



Automotive Industry Outlook and Workforce Issues as the Coronavirus Impact Escalates

National Association of Surface Finishers, MINASF, Butzel Long, and IHS Markit

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COVID-19 Impacts All Parts of Your Business





IHS Markit™

Automotive Industry Outlook:

Adjusting to the Realities of a
Recession Environment

March 2020

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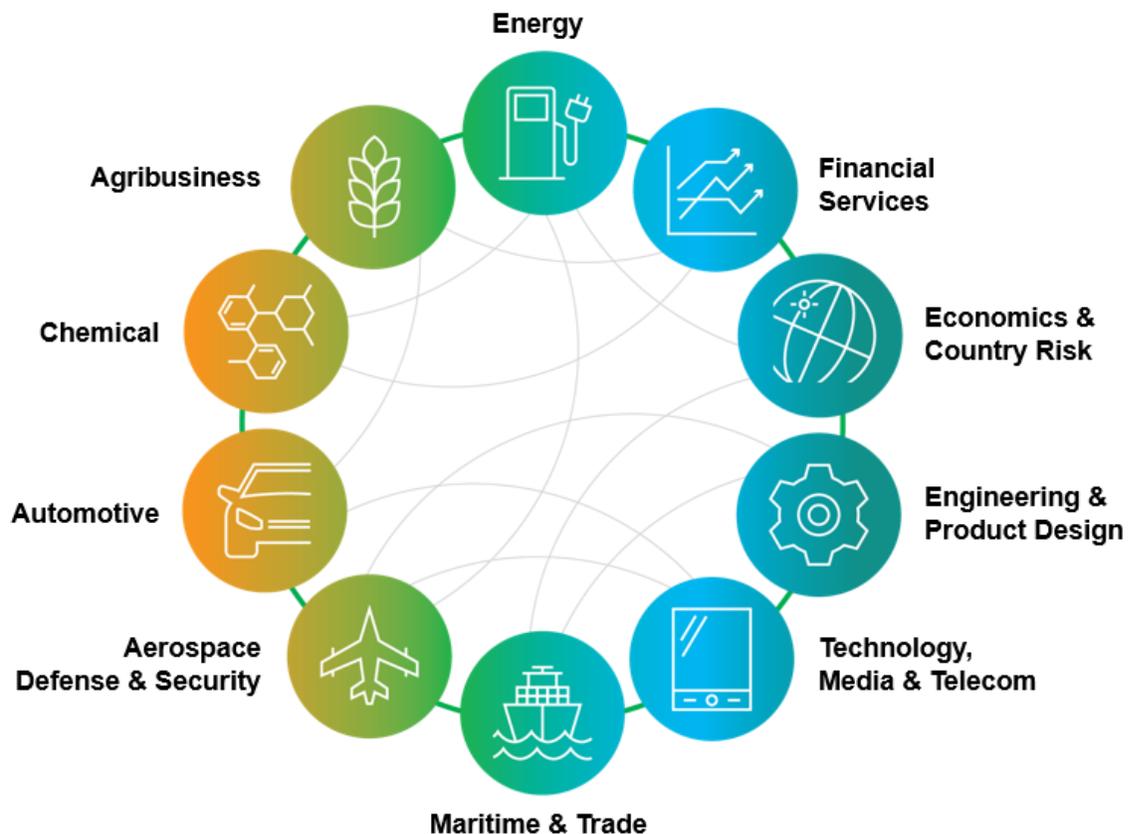
Addressing Strategic Challenges with Interconnected Capabilities

50,000+
customers in
140+ countries

85%
of the Fortune
500 companies

94/100
largest US
corporations

\$4B
annual revenue
| NYSE: INFO



Economic Update: Impact of COVID-19

- **Global GDP:**

- > U-shaped recovery – not V-shaped as all major areas are impacted – consumer confidence and private investment rebound will take a couple of quarters
- > Global GDP: 2019 2.6%, 2020 0.9% (down 1.6 pts), and 2021 forecast of 2.5% growth (based upon a slow 2020)
- > Global fiscal and monetary coordination is poor and lacks impact – improvement required. Rebound – domestic focus shifts to export impact.

- **US GDP:**

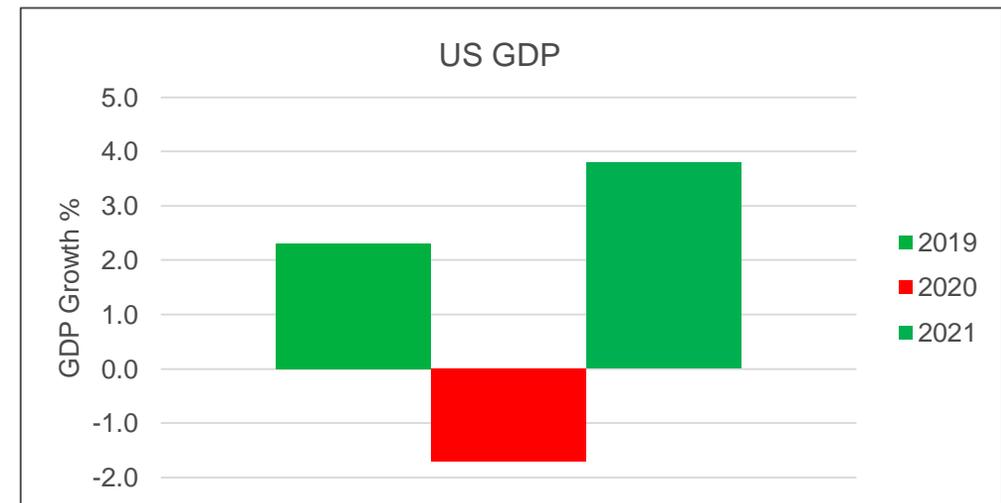
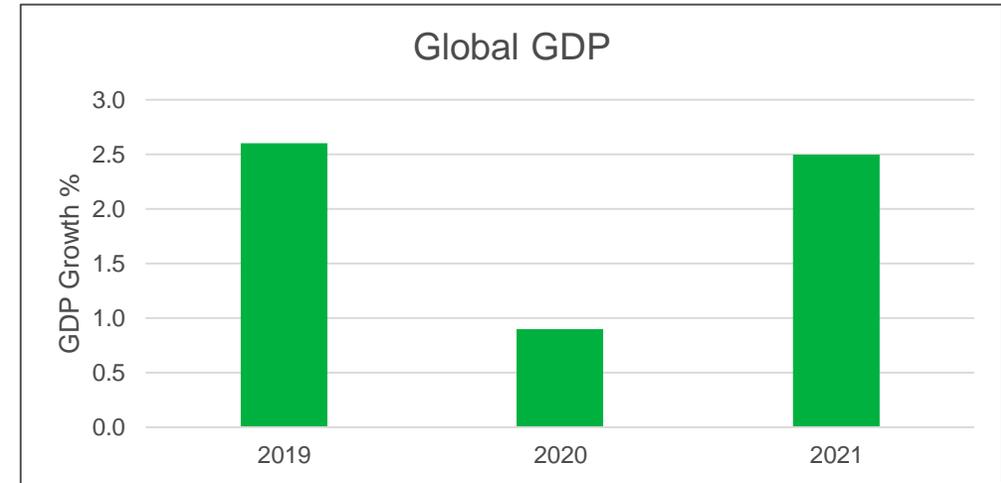
- > Entering recession in March. In recession through late 2020 – private investment, retail activity, fixed investment, reduced wealth effect and construction are all severely constrained. 2020 GDP is forecast at -1.7% followed by a 3.8% growth in 2021.
- > Fiscal stimulus of over \$2T is forthcoming. Unemployment may approach 9% by late-2020. Wealth effects and reduced oil price have impacts.
- > Exchange rates will be under pressure due to slower exports and low interest rates.

- **China:**

- > Q12020 GDP -5.4%, 2020CY 3.9% / 90-95% of businesses have resumed – domestic rebound shifts to export slowdown.

- **Europe**

- > GDP in EU and UK both are forecast for -1.3% in 2020



Few upside risks – mainly downside risks

COVID-19 Autos Assessment: It's not Doomsday, It Just Feels Like It

Key Forecast Assumptions

- Global spread of the coronavirus pandemic has emerged as the single biggest risk factor facing the autos industry for many years
- 2020 world real GDP growth reset below +0.9% (recession) (was +1.7%)
- We project a U-shaped cycle with sharp reduction in near-term growth followed by a slow recovery
- Real GDP growth for China revised down to +3.9% for 2020 (was +4.3%)
- Eurozone GDP growth forecast to slump -1.3% in 2020 (was 0.0%)
- US expectations are reset at -1.7% GDP growth for 2020 (was +1.8%)

