2023 Employee Benefits Market Outlook

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BENEFITS REDEFINED

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Introduction

The 2023 Employee Benefits Market Outlook examines critical employee benefits topics and trends, delivering insights into the market and forecasting where the industry may be headed in 2023 and beyond. Before addressing future trends, it's critical to understand the important themes from 2022 that laid the groundwork for this year. To that end, the Market Outlook provides a snapshot of key benefits trends from 2022. The Market Outlook then discusses key topics and trends for 2023, including implementing effective mitigation strategies to combat rising health care costs, bracing for a recession, prioritizing holistic employee well-being, bolstering voluntary benefits offerings to meet employee needs and more.

This Market Outlook is provided by Employee Benefit Associates, Inc..
Reach out to discuss these topics or request additional resources.

Executive Summary

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.

Preparing for and building an organization that can weather a potential recession is critical for a successful 2023. Employers will need to ensure their organizations are adequately prepared for an economic downturn; this includes taking proactive steps to limit recession-related ramifications and maintain financial stability. Although employers can't prevent a recession from impacting their organizations, the strategies they implement can greatly impact their short- and long-term futures.

Employers also face the difficult task of addressing rising health care costs while trying to keep employee benefits coverage affordable. Organizational budgets are expected to be limited, so organizations will need to find ways to balance their spending. Successfully striking this balance will be essential to managing costs in 2023. Bolstering voluntary benefits will be an effective way for employers to expand their benefits offerings without raising costs. Benefits such as accident and critical illness insurance allow employers to meet their workers' unique needs and help employees maximize their benefits dollars. Employers will also need to contend with inflation and anticipated regulatory changes, such as a new overtime rule and pay transparency laws, as part of a complete cost management strategy.

Talent shortages and retention issues that plagued organizations in 2022 are expected to continue in 2023. Last year, employees had greater leverage and higher expectations in terms of job satisfaction, compensation, employee benefits and workplace flexibility; due to the projected economic downturn, employers are expected to regain some of their diminished leverage in 2023. For example, employers are expected to reclaim the edge in the return-to-work battle, with an increasing number of employers compelling employees to return to the office in 2023. Nevertheless, employers will need to remain competitive for talent acquisition and retention. This will include finding creative solutions to balance employee desires with organizational priorities.

Many employers are shifting to a holistic approach to employee well-being to address workers' physical and mental health concerns. This will become increasingly important in retaining employees in 2023 as employees confront financial difficulties, exacerbating existing physical and mental health issues in the workplace. Trending holistic strategies include focusing on work-life balance, preventing burnout and utilizing financial benefits to reduce inflation's impact. The renewed focus on reproductive health benefits that occurred last year is also likely to continue in 2023. There remains a lot of uncertainty in this area since the U.S. Supreme Court's ruling ended the federal constitutional right to abortion, leading to a patchwork of state laws regulating access to abortion. Employers will need to continue to assess options for providing reproductive health benefits and how such options may impact employee attraction and retention.

The impacts of the pandemic may have started to wane in 2022, but challenges stemming from the pandemic continue to impact the workplace. 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. As you consider the information presented in the Market Outlook, evaluate which trends you may be susceptible to this year. Then reach out to us to discuss the next steps and request valuable resources to help evaluate potential solutions and meet 2023's challenges. Together, we can rise to the challenges and identify opportunities presented in 2023.

2022 Retrospective

This section reflects on major market influences from the past year. In many ways, these unique but interconnected trends will help make sense of our current state of affairs. Understanding these market influences will be critical for employers as each will have a major impact on the trends expected throughout 2023.

State of the Market

In 2022, the labor market transitioned through various phases aptly referred to as the Great Resignation, the Great Reshuffle and the Great Reconsideration. There were labor shortages across industry lines as employee quits hit a record high of 4.53 million in March. Nearly 75% of organizations experienced difficulty filling their open positions, according to a ManpowerGroup study. These shortages were the result of various factors, many of which stemmed from workers reevaluating their employment priorities in response to the pandemic. In the largely worker-friendly market, individuals felt confident switching jobs for better pay and working conditions. Employers struggled to fill positions, resulting in increased labor costs as they raised wages and offered better benefits and other perks to bolster their workforce.

