Impact of COVID-19 on Accumulated Leave Balances, Salary & Other Components

Introduction

We are all aware that COVID-19 has had a significant impact on all aspects of business. For employees, this has possibly meant lower salary increases (or none), worries about job security and as a result lower voluntary attrition. We wanted to put actual numbers to these anecdotal observations.

In this article, we looked at the following 3 pressure points to ascertain the impact of Covid-19 on them:

01 Effect on the Count of employees

02 Effect on salary

03 Effect on Patterns of leave accumulation

We have conducted a study 2 separate analyses on movements in key data that we collate as part of actuarial valuations, for the periods

1. ***31 March 2019 to 30 June 2019, as compared to 31 March 2020 to 30 June 2020***
2. ***31 March 2019 to 30 September 2019, as compared to 31 March 2020 to 30 September 2020***

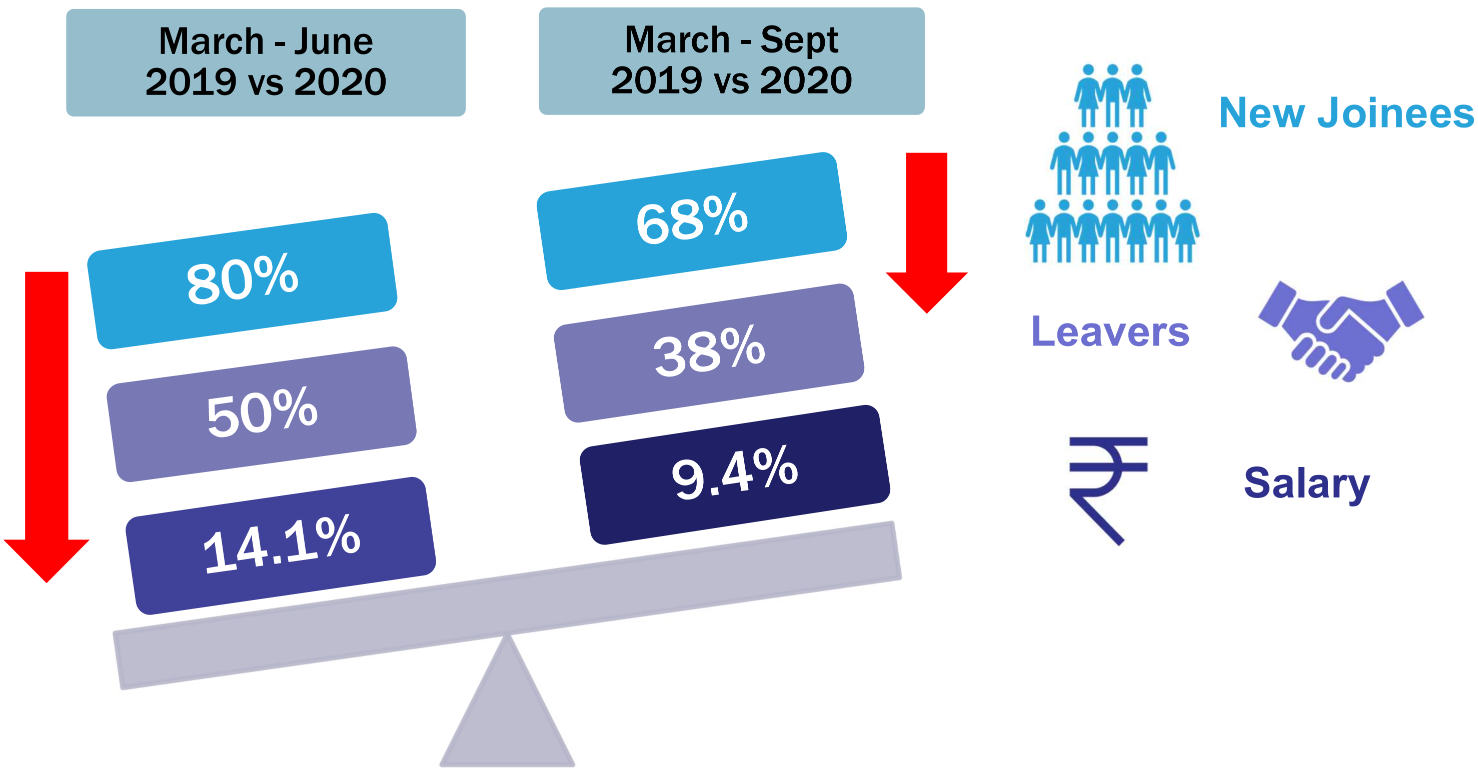
The March to June 2020 period should capture some interesting insights for the first phase of the lockdown, whilst March to September would cover some impacts of the phases of unlocking.