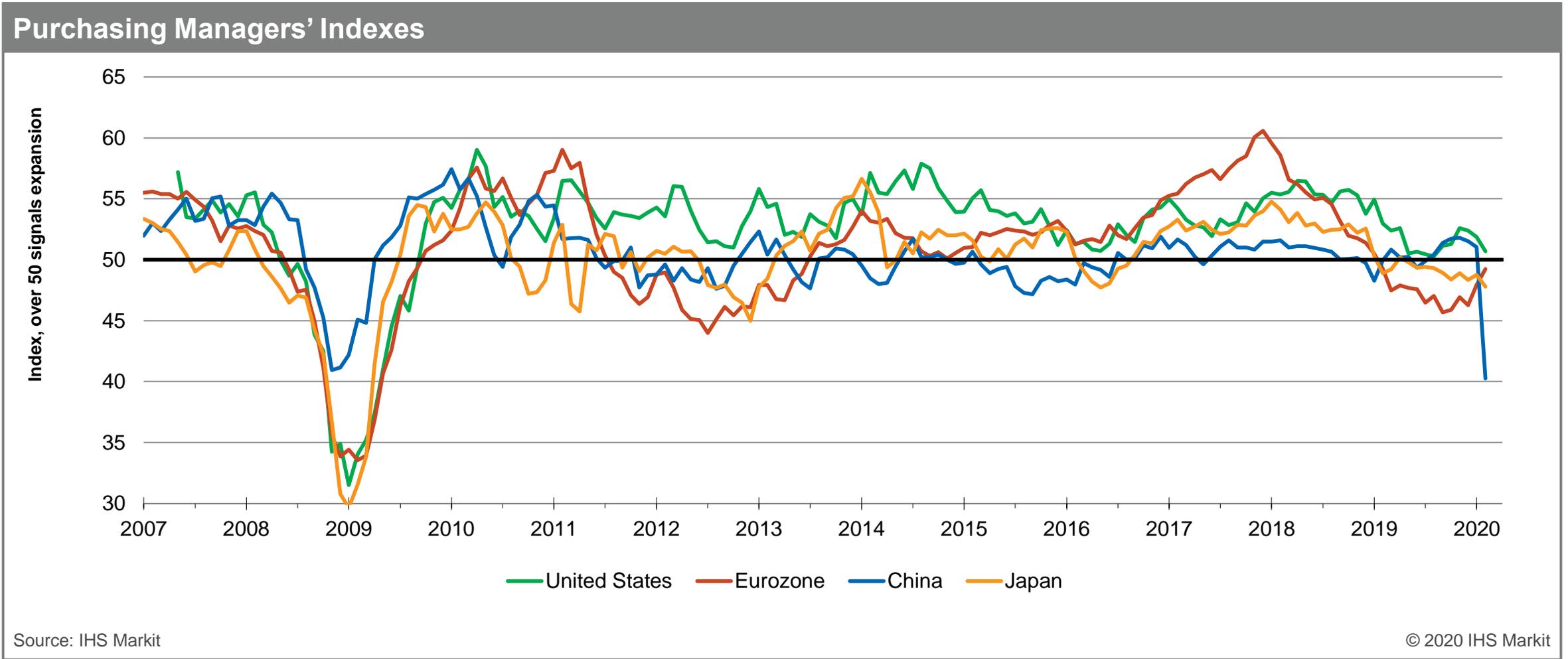
Key Uncertainties

- Forecasting in this environment is hard
- We are in the midst of a major generational event & we anticipate rolling disruption to the autos industry, especially across the next 6-9 months
- Forecast risks are overwhelmingly on the downside & depend crucially how governments respond (health/economic crises)

Note: March GDP growth forecasts compared to Interim early March forecast

Note: China refers to Mainland China

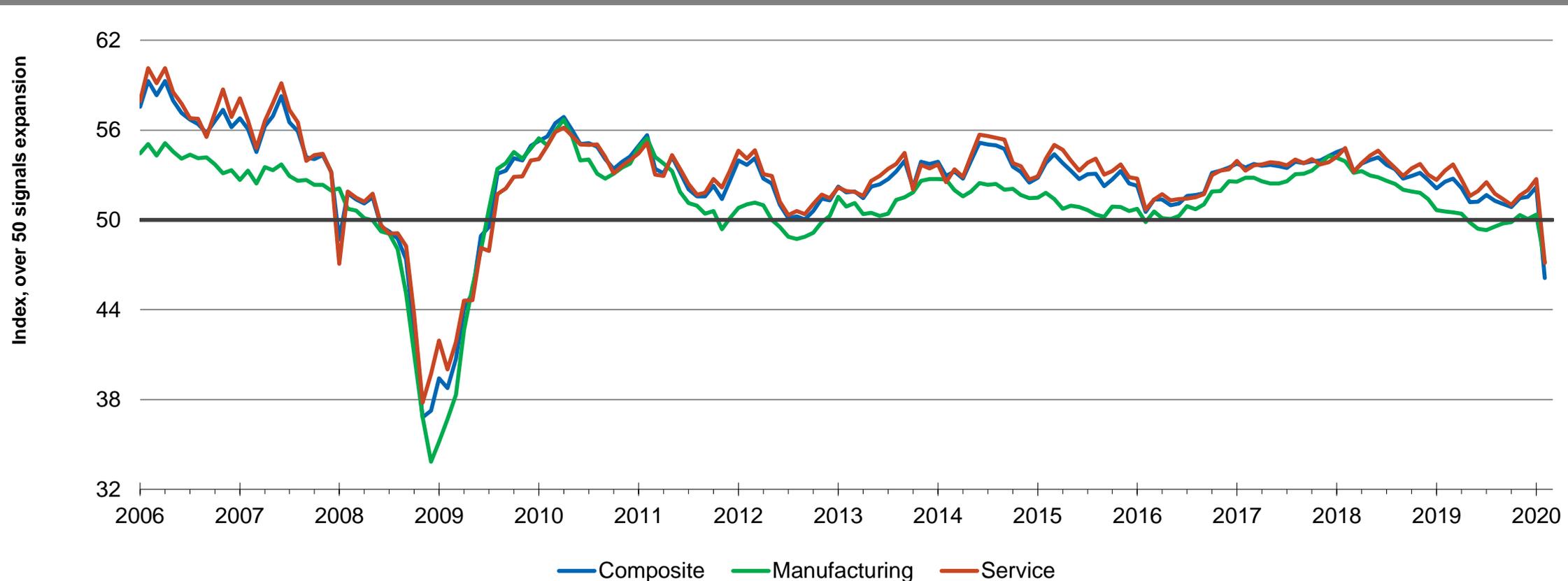
IHS Markit manufacturing PMIs® point to a serious downturn



JPMorgan Global PMIs® Show Service Sectors are also Contracting

Global Economic Output Contracts at Fastest Pace Since 2009

Purchasing Managers' Indexes



Source: IHS Markit

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Economic Bottom Line: The Outlook will Probably get Worse Before it Gets Better

- The onset of the global recession was sudden and dramatic.
- While there are parallels with 2008/09, there are also differences.
- Unlike the global financial crisis, COVID-19 is both a supply-side and a demand-shock.
- While swift monetary action is welcome and will help to stabilize financial markets, it will do little to slow the virus or limit the economic damage (e.g. un-freeze supply chains and encourage people to travel more).
- What is needed is swift and targeted fiscal action to boost healthcare spending (to slow the spread of the disease) and relief for household who can't go to work and businesses (especially small ones) whose sales have plummeted.
- So far, the fiscal actions have been not nearly enough.

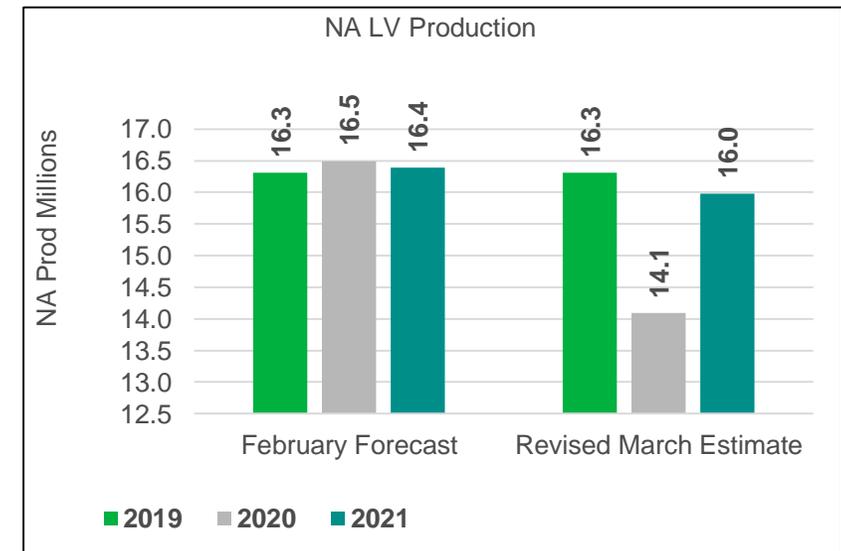
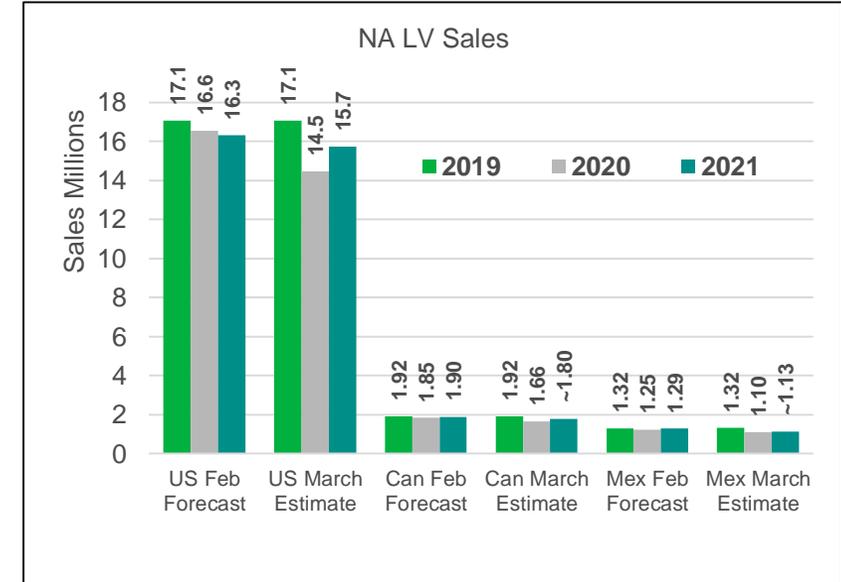
2020 Light Vehicle Forecast Outlook

1. Coronavirus uncertainty adds to already-pressured autos industry—2020 expected to witness unprecedented instant stalling of demand—impacts will be rolling as coronavirus spreads
2. Expected global 2020 slump similar to 2-year decline global recession 2008/2009—with risks skewed to downside & ultra-dependent on govt. action & support/stimulus packages
3. “Patient zero” China market should bottom out in 2020—hopes for beginnings of recovery from 2021—some demand likely to have been destroyed
4. Europe gripped by full-scale coronavirus crisis with demand conditions worsening by the day—region faces months of disruption (Brexit talks & EU30 CO2 plans might require delays)
5. Expected US recession leads to sharp consumer contraction & immediate LV demand slump
6. ROW mixed prospects – early crisis markets seem to be coping but risk “flare-ups” & early days for Brazil, Russia, India. Iran shows how virus can hit hard in less developed economies
7. Remote/flexible crisis working arrangements could influence future mobility patterns...



