employee requests for retirement plan hardship distributions or loans have increased for nearly 3 in 10 employers.

Some employees are more inclined to reduce, suspend or discontinue their retirement plan contributions during a financial crisis. Others who need immediate access to funds tend to make early hardship withdrawals.

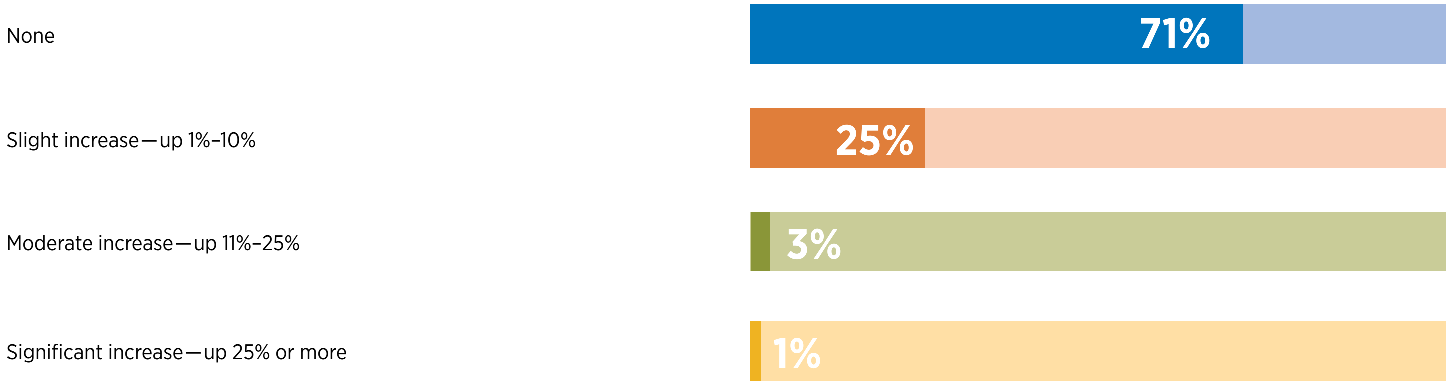
Recognizing that the pandemic may have weakened employees' financial security, half (50%) of employers allowed cafeteria plan participants to make mid-year election changes permitted by the IRS. The percentage was even higher within the business services (73%), financial services (57%), social services (56%) and technology (52%) industries.

ALLOWED CAFETERIA PLAN PARTICIPANTS TO MAKE MID-YEAR ELECTION CHANGES PERMITTED BY THE IRS

Employee requests for retirement plan hardship distributions or loans had risen for 29% of employers in August 2020—quantifiable proof that even the working population isn't protected from the financial challenges brought by COVID-19. The impact was mostly minor for 25% with increases of 1%–10%, but ranges were 11%–25% for 3% and 25% or more for 1%. Hardship distributions or loan requests did not change for the remaining 71% of employers.

Significant increases in hardship distributions were 5% or less across all industries, but technology (39%) and healthcare (34%) had the highest levels in the range of 1%–10%.

INCREASE IN REQUESTS FOR RETIREMENT PLAN HARDSHIP DISTRIBUTIONS OR LOANS COMPARED TO THE PRE-PANDEMIC NORM



EMOTIONAL WELLBEING

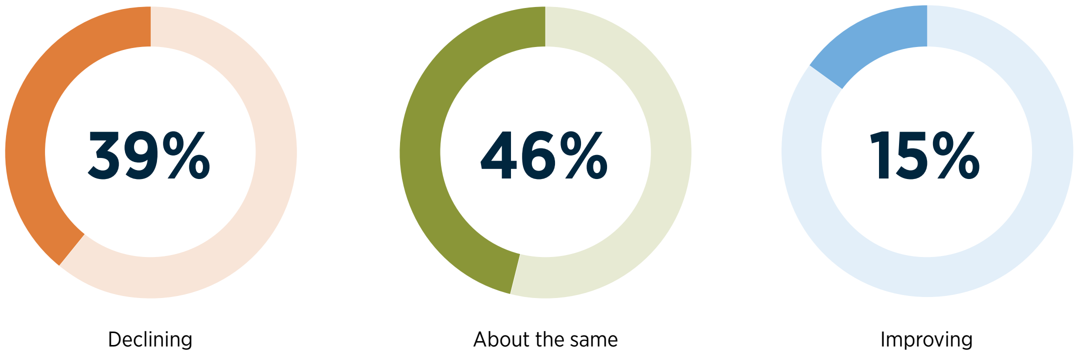
A decline in employee emotional wellbeing is more than twice as likely as an improvement.

