2022
Employee Benefits Market Outlook

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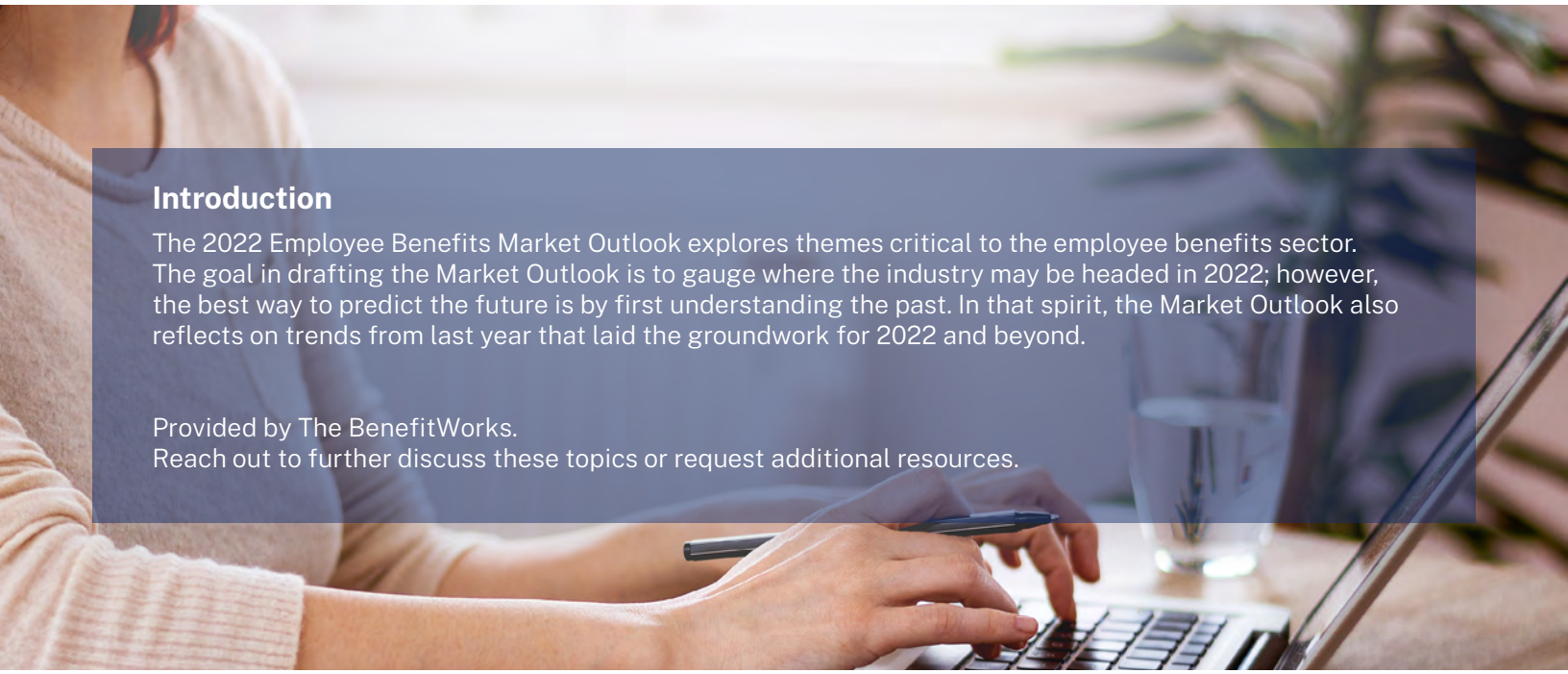


Introduction

The 2022 Employee Benefits Market Outlook explores themes critical to the employee benefits sector. The goal in drafting the Market Outlook is to gauge where the industry may be headed in 2022; however, the best way to predict the future is by first understanding the past. In that spirit, the Market Outlook also reflects on trends from last year that laid the groundwork for 2022 and beyond.

Provided by The BenefitWorks.
Reach out to further discuss these topics or request additional resources.

Executive Summary

To say the last couple of years have been unprecedented would be an understatement. Due to the COVID-19 pandemic, virtually every aspect of the workplace has changed. Many employers have been forced to grapple not only with a scarcity of workers and reduced revenue but also with strained employee health and well-being to an extent never before seen.