Near-Term Auto Forecast: Impact of COVID-19

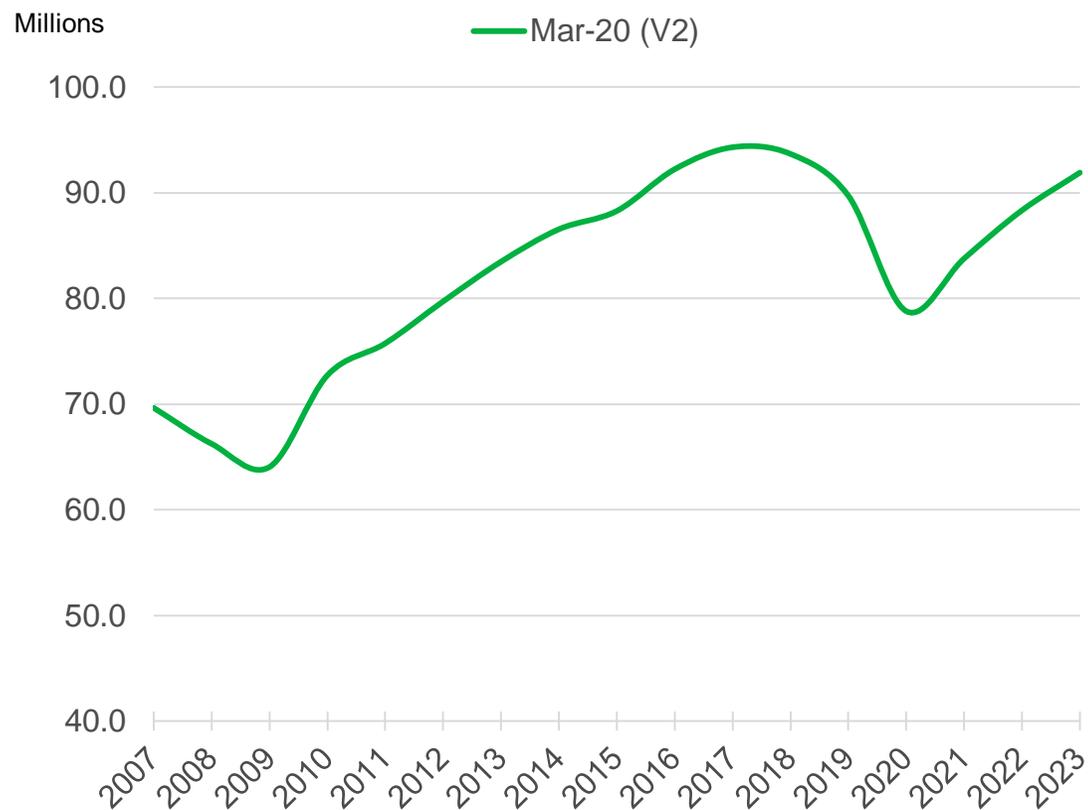
- 2020 Sales Outlook:** US LV Sales forecast has been revised to 14.5M (from 16.5 in February – down 6.7%) and 15.6M in 2021 (from 16.3M in February – down 12.1%). A similar decline is expected for Canada down to 1.66M in 2020 though Mexico is expected to slow to 1.10M vs. a stronger 2019 pace.
- Slower sales driven by declining consumer confidence, reprioritized spending, severely reduced economic activity.
- Inventory expected to decline from ~3.6 mil units to below 3.1 mil as OEMs sell off inventory in a slower US vehicle sales market.
- 2020 Production Outlook:** NA production setting is estimated to decline to ~14.1M units from 16.5M in the February forecast. 2021 volumes are estimated to fall to 16.0M from a previous setting of 16.4M.
- OEMs may possibly furlough the entire production system in NA for a 4-5 week period. Production per week in NA is ~350,000 units. It would take ~1 month of overtime to make up for this production (if required).
- Rental fleets and entry level will be harder hit due to travel declines and entry-level wages.
- Despite significant liquidity in the system, credit for more difficult buyers may tighten considerably.



Stalling Global Demand as COVID-19 Contagion Spreads Around the World

Expected 2020 Slump Worse Than 2-year Decline During Global Recession of 2008/2009

Global Light Vehicle Sales Outlook



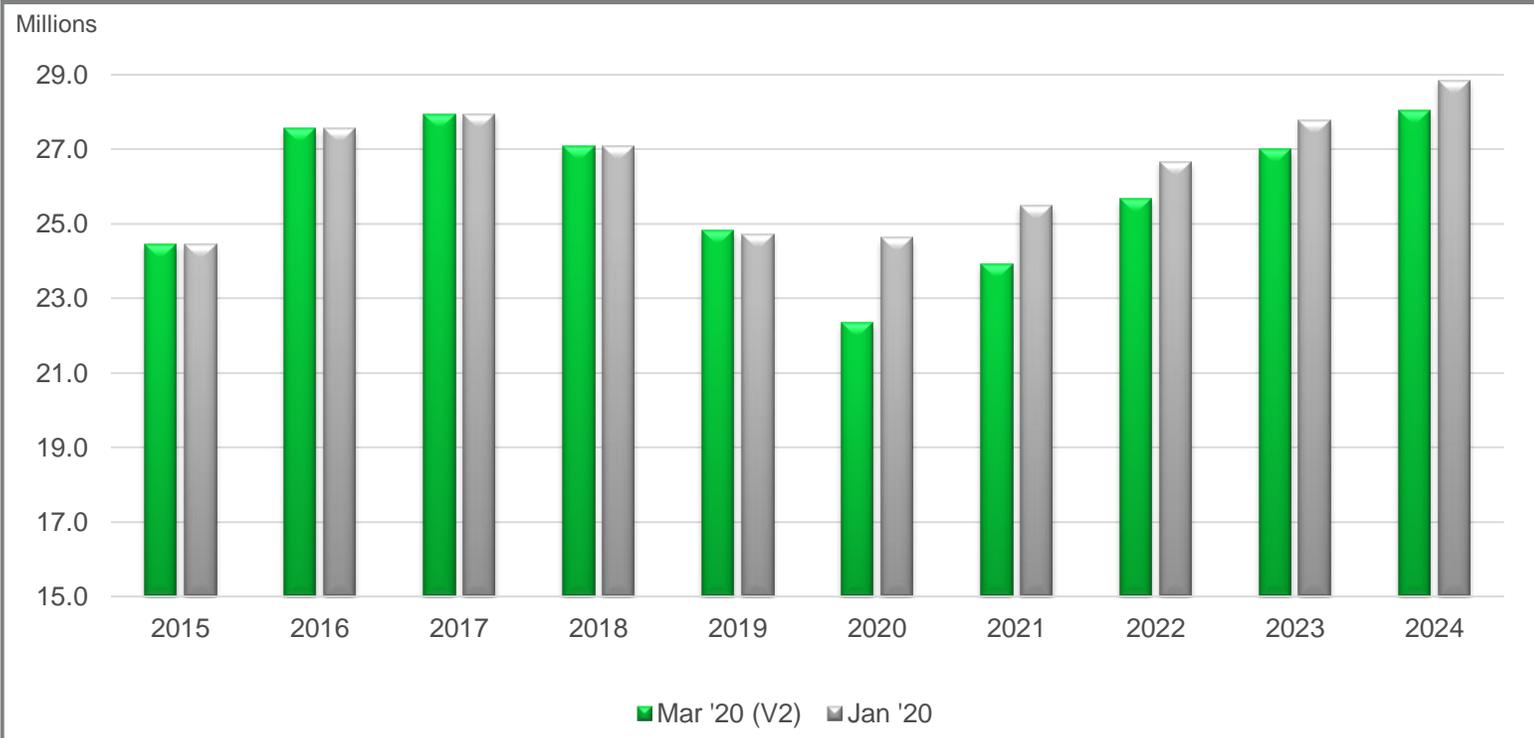
| Market | 2020 TIV | Growth (% chg) | Mar V2 vs. Jan-20 |
|---------------|--------------|----------------|-------------------|
| China | 22.4m | -9.9% | -2.3m |
| USA | 14.5m | -15.3% | -2.4m |
| WE/CE | 15.6m | -13.6% | -1.9m |
| Global | 78.8m | -12.2% | -10m |

Source: IHS Markit – March 2020 LVS Forecast

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China: Deeper & Longer Gouge to Normal Consumption Pattern Due to COVID-19 Creates a More Severe Downgrade to Vehicle Demand

Mainland China: COVID-19 Impacted LV Sales Forecast (Mar-20 V2)