The analysis covers between 550,000 and 650,000 employees in each of the periods.

The data analysed was obtained from the final actuarial valuation data used for companies that have conducted formal valuations at 31 March, 30 June and 30 September for both 2019 and 2020. It has been assumed the data has already had checks applied.

Key Highlights

- There have been significant falls in salary growth and attrition between 2019 and 2020
- There fall in numbers were marginally better when comparing March to September 2019 with 2020
- Only 10% of the employees are seen to be receiving any salary increase in 2020
- Over 80% of employees having an increase in accumulated leave balances in 2020, up from 70% in 2019.



Employees receiving a salary increase

	March - June	March - September
2019	75%	86%
2020	10%	22%

Companies measuring their employee benefit costs should really review their own company's experience and assess if an interim measurement of their long term employee benefits provisions and costs should be done during this financial year. This will be especially important if companies are looking to review and update benefit policies (even if for the short term). An interim measurement will help to assess the short and longer term impact on costs of proposed design changes.

In the medium term, thinking of March 2021 actuarial valuations, one will need to remember that assumptions for accounting are to be a long-term best estimates. A company needs to decide the extent to which 2020 salary and attrition experience will contribute when setting a longer-term assumption. The advice of an actuary should be taken, along with a suitable trending analysis of the company as well.

Further Details:

DATA DESCRIPTION

This study is based on the data of companies covering between 550,000 and 650,000 employees in each period, and covers a range of industry sectors. The data consisted of the date of birth, accumulated leave balances and leave encashment salary of employees.

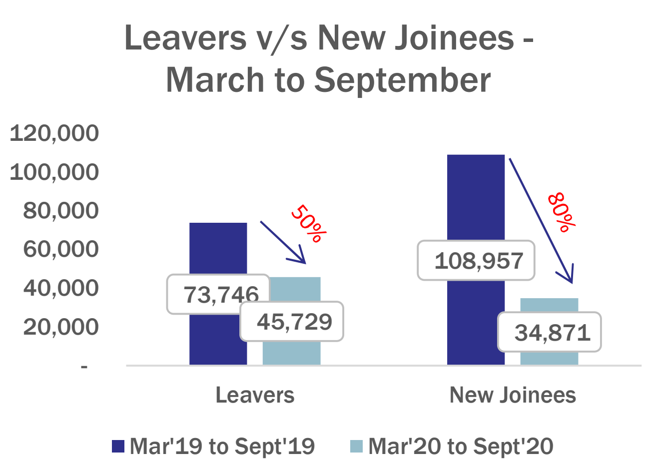
Period 1 : March to June (3 Months) - 102 companies				
Valuation Date	Mar'19	June'19	Mar'20	June'20
Count of Employees	563,475	568,757	595,908	584,055
Total Monthly Salary	11,135,679,124	12,157,848,732	12,659,372,206	12,527,878,666
Accumulated Leave Days	20,329,313	20,689,134	21,140,695	22,015,591

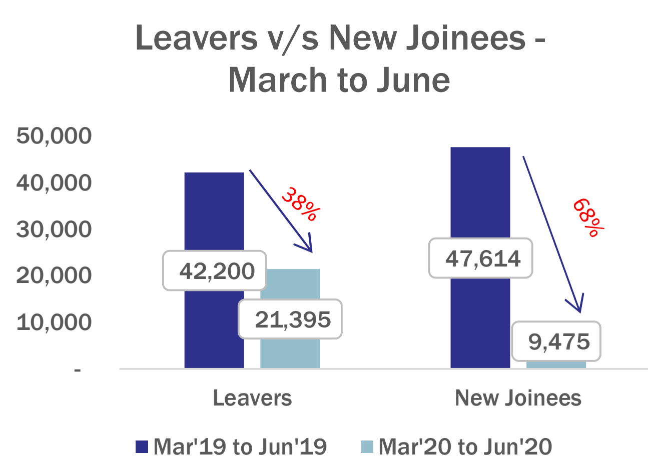
Period 2 : March to September (6 Months) - 126 companies				
Valuation Date	Mar'19	Sept '19	Mar'20	Sept '20
Count of Employees	628,569	661,581	664,389	652,250
Total Monthly Salary	13,097,850,934	14,714,031,113	15,061,753,146	14,920,804,693
Accumulated Leave Days	23,477,203	24,796,907	24,629,462	27,907,261