In fact, a renewed focus on employees will likely be the cornerstone for a successful 2022. That's because an increasing number of employees have become disillusioned with the status quo — workers are now demanding more from their employers. Should their current employers fail to provide sufficient value in terms of salary, benefits and upward mobility, workers are more willing and able than ever to find employers who will.

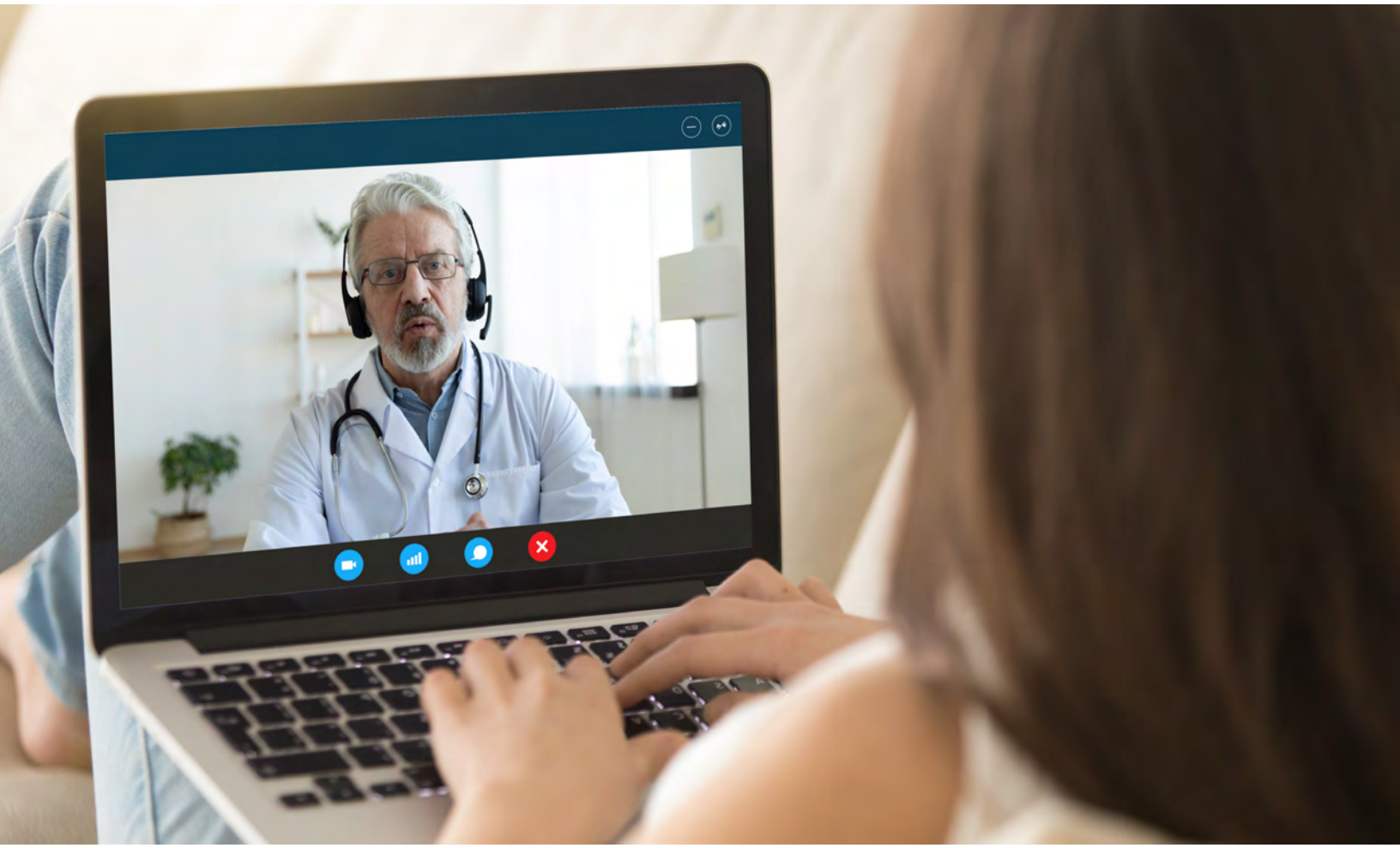
The reality of the current labor market is that employees have higher expectations and greater leverage than ever. They want better job fulfillment, access to meaningful benefits and increased scheduling flexibility. Of course, many employers are more than willing to provide employees with perks that will improve their job satisfaction. The problem is that while employee expectations have risen, benefits budgets have not.