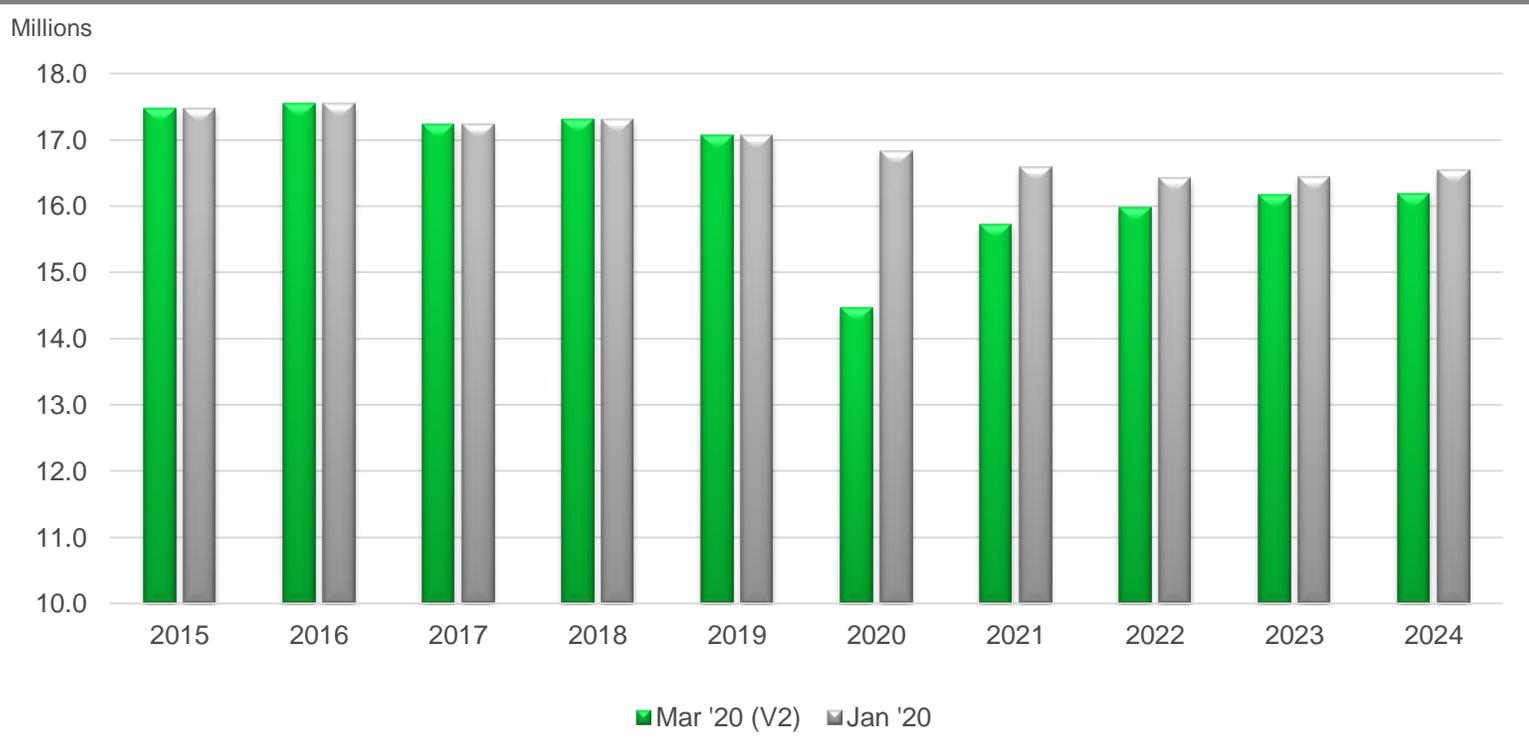
- Economic slowdown disproportionately felt by private companies (non-SOE) & SMEs
- Demand Shock: dealer sales level in 1st week of March only reached 38% of that same period in 2019 (CADA) although numbers of confirmed cases have fallen sharply across provinces for the past month
- Slow ramp up in new model launches as OEMs struggling for seamless cooperation among supply chain, production, sales & logistics. OEM production resumption rate hit +85% (MIIT) & suppliers capacity utilization rate climbed to 75% in the 1st week of March (IHSM)
- We expect vehicle demand to drop by 41% in Q1 followed by modest rebound in Q2 assuming the spread of virus is at least under control in Q2
- Aversion to public transport post-outbreak could help vehicle sales but we only expect modest demand rebound due to much higher vehicle density & slower economic growth
- More significant incentives required to substantially change this picture. Easing licence plate restrictions in key cities only limited impact

Note: China refers to Mainland China

| | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------|------------|------------|----------|----------|
| % Growth YoY | -9.9% | 6.9% | 7.4% | 5.2% |
| Vol Delta vs. Pre-Crisis Jan Forecast | -2,265,000 | -1,590,000 | -990,000 | -760,000 |

US: Sharp Consumer Contraction Expected to Impact Auto Sales Immediately & Weak Economic Recovery Outlook in 2021 Sustains Pressure

US: COVID-19 Impacted Light Vehicle Sales Forecast (March 2020 V2)

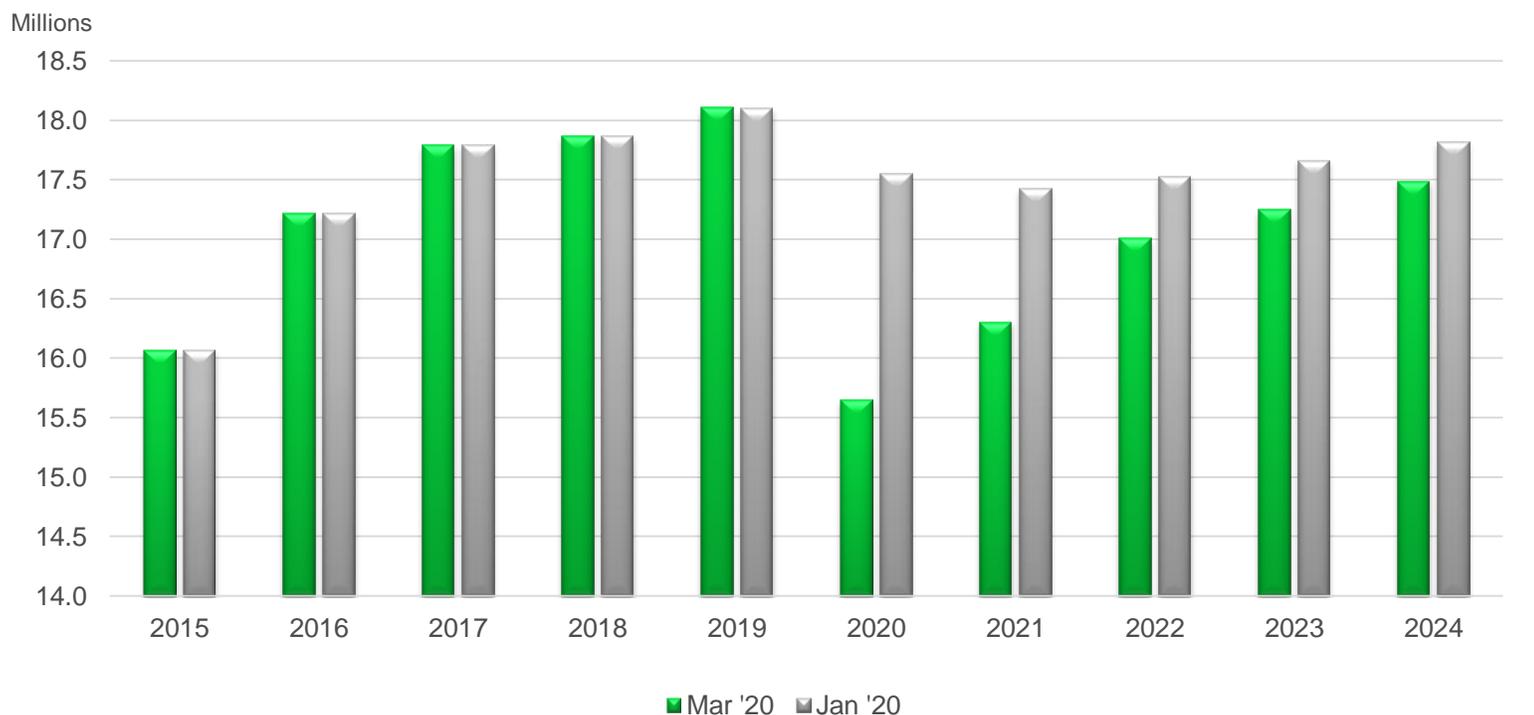


| | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------|------------|----------|----------|----------|
| % Growth YoY | -15.3% | +8.7% | +1.7% | +1.2% |
| Vol Delta vs. Pre-Crisis Jan Forecast | -2,360,000 | -870,000 | -440,000 | -260,000 |

- Consumer-led recession assumption beginning from Q2 & lasting through the end of the year now the baseline U.S. economic forecast setting
- Federal Reserve announced aggressive policy responses to the crisis: an immediate cut in the federal funds rate to near zero (a target range of 0% to 0.25%) & announcement of a program that will result in the expansion of the Fed’s holdings of Treasury securities & Agency mortgage-backed securities over coming months (total ~\$700bn)
- Could rise to \$850-\$1tn with other fiscal policy measures but probably not enough to stave off recession (e.g. \$1k direct payments \$250bn TBC)
- State & city-level policies limiting large gatherings & “shelter-in-place” restrictions which could impact monthly autos sales levels in the immediate term (at least -20% y/y). Americans typically buy-from-stock so demand fluctuations can be instant (esp. mass market) (CV-19 impacted cities trending negative on daily sales analysis). Renewals for rental fleets impacted (seasonal purchase timing) – delay/destruction
- Auto lenders & OEMs already rolling out special programs (delayed payments, 0% financing)

Europe: Gripped by Full-Scale COVID-19 Crisis with Demand Conditions Worsening by the Day – Region Faces Months of Disruption

EU (WE/CE): COVID-19 Impacted LV Sales Forecast (March 2020 V2)

