2024 Employee Benefits Market Outlook

THE USI ONE ADVANTAGE®

Table of Contents

Executive Summary 3

Is Covering GLP-1s Worth the Cost? 4
Evaluate the clinical value of GLP-1 treatments against the cost when deciding to include coverage for plan members.

3 Prescription Drug Trends Impacting Employer Pharmacy Spending 7
Several trends in pharmacy spending will continue to impact employer health plan costs.

The Hidden Cost of Employees Struggling With Well-Being 9
Investing in employee well-being helps your business optimize benefits spending, improve employee engagement and satisfaction, and become an employer of choice.

SECURE 2.0 Act Helps Employers Increase Retirement Readiness and Reduce Costs 12
New requirements and enhancements aim to improve employee savings participation and identify opportunities to reduce long-term costs through a retirement-ready workforce.

Market Trends Impact Salary Decisions for 2024 and Beyond 14
As employers work to ensure competitive salaries and benefits to attract and retain employees, they will face additional pressure from several trends impacting compensation.

Unlock the Savings Advantage With a Stop-Loss Captive 16
Midsize businesses making the switch to self-funding are turning to captive arrangements to access better rates and plan options for stop-loss coverage.

Proposed Rule May Impact the Future of Fixed Indemnity Products 18
Regulators seeking to address misleading sales tactics may affect employers' ability to offer affordable indemnity products to employees.

Reduce the Risk of Noncompliance With Leave Management Support 20
Outsourcing leave management can help reduce the risk of noncompliance while improving employee satisfaction.

Executive Summary

As the U.S. economy continues its turbulent path toward a soft landing, employers are generally seeing a reduction in unemployment and turnover. Unfortunately, employers will face increased pressure from the employee benefits expense line, which will be fraught with challenges over the next 12 to 24 months.

- Expensive treatments, including new and emerging cell and gene therapies, GLP-1s and the usual array of specialty drugs will outpace their usual significant impact on total claims.
- Mental health claims, whether paid for by the plan or not, continue to impact many employers' finances and productivity.
- Premiums are increasing due to staffing shortages and higher labor costs, and hospitals have more negotiating power as a result of consolidation.

Medical Benefits — Healthcare costs continue to go up, driven by medical inflation and increasing demand for high-cost medications and treatments.

Total medical spend for Type 2 diabetes increased 20.7% from $16,935 per member per year in 2020 to $20,432 in 2023, **driven by a 115% increase in spending on high-cost GLP-1 medications**. Several gene and cell therapies currently available cost $850,000 or more per dose. As more therapies are approved every year, the likelihood of experiencing a high-cost claim increases.

Employee Well-Being — Financial stress is taking a toll on employees' physical and emotional wellness and productivity.

Nearly half (48%) of employees cite financial concerns as the cause of lower mental health, up from 31% in 2022. **Twenty-three percent of employees state financial stress impacts their ability to focus and be productive at work.** Employees with financial stress are also twice as likely to look for a new job.

Employee Pay — Continued low unemployment and growing wage transparency will make it difficult for employers to offer competitive benefits that meet employee needs and expectations.

Employers plan to provide competitive base salary increases in 2024 and expect a 3% to 4.5% budget increase for pay. Growing legislative interest in pay equity and transparency is putting more pressure on employers to be upfront about wages, which could impact employee satisfaction and turnover.

A strategic approach to benefits planning and spending helps employers make decisions that contribute to employee satisfaction and business growth. In USI Insurance Services' **2024 Employee Benefits Market Outlook**, our benefits and compliance experts help employers identify top cost drivers, analyze the potential financial impact and provide recommendations based on the proven success of hundreds of thousands of clients.

Arthur Hall

Employee Benefits National Practice Leader

Is Covering GLP-1s Worth the Cost?