Moreover, even historically adequate benefits budgets may not be sufficient this year. Health care costs are set to rise considerably as a greater number of patients seek services that were deferred during the pandemic. This leaves employers in a position of needing to rein in spending while still providing competitive benefits offerings to attract and retain top talent.

We believe solving this dilemma will be the key to success in 2022 and beyond. Employers need to think creatively about how they can accommodate employee needs and desires while also controlling costs and ensuring worker health and wellness.

As part of this effort, employers are expected to reconsider how and where they invest their benefits dollars. For instance, employers may consider utilizing alternative health plans, expanding telemedicine offerings or providing more targeted voluntary benefits. Ultimately, what works for one employer might not work for another. Employers will need to evaluate their unique circumstances before settling on a given approach.

As you read on, ask yourself, "Is my workforce susceptible to any or all of these trends?" Then, reach out to discuss these trends for a conversation about the next steps. Together, we can rise to the challenges and opportunities presented in the new year.



2021 Retrospective

This section reflects on major market influences from the past year. In many ways, these unique but interconnected trends help make sense of the current state of affairs. Understanding the following market influences will be critical for employers because each will have a major influence on the trends expected throughout 2022.

The COVID-19 Pandemic

In 2021, the COVID-19 pandemic remained the most significant disruption across the globe. Ripple effects from the pandemic will be felt for years, influencing physical and mental health as well as financial security.

From a health perspective, the pandemic never considerably improved in 2021; in fact, the virus mutated into two notable, highly contagious coronavirus variants, Delta and Omicron. Each month, millions of Americans were infected with COVID-19, and thousands died, according to Centers for Disease Control and Prevention data. Even with around 62% of Americans fully vaccinated as of December 2021, COVID-19 cases continued trending upward, with thousands dying every week.

There is still tremendous uncertainty going into the new year due to COVID-19, and that fact underscores every market factor discussed herein.

Rising Health Care Costs

Health care costs have been steadily increasing for well over a decade. Consider employer-sponsored health plans, for instance. According to a Kaiser Family Foundation report, family coverage premiums have gone up 22% over the last five years on average — 47% over the last 10 years. Employee contributions toward those premiums have risen 45% over the last decade, according to the report.

Additionally, thanks to COVID-19, costs have generally continued rising over the last couple of years. According to a Willis Towers Watson survey, in 2020, employers saw just a 2.1% cost increase for medical benefits expenses, a figure significantly lower than the 4% increase from 2019. This smaller figure was largely due to individuals deferring nonemergency health care and elective procedures at the onset of the pandemic.

But, after the initial stages of the pandemic, many individuals gradually began returning to their usual health care routines, which led industry experts to predict a roughly 5% cost increase for 2021. Once again faced with major cost increases, employers were forced to reconcile limited budgets with employees demanding more value than ever from their benefits offerings.

Labor Shortages

It's no secret the COVID-19 pandemic shook the U.S. job market. Since the onset of the pandemic, countless businesses have shuttered, furloughed, or laid off workers, forcing millions to rely on unemployment aid and forfeit their employee benefits. In early 2021, economists expected employees to return to the workforce in droves. However, that didn't happen — at least not to the scale envisioned — and many workplaces were left severely understaffed at the end of the year.

On paper, the problem seemed straightforward. There were over 6 million unemployed Americans at the end of 2021, according to the Bureau of Labor Statistics. That meant that there were statistically plenty of workers available to fill job openings. Despite this, a significant number of employers still couldn't fill vital roles, and some businesses even experienced a "turnover tsunami."

That's because the COVID-19 pandemic affected more than workers' paychecks. It fundamentally altered how large segments of the workforce view their labor and the value of employee benefits, particularly in the service sector. These employees often had no employee health plans, no 401(k)s and limited career mobility. In 2021, workers began asking themselves, "Is my current wage worth risking my physical and mental health?" Essentially, workers started expecting more fulfillment from their jobs and, notably, greater value from their employee benefits.