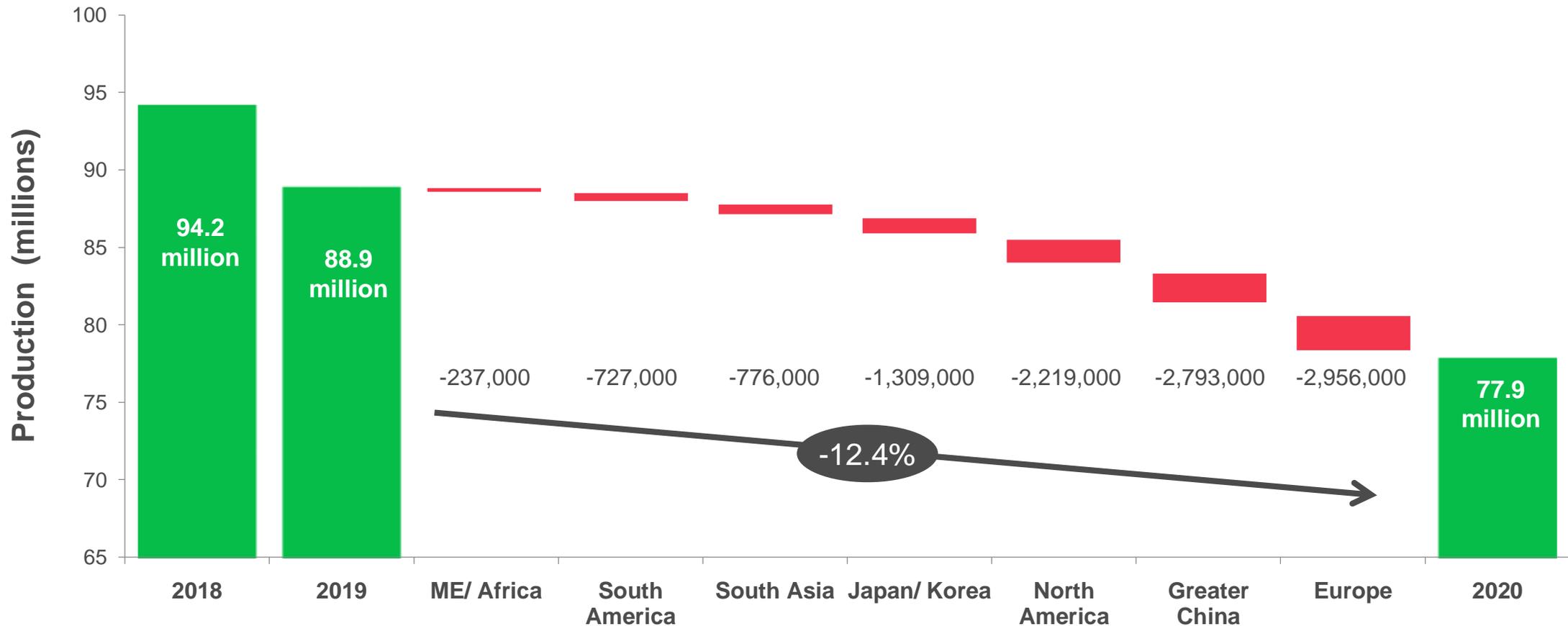


- Epicenter of the coronavirus outbreak has shifted from China to Europe. Lockdowns in place esp. Italy, Spain, France & UK. Partial lockdown in force in Germany. EU to close its borders to all non-essential travel to fight coronavirus
- EZ now in recession, with real GDP expected to decline again in the first quarter due coronavirus
- March registrations likely to provide mixed picture (-30% / -500k) with future monthly regs expected to plummet further on geographical spread of virus & CV-19 restrictions. We foresee at least 4-6 months of disruption. Car dealers temporary closed in Germany, Italy & Spain. Rental fleet renewal impact (esp. tourist regions)
- Rolling shut downs of European automotive plants (at least 2 weeks as a start)
- Despite not cutting rates, ECB announced measures to support bank lending & expanded its asset purchase program (BoE cut & has loans)
- Most European governments announcing economic support/stimulus measures (€/£); Brexit talks & EU30 CO2 plans might require delays (no news yet)

| | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------|------------|------------|----------|----------|
| % Growth YoY | -13.6% | 4.2% | 4.3% | 1.4% |
| Vol Delta vs. Pre-Crisis Jan Forecast | -1,904,000 | -1,120,000 | -526,000 | -420,000 |

Global Light Vehicle Production

COVID-19 Impact Extends Well Beyond China; Further Downside Risk Exists



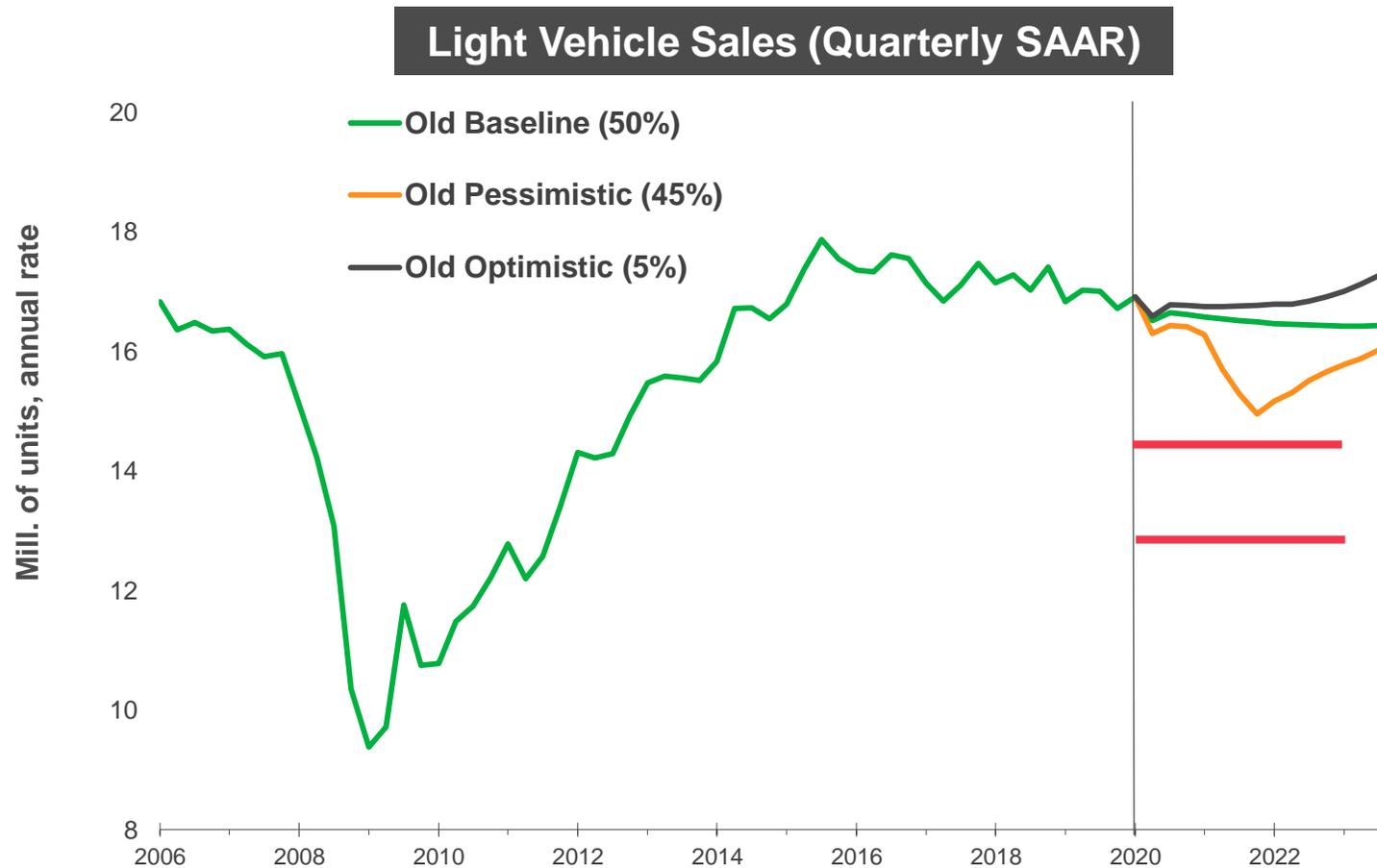
Source: IHS Markit Light Vehicle Production Forecast

US Light Vehicle Sales in Alternative Scenarios

Mind the Gap(s)!: Multi-Scenario Planning in a Time of Uncertainty

Watchlist

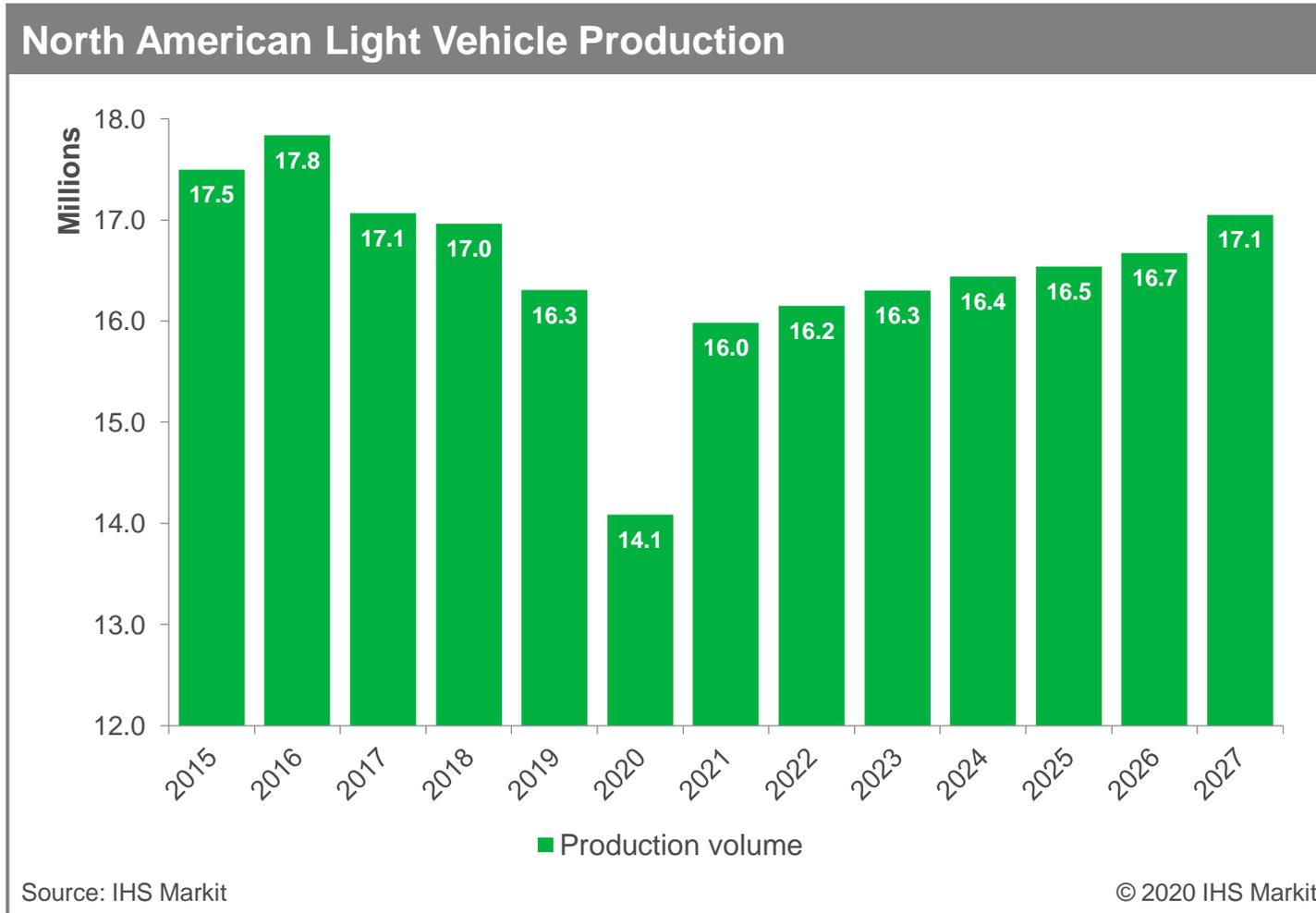
- Economic outlook
- Consumer confidence
- Regional quarantines
- Supply chain disruptions
- Used vehicle pricing
- Uncertainty
- **Credit, credit, credit**