Table 1 Data Summary

EMPLOYEES' MOVEMENT

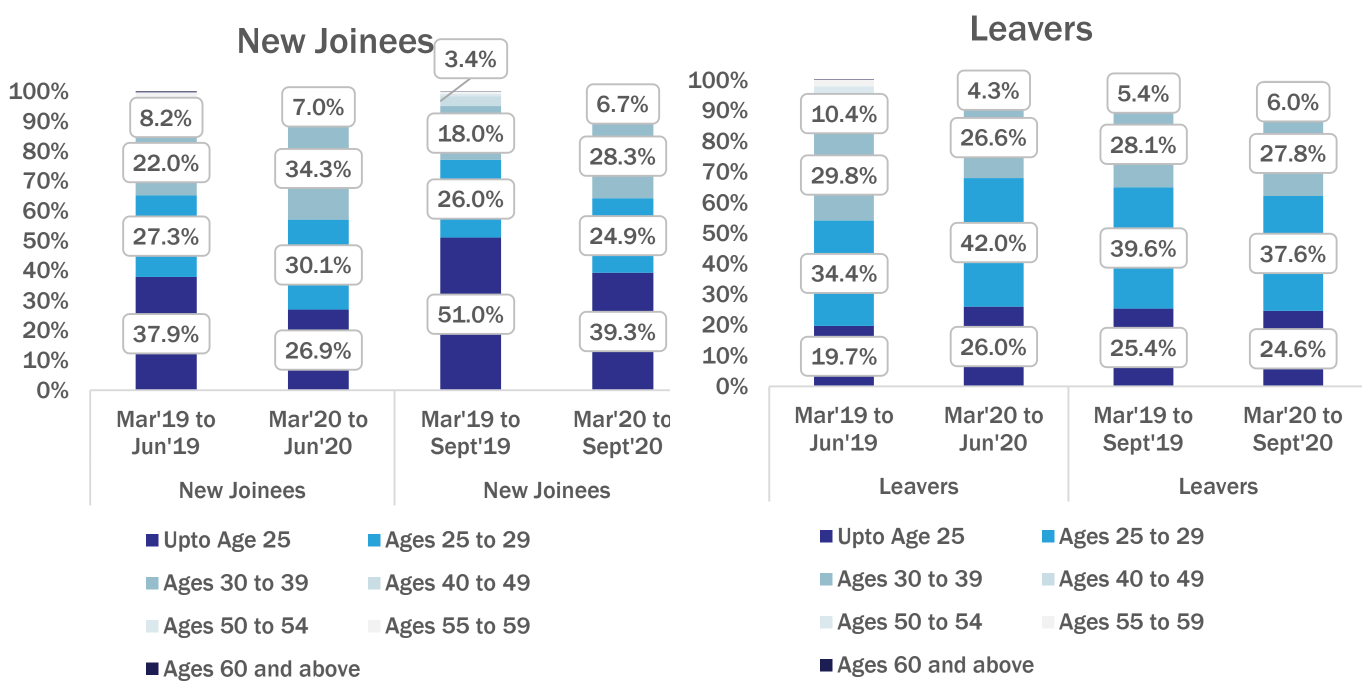
- At an aggregated level, the number of new joinees has fallen by 80%.
- There has also been almost half the number of leavers in 2020, as compared to 2019 during the March to June period.
- The reduction in attrition and new hires in the 2020 period is aligned to economic activity having been ground to a halt in such a large manner in the first few months of lockdown.





- However, we see some improvement in the replacement ratio of the leavers in September as compared to March.
- During the first quarter of 2020, we saw that about 45% of the leavers were replaced by new joinees. This ratio has improved to about 75% in September as the unlock period began.

We have also looked at the age distribution of leavers (excluding retirees) and new joinees for both the study periods.



- In both 2020 periods, the under 25's make up a lower proportion of new joinees as compared to 2019. The proportion drops about 11-12%. However, the proportion at ages 30-39 has increased about 10%-12%. Maybe, Companies are hiring for experience in these unusual times when they have a limited number of vacancies?

- Overall, it seems the age distribution for leavers has not changed significantly across the two years and different periods. This is probably an indication that any involuntary leavers have not been significantly targeted at any age (a proxy for experience) bands.