And because of increased unemployment aid and government stimulus checks, many workers realized they could leverage their labor into more fulfilling, desirable positions. Under normal circumstances,

many may have taken the first available position; with temporary savings safety nets, they could afford to wait for more desirable employment.

At the end of 2021, a significant number of workers were still holding out for better jobs and more meaningful employee benefits. This is the situation in which employers find themselves at the beginning of 2022.

Section Summary

As 2021 came to a close, it was apparent how drastically the marketplace had shifted over the last year. COVID-19 changed how the world does business, and its impact will be felt for years to come. Not only did the pandemic increase medical costs and unemployment levels, but it also shed light on deeper workplace issues that had been unaddressed for years.

In 2022, employers who take the time to learn from the recent past have an opportunity to position themselves as leaders in their respective industries. Read on to learn more about what to expect in 2022.

2022 Outlook

This section explores trends to watch in 2022, including why they're important and how they might impact employers. It begins by examining how the major disruptors discussed in the retrospective may continue shaping the market throughout the new year; it then moves on to other trends to monitor.

COVID-19 Disruptions Continue

The COVID-19 pandemic has shown no signs of slowing in 2022, and employers can expect disruptions to continue well into the future. The pandemic was even the catalyst for many workplace trends discussed in this section — its ripple effects have influenced practically every facet of the workplace. For instance, COVID-19 has contributed to greater health spending, significant labor shortages, increased need for mental health resources and expanded adoption of telemedicine solutions.

However, another key COVID-19 disruption stems from the very thing intended to help curb its spread: vaccinations — specifically, COVID-19 vaccination and testing policies in the workplace. Despite a concerted effort from the White House, health experts and business leaders, many eligible workers are still unvaccinated, and some actively oppose getting the shot. In 2022, this issue will only become more salient as employers try to protect their workers, avoid liability and maintain business operations. Employers will need to balance worker attitudes and well-being against operational realities, such as the costs of having sick workers when staffing levels are already limited.

The pandemic also shed light on workplace issues that have been unaddressed for years, particularly concerning behavioral health. Approximately 4 in 10 U.S. adults have reported feelings of anxiety or symptoms of depression during the pandemic, according to the Kaiser Family Foundation. These issues should be top of mind for many employers as they witness firsthand how quickly personal health problems can bleed into the professional realm. The

reality is that if an employer ignores these issues or fails to offer sufficient benefits to address such issues, they may experience reduced productivity and, potentially, a wave of turnover.

