



2023 Employee Benefits Market Trends to Watch

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Introduction

In 2022, many employers were poised to regain their footing as the effects of the COVID-19 pandemic began to wane. Unfortunately, the year presented employers with many new and difficult challenges, including record-high inflation, unprecedented numbers of job openings and employee quits, an economic downturn and wide-ranging regulatory changes. These challenges and more will likely have a considerable impact on organizations in 2023.

Understanding and responding to these challenges will be essential for employers' success in 2023 and beyond. Employers will need to find creative solutions to control health care costs, balance attraction and retention efforts, and ensure employee health and well-being while responding to an economic downturn. Here's an overview of employee benefits market trends to watch in 2023.



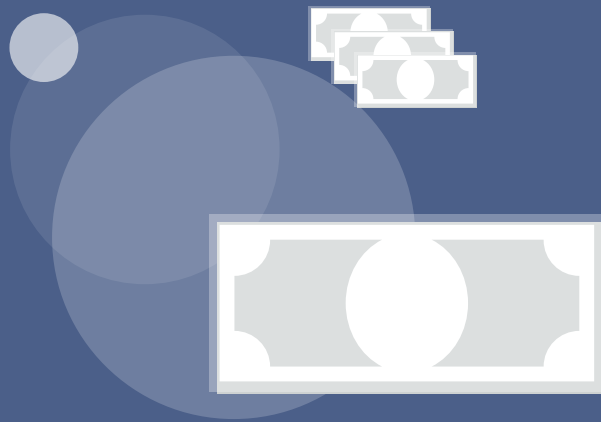
Rising Health Care Costs

Organizations are facing the difficult task of reining in rising costs and keeping employee coverage affordable to remain attractive to current and prospective talent. Industry experts project a 6% to 8% increase in employers' health care costs in 2023. There are several reasons why employers' health care costs are increasing, including medical plan costs returning to pre-pandemic levels, specialty and novel prescription drugs, rising expenses among medical providers, consolidation among hospitals, physician practices and commercial insurers, and inflation. As a result, planning is critical for employers to develop cost-saving strategies in 2023. Employers should be open-minded regarding strategies that could help manage their health care costs while attempting to improve affordability for employees, such as investing in telemedicine, incentivizing employees to seek cost-effective care options, negotiating with providers for discounts and reduced management fees, modifying health plan designs, and incorporating health care analytics. Rapidly increasing health care costs will likely continue to impact employers for the foreseeable future. Employers who proactively implement strategies to address rising health care costs will be better positioned to meet their employees' needs and find long-term solutions to mitigate costs.



Recession Risks

There's growing anxiety that the U.S. economy is heading into a recession. In 2023, it's critical for employers to consider how best to prepare for and build a resilient, recession-proof organization. Although a recession can't be prevented, employers' strategies can greatly impact whether their organizations withstand such a downturn. To promote stability during an economic downturn, employers should consider revisiting compensation and benefits strategies, automating internal processes, considering alternative staffing options, staying transparent with employees and customers, prioritizing employee engagement and reducing health care costs. Employers can ensure their organizations are sufficiently prepared for a recession in 2023 by taking steps now to limit related ramifications and maintain financial stability.



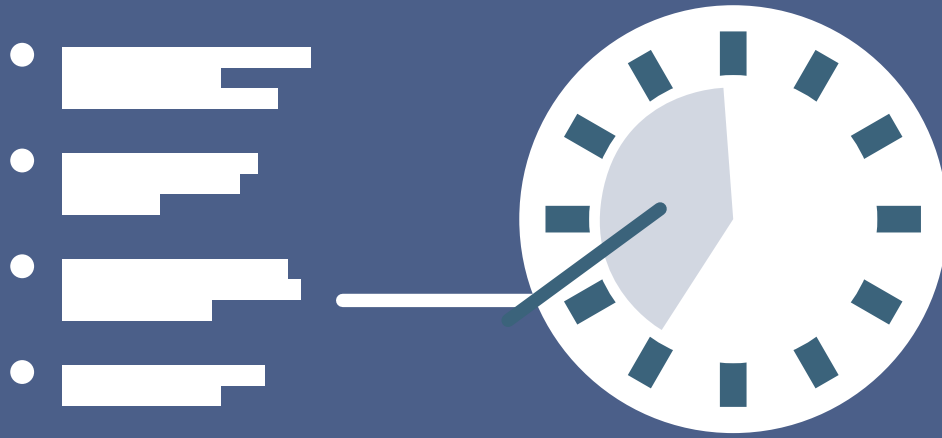
Pay Transparency

The tight labor market has led employees to make new demands. Chief among these workplace demands is pay transparency, a practice whereby employers openly communicate compensation-related information to current or prospective employees. Although many employers are hesitant to implement pay transparency practices, such practices are expected to gain a stronger foothold in 2023. Since most employees value transparency, providing this information can help organizations establish and build trust with existing and prospective employees. Additionally, providing pay transparency information helps employers receive more applicants and save time and money in recruiting. In recent years, many states and some cities have passed pay transparency laws. As of the start of 2023, a fifth of all U.S. workers are covered under pay transparency laws. Experts predict the number of states and localities passing pay transparency laws will continue to grow in 2023 and beyond.