In June, the U.S. inflation rate reached a 40-year high, leading to significant price increases for many consumer goods. Employers responded in various ways to lessen inflation's impact on employees, such as reevaluating employee benefits, offering remote and hybrid work schedules, and increasing employee compensation. While the inflation rate has steadily decreased since June, it's still well above the average rate from recent years. Despite employers' efforts, inflation is expected to have a massive impact on employees in 2023.

The economic downturn in 2022 makes 2023's forecast uncertain and underscores each trend discussed in the Market Outlook. At the end of the year, the U.S. economy teetered on the edge of a recession. Now, there's the very real prospect of a recession arriving early in 2023, threatening the financial stability of organizations big and small. Employers have had to respond quickly to drastic shifts in social and economic conditions over the last few years. Heading into 2023 will be no different, as employers will be forced to make tough decisions due to the current economic uncertainty.

Health Care Costs Climbed

Employers continued to struggle with rising health care costs last year. Employer health care costs increased by around 5% in 2022, according to industry data. While many employers had relatively lower claim costs during the pandemic, medical plan costs in 2022 approached pre-pandemic levels as health care utilization rebounded. Widespread inflation also caused health care costs to rise, and it will likely continue to raise costs in 2023. Other factors that contributed to health care cost increases included specialty and novel prescription drugs, new medical technology, catastrophic claims and consolidation among hospitals and providers.

Rising health care costs presented challenges for employers, especially as they faced one of the most difficult labor markets in recent memory. Many employers worried about providing employees with affordable and quality care options while controlling rising health care costs. Traditionally, employers have addressed rising health care costs by shifting increasing costs onto employees. While some employers used this method in 2022, many did not want benefit choices to disrupt their recruiting efforts. This forced them to implement other strategies, such as reevaluating plan design and funding.

Physical and Mental Health Worsened

The COVID-19 pandemic may have waned in 2022, but the mental and physical health crisis worsened. Many employers responded by putting employee mental and physical health at the center of their workplace policies. They focused on improving health outcomes by taking a more holistic approach to employee health and well-being and expanding voluntary benefits, such as critical illness insurance, hospital indemnity insurance, pet insurance, identity theft protection and student loan repayment assistance. Organizations provided greater mental health support than before the pandemic by making telemedicine and remote health services more accessible and affordable.

The pandemic highlighted deeper workplace issues and societal disparities that have gone unaddressed for years. Employers responded by embracing diversity, equity and inclusion initiatives. According to data from Gartner, 35% of organizations included diversity, equity and inclusion initiatives among their top five priorities in 2022. The pandemic also changed where, how and when employees work. Before the pandemic, remote jobs only made up 4% of work opportunities in the United States; they accounted for 15% of all job opportunities in 2022. Many employees embraced remote and hybrid work, and these arrangements have become a fixture in many U.S. workplaces.

Court Rulings and Regulatory Changes

In 2022, major court rulings and regulatory changes created disruptions for employers and, in some cases, led to significant changes, forcing organizations to adapt. One of the most significant court rulings in 2022 was the U.S. Supreme Court's decision in *Dobbs v. Jackson Women's Health Organization* to overturn *Roe v. Wade*, ending federal protections for abortion rights and permitting states to implement their own regulations. In the wake of the Supreme Court's ruling, several states banned or restricted insurance coverage for abortion, while other states required plans to cover this procedure. This has presented several important considerations for employers providing abortion-related benefits; however, many of the issues surrounding these benefits remain open questions. Legal challenges to these laws are currently underway, and more are expected in the future, making it unclear what the landscape will look like in 2023 and beyond. As a result, employers have had to closely evaluate any reproductive health-related benefit offered under their group health plans to ensure full compliance with applicable restrictions.

Some of the most significant regulatory changes arrived via the Consolidated Appropriations Act (CAA) and final rules regarding transparency in coverage (TiC Final Rules). The CAA and TiC Final Rules subject group health plans and health insurance issuers to new requirements designed to increase health care transparency and protect consumers against surprise medical bills. While the CAA was signed into law and TiC Final Rules were issued in 2020, major provisions of the law and rules did not become effective until 2021 and 2022. Other provisions will go into effect in 2023 and beyond. These new requirements are highly complex and, as a result, will likely increase employers' compliance costs, but the full impact of these changes will likely not be felt until 2023 and beyond.

