Higher Education Ideas to Impact your Bottom Line

The economic crisis ignited by COVID-19 is creating a tipping point for higher education institutions.

Prior to the recent events, the industry, as a whole, had been experiencing deteriorations in revenue from multi-year enrollment declines. This has been exacerbated by rising expenses associated with an aging work force, increased building projects to enhance student appeal, and looming/realized hazards from weather and cyber related threats to property and security. As a result of the COVID-19 pandemic, colleges and universities are having to quickly pivot to reduce expenses, reimburse room and board, deliver all educational content online, validate the quality of educational content, and collect outstanding receivables.

To help you, we have prepared the following tools and suggestions for your consideration from across Aon solution lines.

Compensation Plans

Recognizing payroll is a major expense for colleges and universities, higher education institutions may want to:

- Consider freezing base salaries with a planned reassessment (e.g., quarterly) as conditions change.
- Restrict hiring, promotions, and other increases to pay except for mission-critical positions (if any at all).
- Be mindful of flexibility within incentive compensation plans, balancing budget implications, stakeholder perspectives, and the continued need to retain and motivate top talent.
- Reinforce the important institutional mission to employees impacted by these pay-related decisions.
- Recognize the coming months may provide an opportunity to attract talent “at a discount” for key positions.
- Remember “top talent” is always in demand and compensation is just one element of attracting, retaining, and motivating qualified professionals.
Defined Contribution Retirement Plans

• Ensure participant communications emphasize the importance of staying the course and keeping a long-term perspective.
• Evaluate current employer match contribution provisions to determine if the plan allows for the cessation of match contributions or the suspension of annual “true-up” contributions.
• Be cognizant of participant loan and distribution activity as we anticipate an increase in these transactions as plans implement the CARES Act provisions.
• Assess whether using of a plan’s Forfeiture Account can help to reduce employer contributions or if a plan’s Revenue Credit Account can be used to pay for “qualified plan expenses.”

Endowment Pools

Non-profit investment fiduciaries not only need to be aware of the investment risks within their endowments, they also need to be enterprise risk aware. Issues such as financial pressure at the operations level and financial sustainability at the overall institution impact how endowment portfolios structure and manage investment risk, return, and liquidity. In the fiscal year 2019 NACUBO survey on endowments, we saw that institutions’ operating budgets continue to increase endowment reliance as a source of funding. Spending from the endowment is growing at many institutions.

As the market fallout continues to unfold in the coming weeks/months, the Aon Non-Profit Investment Solution Team has the following considerations to endowment fiduciaries to help navigate current dynamics and ensure successful execution/stewardship:

• Be cognizant of enterprise liquidity pressure points and the degree of financial reliance on the investment portfolio.
• Assess total portfolio liquidity needs over the next 12 months (such as uncalled capital for private investments, liquidity and redemption terms of less liquid investments) relative to enterprise cash flows (such as gifts, expenditures, other cash/liquidity reserves).

• Review the plan’s low risk investment options (i.e., money market and stable value) to ensure they remain healthy and liquid during this time of market turbulence and uncertainty.
• Ensure the plan provides participants with the ability to remain well-diversified through low-cost index funds and high conviction active investment managers.
• Reassess if a self-directed window might provide participants with unique diversification opportunities that complement a typical stock/bond portfolio.
• Consider offering an early retirement window to incentivize faculty and staff employees to retire.

• Develop a cash flow plan that optimizes how funding can be allocated for rebalancing and/or to take advantage of near-term investment opportunities.
• Reassess portfolio role of strategies and whether they continue to serve as intended.
• Deploy cash opportunistically if ample liquidity is available.
• Consider the use of an “Opportunity Allocation” in your investment policy for additional flexibility. Aon is seeing investment opportunities emerging from market dislocations.
• Consider increasing liquidity buffers within asset classes, i.e. via passive exposures, if needed.
• Rebalance within policy bands in your investment policy statement.
• Be cognizant of transaction costs due to elevated bid-ask spreads in capital markets.

Diversification does not ensure a profit nor does it protect against loss of principal. Diversification among investment options and asset classes may help to reduce overall volatility.
Health Solutions

• **Financial Impact of COVID-19 to Group Health Plans:** Aon’s COVID-19 Health Impact Dashboard can provide an analysis of the potential medical costs and human impact of the pandemic on higher education institutions. The dashboard is designed to be calibrated to your institution’s population by uploading a census. In many areas, non-critical elective surgeries have been postponed in an effort to free hospital beds. We expect this will result in some claim costs being shifted in time to later months, as well as some costs being eliminated or converted to telehealth or alternative modalities of care.

• **Layoffs, Furloughs, and Leaves:** Many carriers have loosened eligibility restrictions on furloughed employees. If your institution is considering furloughs you should check your carrier’s SPD/plan documents and policies, including stop loss, to confirm eligibility and re-hire provisions. You should also re-visit life policies to determine the Evidence of Insurability provisions for furloughed employees who are re-hired. Also, you should keep your vendor partners abreast of your plans and work to make any necessary updates to policies/contracts in a timely manner. As an employer you should also continue to be mindful of your obligations and potential penalties under the ACA when considering reducing hours or furloughing employees while in the “stability period,” especially if medical plan eligibility is lost or the subsidy is reduced.

• **Waiving Member Cost Share for COVID-19 Related Testing and/or Treatment:** Most COVID-19 related plan design changes will require you as the plan sponsor to distribute a Summary of Material Modification (SMM) within 210 calendar days of the change becoming effective.

• **Paid Leave and Return to Work:** Aon’s Time Away & Life Solutions team can help colleges and universities with anything related to a day away from work. Private institutions with less than 500 employees should be aware of the sick leave and FMLA expansion obligations under the Families First Coronavirus Response Act (FFCRA). We encourage colleges and universities to review CDC guidance in situations where an employee wishes to return to in-person work after recovering from symptoms of COVID-19.

• **Spending Accounts:** Dependent Care participants will generally be allowed to change (up or down) their contributions if their child care facility closes or they switch to home care. You should review your plan document to confirm it has the relevant provision. Health Care Spending Account due dates for submitting prior year claims are set by the plan sponsor, not the IRS. Colleges and universities can adjust these.

Risk Solutions

• **Accelerated Claims Closure:** Accelerating a claims closure process to settle claims can lead to cost savings. Aon’s method for managing and reducing your claim loss portfolio can return a 3:1 average ROI. A fast response can help accelerate recovery. The ability of engineers and financial teams to visit properties as quickly as possible and conduct initial assessments is critical and can lead to securing advance payments from their insurers.

• **P&C Laser Analysis:** Aon’s Laser diagnostic tool evaluates continuous improvement opportunities across all aspects of property and casualty risk. It uses Aon’s proprietary key performance indicators (KPIs) and benchmarks to address your Total Costs of Risks (TCOR). By identifying these KPIs, we can assist you with implementing plans to mitigate these losses and increase your costs savings.

• **Loss Portfolio Transfer:** In order to decrease your liabilities, we can assist you with Loss Portfolio Transfer. Aon works your institution to transfer the potential loss of a claim to a third party, commonly carriers, through the sale of that claim/liability. This can provide cost savings to you as well as enhance your loss portfolio.

• **Premium Financing:** Providing options for alternative premium financing provides you with the opportunity to spread the premium cost liability. Financing these premiums over time will free up assets. You can then use these assets for other priorities.

These are unprecedented times and we will continue to gather information to help keep you informed about what we are observing within higher education.
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**Aon Investments USA Inc.**
200 E. Randolph Street, Suite 700
Chicago, IL 60601
ATTN: Aon Investments Compliance Officer

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