Economy 2020: What's Next?

■ By BRAD GRAVES

As goes the nation, so goes San Diego.

Or does it?

San Diego sits on the threshold of a new year. The question is whether the community will follow the rest of the economy, or perform even better.

A panel of business leaders will offer their perspectives on the year ahead on Wednesday, Jan. 22, when the **San Diego Business Journal** presents Economic Trends 2020, its annual economic forecast.

The look ahead will be offered over breakfast.

The place will be the **Hyatt Regency La Jolla at Aventine** at 3777 La Jolla Village Drive in San Diego. Registration begins at 7:30 a.m.

Breakfast will be served at 8 a.m. The program will start shortly thereafter and run until 10 a.m.

Mark Cafferty, president and CEO of the **San Diego Regional Economic Development Corp.**, will moderate the panel discussion, as well as, provide updates on the San Diego Market.

The keynote speaker will be **Michael Pugliese**, economist for **Wells Fargo**.

Panelists will include **Brett Good**, senior district president with **Robert Half**; **Alessandra Lezama**, founder and CEO of **TOOTRiS**; **Trindl Reeves**, principal with **Marsh & McLennan Agency**; and **Lynette Seid**, area chief financial officer for the **Kaiser Foundation Health Plan** and **Kaiser Foundation Hospitals San Diego Service Area**.

Sponsors for the event include the **Association for Corporate Growth (ACG)**, **Kaiser Permanente**, **Marsh & McLennan Agency**, **Robert Half**, **San Diego Regional EDC**, **TOOTRiS** and **Wells Fargo**.

In addition to a forecast, the event promises excellent networking with the business leaders in attendance.

2020 will be a momentous year. Broaden your perspective on what lies ahead.

For registration and tickets, go to sdbj.com/bizevents. More information is available by calling (858) 277-6779.

Moderator

Mark Cafferty

***President & CEO*, San Diego Regional Economic Development Corp.**

As president and chief executive officer of the **San Diego Regional Economic Development Corporation**, **Mark Cafferty** sits at the center of a unique collaboration of business, trade, community, and education leaders who have redefined the region's economic development strategy, cementing the region as a key stakeholder in the global economy. Cafferty has spent more than 25 years designing systems to support career advancement and economic opportunity for American workers.

Keynote Speaker

Michael Pugliese

Economist
Wells Fargo

Michael Pugliese is an economist with **Wells Fargo Securities**. Michael covers the U.S. economy, with a primary focus on fiscal policy. He plays a lead role in producing the economics team's U.S. and international interest rate forecasts. Michael will offer insight and analysis on the national and regional economic outlooks. Topics include economic growth, the labor market, monetary policy developments and other hot topics such as elevated trade tensions and the 2020 presidential election.

Purchase your tickets today! *Visit sdbj.com/bizevents*

Featured Panelists

Trindl Reeves
Principal
Marsh & McLennan Agency

Trindl Reeves has been a principal for **Marsh & McLennan Agency** since 2006. With over 30 years of experience in the insurance industry, Reeves' leadership is grounded in her expertise in risk management and health and welfare consulting. She has played a key role in the company's rapid growth. While Reeves is responsible for growth of her company's Western Region she also leads MMA's National Private Equity initiative. She serves on the company's management committee and foundation board of directors in addition to serving as a director on several outside boards such as **San Diego County YMCA**, **San Diego Regional EDC**, **Biocom**, **The Rady Children's Institute for Genomic Medicine** and **Vigilant Risk Solutions**.

Reeves earned a bachelor of arts in psychology from the **University of California, Irvine** and holds the professional designations of Certified Insurance Counselor (CIC) and Accredited Advisor in Insurance (AAI). She lives in Carmel Valley and has two daughters, one freshman at the **University of Santa Clara** and another who is a junior at **Torrey Pines High School**.

What Reeves will be talking about at the 2020 Economic Trends event:

The C-suite is facing a challenging year of managing risk and insurance costs. Here are some things to keep an eye on in our current market.

Property Insurance – Be Prepared To Pay More

The insurance market was expected to firm up in 2019, but the dramatic shift in some areas of California surprised even those expecting rates to rise.

The property insurance market has been buffeted over the past few years by record losses from Hurricanes Harvey, Irma and Maria, as well as the California wildfires. Another rough California wildfire season could pressure carriers to raise rates even further next year. Each quarter, rates continue to climb higher in response to what carriers view as a correction to years of underpricing.