Section Summary

In 2022, the marketplace seemed to settle into a new normal in the wake of the COVID-19 pandemic, but many of the challenges caused by the pandemic persisted. Employers were forced to respond to these challenges alongside new developments, such as rising inflation and regulatory changes. Employees wielded newfound leverage, fundamentally altering how large segments of the labor market viewed and valued employee benefits and other perks. The impact of these challenges will likely be felt for years to come.

In 2023, organizations that make an effort to understand and learn from these past trends can gain a competitive edge and position themselves as industry leaders. Continue reading to learn more about the employee benefits trends and themes that are expected in 2023.

2023 Outlook

This section explores trends to watch in 2023, including why they're important and how they might impact employers. It examines many of the issues addressed in the retrospective that may continue to impact and shape the employee benefits market throughout the year as well as other trends employers should monitor.

Health Care Costs Continue to Rise as Employers Seek Effective Mitigation Strategies

In 2023, organizations face the difficult task of reining in rising costs and keeping employee coverage affordable while trying to remain attractive to current and prospective talent despite their shrinking budgets. Industry experts project a 6% to 8% increase in employers' health care costs in 2023. Employers may see a greater increase should they fail to take effective action to curb rising costs, such as expanding telemedicine options and digital health care resources. These efforts are further complicated by record-high inflation, marketplace consolidation and ongoing labor market issues. As employers brace for further health care cost hikes in 2023, they are desperately searching for solutions to manage their growing costs and address the long-term impacts of these increases on their organizations.

There are several reasons why employers' health care costs are increasing. While most employers experienced reduced claim costs during the COVID-19 pandemic, medical plan costs have begun returning to pre-pandemic levels as health care utilization rebounds, outplacing inflation and wage increases. Utilization has especially increased for employees dealing with severe chronic diseases and late-stage cancer due to missed or delayed care during the pandemic. Further, some employees are facing long COVID-19. Even employees who recovered from COVID-19 are experiencing cardiovascular and neurological diseases, causing employers' health care costs to increase. In addition, rising expenses among medical providers and specialty and novel prescription drugs are exacerbating employers' health care costs. The projected annual costs trend for outpatient prescription drugs is expected to approach double-digit levels—the highest rate since 2015—due to price increases and new specialty drugs.

Inflation is also causing health care costs to rise, and it will likely drive up costs moving forward. Additionally, there's been an increase in hospital closures, physician retirements and health care worker quits. In fact, 3% of health care workers quit each month of 2022, according to the U.S. Bureau of Labor Statistics. The recent trend of consolidation among hospitals, physician practices and commercial insurers is also triggering higher health care prices for private insurance. Altogether, these developments are putting further pressure on the health care system and causing costs to increase.

Planning is critical for employers to develop cost-saving strategies in 2023. Traditionally, many employers have addressed rising health care costs by shifting a greater share of costs onto their employees. While some employers plan to stick with this strategy, savvy employers will recognize the potential chilling effect this can have on recruiting efforts due to the state of the labor market. Employers should understand that employees are already financially strained due to inflationary pressures. However, employers' budgets may be limited, so increased health care spending will likely restrict spending elsewhere. 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 or incentivizing employees to seek cost-effective care options. Some organizations are negotiating with providers, as some carriers are currently offering discounts and reduced management fees.

Other cost mitigation strategies include:

Modifying health plan designs—Rising health care costs are causing employers to reevaluate their health care plan designs and offerings to include cost-reducing features. Some employers might even consider shifting to self-funded or partially self-funded plans in search of cost effectiveness. Additionally, employers are using health reimbursement arrangements and/or health savings accounts to incentivize employees to make cost-effective health care choices. Many organizations are also implementing wellness programs to improve the overall well-being of their workforce by encouraging individuals to exercise daily, eat a balanced diet, reduce stress and visit the doctor as needed.

Incorporating health care analytics—Employers are increasingly relying on health care data to understand potential cost drivers and underlying claims. These data analysis initiatives include claims audits, utilization analysis, data warehousing and predictive modeling. Many employers are using claims and diagnostic information to establish and measure workforce wellness initiatives in an effort to control health care costs. By gathering data and using it to predict where and when increased costs may occur, employers can determine the best strategies to address growing health care costs.