Adults With Type 2 Diabetes PMPY	Oct 2020-Sept 2021	Oct 2021-Sept 2022	Oct 2022-Sept 2023	2-Year % Change
Medical spend	$11,839	$12,417	$13,348	12.8%
Pharmacy spend (excludes injectable GLP-1s)	$4,105	$4,425	$4,949	20.6%
GLP-1 injectables spend	$991	$1,360	$2,135	115.5%
Total spend (medical + Rx + injectables)	**$16,935**	**$18,202**	**$20,432**	**20.7%**

Total health plan spending for adult plan members with Type 2 diabetes has gone up 20.7%, driven by the sharp increase in GLP-1 expense.

GLP-1 prescriptions have increased dramatically over the past three years, driven by significant results for patients with Type 2 diabetes and obesity. Given the potential health benefits — lowered A1C and considerable weight loss — employers would expect to see expenses from complications and related conditions go down. Instead, employers continue to see an increase in both medical and non-GLP-1- related pharmacy costs for plan members with Type 2 diabetes. We believe this reflects the long-term nature of this investment; lower A1C and weight loss are not likely to have a dramatic impact on reducing healthcare costs in the first year.

For fully insured health plans, the increased costs of GLP-1s will result in much higher-than-average renewal premiums. Self-funded plans will see significant increases in pharmacy costs and overall costs of care.

"Glucagon-like peptide-1 agonist receptors," or GLP-1s, promote insulin production, which can, with diet and exercise, improve blood glucose levels for adults with Type 2 diabetes. Some of these medications have also been found to contribute to significant weight loss and have been approved for use with weight management.

Considerations for Covering GLP-1s

Despite the intermediate lack of success in reducing healthcare costs, GLP-1s have been reported to successfully lower A1C (a measure of average blood sugar levels over a three month period), which, if not adequately controlled, may lead to costly diabetic complications such as cardiovascular disease, nerve damage and blindness.[1] Low insulin and very high blood sugar can cause diabetic ketoacidosis (DKA), a serious complication requiring immediate treatment and/or hospitalization — and can cost $20,000 or more per in-patient admission.

Type 2 diabetes patients taking a GLP-1 as part of a comprehensive treatment program (including diet, exercise, and other medications) have also experienced weight loss. One pharmaceutical study found a loss of 15 to 24 pounds on average over 40 weeks.[1] At higher doses, GLP-1s can suppress appetite, slowing down emptying in the stomach and providing a signal of being full, which ultimately contributes to weight loss. This has led to some GLP-1s, like semaglutide and tirzepatide, to be approved for weight loss — which may also reduce the risks associated with obesity, such as cardiovascular disease, osteoarthritis and cancer.

With these benefits come additional considerations:

- Some studies have found that while most of the weight loss attributed to GLP-1s is body fat mass, 25% to 33% is estimated to be lean body mass, which could result in reduced muscle strength and endurance, and contribute to regaining weight after stopping medication.[2]
- Another study points to potential wastefulness, finding 68% of patients prescribed a GLP-1 for weight loss had discontinued taking the medication by the end of the first year. The study also found the annual cost of care for patients taking a GLP-1 for weight loss increased from $12,371 to $19,657.[3]

Employers should note that coverage for GLP-1s does not mean this will be the most appropriate treatment for everyone. Certain patients may find success with other cost-effective options.

Currently, USI recommends that groups consider:

- Covering the cost of GLP-1s for adult members with Type 2 diabetes based on a provider's recommendations or approved diagnosis of the condition.
- Not covering the cost of GLP-1s for individuals without an existing diabetes diagnosis, unless there is coverage for weight loss in the health plan and the specific GLP-1 is approved for weight management. This recommendation may change based on evolving legislation and treatment capabilities of these drugs or other legal developments.