Impact: A firming market typically means higher premiums, tighter underwriting and less competition for your business. Almost in unison, carriers have decided to recoup the recent catastrophic losses with rate increases. In some instances, those increases have been dramatic. Businesses with operations in earthquake and flood zones are likely to see the biggest rate hikes. Organizations with dated facilities could also see big premium increases. Now is a good time to upgrade older properties/assets or to consider disposing of them to minimize risk and premium increases.

Auto Coverage – Rates Also Going Up

Like the property market, the auto insurance market will continue to harden. Due to a rapid increase in claim frequency due to distracted driving and the increased cost to repair vehicles, carriers are reluctant to take on more auto liability risk. Their unwillingness to do so points to the softening profitability of their auto portfolios.

Impact: CFOs that manage fleets will need to think creatively to find the best rates and coverage. Fewer insurers are willing to cover large fleets. At the same time, insurers are scrutinizing the hiring procedures and driver safety programs of clients. Companies with the best safety records are not being spared the double-digit rate increases others are experiencing.

Directors & Officers Liability – The Struggle Continues

The current environment is the most challenging D&O insurance market since the dot-com bust. New and unfavorable case law has exposed carriers to significant new liability. As a result, the outlook for D&O insurance isn't likely to improve anytime soon.

Impact: Both public and private companies need to be more diligent than ever. The 2018 Cyan decision permits suits to be filed against companies in both federal and state court for the same event. Insurance companies are very concerned about the ongoing and future cost of these claims. To manage cost, clients should be sure to request multiple options on the structure of their program and consider higher deductibles possibly lowering limits where possible.

IPO-bound companies seeking D&O insurance should also expect to pay three to five times more for coverage compared to just 24 months ago. Rates will continue to go up.

What to Do in a Market Like This?

In these market conditions, CFOs will need to carefully evaluate the proper level of necessary coverage and potentially make difficult decisions. To manage cost and risk upon renewal, companies should consider doing the following:

- Start the renewal process early and engage the entire C-suite so there are no surprises.
- Differentiate your company during the renewal process. Make sure you know how your broker is positioning your company.
- Evaluate the amount of insurance to be purchased in advance by understanding your risk profile and your peer group benchmarking.
- Be proactive about risk mitigation initiatives, which will help control rate increases.
- Develop a plan to manage loss control visits when increasingly cautious carriers come to your facilities.
- Don't rely on past performance and relationships for renewal success. Underwriters have specific criteria and may not have room to negotiate. Be open to searching global markets for coverage.
- Explore the use of alternative markets, such as increased retentions and captives.

Most importantly, work with a strategic business insurance broker like Marsh & McLennan Agency, who can secure coverage for all types of risk and has the global reach and resources to provide the most competitive rates and comprehensive advice.

Lynette Seid
Area Chief Financial Officer
Kaiser Foundation Health Plan & Kaiser Foundation Hospitals

As the area chief financial officer for **Kaiser Foundation Hospitals and Health Plan in San Diego**, **Lynette Seid** is responsible for the financial leadership of Kaiser Permanente San Diego. She oversees all aspects of financial operations including developing annual financial forecasts and consulting with senior management to develop and implement fiscal plans and budgets. Seid provides leadership and direction to more than 130 team members responsible for comprehensive financial management, financial controls, revenue cycle management, capital equipment planning, admitting department operations and Health Information Management (HIM) operations. She monitors and responds to performance, industry and market trends.

Seid has more than 30 years of experience in financial operations, leading complex national projects, building productive working relationships with senior leaders and operations managers, and effectively managing people and processes to achieve desired results.

Prior to joining Kaiser Permanente, Seid was a consultant at McKesson Corp. and held several finance and customer service director-level positions at Nestle USA - Beverage Division. She earned a master of science in health informatics degree from National University and a bachelor of arts degree in business administration from San Francisco State University.

What Seid will be talking about at the 2020 Economic Trends event:

What can employers expect in 2020?

The U.S. economy is currently in the longest economic expansion in history. Continued low unemployment is good news for job seekers in the education and health care industries, as those two areas continue to add the most jobs to the economy — both nationally and statewide. Although medical cost trends have significantly decreased over the last decade (and are anticipated to remain relatively flat), the annual percentage increase still outpaces the Consumer Price Index, creating pressure on payers and providers. Technology continues to advance, and providers continue to respond to consumers' demand for innovative modes of care delivery, other than traditional medical office visits.

How are employers responding?