While the threat of COVID-19 to physical health is serious, the strain of coping with lifestyle changes, financial worries and other pandemic-linked anxieties affects far more employees. Ensuring workplace safety helps reduce stress and provides an opportunity to advance the conversation about mental and emotional health.

Compared to when the pandemic started, 39% of employers have indicated a decline in employee emotional wellbeing. Lower levels were most common among public entities (52%) and the healthcare (46%) and business services (45%) industries. For another 46%, the emotional wellbeing of their workforce was about the same.

However, 15% reported an improvement in the level of emotional wellbeing. Work-at-home or flex scheduling policies and an increase in workforce civility and kindness noted by about half of employers could be reasons for this positive trend. This finding also correlates with the results of a July survey that found two-thirds (65%) of employers ranked emotional wellbeing as a much higher priority.[4]

CHANGE IN EMPLOYEES' EMOTIONAL WELLBEING COMPARED TO WHEN THE PANDEMIC STARTED IN THE U.S.

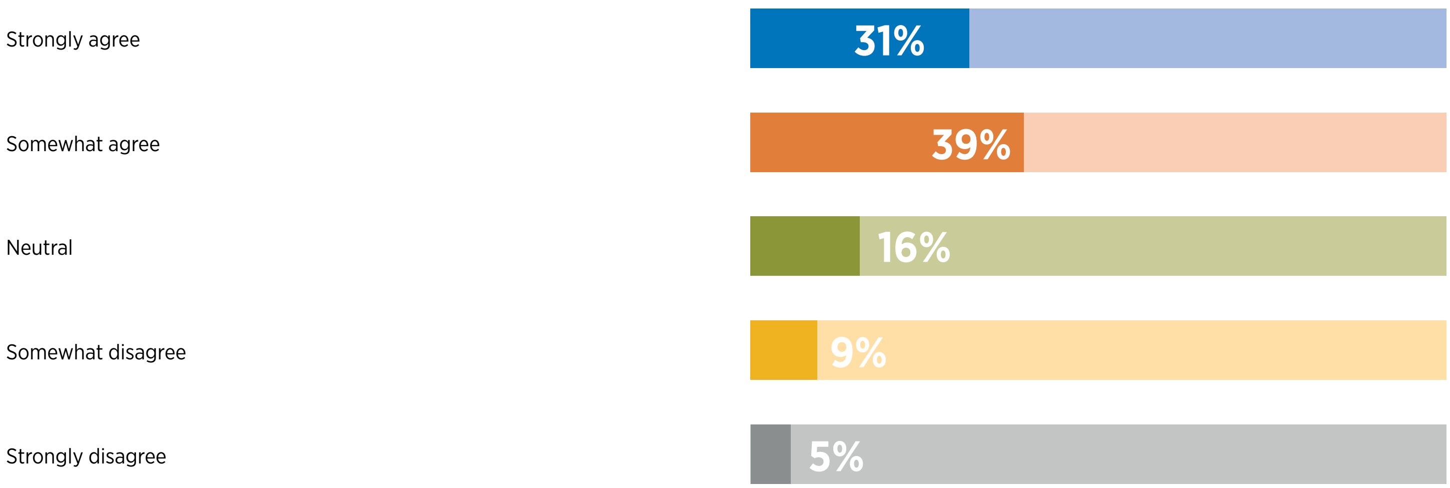


[4]Gallagher, "COVID-19 Work in a New Normal Pulse Survey," July 2020

In addition, 7 in 10 (70%) somewhat or strongly agreed their C-suite is concerned about the impact of stress and burnout on the organization. Perceptions of leadership concern were even more prevalent within the financial services (82%), business services (81%), healthcare (81%), social services (78%) and technology (75%) industries.

Another 16% suggested the C-suite is neutral, while 14% somewhat or strongly disagreed. Burnout is a predictor of turnover—a potentially costly problem that's usually caused by a series of events that sap employee enthusiasm and productivity over time.