How USI Can Help

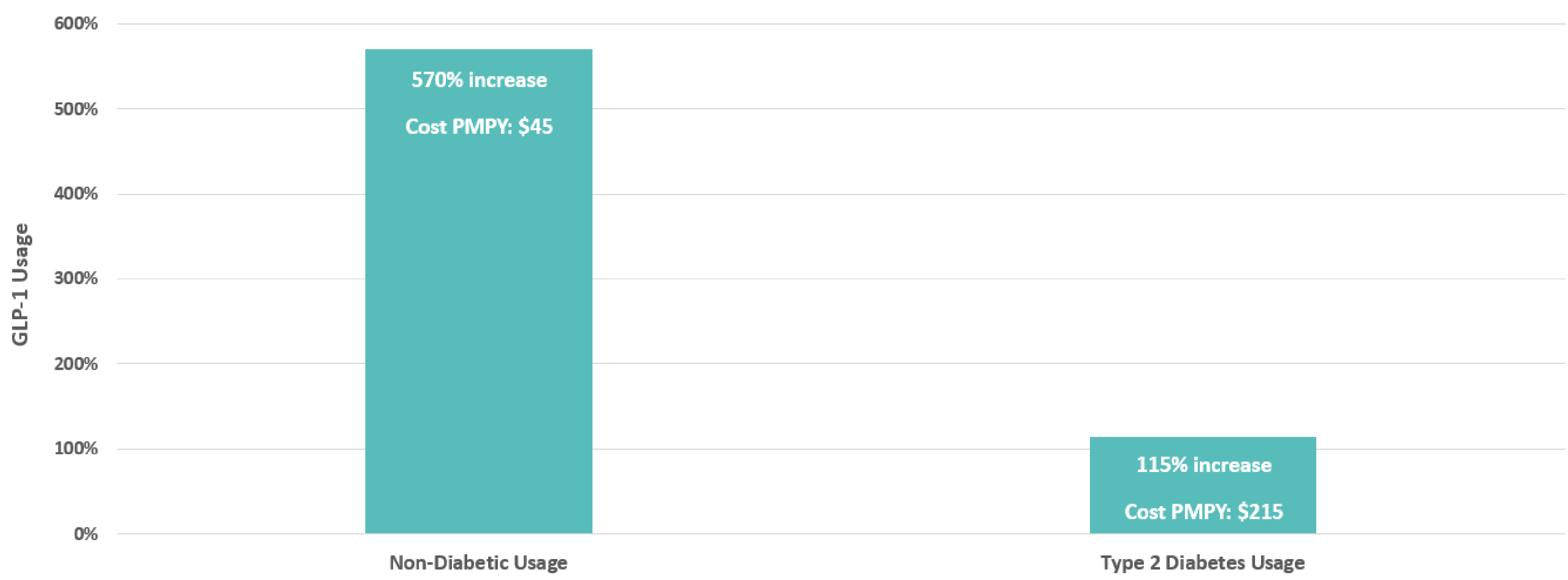
Clients engage USI to identify cost drivers and implement strategies to improve member health status and control pharmacy spending. These strategies can include:

- Evaluating the clinical value of high-cost treatments
- Considering other first-line, cost-effective therapies
- Working with pharmacy benefit managers to require effective utilization management solutions such as prior authorization, quantity limits or strategic drug exclusions before dispensing expensive medications

Contact your local USI employee benefits broker or ebsolutions@usi.com to learn more.

[1] Lilly USA, LLC, Mounjaro Prescribing Information
[2] Endocrinology and Metabolism, A Review of the Effects of Glucagon-Like Peptide-1 Receptor Agonists and Sodium-Glucose Cotransporter 2 Inhibitors on Lean Body Mass in Humans, 2019
[3] Reuters, Exclusive: Most patients using weight-loss drugs like Wegovy stop within a year, data show, July 11, 2023

Trend Spotlight: GLP-1s for Weight Management Over the Past 3 Years



While GLP-1 usage for Type 2 diabetes has increased 115% over the past three years, non-diabetic usage has increased almost five times as fast (570%). The financial impact on health plans so far has been much smaller — $45 PMPY for non-diabetics compared to $215 PMPY for Type 2 diabetics **— but still represents $63 million in claims costs, or 3% of overall pharmacy spending**.

As the prevalence of obesity continues to increase in the U.S. and additional GLP-1 medications are approved for weight loss management, we expect an aggressive rise in utilization and expense. USI's population health management and compliance teams will continue to monitor developments and potential impact to employers.