SALARY MOVEMENT

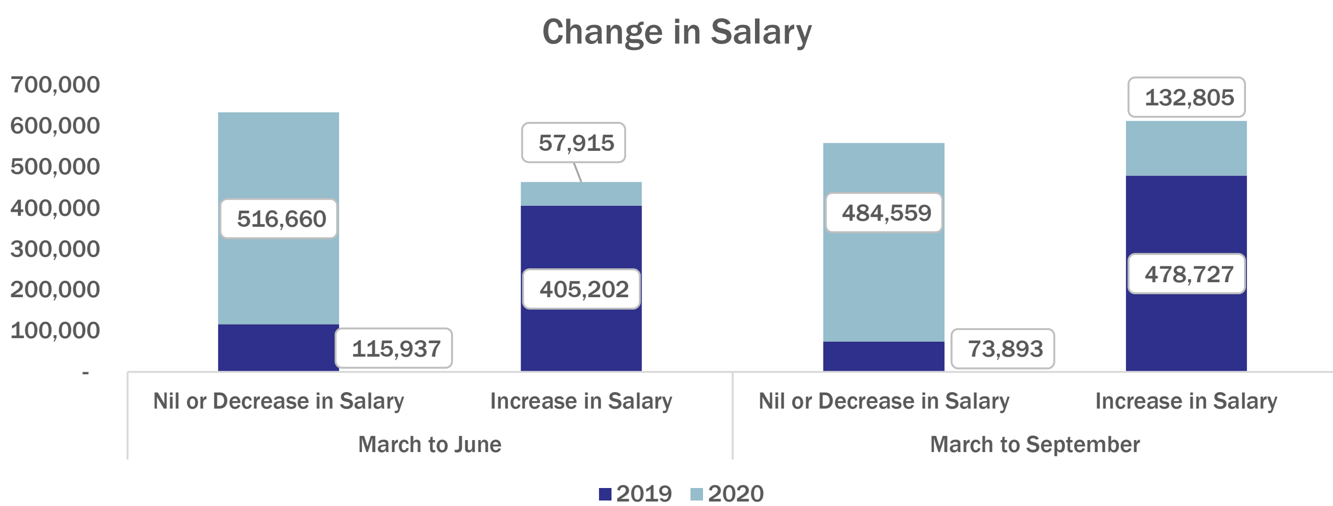
92% of employees continued from March 2019 to June 2019 and 96% for March 2020 to June 2020. Similarly, 84% of employees continued from March 2019 to September 2019 and 95% for March 2020 to September 2020.

We have analysed the change in salaries during each time period for these continuing employees. The average of these changes are shown in the table below.

Movement in Salary	% Increase in Salary	
	March to June	March to September
2019	11.3%	11.1%
2020	-2.8%	1.7%

Table 2 Change in Salary of continuing employees

- There was a high increase in the salary in June 2019 as compared to March 2019 while in 2020, decrease in salary can be seen.
- We see that there has been a significant impact of the pandemic on salary increases that are usually implemented for most companies around April of each year.