AGREEMENT WITH THE STATEMENT, "OUR C-SUITE IS CONCERNED ABOUT THE IMPACT OF STRESS AND BURNOUT ON THE ORGANIZATION."



For 16% of organizations, expanding the resources available through their employee assistance program (EAP) was considered a useful tactic for boosting employee wellbeing. Among the added options were referrals for child care or counseling, and coverage for direct counseling or support. Notably, twice as many healthcare employers have made this change (33%).

Setting more flexible requirements for earning wellness program participation incentives was another practice undertaken by 13% of employers. As an example, some extended the time period for meeting requirements because doctors' offices were closed.

TACTICS USED TO BOOST EMPLOYEE WELLBEING

While most employers have been encouraging employees to use PTO, policy changes were limited.

Many employees feel fortunate to have jobs in the current economy, but they're at high risk for burnout if they're not able to take time off or don't feel comfortable requesting it. Related to PTO, the most common action taken by employers was to encourage employees to take time off (60%). The effects of a prolonged pandemic on mental and emotional wellbeing, and potentially physical health, drive home the key purpose of leave programs. Time off to address health or personal matters is meant to be restorative—an interest that's protected by carefully designed and properly executed absence management policies.

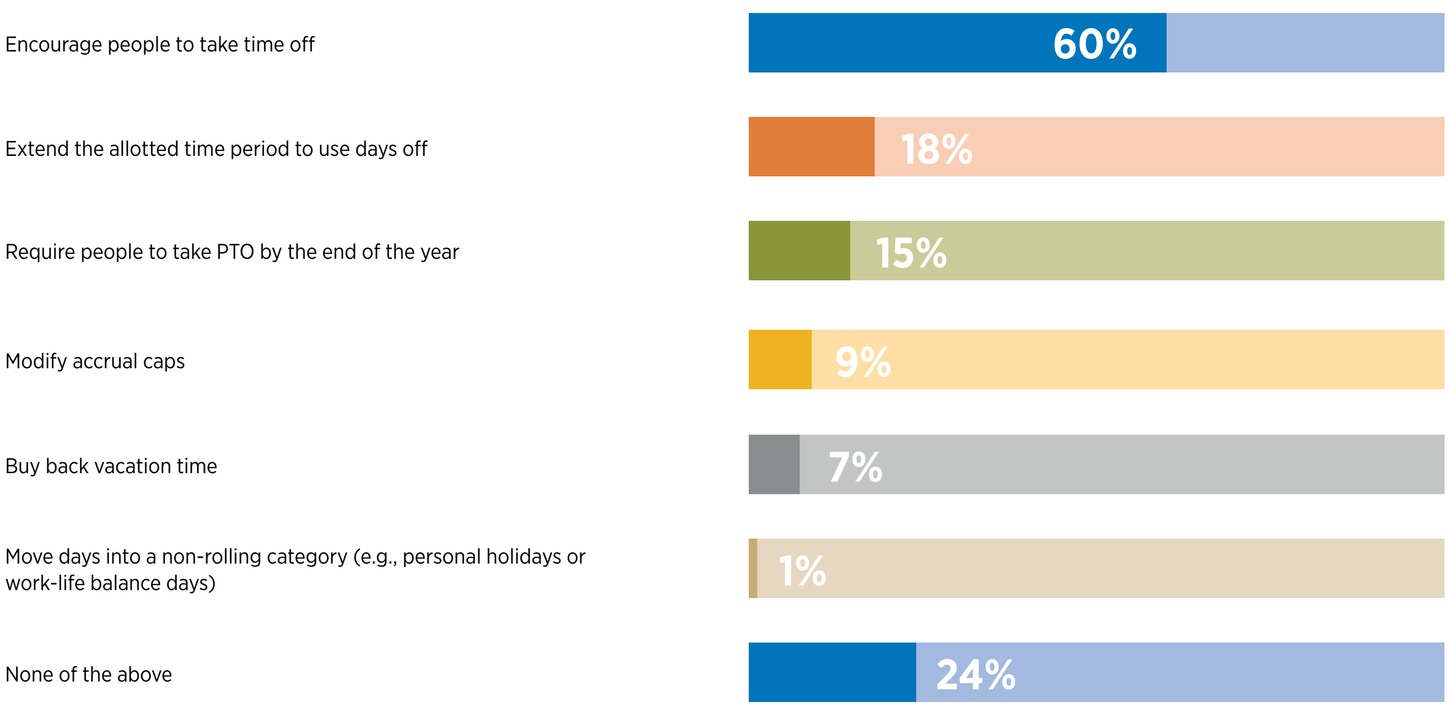
Fifteen percent (15%) of employers were requiring employees to use PTO by the end of the year—a practice that was more likely among financial services employers (24%).