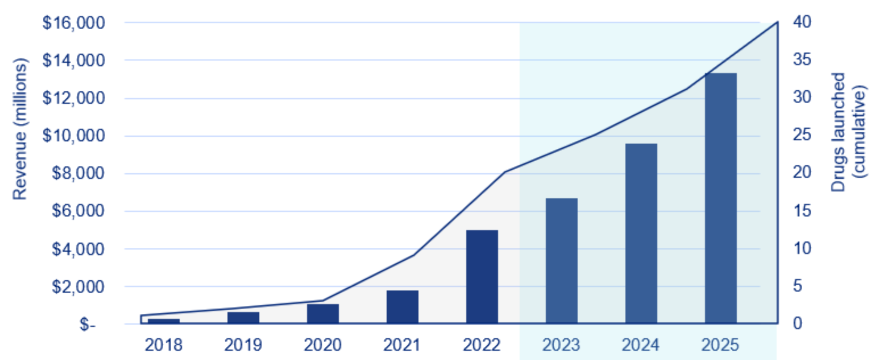
3 Prescription Drug Trends Impacting Employer Pharmacy Spending

Overall pharmacy spending grew 9.4% between 2021 and 2022 to $633.5 billion, driven by utilization, price and emerging therapies. Several trends in pharmacy spending will continue to impact employer health plan costs in 2024.

Cell and Gene Therapies

Ranging in cost from $200,000 to $3.5 million per dose, emerging cell and gene therapies, developed to treat a variety of rare genetic and acquired conditions, continue to be a high-cost challenge for employers. Of the therapies currently approved for use, seven cost $850,000 or more per dose. Another dozen or so in the pipeline have great clinical potential to treat conditions like sickle cell disease and leukocyte adhesion deficiency, a rare immunodeficiency disorder, but at a high cost —some estimated at $2 million to $3 million. As more therapies are approved every year, the likelihood of experiencing a high-cost claim increases.

Single-dose cell & gene therapy U.S. spend forecast[1]



New drug prices are estimated to range from $2M – $3M+

[1]OptumRx internal book of business analysis on projected spend

Source: United HealthCare Services

Compared to other specialty medications, these therapies are more expensive due to more complicated administration, specialty pharmacies for distribution, and the life-altering nature of the treatments. Many also require in-patient hospitalizations, adding $300,000 to $700,000 per claimant to health plan expense.

In response, some carriers are offering specific stop-loss or carve-out plans for high-cost pharmacy medications. However, these plans may exclude plan members with pre-existing medical conditions from accessing critical treatments. Increasingly, employers are paying into cell and gene therapy pools, designed to cover high-cost medications for certain conditions. When considering pool options, employers will need to understand what conditions are covered and when coverage is excluded to determine whether the guaranteed cost of the pool is worth the coverage. USI provides pool comparison resources to help clients evaluate their options.

GLP-1s

Usage of GLP-1 medications within USI's client population has dramatically increased over the past year, as these treatments continue to demonstrate life-changing results for patients with Type 2 diabetes. Several of these medications have also been approved for weight management, while others are being prescribed "off label" for this use. Given the high monthly cost, employers need to consider the efficacy and overall value of GLP-1s for both diabetes treatment and weight management. Strict adherence to prior authorization requirements should minimize off-label or unapproved use of this medication for weight loss for members without Type 2 diabetes.

Biosimilars

For many medications, the introduction of a lower-cost generic version helps to moderate prices. However, drug manufacturers have been able to extend patents on new and high-cost medicines, effectively delaying the release of less expensive generics. This has put off the development of biosimilars — lower-cost generic biologic medications used to treat a variety of conditions — until recently. New biosimilars for the high-cost biologic medication, Humira, were approved for use in 2023, and more biosimilars are likely to be developed as other patents continue to age and expire.