Improving employees' health care literacy—Health care literacy initiatives are leading employers' cost-saving strategies in 2023. Improving employees' health care knowledge is vital to building a healthy and resilient workforce and reining in overall health care costs. More informed employees are increasingly likely to reduce health care costs by making better care choices. For example, employers are guiding employees to in-network providers so they can avoid unnecessary out-of-network care, thus reducing overall medical expenses for both parties. Many employers are also creating user-friendly benefits portals to educate employees and provide them with critical information, such as health plan options, forms, enrollment calendars and links to additional health care resources.

Rapidly increasing health care costs will likely continue to impact employers for the foreseeable future. Savvy employers will look to implement effective strategies now to rein in these costs and keep employees healthy. 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.

Bracing for Recession

There's growing anxiety that the U.S. economy is heading into a recession. Recent headlines have not eased those concerns, especially as some of the country's largest technology companies announce layoffs as well as hiring slowdowns and freezes. Other troubling signs include two consecutive quarters of declining gross domestic product, record-high inflation, rising interest rates, a struggling stock market and cooling of the venture capital market. In 2023, it's critical for employers to consider how best to prepare for and build a resilient, recession-proof organization.

A recession is a prolonged and pervasive reduction in economic activity that can last for several months or years, and recovery can take years. Because a recession typically results in diminished economic output, lowered consumer demand and a drop in employment, such a downturn can present various challenges for organizations across industry lines.

How a recession impacts the economy can vary greatly. A recession in 2023 could differ from past recessions due to current unemployment rates hovering just about historic lows, worker shortages lasting longer than expected and employee expectations regarding compensation, workplace flexibility and overall workloads changing drastically over the last few years. As organizations respond to the economic downturn, these factors—and the labor market—will likely fluctuate. Therefore, what employers have done in the past to brace for a recession may not necessarily work in 2023.

Although a recession can't be prevented, employers' strategies can greatly impact whether their organizations withstand such a downturn. Specifically, employers can ensure their organizations are sufficiently prepared for a recession in 2023 by taking steps to limit related ramifications and maintain financial stability. To promote stability during an economic downturn, employers should consider the following:

Revisit compensation and benefits strategies—Many employers responded to recent labor challenges by increasing workers' salaries, providing substantial bonuses and expanding employee benefits and perks. However, with the possibility of a recession, many organizations will have to reverse course and make difficult financial decisions. Implementing pay freezes or eliminating nonessential expenses—such as employee lunches or paying membership dues—not only allow organizations to reduce costs, but can also help ward off larger, more impactful cuts. Enacting such cost-saving measures may be painful but are preferable to more drastic actions like reducing pay, eliminating benefits and layoffs. Organizations also should consider evaluating their benefits offerings by focusing on the long term and what matters most to employees. Employers should tread carefully and consult with legal counsel before reducing compensation or eliminating benefits to avoid associated liabilities.

Automate internal processes—The more efficient organizations are, the more resilient they will likely be during a recession. In particular, recession-proof organizations tend to stay one step ahead by optimizing resources and automating where possible. As such, employers can improve organizational productivity and reduce costs by automating processes and implementing new technologies.

Consider alternative staffing options—When organizations' financial capabilities become uncertain, their immediate plans may be to reduce costs through layoffs. However, layoffs should only be considered a last resort, as they can create additional risks (e.g., legal liabilities, lower morale, employee distrust, etc.) and often negatively impact business operations by decreasing productivity and proficiency. Instead, employers may be able to minimize the need for layoffs by adopting alternative staffing options. Alternative staffing arrangements can allow employers to establish an agile and flexible workforce during periods of economic downturn. In 2023, organizations may increasingly rely on temporary, part-time or gig workers instead of hiring full-time employees. They may also try to improve overall productivity by adopting alternative work schedules, including flextime, shortened workweeks and job sharing. Additionally, upskilling and training employees to perform a variety of roles will likely become more common as it can provide employers with increased workforce flexibility. If employers are forced to downsize, they can consider implementing voluntary reduction-in-force programs or choosing to slow hiring or pause it entirely instead of immediately resorting to layoffs.