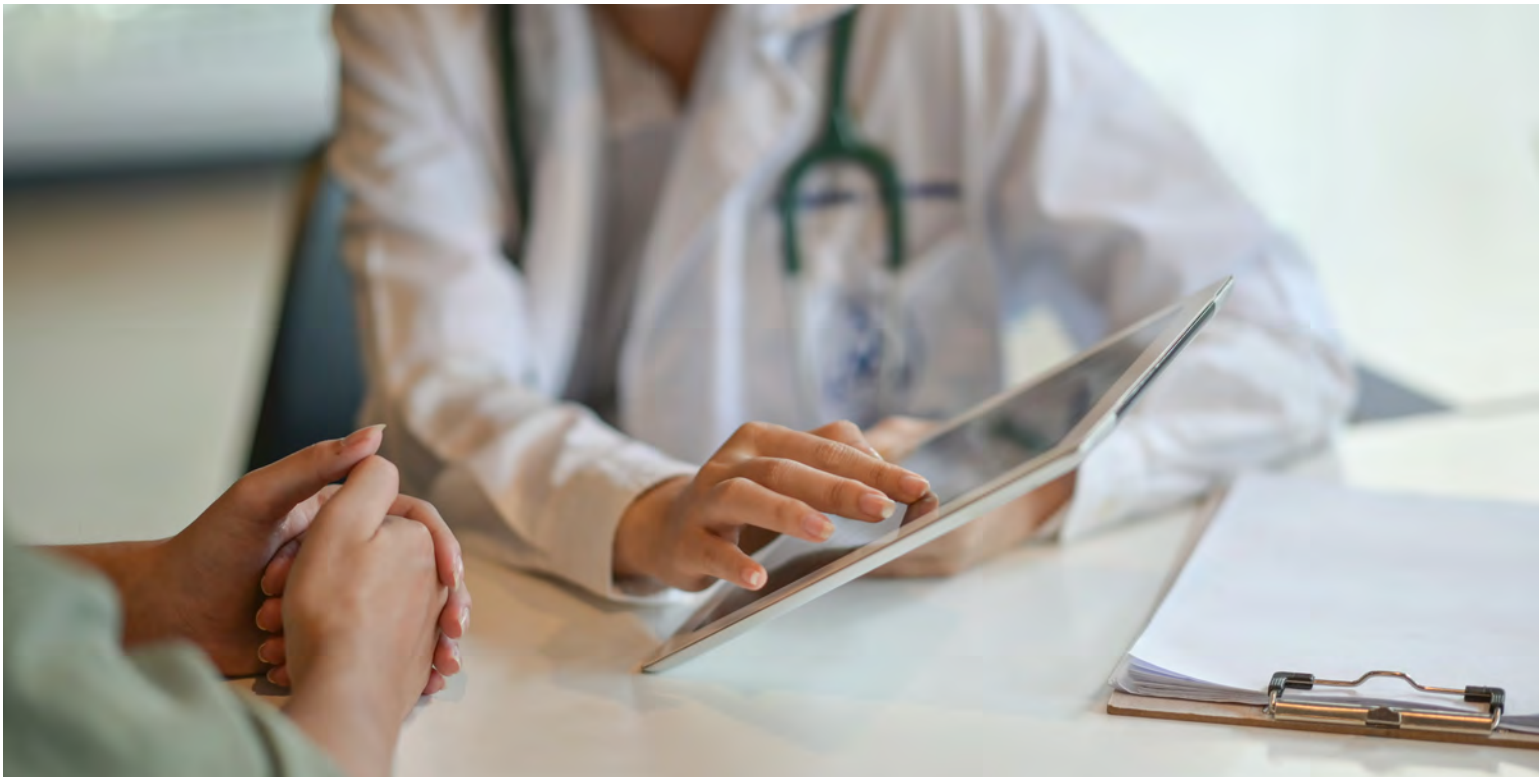
In fact, 36% of employees said they are willing to change jobs for what they consider "better benefits," according to a Society for Human Resource Management (SHRM) survey. This is an excellent indicator that "unique" or "personalized" benefits are the future of employee benefits offerings. Gone are the days of attracting and retaining top-performing employees with a basic, one-size-fits-all benefits package. Now, savvy employers are using analytics to maximize the value of their offerings. With plan data and employee surveys, employers can better understand how employees use their benefits and which perks may provide the most value.

Amid the COVID-19 pandemic, employers must realize worker health is a major concern. That's why a significant number of employers are looking to expand their employee benefits to include more well-being offerings — ones that directly address issues affecting employees and focus on improving overall health. Among others, these offerings include flexible scheduling, mental health resources, telemedicine access and financial wellness services. Such benefits help combat the issues COVID-19 forcibly brought to light.

Health Care Costs Rise

It's highly unlikely health care costs will fall in 2022. Industry experts have predicted anywhere from a 5% to a 7% cost increase in 2022. In addition to traditional factors, employers are likely to see cost increases because more people have resumed seeking medical services that were deferred earlier in the pandemic, such as nonemergency tests and elective surgeries. Plus, mental health issues and substance addiction have soared during the pandemic, spurring more people to seek treatment. Beyond that, many individuals stopped exercising and eating well during the pandemic, increasing the likelihood of costly chronic health issues down the line.

In 2022, employers will need to be strategic about reining in health care costs. A long-standing mitigation method is increasing employees' share of health plan costs. But, that might generate more problems for an employer; after all, many individuals are struggling financially and are prepared to leave their jobs for those with better benefits offerings. With that in mind, employers will need to tread lightly when addressing rising health care costs. One strategy for cutting costs is adopting an alternative health plan model.



The following are some increasingly popular alternatives:

1. **Individual coverage health reimbursement arrangements (ICHRAs)** — Funded solely by employer contributions, an ICHRA is a type of account-based group health plan that reimburses eligible employees for medical care expenses up to a maximum dollar amount for a coverage period. According to a Willis Towers Watson survey, approximately 1 in 6 employers (15%) intend to or are considering offering ICHRAs to at least some employees beginning in 2022 or later. Additionally, a Small Business Trends survey found that 78% of organizations currently signing up for ICHRAs are small businesses. That makes sense, as small businesses have smaller budgets and, therefore, potentially have more to gain from the many benefits of ICHRAs.