Low unemployment and the competitive labor market create pressure to maintain health care benefits, slowing the expansion of cost sharing programs. Employers are more active than ever in driving change in health care, partnering with payers and providers to better manage the health of their employees. Key strategies include better management of workforce chronic conditions, encouraging healthy behavioral and lifestyle changes, and efforts to otherwise positively impact upstream determinants of health.

What is the future of the Affordable Care Act (ACA)?

The national conversation on health care policy remains focused largely on cost. Although the conversation has grown in intensity, there is significant disagreement about a solution. With the 2020 election looming, it is unlikely that significant federal action will be taken in the coming year. States, on the other hand, are more active in pursuing policy options. The intensity of future state policy changes will be shaped in part to the health of the economy, and the direction of federal public policy.

Featured Panelists

Brett Good

Senior District President

Robert Half

Brett Good is the senior District President for **Robert Half**, the world's first and largest specialized staffing firm. He oversees operations for the company's Accountemps, OfficeTeam, Robert Half Finance & Accounting, Robert Half Management Resources, Salaried Professional Services, Financial Services and Robert Half Healthcare Practice divisions throughout Southern California, Arizona, Nevada and Utah. He joined Robert Half in 1999 and has more than two decades of experience in staffing and consulting.

What Good will be talking about at the 2020 Economic Trends event:

The Current Labor Market

The war for talent is alive and well. In November, the unemployment rate fell to 3.5%, the lowest it's been since 1969. In San Diego it's even lower at 2.8%.

With California's growth rate accelerating at record rates, the hiring challenges are even more acute. The state has gained 3.4 million jobs since February 2010, accounting for more than 15% of the nation's 22 million job gain.

This means employees have options and retention concerns are real. Looking into 2020, we expect local companies will continue to offer competitive salaries, consider unique perks and benefits and will focus on reevaluating and highlighting their corporate culture. Research from Robert Half's 2019 survey programs shows:

- Aside from salary, corporate culture ranks second among job seekers when considering a job offer. While corporate culture can be challenging to define, doing little to make your company a place where people want to work all but assures you the inability to secure the talent you need.
- Salaries remain front and center. Forty-nine percent of San Diego workers describe themselves as underpaid, 62% have negotiated for higher pay and 67% would be willing to move for a job with better pay and perks. Let's face it, it's expensive to live here. Some firms have not kept up with shifts in market demand and continue to use old job classifications and salary bands. If your organization has not reviewed its compensation plan within the last six months, it could be outdated.
- Bonuses are back. Seventy-nine percent of San Diego employers offered year-end bonuses in 2019, and 46% increased them. Presenting employees with a financial reward can help bolster retention and recruitment as well as team productivity and innovation.

California AB5

What is California AB5? California AB5 requires companies that hire independent contractors reclassify them as employees unless the firm can prove that they: Are free from control or direction in work performance; Perform specialized services that differ from a client's usual business; Maintain an independently established business offering services to clients.

The new legislation declares that all workers in California are considered employees unless the company that hires them can ensure they meet all the provisions of the new legislation.

Who is affected? Initially, it's California-based employers, but some states have similar restrictions in place and others are watching California closely to evaluate whether they should pass their own legislation. Because more and more companies are relying on contract professionals, the issue is widespread.

How this impacts your business: If you find you must reclassify your workers to employee status, you must start complying with minimum wage and overtime pay requirements, as well as those related to workers' compensation, unemployment insurance, expense reimbursement, paid sick leave and paid family leave. You must also pay the employer portion of the workers' Social Security tax. These are not insignificant expenses, especially if you have multiple reclassifications on your hands.

But there's another reason companies should be concerned, and that's the difficulty of the worker reclassification task itself. With this new legislation, the task will be more complex and confusing.

Recruitment and Retention Standards

Always be recruiting: In this employment market, succession planning and seeking out professional development opportunities for your current team helps to keep the recruitment pipeline going. Look at new ways to re-recruit your best employees. If you sense frustration, boredom or discontent, it might be time to make some adjustments — like moving them to other departments where they will feel more fulfilled.

Look at the pushes and pulls: Employers need to move efficiently through the hiring process — the best ones take a strategic approach on the front end of their hiring process. They look carefully at why candidates are leaving their current job, and what they want out of their new role, to make sure they're hiring the right fit. Instead of crafting an offer solely around money and hoping it will stick, they promote flexibility, autonomy and their corporate culture to fully engage candidates and sell them on the opportunity for the long-term.