Stay transparent—The possibility of a recession can bring uncertainty. Employees will likely be concerned about their futures, the long-term viability of their respective organizations and how their work processes may change. With this in mind, organizations need to find ways to keep employees informed without fostering their worries. Creating transparent workplace cultures can help organizations limit recession-related ramifications.

Prioritize employee engagement—Employee engagement can be vital leading up to and during a recession. During periods of economic uncertainty, employees are likely to feel stressed. If organizations are forced to lay off employees, the remaining employees could be asked to shoulder additional responsibilities and greater workloads. As a result, these employees may feel overworked and worried about their futures. Highly engaged employees can help limit recession-related labor challenges among organizations, as they are more likely to accept negative work changes and remain loyal. Employers can increase employee engagement within their organizations by meeting with employees, listening to them and addressing their concerns. Organizations can help maintain staff morale and productivity by increasing employee engagement during difficult times.

Reduce health care costs—As their health care budgets shrink during a recession, searching for cost-effective solutions can allow organizations to maintain affordable and effective benefits for employees. Implementing strategies to manage health care expenses (e.g., reevaluating plan designs and offerings, directing staff to cost-effective services, and improving employee health care literacy) can help employers keep their organizations' reduced benefits budgets intact—all without sacrificing employees' needs in 2023.

Pay Transparency Gains Ground

The tight labor market has led employees to make new demands, such as remote working arrangements, enhanced benefits and more. Chief among these workplace demands is pay transparency, which is a practice whereby employers openly communicate compensation-related information to current or prospective employees. Pay-related websites, such as Glassdoor, have helped normalize pay transparency as an integral part of an individual's employment search and facilitate employee-driven conversations about pay. While many employers are hesitant to implement pay transparency practices because they're concerned about how existing employees may react, as pay transparency can reveal unintended pay gaps and trigger questions from current workers, it's 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.

It's becoming increasingly clear that providing pay transparency is not a passing trend. In recent years, California, Colorado, Connecticut, Maryland, Nevada, Rhode Island and Washington have all passed pay transparency laws. Some cities, including New York City, Jersey City and Cincinnati, have also passed such 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.

Driving the nationwide normalization of pay transparency is the demand from millennials and members of Generation Z, who collectively account for the largest portion of today's workforce. Visier's 2022 Pay Transparency Pulse Report found the most important factor potential employees consider when deciding whether to apply for a job is their estimated compensation. Further, 11% of candidates will not apply or interview for a role without knowing the salary band, and 50% have completely abandoned an application or interview process because the pay did not meet their expectations once the employer revealed it. Some employers have responded to increased employee pay transparency demands by voluntarily disclosing pay information. According to a recent Willis Towers Watson survey, 17% of U.S. employers disclose pay range information even where it's not required by state or local laws. From the same survey, 62% of employers reported that they're planning or considering disclosing pay information in the future, signaling most employers are embracing this trend in 2023.

While pay transparency is likely to become more widespread as more states and localities pass transparency laws, employers might consider embracing this trend even if they're not legally required to do so. While pay transparency may

sound like another burden on employers, it presents a great opportunity to cultivate employee trust. Even if employers are not compensating the employee more than their competitors, simply discussing pay with employees and candidates can go a long way towards building trust. Establishing trust with workers will be vital as organizations brace for a recession in 2023. Additionally, organizations that provide pay transparency information tend to receive more applicants. By disclosing salary information and ranges to applicants, employers can also save time and money in recruiting by ensuring candidates don't reject job offers due to insufficient pay. Even when not required, providing this information can help organizations stay ahead of pay disclosure mandates, which is becoming increasingly important as they hire more remote employees.

Renewed Focus on 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. To attract and retain employees, employers will need to assess their options for providing reproductive health benefits, which will be challenging due to legal uncertainties at the state level.

Because of the Supreme Court's ruling, there is no longer a federal constitutional right to abortion care. Now, each state can establish its own laws to protect, regulate or prohibit access to abortions. Many states have recently banned abortion or placed gestational limits on the procedure; however, some of these laws are now on hold due to legal challenges. This has created a patchwork of state laws on abortion care and uncertainty for employers as they look for ways to respond to support their employees' needs and provide a competitive benefits package.