Source: IHS Markit

North American Light Vehicle Production

COVID-19 Poses Greatest Threat to Near-Term Outlook



Short term

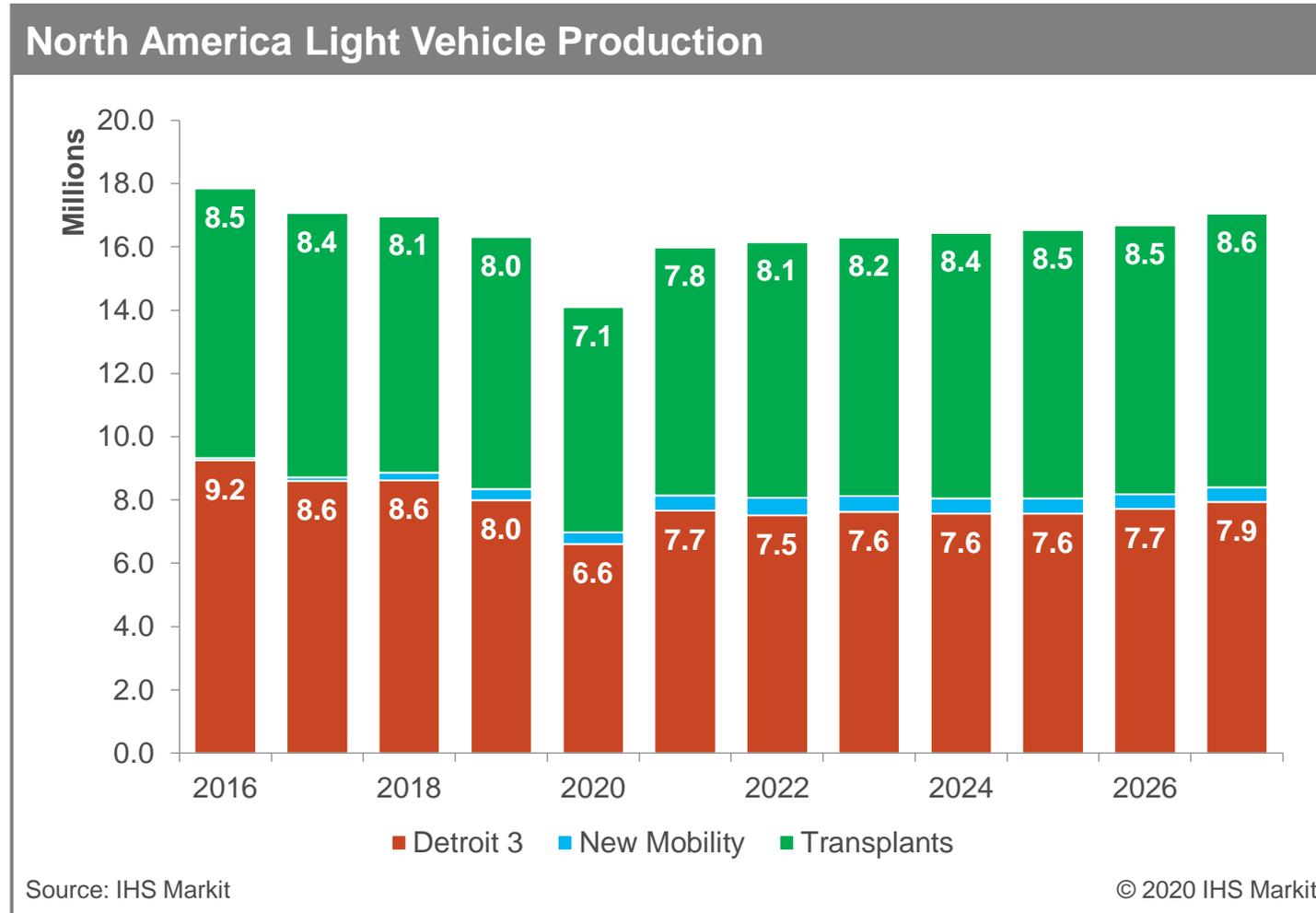
- COVID-19 related plant shutdowns
- Quarantine areas impact demand (and production)
- Inventory in the system can help offset some of the plant disruption impact
- Component shortages remain a risk
- OEMs to prioritize profitable programs

Long term

- Positioning for the demand recovery, whether it is U- or V-shaped
- USMCA implications
- Continued shift to trucks and utilities
- BEV implications
- Policy and regulatory uncertainty
- Life-cycle pressure

North American Light Vehicle Production

Customer Mix is Changing; Opportunity Targeting is More Critical than Ever!



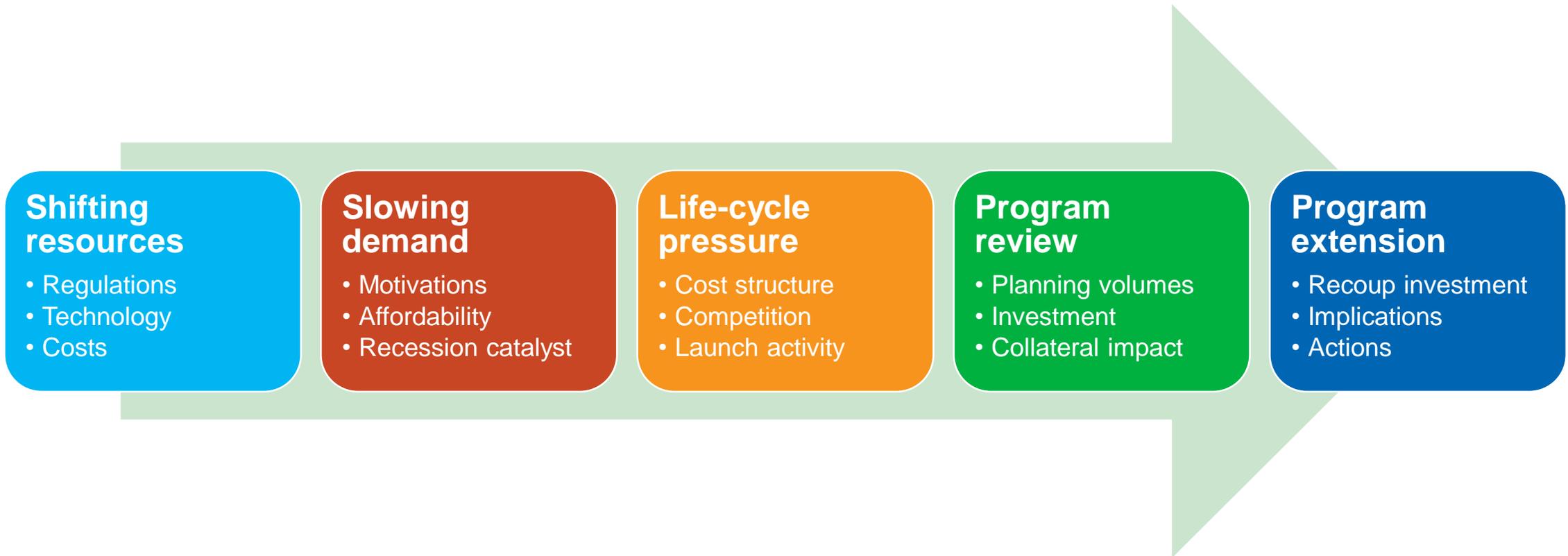
Divergent trajectories – 2019 to 2027

- **Domestics**
 - -52K units or -0.7%
 - Offshoring to China
 - Increasing shift to trucks
 - More closely tied to US sales
 - Build where you sell
- **Transplants**
 - +691K units or +8.7%
 - Localization
 - Capacity expansion
 - Global sourcing and export risk
- **New Mobility**
 - +105K units or +28.7%
 - Tesla largest component
 - Monitoring other start-ups