However, extending the time period allotted for taking days off was slightly more popular (18%). This policy was most common in public entities (35%), and among the financial services (32%) and business services (26%) industries.

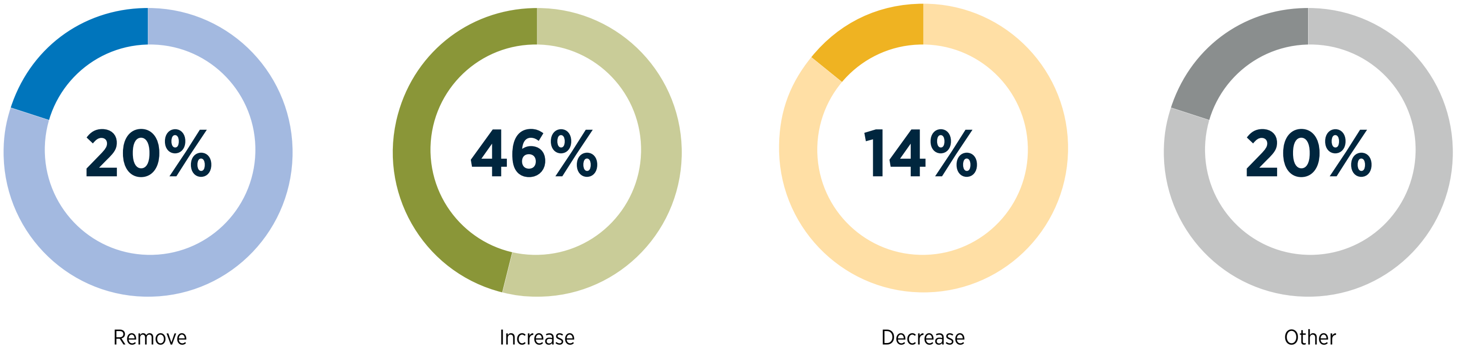
Nine percent (9%) of employers had modified PTO accrual caps, typically increasing (46%) or removing (20%) them for 2020. Just 14% are decreasing these limits. Little movement was anticipated into non-rolling categories such as personal holidays or work-life balance days (1%). But a few employers (7%) were buying back vacation time.

Overall, changes to PTO policies were relatively uncommon. And almost a quarter (24%) didn't take any of these policy actions.

PTO PRACTICES AND POLICES APPLIED IN 2020



PLAN FOR MODIFYING PTO ACCRUAL CAPS IN 2020

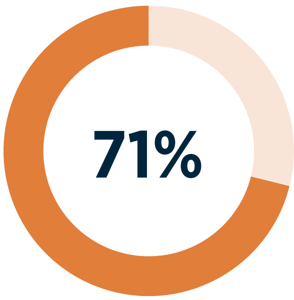


Revisiting leave management policies and practices has become more urgent with COVID-19 emergency provisions further complicating compliance.

As of August 2020, the most common benefits change introduced by employers in response to the pandemic involved leave policies. Modifications were made by 71% to provide employees with more flexibility — while accounting for new state and/or federal guidelines.

The use of this policy change exceeds three-quarters or more of employers in the social services (83%), public entity (82%) and business services (81%) sectors.