2. **Reference-based pricing (RBP)** — RBP has been gaining popularity in recent years as a creative way to limit health costs. This strategy works by using an established benchmark (e.g., Medicare rates plus a percentage) to set spending limits on certain procedures or services — meaning an employee would only be covered up to the established limit for these services and would have to pay the cost difference out of pocket. However, limits are typically set on "shoppable" services. These are services where an individual can take time to make a thoughtful decision based on price and quality for things such as prescriptions, lab tests or joint replacements. In all of these examples, there are lower-cost options that are typically the same quality as the more expensive alternatives. Employers who use RBP have the potential for two main benefits: lower total health care expenses and higher employee engagement in health care decisions.

3. **Level funding** — One other alternative plan model with the potential to reduce health spending is called level funding. With level-funded plans (sometimes referred to as "partially self-funded" plans), employers pay a set amount each month to a carrier. This amount typically includes the cost of administrative and other fees and the maximum amount of expected claims based on underwriting projections as well as embedded stop-loss insurance. The carrier will pay employees' claims throughout the year. If payments exceed claims at the end of the year, the employer will receive a refund from the excess paid in monthly claim allotments. If the claims exceeded what was paid into the program, stop-loss insurance will cover the overage amount in most cases.

While any of these alternatives could help rein in health care expenses, there are advantages and disadvantages to each. If not properly implemented, these methods could unintentionally increase costs and burdens on employers and employees alike. Interested employers should consult with us today to learn more about alternative plan models that can work for them and their budgets.

Attraction and Retention Struggles Come to a Head

The current labor shortage is complicated and influenced by various factors — many of which stem from the COVID-19 pandemic. From an employee benefits perspective, the biggest takeaway for employers is that employees want more from their jobs, especially in terms of benefits. As discussed earlier, 36% of employees expressed willingness to change jobs for what they consider "better benefits," according to SHRM. In this tight labor market, employers are risking a third of their workforce should they fail to provide worthwhile benefits in 2022.

With employees acutely aware of their value, employers need to demonstrate — through action, not words — how much they care about their workers. This entails providing added workplace opportunities and perks. For instance, workplaces can consider ways to improve job fulfillment and training opportunities for employees and increase direct or indirect compensation. Other solutions include holistic voluntary benefits and perks such as mental health resources, flexible scheduling and financial wellness services. These offerings are generally affordable to implement and provide employees with meaningful ways to improve their overall well-being.

It's unclear how long workers will remain selective with their labor and unwilling to settle for jobs with substandard benefits offerings. Ultimately, the best employers don't want employees to settle; they want employees who are excited to help their company grow. That's why it's in employers' best interests to listen to the desires of the candidate pool. Understanding and adapting to this reality will be critical to attraction and retention efforts in 2022.

Telemedicine Continues Growth in Popularity

Telemedicine uses technology to facilitate communication, whether real-time or delayed, between a doctor and patient who are not in the same physical location for the purpose of medical evaluation, diagnosis and treatment. In other words, telemedicine allows consumers to visit their doctor over the internet. Unsurprisingly, telemedicine exploded in popularity during the COVID-19 pandemic.

And it isn't expected to slow down any time soon. Instead, more businesses are likely to embrace offering more telemedicine options. According to McKinsey & Company, only 11% of U.S. consumers utilized telemedicine in 2019, pre-pandemic. As of mid-2021, 46% of consumers were using telemedicine to replace the in-person health visits they had originally planned. Additionally, 76% of consumers said they were interested in using telemedicine going forward, according to a separate McKinsey & Company survey.

While virtual doctor visits are useful under limited circumstances (i.e., nonemergencies only), they do offer patients greater flexibility and savings when compared to in-person appointments. Plus, their convenience helps encourage employees to see their doctors more frequently, which helps maintain overall health. In turn, this helps reduce health costs over time by detecting problems early and preventing more costly treatments down the road. With these benefits in mind and COVID-19 showing no signs of slowing down, its highly likely telemedicine offerings will continue to grow in 2022.