USI recommends organizations evaluate their pharmacy benefits contract to ensure coverage of biosimilars while negotiating for the lowest net cost of this drug class to plan members. Inclusion of biosimilars may reap savings of $1,000 to $4,000 per prescription fill of specialty medication when members switch from a patented specialty drug to a lower-cost biosimilar.

How USI Can Help

USI's pharmacy team helps clients evaluate and implement various solutions to control the impact of prescription drugs on health plan spending. We use our proprietary 3D platform to:

- Analyze client data for exposures to high-cost claims
- Recommend solutions designed to control pharmacy spending, such as independent prior authorization and USI's exclusive pharmacy contract analysis

Contact your local USI employee benefits broker or ebsolutions@usi.com to learn more.

The Hidden Cost of Employees Struggling With Well-Being

Employees who struggle physically, financially, or emotionally:

- Are less engaged
- Take more sick days
- Have higher medical costs
- Experience higher turnover rates
- Spend more time at work focused on personal issues

This can have a significant impact on employees' readiness to work and cost employers hundreds of thousands of dollars in lost productivity and health plan expenses.

50% **of catastrophic claims are tied to individuals who have not had a preventive care visit in the last 12 months[4]**

Good physical health is known to lower the risk of chronic and often high-cost conditions — such as heart disease, diabetes, and certain cancers — and helps reduce anxiety and depression. Preventive care is a staple of good physical health, yet based on USI's client data, only 20% to 30% of the population engages with a primary care physician annually — often missing critical health screenings when the costs to intervene are low.

- Cancer and cardiovascular disease top the list of stop-loss claim costs, totaling $2.04B — accounting for 37% of stop-loss claim reimbursements for 2022
- High-cost injectable drugs for cancer cost employer health plans $156M in 2022
- Recent research shows significant increases in "observed" compared to "predicted" rates of heart attacks among working-age adults: 29.9% for ages 25 to 44; 19.6% for ages 45 to 64[5]

Regular engagement with a primary care physician can help ensure plan members receive recommended cancer screenings critical for the early detection and treatment of potentially high-cost conditions, drastically improving survival rates while reducing overall costs of care.

Behavioral health conditions like depression dramatically compound the cost of healthcare. USI has found **depression can increase the cost of medical treatment for several chronic conditions by 35% to 100%**. Roughly 1 in 5 American adults has a behavioral health condition, including depression and anxiety.[6] USI client data shows 8% of adult plan members may have untreated needs.

Similar to other high-cost conditions, early detection of depression can significantly impact employee well-being and cost of care. The U.S. Preventive Services Task Force, an independent panel of national experts in disease prevention and evidence-based medicine, recommends including depression screenings as part of a primary care visit.

Identifying undiagnosed individuals is the first step, and ensuring plan members have access to care is another critical component. While many organizations may have relied on an employee assistance program to help employees seek behavioral healthcare resources, employers now have a wider spectrum of options to better address the behavioral healthcare needs of their employees.

[4] USI 3D Client Data
[5] Sun Life, 2023 High-cost claims and injectable drug trends analysis
[6] National Alliance on Mental Illness

Employees suffering from a physical condition as well as depression and/or financial stress can cost

30% to 50%

more than those with a physical condition alone.

Fifty-seven percent of working Americans say finances are the top cause of stress in their lives, which can negatively impact sleep, self-esteem, relationships at home, and mental and physical health.[7] Nearly half (48%) of employees cite financial concerns as the cause of lower mental health, up from 31% in 2022.[8] This can also have a negative impact on the workplace, with 23% of employees stating that financial stress impacts their ability to focus and be productive at work.[9] Employees with financial stress are also twice as likely to look for a new job.[7]

A growing number of employers offer some form of financial wellness benefit, but not many have assessed how well those programs address employee needs. Evaluating program effectiveness can help identify gaps and opportunities to enhance financial wellness offerings.