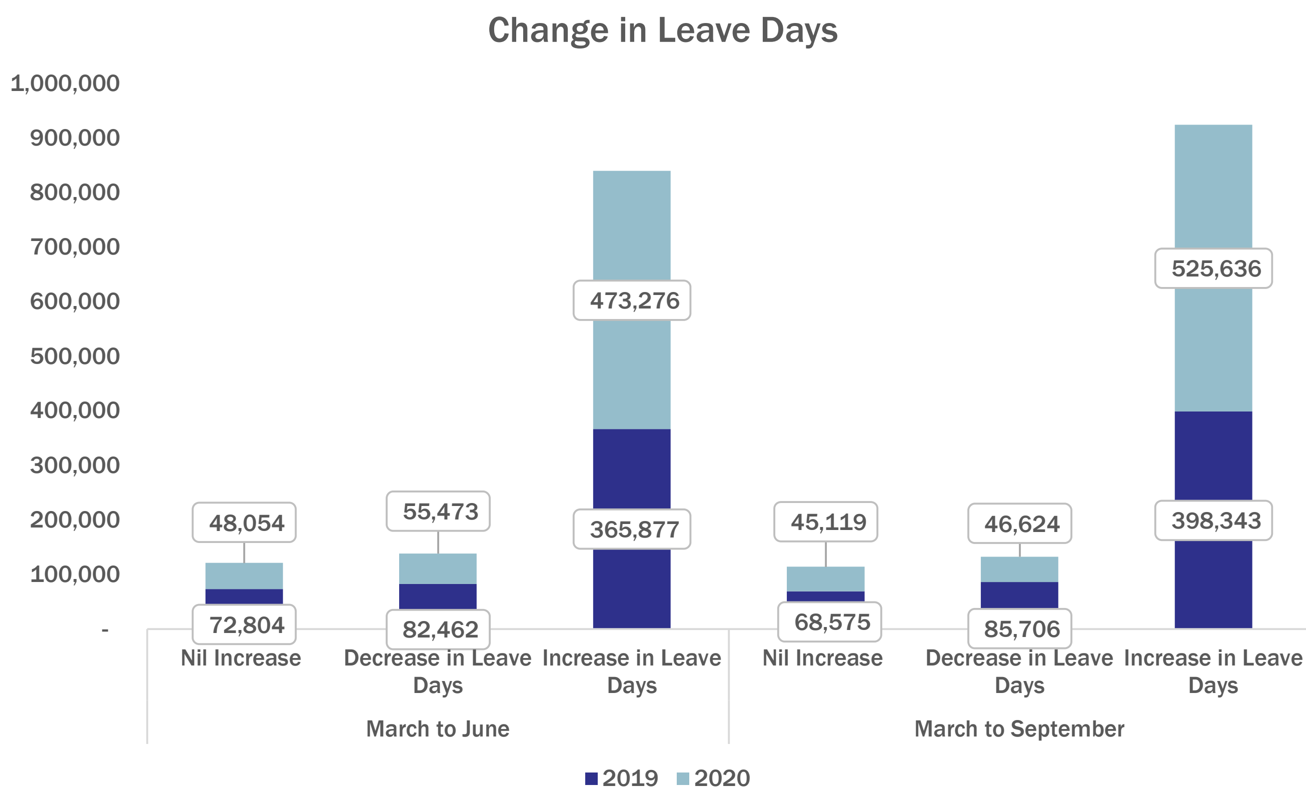
- Only 10% of the employees had any increase during Q1 of 2020, compared to 75% in Q1 of 2019.
- However, we see a slight correction in September 2020 as the economy has started to revive. Companies may have deferred increases earlier and have started to apply them by September 2020 to some extent. 22% of the employees were given an increase during the first six months of 2020 which was about 86% in 2019.

PATTERN IN ACCUMULATION OF LEAVE DAYS

We investigated the pattern in the leave days being accumulated for the quarter for both the years and found:

- There has been a significant increase in the number of employees whose leave balance has increased in Q1 of 2020 as compared to that in Q1 of 2019.

- This can be attributable to the fact that employees would not officially take a leave for a few hours of personal work while working from home, but at the same time they are utilising their annual entitlement to some extent. The pattern magnifies further in September as well. A definite indication that unlocking has not meant a similar ability for people to travel, as the fear about the spread of the virus probably continues.



- Anecdotal evidence from a few companies in our study suggests that certain entities have been managing costs by adjusting accumulated leave balances to offset costs. These adjustments have been either a reduction in the accumulated leave balances (by reducing the maximum allowable limit of accumulation) or resetting the count and introducing a new leave policy.

Key Summary

- The change in the first fiscal quarter of 2019 and 2020 for salary growth and attrition has been dramatic. Companies measuring their employee benefit costs should really review their own company's experience and assess if an interim measurement should be done during this financial year.
- Covid-19 has had a significant impact on salary related decisions of employers. It will be interesting to see how many companies re-instate salary increments in future. We may get a sense of this when doing a similar analysis for future periods in the coming 12 months. A small indication of this was seen in our March to September analysis.

- Since employees seem to be accumulating more leave days, if this pattern continues, it will lead to a substantial increase in the year end valuation in March 2021. This would be mean an increase in liability for the employer. Some of this may be offset with salary reductions.
- Companies looking to review and update benefit policies such as leave should consider conducting special actuarial valuations to assess the short and longer term impact on costs, of proposed design changes.
- When setting longer term assumptions for actuarial valuations, one should remember that the assumptions are to be long-term best estimates. A company needs to decide the extent to which 2020 salary and attrition experience will contribute when setting a longer-term assumption. The advice of an actuary should be taken, along with a suitable trending analysis of the company as well

Additional Notes

- The observations and conclusions are based on the combined data of over 100 companies. However, experiences at an individual company level might differ.
- The analysis was conducted at an individual employee level using a unique ID. No personal identifiable data has been used.

If you have any queries about this article or would like to talk to us about setting assumptions or conduct such analyses for your Company to understand the detailed impact on employee benefits, please get in touch with us at:

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