State laws regarding abortion access are expected to continue changing in 2023 as new legislation is passed and legal challenges are decided. Although there have been attempts to establish new federal protections for abortion access, it is unlikely that any of these measures will become law, given Congress' current makeup.

Employers providing benefits for legal reproductive care will need to assess the implications of offering these benefits as abortion laws continue to evolve. For fully insured health plans, the scope of benefits that may be provided depends on the specific restrictions imposed at the state level. When a state law prohibits paying for or reimbursing the costs of abortion "through insurance or otherwise," it is unclear whether and to what extent this would apply to coverage of lawful out-of-state procedures. In general, self-insured health plans are not subject to state insurance laws, giving such employers more flexibility to determine the scope of reproductive health benefits. However, it is unclear whether a state law criminalizing abortions—or a state law prohibiting persons from “aiding and abetting” the procurement of abortions—could be used against employers providing abortion benefits through self-insured health plans. These issues will likely need to be decided in court.

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 own compliance challenges. These challenges include strict limits on tax-free travel reimbursements and possible liability under state laws that prohibit “aiding and abetting” actions related to abortion care. To avoid these concerns, some employers are implementing programs that reimburse wellness-related travel expenses and are not specifically for abortion or medical care.

Employees may also want assurance about their access to contraceptives following the Supreme Court’s decision. Currently, contraceptives are legal throughout the United States. However, a handful of states have enacted laws allowing health care providers to refuse to fill prescriptions based on their religious and moral objections. The Affordable Care Act (ACA) still requires most health plans to provide coverage for contraceptives without imposing a deductible, copay or coinsurance. The Biden administration recently issued guidance stating that they have received persistent reports of noncompliance with this coverage requirement and noting that it is “more important than ever that ensure access to contraceptive coverage without cost-sharing, as afforded by the ACA.” This guidance confirms that any state laws restricting contraceptive coverage are preempted by the ACA and cannot be enforced. It also clarifies that health plans must cover emergency contraception, including over-the-counter products, without cost-sharing when prescribed by a health care provider. Employers should review their health plan’s coverage for contraceptives, including emergency contraceptives, to confirm that it complies with federal requirements under the ACA.

Updated Overtime Rule Creates New Compliance Challenges

In its 2022 spring regulatory agenda, the U.S. Department of Labor (DOL) stated it would issue a proposed overtime rule in October 2022. However, the DOL recently announced it extended its timeline for issuing a proposed overtime rule to May 2023. This means employers must wait until May to see how the expected changes to the rule might impact their organizations in 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 (FLSA). 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.

Under the FLSA's current overtime rule, employers must pay employees an overtime premium of 1.5 times their regular rate of pay for all hours worked over 40 in a workweek. The law exempts certain employees from these overtime requirements. To be exempt, employees must meet the criteria of administrative, executive and professional exemptions, which include being compensated on a salary basis, being compensated at least the minimum weekly salary threshold and performing certain duties. The current overtime rule became effective in January 2020 and raised the minimum weekly salary threshold from $455 to $684, or $35,568 annually. This was the first change to the threshold in 15 years. The Biden administration has made it clear that it believes the current threshold is too low, and some advocacy groups have asked the DOL to raise the threshold even higher than the Obama administration's 2016 proposal of $913 per week.

Experts believe the DOL will move quickly once the proposed rule is published in the Federal Register, making it critical that employers are prepared for these possible changes in the second half of 2023. Revisions to the overtime rule will likely impact compliance costs and litigation risks for employers in 2023 and beyond. Crucially, increasing the minimum salary threshold and modifying the duties test will likely result in more employees becoming eligible for overtime. This could potentially present significant challenges for employers dealing with fewer resources and constricted budgets due to the current and projected economic downturn. Organizations are encouraged to prepare for the rule change by reviewing their compensation data to determine which exempt employees may be impacted.

Bolstering Voluntary Benefits Offerings Helps Meet Shifting Employee Needs

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. Although individual needs vary, in 2023, employers can help ease financial pressures brought on by factors such as the COVID-19 pandemic and record-high inflation through expanded voluntary benefits offerings.