[7]PwC, 2023 Employee Financial Wellness Survey
[8,7]MetLife, 21st Annual U.S. Employee Benefits Trend Study 2023
[9]SoFi, The Future of Workplace Financial Well-Being 2022 Employer & Employee Perspectives

How USI Can Help

USI helps employers take a holistic approach to employee well-being with Mind Body Money — solutions and services designed to help employees thrive and reduce the impact on employer benefit plans. USI's population health management consultants work with employers to develop a comprehensive wellness strategy to improve health outcomes and reduce the total cost of care for employer-sponsored health plans.

Using client data, USI helps employers identify cost drivers and implement low-cost, high-impact solutions, including:

- Applying meaningful incentives to increase primary care visits and recommended screenings
- Evaluating behavioral health vendors and resources to reduce the impact of depression on employees' physical well-being and total cost of care
- Identifying opportunities to enhance financial wellness and connect employees with education, tools, and access to financial planning professionals

> USI's **Mind Body Money** solution helps employers take a holistic approach to employee well-being and can reduce the impact on benefit plans.

Investing in employee well-being helps your business optimize benefits spending, improve employee engagement and satisfaction, and become an employer of choice. Contact your local USI employee benefits broker or ebsolutions@usi.com to learn more.

Optimize Plan Performance With Proven Solutions

USI's long-term focus on preventive care and targeted disease management has created opportunities to benchmark client data and develop performance metrics for several high-cost areas like cancer care and diabetes management. Leveraging the claims experience of more than 1,400 clients and 2.3 million plan members, USI's CORE Health Action Plan (CHAP) report provides employers with a roadmap for improving health outcomes and reducing costs by comparing plan performance to our target metrics and identifying where mitigation strategies could have a significant impact.

USI's CHAP report also provides employers a multiyear strategy to help reach target metrics, including proven action steps such as incentivized physician engagement as well as insightful new solutions.

How USI Can Help

Working with a USI population health management consultant, employers can use the CHAP report to prioritize action steps and determine a timeline for implementation.

SECURE 2.0 Act Helps Employers Increase Retirement Readiness and Reduce Costs

Employees who are financially unprepared to retire can impact an employer's bottom line due to increased healthcare costs and labor expenses, as well as lower productivity. Prudential Insurance Company estimates $50,000 in additional costs per employee for each year they delay retirement.[10] Employees who want to save for retirement face a variety of obstacles, including student loans, higher costs of housing and healthcare, and increased inflation.

To address the savings barriers Americans face today, the SECURE 2.0 Act — signed into law in December 2022 — provides more than 90 retirement provisions to modernize the retirement system, making plans more affordable and improving wealth-building opportunities for millions of Americans. The SECURE 2.0 Act is estimated to generate nearly $40 billion in retirement savings for new plan participants over the next 10 years.

Student Loan Debt

Student loan debt has grown to $1.76 trillion in 2023, up from $1.56 trillion in 2018.[11] Effective January 1, 2024, employers that offer 401(k) plans, 403(b) plans, SIMPLE IRA plans and governmental 457(b) plans may provide a matching contribution based on a participant's "qualified student loan payments." This provision is intended to make it easier for organizations to provide employer-matching contributions to employees who are paying off student loans in lieu of making retirement plan contributions. Implementing this optional provision may improve retention, as many employees making student loan payments are earlier in their careers, and are more likely to look at opportunities with other employers.

Auto-Enrollment and Increases

As many as 4 in 10 employees do not contribute any money to a 401(k) or employee-sponsored retirement plan.[12] Prior to the SECURE Act 2.0, some employers implemented auto-enrollment, adding employees to the retirement plan as eligible. Effective January 1, 2025, employers who establish new retirement savings plans on or after December 29, 2022, must auto-enroll all

eligible employees into the plan. Employees must be enrolled at a salary deferral rate between 3% and 10%, and the deferral will increase 1% annually until it reaches 10%. However, employees may change their deferral rate or decline participation in the plan.

Increased Catch-Up Contribution Limits

Effective January 1, 2025, catch-up contributions to retirement savings plans for individuals 60 to 63 years old will be increased to the greater of $10,000 or 150% of the regular age 50 catch-up amount in 2024.