North America Light Vehicle Production

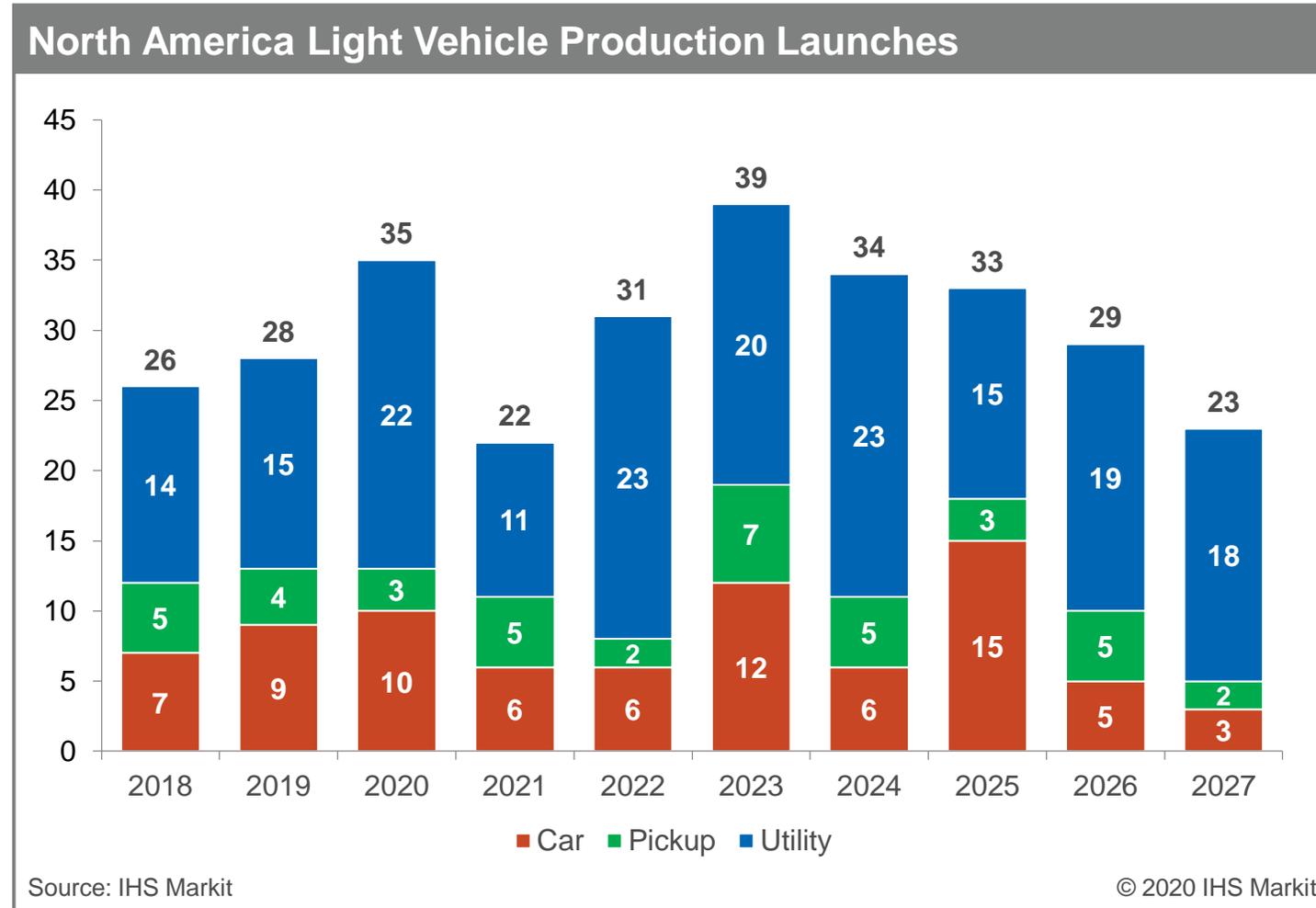
Life-Cycle Risk

Anatomy of Current Life-Cycle Environment



North America Light Vehicle Production Launches by Vehicle Type

Capital Needs Intensify with New Launch Activity; Launch Timing has Become More Volatile



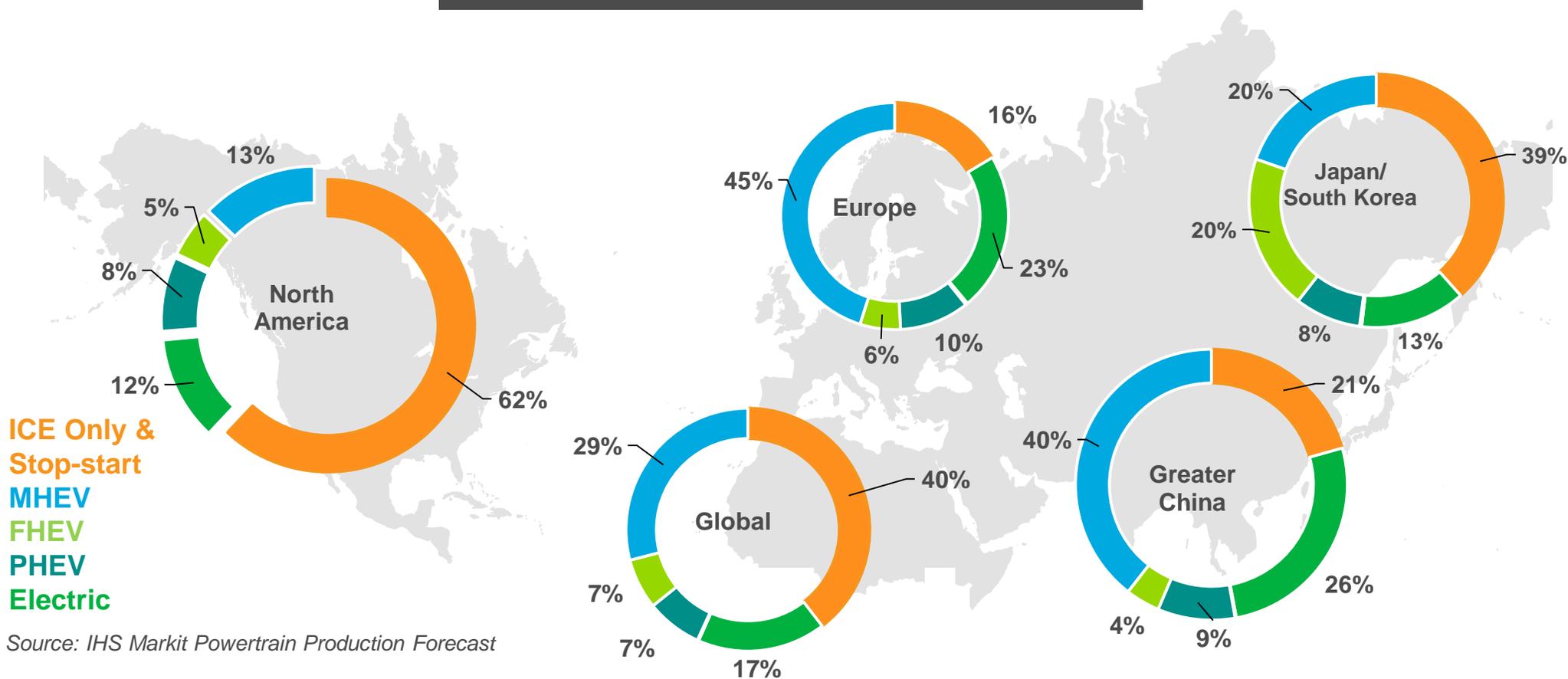
Strong launch activity

- Launches amid industry slowdown
 - Will new product be king?
 - Quality volume versus quantity
- Utility vehicle expansion continues
 - Competitiveness weighs on leaders
 - Pricing and margin pressure
- BEV activity
 - 30+ all-new nameplates
 - 9.3% or 1.6 million units of North American production by 2027
 - Tesla from 81% to 22% of total
 - Product redundancy
 - Varied strategies
- Legacy programs as a hedge
- Extended lifecycles amid future costs

Powertrain Technology Outlook

Regional Preferences and Incentives Result in a Varied Propulsion Mix; Watch the Model Count!

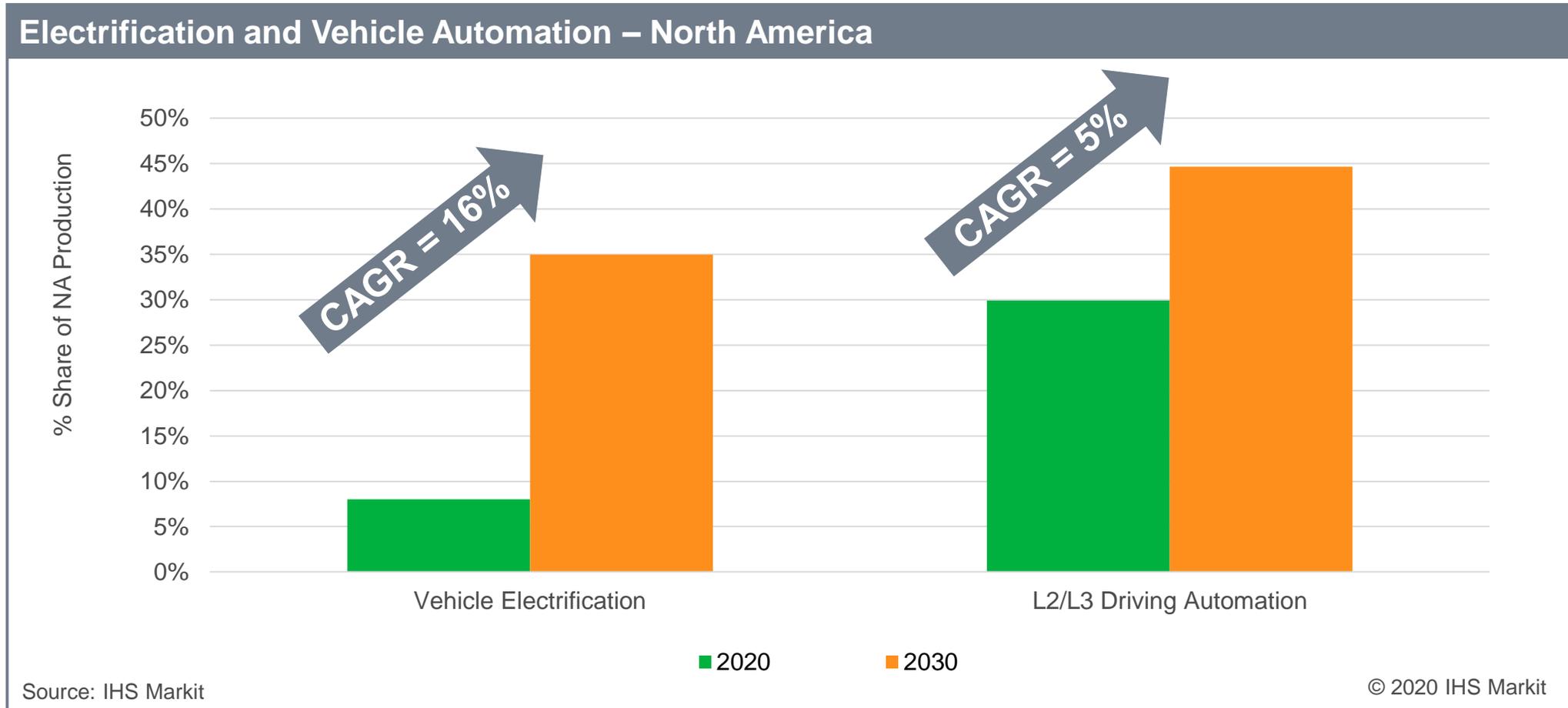
Global Propulsion Design Islands in 2032



Source: IHS Markit Powertrain Production Forecast

Supplier Dynamics

Structural Implications of the Growth in Electrification and Automation In North America



Electrification = Hybrid, Electric, Fuel Cell

Thank You!

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Coronavirus Webinar: The Employment Perspective

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Introduction

- Address questions that employers are currently facing regarding COVID-19.
- Understand that the laws are changing almost daily and may impact future advice.
- Some of the answers are dependent on state law - - it is important to check the state in which you have operations to review applicable state law
- Remember we are lawyers and not medical professionals.
- Finally, we are only one piece of the puzzle – please refer to the Butzel Long [Coronavirus \(COVID-19\) Resource Center](#) on Butzel.com for the impact of COVID-19 on other areas of your business:



Can you send an employee home that is presenting symptoms of COVID-19?