One of the best perks of voluntary benefits is that they are optional, so employees can opt for the coverage that matters most to them. Dental and vision care continue to be standard voluntary benefits. However, nontraditional offerings are becoming more popular as Americans face a rapidly changing landscape shaped by the pandemic, skyrocketing health care costs and the risk of a recession. All signs point to continued financial pressures in 2023, leaving many with unmanageable debt. For these reasons and more, voluntary benefits offerings will be crucial this year. The following is a list of voluntary benefits expected to be most popular in 2023 and beyond:

- **Accident insurance**—Accidents happen; unfortunately, accidents often result in injury and unexpected medical expenses. Many Americans cannot cover a $1,000 bill with their savings, so accident insurance is a great way to help protect them from unexpected costs.

- **Critical illness insurance**—Health-related voluntary benefits have risen in popularity amid the pandemic. When employees are faced with a serious illness, such as a heart attack or stroke, critical illness insurance can help cover expenses in the short term while they get back on their feet.

- **Hospital indemnity insurance**—Many people experienced hospital stays due to COVID-19 and related complications. Others continue to put off preventive care, which can result in serious health consequences down the road. Hospital indemnity insurance helps with out-of-pocket costs from unexpected or long-term hospitalizations.

- **Life insurance**—Life insurance protects employees' spouses and children from the potentially devastating financial losses that could result if they lose their lives. As a recession can impact the share of workers' wallets allocated for things such as life insurance, employers can help ensure this protection is more affordable.

- **Identity theft protection**—As cybercrime rises, so will the popularity of identity theft protection benefits. This benefit can help reduce the time and money spent recovering from identity theft.

- **Pet insurance**—While Americans stayed at home amid the height of the pandemic, many decided to bring a furry friend into their lives. Pet insurance is a great way to reduce the financial liability of pet medical care.

- **Student loan repayment assistance**—Much of today's workforce is burdened with student loan debt and feels as though they're stuck in limbo with repayments. Student loan repayment assistance can be a much-needed financial lifeline as employees balance paying off debt and keeping up with inflated prices of everyday goods.

With millions of today's workers under financial strain due to inflation and an economic slowdown, benefits packages are an even more important consideration for 2023. While the voluntary benefits market has been expanding steadily over the years, employers have a great opportunity in 2023 to offer complementary benefits that help workers avoid financial setbacks and stretch their hard-earned dollars.

The Battle Intensifies Over Remote and Hybrid Work

Many employers embraced remote and hybrid work out of necessity at the onset of the COVID-19 pandemic. But when lockdown orders were lifted, many continued to accept these flexible work arrangements as a compromise with their

employees. While remote and hybrid work are 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.

Despite the general acceptance of flexible work arrangements, employers and employees disagree on their efficacy. Many employees report feeling happier and more productive when working from home, but employers doubt whether workers are productive in remote environments. Some employees are pushing their employers to embrace or extend flexible work arrangements because they're concerned about affording the cost of living increases due to inflation. Remote and hybrid work allow employees to save money by not having to commute or pay for child care. On the other hand, employers are concerned about the loss of company culture and retention issues, especially for younger employees who may benefit from an in-office experience. According to a Microsoft survey, 82% of employers reported requiring employees to return to the office is a concern for 2023. Yet, efforts to force employees to return to the office in 2022 have often been unsuccessful, resulting in many organizations scaling back their initial plans. Even with these challenges, 90% of organizations will require employees to return in person in 2023, according to a report from ResumeBuilder.com. For organizations looking to bring employees back to the office in 2023, addressing employee expectations regarding flexible work arrangements is critical since simply mandating return-to-work policies will not alter employee attitudes or expectations regarding workplace flexibility.

For organizations that have embraced flexible work arrangements, ensuring remote employees are productive is the main concern. After more than two years of employees working in remote and hybrid environments, many managers are still not convinced employees are working at full capacity. This emerging trend is known as "productivity paranoia." According to a recent Microsoft survey, 85% of leaders believe hybrid work has made it difficult to be confident that employees are being productive; however, the majority of employees (87%) report they are productive at work. The disconnect created by the shift to remote and hybrid work is partly the result of managers no longer being able to observe what employees produce each day. Despite leaders' fear that employees are not being productive since shifting to hybrid work, Microsoft's survey found the hours employees work, the number of meetings and other productivity metrics have increased. Productivity paranoia is causing a workplace trust deficit, leading to disengaged and less productive workers. Unless employers address this issue, hybrid and flexible work arrangements may become unsustainable.