Long-Term, Part-Time Employees

For many retirement plans, only full-time equivalent employees were eligible to participate in an employer-sponsored retirement plan. The SECURE Act of 2019 made it so that long-term, part-time employees could also enroll in retirement benefits. SECURE 2.0 reduces the period of service requirement for long-term part-time employees. For these workers to be able to contribute to a qualified retirement savings plan, the required service period will be reduced from three to two years. The employee needs to have worked a minimum of 500 hours of service per year and be 21 years old by the end of the two-year period.

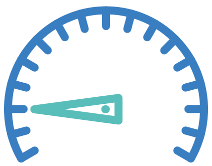
Read more about other key provisions that may affect your retirement program.

[10] Prudential, Why Employers Should Care About the Cost of Delayed Retirements, 2019
[11] Federal Reserve, Consumer Credit, August 2023
[12] CNBC, Is financial stress hurting retirement savings? 4 in 10 workers with a 401(k) don't contribute, CNBC survey finds, September 2023

When workers are financially stressed, everyone pays the price

A workforce that is financially unprepared to retire can impact a business in a wide variety of ways, including:

Increased healthcare costs



Lower productivity

Higher salaries

$50K+ **estimated ADDITIONAL COST TO EMPLOYERS per employee or each year they delay retirement***

*Prudential, 2019

How USI Can Help

The SECURE 2.0 Act brings dozens of new requirements and enhancements. It's important to understand the changes, set a strategy that improves employee savings participation, and identify opportunities to reduce long-term costs through a workforce that is retirement-ready.

There are many ways USI Consulting Group (USICG) can help you navigate the SECURE 2.0 Act's provisions, including:

- Enhancing existing retirement plan design to help increase participation and improve employees' retirement readiness
- Developing an employee education program to help employees understand the value of saving for retirement and increasing contributions
- Implementing a successful financial wellness program to help employees address a variety of financial challenges, including staying on track for retirement
- Conducting a recordkeeper provider search to evaluate the various recordkeeper options available to determine the best fit for your organization's retirement plan

Contact your local USI Consulting Group representative or information@usicg.com to learn more about these and other solutions designed to get your employees ready for the next stage in life.

Market Trends Impact Salary Decisions for 2024 and Beyond

Historically low unemployment and a tight labor market have generated a substantial growth in wages in recent years. Average pay increases in 2023 represented the largest pay increases that employers have provided in the past 15 years, while costs for health and retirement plans continue to go up.

Despite the increasing costs, most organizations are still planning to provide competitive base salary increases for 2024, with many employers expecting a 3% to 4.5% increase in budget for salaries.[13,14] As employers work to ensure competitive salaries and benefits to attract and retain employees, they will face additional pressure from several trends impacting compensation.

Pay Compression

A tight labor market has put pressure on employers to increase new hire pay rates. However, employers must be careful to avoid pay compression, where the pay of new hires and the pay of existing, more experienced employees is too close to be considered equitable. This can result in lower employee engagement and higher turnover rates, which has its own costs — employers spend one-half to two times the exiting employee's salary to replace them.[15]

To tackle this problem, organizations need a long-term approach that frequently evaluates pay rates and makes market adjustments as needed to maintain employee engagement and loyalty.

Remote Workers

According to the U.S. Bureau of Labor Statistics, remote work is feasible for approximately 40% of all jobs in the U.S. For employees who can work remotely, 35% are remote full-time while 41% work a hybrid schedule.[16,17] Employees value having input on where and when they work, and job flexibility is an important factor for younger workers. One study found that 32% of workers who go into the office at least one day a week said they were willing to earn less for the opportunity to work remotely.[18]

Employers with an increasingly spread-out workforce have three options when considering wages for remote workers: pay based on employees' locations, pay based on the company's location, or move to a national pay scale. Employers will need to consider factors like cost of living and cost of labor when deciding on a remote worker pay strategy.