Employers Continue to Grapple with Prescription Drug Costs

Like other health care costs, prescription drug expenses are expected to rise in 2022. The largest cost driver over the past few years has been specialty drugs — those that require specific handling and administration methods and are oftentimes costlier to develop. According to a Segal report, specialty drug prices were projected to rise 11.5% in 2021; in 2022, they are projected to increase another 13.4%. Comparatively, nonspecialty prescription drug costs are only projected to rise 4.6%, according to the report. So, with benefits budgets limited this year, employers will need to consider how to control prescription drug spending.

Scaling back offerings or implementing restrictive measures might seem like the solution, but in a competitive labor market, the potential for turnover may outweigh the expected savings. Instead, employers can help control drug spending by keeping a close eye on their plans. For example, employers may consider

requesting frequent plan data reporting. Employers will need to analyze their unique circumstances to better understand where they should focus their efforts.

Yet, the best method for reducing prescription drug costs without cost-shifting is through employee education. Employees who lack knowledge about their coverage and prescription options tend to spend money needlessly, raising costs for themselves and the plan as a whole. For instance, without adequate knowledge, an employee might opt for name-brand prescriptions each time they need medication. The employee might not even know to ask their doctor about generic alternatives, which are equally effective and significantly more affordable. Providing employees a thorough explanation of their coverage and other prescription drug basics can go a long way toward reducing expenses while also boosting morale and organization loyalty.

Remote and Hybrid Work Are Here to Stay

Early in the COVID-19 pandemic, entire businesses were forced to close down, especially those relying on in-person interactions (i.e., much of the service sector). Other organizations had no choice but to have employees work remotely. No one knew what to expect; the vast majority of businesses had little to no exposure to remote work, and certainly not on this large of a scale. But shortly after, it was clear most businesses could continue remotely without interruption. What's more, many employees preferred their new working arrangement.

Nearly two years later, this sentiment remains largely the same. Many employees want to work from home at least part time, an arrangement known as "hybrid work." This comes even as many workplaces urge employees to return to the office.

Consider the following statistics from a PricewaterhouseCoopers survey conducted a year into the pandemic:

- 83% of employers say the shift to remote work has been successful.
- 55% percent of employees would prefer to be remote at least three days a week.

And a Gallup poll conducted toward the end of 2021 found the following:

- 54% of employees who work remotely would like to work in the office at least some of the time.
- 37% of remote workers would like to remain exclusively remote.
- Only 9% of remote workers want to return to in-person work full time.

As this data shows, many employees want to work at least some of the time remotely. And, as businesses discovered early in the pandemic, remote workers can be just as successful as in-person workers. Remote work has even been so successful that 70% of employers intend to keep their remote policies permanent, according to consulting firm Forrester.

Therefore, employers would be wise to look for opportunities in 2022 to expand remote or hybrid work opportunities. While this won't be feasible for all workers in all industries, it could be a valuable perk to offer trusted employees whose responsibilities don't require a physical presence. Moreover, offering at least some remote opportunities can be critical for hiring and retention. By allowing some employees to work remotely, employers can expand their talent pools to anywhere with an internet connection — a game-changer in the current labor market.

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Source: PricewaterhouseCoopers

54% of employees who work remotely would like to work in the office at least some of the time.

37% of remote workers would like to remain exclusively remote.

Only **9%** of remote workers want to return to in-person work full time.

Source: Gallup

Virtual Open Enrollment Becomes the Norm

Open enrollment isn't always a clear-cut process; sometimes, an organization needs to be adaptable in order to find success. One way employers have been adapting during the COVID-19 pandemic has been by utilizing virtual solutions.

Virtual enrollment has been gaining in popularity for several years, and it's expected to become the norm in 2022 and beyond. A virtual enrollment process typically includes an online enrollment platform for selecting benefits, remote meetings between employees and HR, and downloadable benefits resources. Basically, everything employees would do in person is instead completed online.

While virtual enrollment is likely to become the new standard, it won't work for everyone. Employees' technology skill levels, language barriers and past expectations will influence how open enrollment is conducted across different organizations. It's up to individual employers to decide how to pair virtual enrollment solutions with other resources to meet the unique needs of their employees and the organization as a whole.

