Employee Benefits Report

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Volume 22 · Number 11

NOV 2024

Benefits Administration

Employer Health Costs Set to Spike Upward in 2025

Employers should prepare for a major increase in healthcare costs in 2025, with new projections showing rises of 8-9 percent or more over this year's spending.

This dramatic uptick comes as a result of several key factors putting pressure on health plans, including widespread inflation, demand for expensive specialty medications, and a growth in catastrophic claims. Employers that take action now with aggressive cost-cutting strategies may be able to blunt the impact.

Driving Forces Behind the Increase

A number of dynamics are converging to push health costs significantly higher for employers next year. Overall inflation is feeding into rising wages and higher employment, which translates into more expensive health premiums. At the same time, more expensive specialty drugs and services are coming onto the market, leading to an increase in utilization.

According to projections from professional services firm Aon, healthcare costs per employee are estimated to rise by approximately 9% in 2025, reaching over $16,000. This outpaces the 6.4% increase seen from 2023-2024, when per-employee costs averaged $14,823. Of that total spend, employers covered $11,956 per worker compared to $2,867 paid by employees.

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This Just In ...

New Guidance Allows 401(k) Matches for Student Loans

The IRS recently released long-awaited rules that provide employers with clarity on how to implement a popular new 401(k) plan feature: matching contributions for employee student loan payments.

This new IRS notice comes after changes made last year under the SECURE 2.0 Act allowed companies to match 401(k) contributions and student loan payments dollar-for-dollar.

Who Can Offer Matches?

The guidance confirms that 401(k), 403(b), SIMPLE IRA, and governmental 457(b) plans can all incorporate student loan match programs. Nearly 10% of employers already provide some sort of student loan repayment benefit, according to an industry survey. Experts predict more companies will add loan-matching given recent updates.

How Much Can Employees Receive?

For 401(k) and 403(b) plans, total yearly student loan matches per employee are capped at $22,500 for 2024—the same limit as regular 401(k) contribution matches. The limit is slightly lower for SIMPLE IRAs. Additionally, across all plan types, student loan matches cannot exceed an employee's annual compensation.

Another forecast from the International Foundation of Employee Benefit Plans (IFEBP) was slightly more conservative but still showed a steep climb. Their survey of employers revealed expectations for a median increase of 8% in 2025 health plan expenses. This continues an upward trend from 7% jumps anticipated in both 2022 and 2023.

The Role of Specialty Drugs

A major culprit behind escalating health expenses is the surging cost of specialty medications, particularly GLP-1 drugs like Ozempic and Wegovy. While these treatments show promise for weight loss and diabetes, their high monthly price tag of $1,000-$1,500 per prescription quickly adds up. According to experts, demand for GLP-1 drugs is skyrocketing across employer plans.

The introduction of new medications in this class will likely pile on more costs as well. Aon estimates that specialty drugs will account for a full 1% of next year's 9% rise in total health spend. They require intense oversight, even though specialty treatments make up a small portion of utilization.

In IFEBP's poll, 20% of employers singled out costly prescription options as the top driver pushing up program expenses. That figure increased from just 16% last year, unseating medical provider costs as the number one factor. Of those citing specialty therapies, 75% pointed to GLP-1 medications in particular.

Catastrophic Claims and Chronic Conditions

While specialty drugs may capture headlines for their shocking price tags, they aren't the only reason for mounting health expenses. Chronic conditions among employees also take a toll through increased utilization of regular doctor visits, procedures, hospital stays, and medications needed to manage them.

In fact, 20% of organizations surveyed by IFEBP named catastrophic claims as the primary reason costs continue to rise each year, while 16% cited chronic health conditions. Less healthy worker populations end up driving more services, especially complicated treatments for complex long-term diseases.

Even a small number of catastrophic claims can also blow budgets. Just one or two patients with major health emergencies requiring extensive hospitalization and rehab can devastate even the best-funded plan.

Cost Management Strategies

While the projected 8-9% jumps are daunting—with some markets predicting even higher numbers–concentrated efforts around managing utilization and sharing expenses can potentially tame increases. When asked which cost-saving initiatives would have the most impact next year, employers pointed to the following measures.

Utilization control landed on top, with 27% stating that requiring prior authorizations, using nurse advice lines, and instituting disease management protocols would make the biggest difference. These moves ensure treatments and prescriptions are truly medically necessary before being approved.

Shifting more costs to the wallets of employees is also an increasingly important lever cited by 21% of those surveyed. This can include tactics like raising plan deductibles and co-insurance rates across the board or specifically for costly specialty drugs.

Other organizations may tighten dependent eligibility criteria or institute spousal surcharges. While tough to execute, directing more expenses to employees ultimately lightens the load on the company. Moving to stricter formularies that limit expensive brands or exclude certain drug classes altogether is another avenue.

Match Requirements

The IRS outlined several requirements to align 401(k) matches and student loan matches. First, companies must provide both types of matches at the same percentage rate. For example, a 50% match on 401(k) contributions up to 6% of pay must also apply to 6% of student loan payments.