Reproductive Health Benefits

The U.S. Supreme Court's decision to overturn *Roe v. Wade* brought the issue of reproductive health benefits to the forefront in 2022. This renewed focus on reproductive health benefits is likely to continue in 2023, forcing employers to assess their options for providing reproductive health benefits to attract and retain talent. Employers providing benefits for legal reproductive care will need to assess the implications of offering these benefits as abortion laws continue to evolve. As state laws restricting or prohibiting abortion care take effect, more employers will consider providing travel benefits for employees who must go out of state to obtain a legal abortion. There are several different options for employers to consider when structuring a travel benefit, with each option having its compliance challenges. Employers should review their reproductive health benefits to confirm that they comply with federal requirements.



Updated Overtime Rule

The U.S. Department of Labor (DOL) recently stated it would issue a proposed overtime rule in May 2023. The proposed rule change will likely increase the minimum weekly salary threshold and modify the duties test for exempt employees under the Fair Labor Standards Act. Some experts believe the DOL could even create automatic annual or periodic increases to exempt employees' salary levels by linking them to the consumer price index, allowing exempt employees' salary thresholds to adjust without formal rule-making. These changes may disqualify many currently exempt employees, making them eligible for overtime compensation. As a result, the agency's new overtime rule will likely have a massive impact on employers, forcing organizations to reevaluate how they classify employees and revise employee compensation practices. Increasing the minimum salary threshold and modifying the duties test will likely result in more employees becoming eligible for overtime and increase employers' compliance costs and litigation risks in 2023. Organizations are encouraged to prepare for the rule change by reviewing their compensation data to determine which exempt employees may be impacted.



Voluntary Benefits Offerings

Employee benefits have always been important for attracting and retaining top performers, but they'll be even more crucial in 2023.

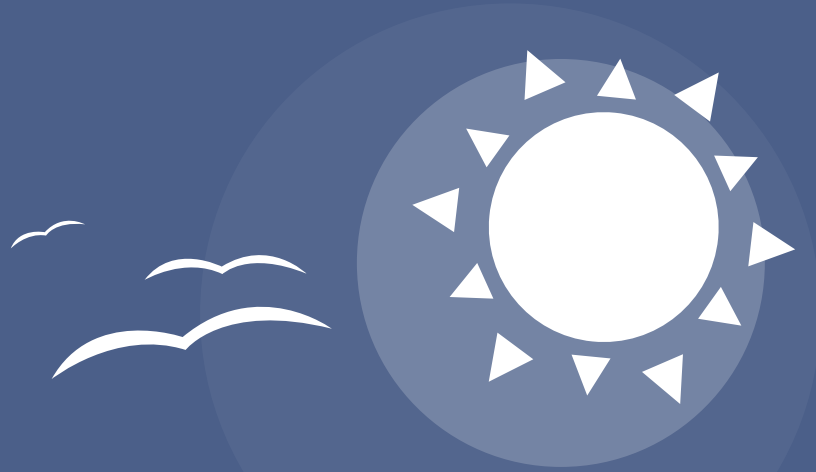
Voluntary benefits are an excellent way to round off offerings without raising employers' costs. These extra perks also allow for more personalization to help satisfy each worker's unique needs.

Voluntary benefits offering will be crucial in 2023 to help employees deal with increased financial strain due to inflation and the economic slowdown. Popular voluntary benefits in 2023 include accident, critical illness and hospital indemnity insurance; life insurance; identity theft protection; pet insurance; and student loan repayment assistance. Employers have a great opportunity in 2023 to offer complementary benefits that help workers avoid financial setbacks and stretch their hard-earned dollars.



Remote and Hybrid Work

While remote and hybrid work is here to stay, 2023 will likely see significant changes to these arrangements. This past year, employers have increasingly encouraged employees to return to in-person work; however, employees aren't giving up remote or hybrid work arrangements easily. The return-to-office battle between employers and employees remains a key issue in 2023, and the economic downturn will likely have a significant impact on this trend. Employers who haven't fully embraced remote or hybrid work will likely use the economic downturn to justify return-to-office policies in 2023. But organizations that have embraced these arrangements will find ways to improve them this year and may reap the benefits. Further, employers are increasingly seeking to invest in technology or implement workplace adjustments to address remote and hybrid work issues, such as surveillance technology, so managers can observe remote employees' productivity. Cybersecurity will be a priority to address the ramifications of more employees working remotely. Additionally, more employers are expected to adopt a four-day workweek or embrace flexible work hours in 2023 to help improve their employees' physical and mental well-being.



Employee Well-being

Many employers enhanced their mental health and well-being benefits during the COVID-19 pandemic and are expected to build on that in 2023. Mental health challenges and substance misuse worsened during the pandemic and persist today. There are many barriers that prevent people from accessing mental health services, including cost, scheduling obstacles and the stigma associated with mental health. Another critical component of employee well-being revolves around work-life balance. More employees feel burnt out between the pandemic, inflation and job duties. To address burnout and other well-being challenges, employers may consider offering or expanding their employee assistance programs, behavioral health anti-stigma campaigns, and training for recognizing employee and peer behavioral health issues. All signs indicate that employee well-being will become a primary focus for employers in 2023. This year, successful organizations will lead with humanity as employee well-being continues to be challenged by social and economic pressures.



Conclusion

Many of these challenges may seem daunting or even insurmountable, but 2023 will be a year of opportunity for employers who are prepared and respond quickly and effectively. Proactive organizations will be able to position themselves for future growth and stability. The best strategies will vary by workplace, but awareness of the trends and themes discussed herein can guide employers as they plan for 2023.

Contact us for more information and to request additional resources on these and other important workplace topics.