However, with more and more employees working from home, virtual enrollment may be the most feasible option for some workplaces moving forward. Moreover, amid the pandemic, it's likely the safest option, too, since it prevents large groups of employees from gathering together. And, ultimately, virtual open enrollment saves time and resources since everything is done online. For all these reasons and more, expect to see an influx in virtual enrollment opportunities in 2022.

Employee Health Care Literacy Sees Renewed Focus

Improving employee health care literacy has become a priority for savvy employers looking to rein in health care costs. That's because the better an employee understands their health care options, the more likely they are to save money and improve their overall well-being — and, as it's now known, saving money is especially important for both employers and employees these days.

According to Willis Towers Watson, 64% of insurers believe health expenses are rising due to doctors recommending too many services. From the same survey, 59% of insurers believe costs are rising simply because of the overuse of health care. There are, of course, multiple angles from which those numbers can be viewed. But one thing is clear: If employees were more

knowledgeable, wiser health care consumers, they could research health services themselves and avoid unnecessary care, leading to greater cost savings for employees and employers alike.

Even basic health care literacy can go a long way toward keeping health costs down in 2022. Arming employees with basic questions such as "How much will this cost?" and "Can I be treated in an equally effective but less costly manner?" can help them make better health care decisions. In addition, employers should also educate employees about recent health legislation that will affect their decision-making. Notable laws include the No Surprises Act, which limits out-of-network surprise or "balance" billing, and the hospital price transparency final rule, which requires hospitals to list the prices of items and services they provide.

Ultimately, the more educated employees are about the care they receive, the more money they save themselves and their employers. With tighter budgets for employers and employees alike, it will be critical in 2022 to limit spending wherever possible. The education employers invest in now will be repaid later through healthier employees and reduced health expenses.

Rounded-out Voluntary Employee Benefits Packages Will Provide a Competitive Edge

Thanks to COVID-19, an increasing number of employers are appreciating the importance of a holistic approach to voluntary benefits. As more employers realize issues like depression, anxiety, financial uncertainty, caregiving stressors and substance addiction — all rampant during the pandemic — can greatly affect workplace performance and turnover rates, these offerings have never been more important.

As the name suggests, a holistic approach to voluntary benefits focuses on overall well-being and is typically more niche than a traditional health plan, providing employees with a multitude of perks they need to live their best lives. And that's crucial, considering 94% of employees said they want benefits that have a "meaningful impact on their quality of life," according to a Randstad survey.

There are many benefits that can round off traditional offerings and help contribute to greater employee well-being. At the same time, this approach offers a larger number of perks to help employers attract and retain top performers.

Below are some examples of holistic voluntary benefits employers can expect to see more of in 2022:

- Expanded paid time off
- Family planning and adoption assistance
- Student loan relief
- Addiction recovery services
- Mental health services
- Financial wellness

Leave Management Becomes More Important Than Ever

Many workers are currently juggling both work and caregiving responsibilities, largely due to the COVID-19 pandemic. Those responsibilities extend not only to spouses and children but also to parents, other older family members or relatives with disabilities. According to BenefitsPro, over 50 million employees currently have caregiving duties, and 83% took on even more caregiving responsibilities during the pandemic. These caregivers don't want to have to choose between their jobs and their loved ones for whom they are responsible. Instead, they're looking for workplace policies that allow them to accomplish both.

In 2022, it will be important for employers to reevaluate their leave policies as more employees strive for greater work-life balances due to caregiving duties or otherwise. In fact, according to HUB International, 75% of small businesses said their perceptions of employee leave have been reshaped by the pandemic; yet, only 25% of employers currently offer paid parental leave, according to the report. This presents a significant hiring and retention opportunity for workplaces. Offering generous leave policies could be a substantial competitive factor, and employers can expect to see growth in this area in 2022.

Conclusion

2022 will be a year full of challenges, thanks in large part to the pandemic and its wide-reaching consequences. It will also be a year of opportunity. After nearly two years of a pandemic, it may be tempting for employers to sit on their hands and wait for a return to normalcy. But successful organizations will be those that prepare for and embrace the new normal.

In 2022, employers will need to think creatively about how they can accommodate employee desires while also controlling costs and ensuring worker safety from COVID-19. While this may seem daunting, organizations that rise to the occasion will be well positioned for future growth and stability.

Reach out to discuss these trends in more detail and request additional resources on these and other important workplace topics.