Additionally, all employees eligible for 401(k) matches must receive eligibility for loan matches. The guidance prohibits excluding individuals based on factors like employer, division, or college degree program.

Administrative Procedures

The notice permits employers to develop reasonable procedures to claim and substantiate matches, such as quarterly submission deadlines. However, companies cannot impose overly restrictive policies that prevent individuals from obtaining the benefit.

Verification requirements are also flexible. The IRS said plan administrators may rely solely on an employee's annual certification that their loan and payments meet eligibility criteria. Additional documentation can be requested but not mandated.

Testing Relief

For 401(k) plans, the new guidance allows two alternatives for passing annual non-discrimination testing when offering both contribution and loan matches. The options provide flexibility based on differing financial behaviors of highly and non-highly compensated employees.

Biden Administration Finalizes Mental Health Parity Rule

The Biden administration has finalized updates to the Mental Health Parity and Addiction Equity Act (MHPAEA), with the new Mental Health Parity Rule scheduled to take effect in 2025.

This rule mandates that employer-sponsored health plans provide equal coverage for mental health and substance use disorders as they do for physical health conditions. For employers and HR professionals, this means ensuring that company health plans comply with the updated regulations, which aim to enhance access to mental health services and close loopholes that previously limited coverage.

What Is the Mental Health Parity Rule?

The Mental Health Parity Rule ensures that insurance plans cover mental health and substance use services on the same terms as medical or surgical care. This includes areas like copayments, deductibles, treatment limits, and coverage decision-making. The rule builds on the 2008 MHPAEA law, which was designed to eliminate disparities in mental health coverage but faced enforcement challenges. The updated rule strengthens oversight and aims to remove remaining barriers to access, particularly by enhancing compliance and transparency requirements for insurers.

Key Updates in the Final Rule for HR

Employers and HR departments need to be aware of several important updates introduced by the finalized rule:

1. **Stricter Compliance Standards:** Health plans must now clearly demonstrate that they provide equal coverage for mental health services. HR teams should work closely with plan administrators to ensure that benefits for mental health align with medical and surgical benefits. This includes reviewing cost-sharing mechanisms, treatment limits, and authorization requirements.
2. **Enhanced Reporting and Transparency:** Insurers are required to provide detailed reports on how they comply with the parity rule. These reports will be submitted to regulators, creating more accountability. HR professionals must ensure that their insurance providers are fully prepared to meet these new reporting standards.
3. **Focus on Network Adequacy:** The rule emphasizes that health plans must offer a sufficient number of in-network mental health providers. HR departments should work with their insurance providers to confirm that networks are adequate and take action if employees face difficulties accessing mental health care.
4. **Increased Oversight:** Federal regulators will closely monitor compliance with the parity rule, making it important for HR teams to be proactive in ensuring their plans meet these standards. Failure to comply could lead to penalties or legal challenges.

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Next Steps

To prepare for the rule's implementation in 2025:

- **Audit Current Health Plans:** Ensure that your company's health plans meet the updated parity requirements, focusing on cost-sharing, treatment limits, and pre-authorization processes.
- **Work with Insurance Providers:** Collaborate with insurers to guarantee compliance with new reporting and transparency standards. Address any gaps in mental health provider networks.
- **Educate Employees:** Communicate these changes to employees to help them understand their benefits and reduce barriers to accessing mental health care.

By taking these steps, HR professionals can ensure compliance with the finalized Mental Health Parity Rule, while supporting employee well-being and maintaining legal compliance.

Finding the Goldilocks Zone for Employee Health Programs

Employers often struggle to find the "just right" employee health and wellness programs.

Offerings that are too broad fail to drive engagement, while those too narrow struggle to improve health. However, data shows a "Goldilocks zone" exists—allowing employers to care for employees in a way that benefits well-being and the bottom line.

When Casting a Wide Net Catches Fewer Fish

Many organizations take a broad one-size-fits-all approach to health and wellness benefits. This fails to address employees' diverse needs. Per the CDC, over half of adults have at least one chronic condition, with nearly 30% having multiple chronic conditions—a figure expected to reach 83.4 million by 2030. When programs fail to meet the full spectrum of needs, participation flounders.

Employees struggle to see personal relevance, as the solution seems out of proportion with the problem. Like an oversized chair, blanket, and bed, the broad approach lessens optimized outcomes.

Going Too Narrow Limitations

On the other end of the spectrum, many employers offer solutions targeting specific health conditions. While this approach provides helpful resources, its narrow scope means it does not work for people juggling multiple medical issues. Failing to address the interconnected nature of chronic conditions prevents understanding the full picture and limits the ability to point to comprehensive lifestyle changes.

This siloed tactic leaves out critical information, as if Goldilocks' choices were restricted to only the cold porridge, not the hot one and the one just right. Employees need solutions that account for the many variables affecting their health to find sustainable success.