- Sending employees home is permissible if done in a non-discriminatory manner.
- Various factors to review to determine if you have to pay any of your employees:
 - whether there is a collective bargaining agreement in place;
 - the employee's classification of exempt or non-exempt;
 - the Company's Paid Leave Policies (Sick Leave, PTO or Vacation Time);
 - the required 40 hours of paid leave under Michigan's Paid Medical Leave Act (if not already included in the above paid leave policies);
 - the employee's previous use of any paid time off;
 - the possible application for Short-Term Disability (depending on the reason and length of the illness); and
 - possible application of The Families First Coronavirus Response Act (discussed in detail later)
- Employers need to consider adding increased flexibility and possibly increased time off.
- Return-to-Work Requirements

Can you take an employee's temperature?

- ADA restricts employers from conducting medical examinations and the EEOC **generally** considers taking temperature to be a medical exam.
- However, the EEOC's position during a pandemic has been revised its opinion:
 1. When may an ADA-covered employer take the body temperature of employees during the COVID-19 pandemic?
 2. When may an ADA-covered employer take the body temperature of employees during the COVID-19 pandemic?

Generally, measuring an employee's body temperature is a medical examination. Because the CDC and state/local health authorities have acknowledged community spread of COVID-19 and issued attendant precautions, employers may measure employees' body temperature. However, employers should be aware that some people with COVID-19 do not have a fever.

What steps do you take if employee now informs HR that s/he has been diagnosed with COVID-19?

- Inform necessary workplace of COVID diagnosis but do NOT identify by name the infected employee.
- Perform risk assessment of employees who had contact with the individual.
- Tell employees who worked closely with the employee to stay home for 14 days and monitor themselves for symptoms.
- Disinfect affected workspaces and common area through a deep cleaning.
- Work with CDC or local health officials in their investigation and comply with any directives.

Is there any difference if it is not employee who is sick but the employee reports that their spouse or child was diagnosed with COVID-19?

Do you have notice obligations under the WARN Act if forced to suspend operations because of COVID-19?

- WARN Act general applies to an employer with 100 or more employees
- Covered Employer must provide written notice at least 60 days in advance of:
 - (1) a plant closing; or
 - (2) mass layoff affecting 50 or more employees at a single employment site.
- Length of Layoff: 6 months or more
- Exceptions to provide advance notice (such as unforeseeable circumstances).
- Advance notice does not excuse failure to provide notice.
- Very Fact Specific – seek input from your legal counsel.

- **ALSO NEED TO CONSIDER STATE MINI-WARN ACT REQUIREMENTS**

Can we prohibit employee from traveling on her/his personal time?

- Educate about the health risk of travel (referring them to CDC recommendations).
- Advise employee of the risk of quarantine when employee returns.
- Advise employee of risk that employee may not be able to return because of cancelled flights or restricted travel abroad.
- Be sure to set expectations.
- Review local or municipality for travel restrictions.
- Be consistent!

What is an employee refuses to work or travel for business?

Factors to consider:

- Employees generally cannot refuse to come to work—OSHA requires imminent danger
- Section 7 of the National Labor Relations Act
- Flexibility

**** Please note:** First public policy lawsuit filed in Michigan for termination where employee believed that working was in violation of Governor's restriction order

CONTINUATION - Employee refuses to work or travel from home

Does the analysis change if the employee has a disability?

- Engage in interactive process if accommodations are requested.
- Understand ADA obligations of providing a “reasonable” accommodation.
- Leave of Absence may be considered an accommodation but not necessarily always - - dependent on the circumstances of the job.

Can you give preferential treatment?

- Avoid imposing ADA-restrictions not requested.
- Avoid treating employees as “regarded as” disabled.

Shelter-in-Place / Stay-At-Home Laws

- More than 10 orders issued by States and Municipalities
- Scope of Orders Vary
- If business is exempted and employee is deemed essential, need to provide travel papers
- This is not business-as-usual, need to follow state, local and CDC precautions

Families First Coronavirus Response Act (FFCRA)

- March 19, 2020 President Trump signed into law is **Effective April 1, 2020**, and continues through December 31, 2020
- Two Important Acts within
 - FMLA Expansion Act
 - Emergency Paid Sick Leave Act

Which employers are covered?

- FMLA Expansion
 - Fewer than 500 employees **and** public agencies covered under FMLA
 - Small Businesses (under 50 employees) may be exempt under future DOL regulations if complying with the Act would “jeopardize the viability of the business as a going concern”
 - 50 employee / 75 mile radius rule intact
 - Special Rule for Health Care Providers—health care providers or emergency responder may elect to exclude employees from these benefits
- Emergency Paid Sick Leave
 - Fewer than 500 employees **and** public agencies that employ 1 or more employees
 - Small Businesses (under 50 employees) may be exempt under future DOL regulations if complying with the Act would “jeopardize the viability of the business as a going concern”
 - The DOL may issue regulations allowing employers of health care providers and emergency responders to opt-out of the benefits.

Which employees are covered?

- **FMLA Expansion**

- Employees working for at least 30 days
- Must be unable to work (or telework) AND
- Must be caring for a minor son or daughter because the child's school or place of care is closed or unavailable due to a declared health emergency for COVID-19 by a Federal, State, or local authority

- **Emergency Paid Sick Leave**

- All employees—it doesn't matter how long they have been working
- Must be unable to work (or telework) AND
- Must fall into one of six categories
- (1) Employee subject to quarantine from government
- (2) Employee subject to quarantine from health care provider
- (3) Employee has COVID-19 symptoms and seeking diagnosis
- (4) Employee is caring for individual subject to quarantine
- (5) Employee is caring for child because school or childcare is closed for COVID-19
- (6) Employee has another similar condition specified by DHHS

FMLA Expansion—Benefits

- Partially paid and partially unpaid
- Unpaid leave
 - First 10 days of leave
 - Employee may use any accrued vacation leave, personal leave, or medical or sick leave BUT employers cannot require employee to use accrued PTO
 - Possible use of 80 hours of Paid Sick Leave (discussed in further detail later)
- Paid leave
 - 10 weeks are paid at least two-thirds of the employee's regular rate of pay
 - Capped at \$200 per day and \$10,000 in the aggregate for entire duration

Expanded FMLA hour calculation for employee with varying schedule

- The average number of hours the employee was scheduled per day (including hours the employee took for any leave) over the previous 6 months before leave
- If the employee did not work in past 6 months, use the reasonable expectation of the employee at the time of hiring of the average number of hours per day that the employee would normally be scheduled to work

Employer's other obligations under Expanded FMLA

- Must restore the employee's job when the employee returns
 - Employers with fewer than 25 employees—if the employee's position no longer exists due to economic conditions or other changes in operating conditions caused by a public health emergency during leave THEN the employer does NOT have to restore the employee's employment, but must make reasonable efforts to restore the employee to an equivalent position.
 - Employer must make reasonable efforts to restore the employee to position and if those fail, must contact the person within 1 year beginning the earlier of the date of the qualifying need concludes or 12 weeks after the date on which the employee's leave commences, if an equivalent position becomes available.
- Must continue health care benefits

Obligations under Emergency Paid Sick Leave Act

- Must pay employees immediately—no waiting period!
- EE must be unable to work (or telework) AND
 - 1. The employee is subject to a Federal, State or local quarantine or isolation order related to COVID-19.**
 - This covers the recent shelter-in-place order (unless employer is exempt)
 - 2. The employee has been advised by a health care provider to self-quarantine due to concerns related to COVID-19.**
 - Doctor tells employee to self quarantine because she may have the virus or was in contact with someone who had it
 - Employer could require a note from doctor providing for such a recommendation if it feels that employees may abuse the system
 - 3. The employee is experiencing symptoms of COVID-19 and seeking a medical diagnosis.**
 - Legally permissible to ask for doctor's note but be flexible

Obligations under Emergency Paid Sick Leave Act

4. The employee is caring for an individual subject to a local quarantine or isolation order or who has been advised by a health care provider to self-quarantine.
5. The employee is caring for the employee's child if the child's school or childcare provider has been closed or is unavailable due to COVID-19 precautions.
6. The employee is experiencing any other substantially similar condition specified by the Secretary of Health and Human Services.

Amount of pay under Paid Sick Leave Act

- Full-time: 80 hours paid sick time.
- Part-time: paid leave for number of hours that the employee works, on average, over a 2-week period.
- Contingent or “variable” – average hours over 6 months or expected average schedule.
- For leave having to do with the employee themselves (self care)—100% regular rate of pay
 - Cap: \$511 per day or \$5,100 (total)
- For leave relating to care for another, or for self care for reason “specified by HHS” a condition like COVID-19—2/3rds regular rate of pay
 - Cap: \$200 per day or \$2,000 (total)

Other considerations for Emergency Paid Sick Leave Act

- Employers are prohibited from requiring—as a condition of giving sick pay—that the employee look for or find a replacement employee
- Employers are prohibiting from requiring an employee to use other paid leave *before* the employee uses the paid sick time under the Act
- Employer cannot discriminate against employee who takes leave under the act or files a complaint/institutes any proceeding related to the Act
- Penalty for not providing sick leave under the Act: the same penalties under FLSA
 - Minimum wage penalty,
 - Owed amount of leave plus the same amount in liquidated damages,
 - Attorney fees,
 - Injunctive relief
- Employer must post a notice approved by DOL (model to be provided)
- Employer may require employees to follow reasonable notice procedures to continue to receive paid sick time

FMLA Expansion and Emergency Paid Sick Leave working together

- Employee cannot work because child's school is closed
- Emergency Paid Sick Leave could cover 2/3rds of the employee's wages for first 10 days / 80 hours
- FMLA Expansion would cover 2/3rds of the employee's wages for up to 10 weeks

Front the costs – Tax credits on back end

- Payroll tax credit to help employers cover the cost of wages under the FFCRA
- If the amount of credit exceeds payroll taxes for the quarter, the excess amount is refundable
- 3 components to the credit
 - Wages – 100% of the wages paid under the Emergency Paid Sick Leave Act and the Expanded FMLA are eligible for the credit.
 - Hospital Insurance Tax – The credit is increased by the amount of the Hospital Insurance Tax paid on eligible wages.
 - Health Plan Expenses – The credit is increased by the health plan expenses allocable to the employee during the period of leave. Health plan expenses are amounts incurred to provide and maintain a group health plan, but only to the extent they are excludible from the employee wages.

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THANK YOU!

Questions?

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