Alessandra Lezama

Founder & CEO

TOOTRiS

Alessandra Lezama is the founder and CEO of **TOOTRiS**, an on-demand child care technology platform that is reinventing how parents access affordable, high-quality child care. A veteran technology executive who has enjoyed a 20+ year, high impact career turning underperforming companies into scalable, high-performance powerhouses, Lezama's hands-on approach has earned her a reputation as a rainmaker and she was named CEO of the Year in 2018. Her most recent success as CEO of **AbacusNext** came in less than four years as she transformed a local 29 employee software shop into a disruptive global technology powerhouse, now with over 500 employees. Prior to joining Abacus, Lezama held CEO and COO roles for other technology companies including the largest data center operator in Southern California, **American Internet Services** (AIS), which she grew from one 15,000-square-foot facility to a combined capacity of over 150,000 square feet. Lezama lives in her adopted hometown of San Diego, where she is an advocate for women in STEM. As an angel investor to San Diego-based early stage technology companies, Lezama currently serves on the board and management council of the **San Diego Regional Chamber of Commerce** and the board of **Doors of Change**, a nonprofit helping to break the cycle of homeless youth.

What Lezama will be talking about at the 2020 Economic Trends event:

The Child Care Industry Economic and Job Impact

About 11.8 million (58.7%) of children under age 5 participate in regular, weekly care arrangements with a nonparental provider. There are approximately 675,000 child care businesses which are mostly small businesses and produce revenue of approximately $47.2 billion and provide employment for 1.5 million wage and salary and self-employed workers in the United States. In California, 1.6 million children are in paid child care with a total economic impact of approximately $12.84 billion. This consists of $5.79 billion in child care revenue plus a $7.04 billion spillover in other industries, a total earnings impact of $4.79 billion ($2.79 billion employee compensation and sole proprietors' earnings plus $2 billion spillover earnings in other industries) and a total jobs impact of 222,948 jobs (163,332 sole proprietors and wage and salaried employees plus 59,616 spillover jobs in other industries).

Women, Labor Force and Child Care as Work, Education, and Training Support

Without affordable child care, parents — especially women — reduce their hours or opt out of the workforce.

While participation rates are roughly equal for single and married mothers with infants, single mothers begin to enter the labor force at a much higher rate as the youngest child in the household reaches 1 year of age. For mothers with a 1-year-old, the participation rate is 69.3 percent for single mothers versus 60.1 percent for married mothers in 2019. Labor force outcomes are also much less favorable for single mothers. In 2018, single mothers with young children under 3 were unemployed at a rate more than three times the rate of married mothers with children under 3 (9.9 percent versus 2.6 percent).

The organized child care sector continues to evolve to meet the growing demands of both working parents and employers in the United States. Some 94% of workers involuntarily working part-time due to child care problems are women. The recent stabilization in the share of women entering the labor force could be viewed as an economic development concern, as it indicates a limit on the number of new entrants into the labor pool. This has heightened the focus on access to affordable child care for women of working age who might otherwise opt out of the labor force.

Learn how expansion of the organized child care industry in the past several decades can help employers maximize the participation rate of women in the workforce.

Child Care in California Economic Growth and Development

There is a $28.8 billion impact to businesses nationwide due to child care related absenteeism. When child care isn't readily available, parents and the organizations that employ them are impacted. The availability of paid child care plays a key role in allowing parents with children to remain in the labor force. Demographic trends and the cost of care remain key influences shaping overall child care usage. The cost of organized child care remains a significant financial hurdle, particularly for low-income and low-skilled workers.

Employers can be of great support at a much lesser cost as they incorporate a child care allowance to their benefits package to help attract and retain high valued employees.

Child care can facilitate a region's economic growth through its support of increased labor force participation and education of the regional workforce. Especially for low-wage workers with children, the decision to work or seek additional education may depend on the availability of affordable child care. Affordable child care may encourage low-skilled parents to maintain their connection to the labor force or to upgrade their skills through education, both of which contribute to economic growth and productivity over the long term. State labor force participation rates are positively correlated with income levels and negatively correlated with poverty rates in the states.

The National Survey of Children's Health (NSCH) found that about 8.7% of families (2 million) with a child under age 5 had someone quit a job, not take a job or greatly change a job in the past 12 months because of problems with child care. Child care subsidies encourage greater labor force participation, which in turn increases overall economic output in a region. Employer assistance was equivalent to more than one-third (37.3 percent) of the $47.2 billion in total revenue produced by the organized child care industry in 2016.