In 2023, employers will invest in technology or implement workplace adjustments to address remote and hybrid work issues. Organizations are employing surveillance technology and tools so managers can observe remote employees' productivity. This will require employers to develop methods of monitoring employee output while balancing worker privacy concerns. Cybersecurity will also be a priority to address the potential security ramifications of more employees working remotely. Additionally, more employers are expected to adopt a four-day workweek. Many organizations conducted four-day workweek trials last year, and 2023 may be the year this trend is embraced on a wider scale. Under this approach, employees would maintain the same workload as a five-day workweek but eliminate nonproductive activities from their workday. Adopting this trend could have a positive impact on employees' physical and mental well-being by allowing employees more time for personal priorities. Even if employers don't adopt a four-day workweek, some organizations might embrace flexible work hours in 2023, allowing employees more time for educational opportunities and family responsibilities.

Employers would be prudent to survey employees before making changes to existing remote work policies, thus avoiding situations where employees refuse to return to in-office work or resign. Whatever actions employers decide to take in 2023, they'll need to find ways to help employees feel connected and engaged, such as promoting effective communication and encouraging team building activities.

Employers Prioritize Holistic 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. Millions of Americans struggled with mental health challenges and substance misuse before the pandemic, but these struggles worsened during the pandemic and persist today. According to a recent survey by the Kaiser Family Foundation, mental health is a serious concern for the majority of American adults; the findings revealed that an alarming 90% of adults feel the nation is experiencing a mental health crisis. Furthermore, 1 in 5 adults rated their mental health as "only fair" or "poor." Most adults cited stressors, including finances, politics and current events, relationships with family and friends, and work. There are also many barriers that prevent people from accessing mental health services including cost, scheduling (e.g., couldn't get time off work) and the stigma associated with mental health.

Since the average American will spend 90,000 hours at work over their lifetime, employers are uniquely poised to help address or eliminate these hurdles.

Another critical component of employee well-being revolves around work-life balance. As remote and hybrid work arrangements become the norm in the modern workplace, workers' lines between work and life remain blurred. More employees also feel burnt out between the pandemic, inflation and job duties. As such, organizations will want to take greater responsibility for workers' burnout and actively seek to help employees on a personal level. 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. Many workers will be looking to their employers for guidance as well as the education and support they need.

Workplace initiatives are likely to be shaped by the U.S. surgeon general's new five-part framework for employers, which outlines how the workplace can promote employee mental health and well-being:

1. **Protection from harm**—Physical and psychological safety is critical for ensuring employees' mental health and well-being.
2. **Connection and community**—Positive social interactions and relationships in the workplace can support employee well-being.
3. **Work-life harmony**—Work-life harmony involves employees incorporating work into the rest of their lives in a way that promotes happiness during and outside of the workday.
4. **Mattering at work**—Employees want to know that their work matters and is important.
5. **Opportunities for growth**—Employees may be more optimistic about their abilities and contributions when there are more opportunities to achieve goals based on their growth.

All signs indicate that employee well-being will become a primary focus for employers in 2023. Although many workers have experienced elevated stress, burnout and poor mental health in the past few years, holistic benefits offerings are uniquely positioned to alleviate many of these issues. More than ever, workers want to feel like they belong in the workplace, are recognized and appreciated, and are safe. In turn, when employees' well-being is thriving, they often take fewer sick days, increase their job performance, manage stress better and experience less burnout. This year, successful organizations will lead with humanity as employee well-being continues to be challenged by social and economic pressures.

Conclusion

Employers continue to face familiar and unfamiliar workplace challenges many of which will likely continue through 2023 and beyond. Employers will need to find ways to build resilient organizations, accommodate employees' desires and protect workers' health and mental well-being while addressing rising health care costs and continued labor challenges. This won't be easy, especially as many organizations find their budgets shrinking.

While many of these challenges may seem daunting or even insurmountable, 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.