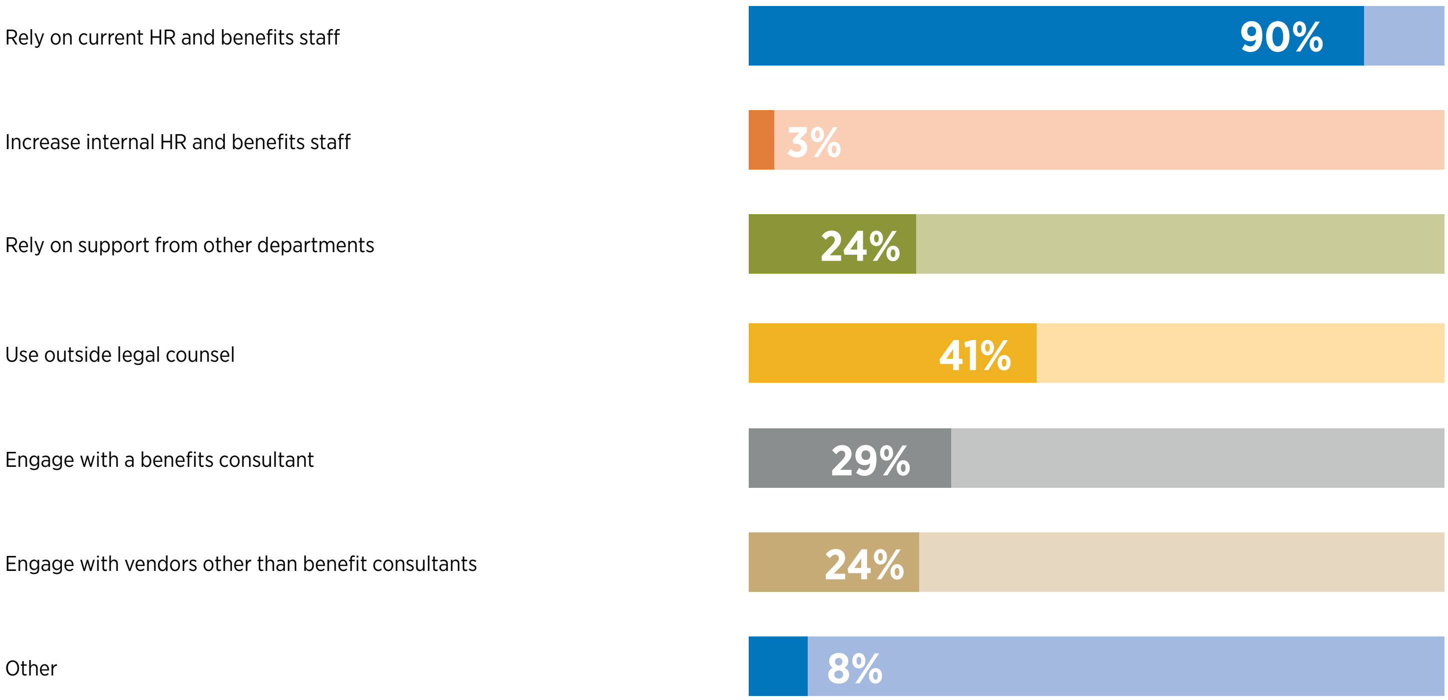
MODIFIED LEAVE POLICIES IN RESPONSE TO COVID-19 TO PROVIDE MORE EMPLOYEE FLEXIBILITY



To keep up with increased responsibilities related to COVID-19 regulatory guidance, most employers rely on internal resources, including 90% that depend on HR and benefits staff, and 24% that turn to other departments for support. Very few organizations (3%) had any plans to expand their team of HR and benefits employees for this purpose.

External resources and expertise were used by a sizeable number of employers. Forty-one percent (41%) used outside legal counsel, 29% engaged with a benefits consultant, and 24% worked with other vendors.

APPROACH TO KEEPING UP WITH REGULATORY GUIDANCE RELATED TO COVID-19



FINAL REMARKS

The cumulative effects on employees of coping with lifestyle changes, financial worries and other anxieties has continued to capture the attention of their organization's leaders. And these employers are still rising to meet the challenges of the pandemic with a steady focus on employee health and safety—and a commitment to total rewards.

As the state of overall employee wellbeing goes, so goes the state of the organization's wellbeing. Making headway hinges on building employee resiliency against burnout, which takes planning and implementing an effective strategy backed by leadership. When employees can tap into a reservoir of wellbeing, they're able to bring their best selves to work each day.

This report is one in a series provided by Gallagher to support better talent management decisions with updated data and insights on COVID-19. To access more resources, visit ajg.com/pandemic.

Beyond the pandemic, we'll continue to provide updated information that builds agility in the face of the unknown—because a technology-driven, innovation-oriented and interconnected world will continue to bring unprecedented change.

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