Finding the "Just Right" Balance

Rather than choosing between two extremes, there is a third option that balances employee health programs. The key is using data to identify and segment priority groups based on more than just traditional metrics. This allows for targeting solutions to subsets of the population whose needs are overlooked.

Though not typically top spenders, analyzing their historical usage presents opportunities to improve health and reduce services through tailored intervention. Providing the right level of support leads to better engagement, changed behavior, and true impact—the hallmarks of "just right" programs. With advanced analytics showing the way, employers can take a "three cares" approach to make meaningful connections.

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Caring About Data

The first step is mining data to reveal hidden facets within a workforce that drive health challenges. Isolating groups with rising utilization that suggest unmet needs allows for segmentation beyond one-size-fits-all. This outpaces the limitations of generalized or condition-specific solutions by targeting support to those primed to benefit.

With tailored outreach anchored in advanced identification techniques, engagement curated to employee segments drives better participation and accountability. And with proper tracking mechanisms, the impact of programming on health status and spending comes clearly into focus.

Caring About People

While technology plays a supportive role, human interaction is the foundation for sustainable behavioral change. Combining lifestyle guidance and medication management from clinical experts—such as health coaches and pharmacists—with customizable digital tools provides comprehensive care.

Addressing all aspects of an individual's health profile through one integrated solution, powered by empathetic experts, fosters unified progress. This “just right” level of personalization—not too much, not too little—offers the best chance for real outcomes.

Caring About Outcomes

Advanced targeting, human care teams, and customization combine to increase participation and embed beneficiaries in supportive communities. This is where the approach transforms. More effective engagement, combined with care coordination, leads to data-verified progress in health markers such as weight, blood pressure, and blood sugar.

Ultimately, results matter most. Employers seek health care cost savings, and employees want to feel their best. Achieving that balance requires redefining engagement, not as the goal itself, but as a way to drive measurable improvements.

The Battle to Make Employees Care About Benefits Sign-Ups

Despite the importance of open enrollment, most employees lack enthusiasm when asked to review health insurance and other benefits forms annually.

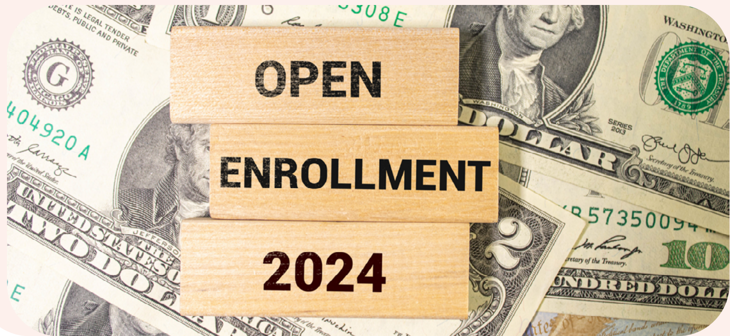
Nearly 7 in 10 (67%) spend 30 minutes or less on options, per a 2023 Voya Financial survey, with 42% taking just 20 minutes. Additionally, around 90% opt for the same selections as the previous year, said an Aflac report.

"Choosing benefits is extremely overwhelming," an expert said. "It's not something people want to focus on."

This year brings a fresh challenge: Employees are willing to spend less just as costs climb. The 2024 median monthly benefits spend—minus retirement—is $120, a $30 plunge over two years, said the industry group LIMRA.

Employees Feel Overwhelmed and Cost-Conscious

It's not that employees don't care about benefits—they mostly feel overwhelmed, confused, and now cost-conscious, experts said. That's where employers come in, as many have been falling short with communication.



Experts explained that employers often struggle to educate staff about open enrollment, as HR teams with limited time and resources cannot properly communicate details on all workplace benefits, especially options like supplemental health. In short, employers "need to ensure employees see the value" of benefits.

Telling Stories and Discussing Costs Are Key

To remedy the situation, experts said education and communication need to be significantly improved, whether through storytelling, discussing costs, or using multiple methods to reach employees.

Only 54% of employees said their employer communicates well about benefits, according to LIMRA.

Rather than just providing information, employers must educate employees on which offerings fit their needs, experts advised. Simply listing available benefits often fails to convey the value to employees.

Experts recommend connecting employees with colleagues willing to share positive stories about how certain benefits helped them. Employers should also clearly explain costs and potential savings to show the financial value of benefits.

Utilizing Multiple Communication Methods

Reaching employees in a variety of ways—from online to printed mailings—is also crucial since employees have different needs and preferences. Virtual fairs, hard-copy documents, and decision-support tools provided by carriers can all help spread information.

Discussing Year-Round

Even though open enrollment gets attention, experts say communication should happen year-round. Doing so ensures employees understand offerings when needed and are prepared for open enrollment.

Sending information just once annually is unlikely to improve knowledge. Through ongoing, easy-to-grasp communications, "benefits will be top of mind for employees, they will understand the purpose and value of benefits, and they'll remember to actually use them," said one expert.

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