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[13] Payscale, 2023-2024 Salary Budget Survey
[14] WorldatWork, 50th Annual Salary Budget Survey 2023-2024
[15] Gallup, This Fixable Problem Costs U.S. Businesses $1 Trillion, March 13, 2019
[16] U.S. Bureau of Labor Statistics, Ability to work from home: evidence from two surveys and implications for the labor market in the COVID-19 pandemic, June 2020
[17] Pew Research Center, About a third of U.S. workers who can work from home now do so all the time, March 2023
[18] Robert Half, The State of Remote Work: 5 Trends to Know for 2023

Pay Equity

One of the top reasons employees leave their jobs is the perception that their compensation is unfair. Pay equity is an important prerequisite for creating a fully engaged workforce and building stronger organizations that are diverse, inclusive and fair. Globally, regulations requiring pay reporting are on the rise. In the U.S., several states and municipalities require employers to disclose salary ranges for open positions, covering 46 million workers (or about 28% of the American workforce).[19] Over a dozen more states have taken up the issue of pay transparency laws during the 2023 legislative session.

To help reduce employee turnover, organizations are starting to become more transparent about wages and how pay is determined. However, transparency must be combined with strategy and communications, and require meaningful conversations about pay.

Employers looking to improve pay transparency should consider a pay equity study to help identify discrepancies between employees, audit potential gaps in the pay structure, and fulfill regulatory obligations.

How USI Can Help

USI's compensation team helps organizations align pay and rewards with business objectives and core values, working with clients to design compensation programs that attract, motivate and retain key talent:

Employees — Using established survey data, peer group studies, and custom surveys, USI provides independent benchmarking and analysis of compensation competitiveness to assist clients in setting fair wages.

C-Suite/Executive — USI evaluates existing executive compensation rates and helps clients implement performance-based compensation plans that are market-competitive and align with the organization's culture, strategy and business objectives.

Sales — USI leverages experience and industry insights to design and implement practical, proven sales incentive plans that align with an organization's strategy and drive the desired behaviors.

Contact your local USI employee benefits broker or ebsolutions@usi.com to learn more.

[19] Payscale, A look back at compensation trends in 2022 and predictions for 2023

Unlock the Savings Advantage With a Stop-Loss Captive

Consolidation in the insurance marketplace has led to fewer health plan options for midsize employers. Frustrated with increasing premiums and limited plans offered by a few large carriers, employers are seeking alternatives.

USI frequently recommends switching from a fully insured to a partially self-funded arrangement, with stop-loss insurance to limit the impact of high-cost claims on the health plan. By moving away from fully insured, employers benefit from:

- Lower taxes and reduced carrier profit
- Flexibility to use different providers for different services, including pharmacy benefit managers and stop-loss insurance
- Access to claims and utilization data to help identify and reduce the impact of cost-driving medical conditions

While midsize employers have a high likelihood of savings with a partially self-funded plan, carrier options for stop-loss in this market space can be limited. Midsize businesses making the switch to self-funding are beginning to turn to captive arrangements to access better rates and plan options for stop-loss coverage.

Captives Expand Stop-Loss Options

Captive arrangements can help employers migrate to a partially self-funded arrangement while sharing in stop-loss insurance that protects all the organizations within the group. This may also result in modest savings of 1% to 2%, as well as an opportunity for the captive to receive a partial return on premiums when claims are lower than expected.

Employers may leverage a captive as a simple stop-loss purchasing mechanism or take advantage of the benefits offered by a more robust, full turnkey solution. More comprehensive captive solutions may provide access to cost-containment programs not typically available to smaller groups, such as pharmacy management, employee wellness resources, and care management, which can help employers save an additional 3% to 5% on health plan premiums. These more robust captives may have slightly higher management fees than a simple stop-loss captive arrangement.

Some benefits brokers have developed their own captive programs to meet growing employer interest; however, these arrangements may have restrictive terms and conditions, or seek to benefit from the employers' cost-management strategies and take a cut of the return on premiums.

USI takes an agnostic approach, helping employers evaluate program features, the financial stability of various captive arrangements, and understand contract terms and conditions such as collateral requirements, termination provisions and eligibility.

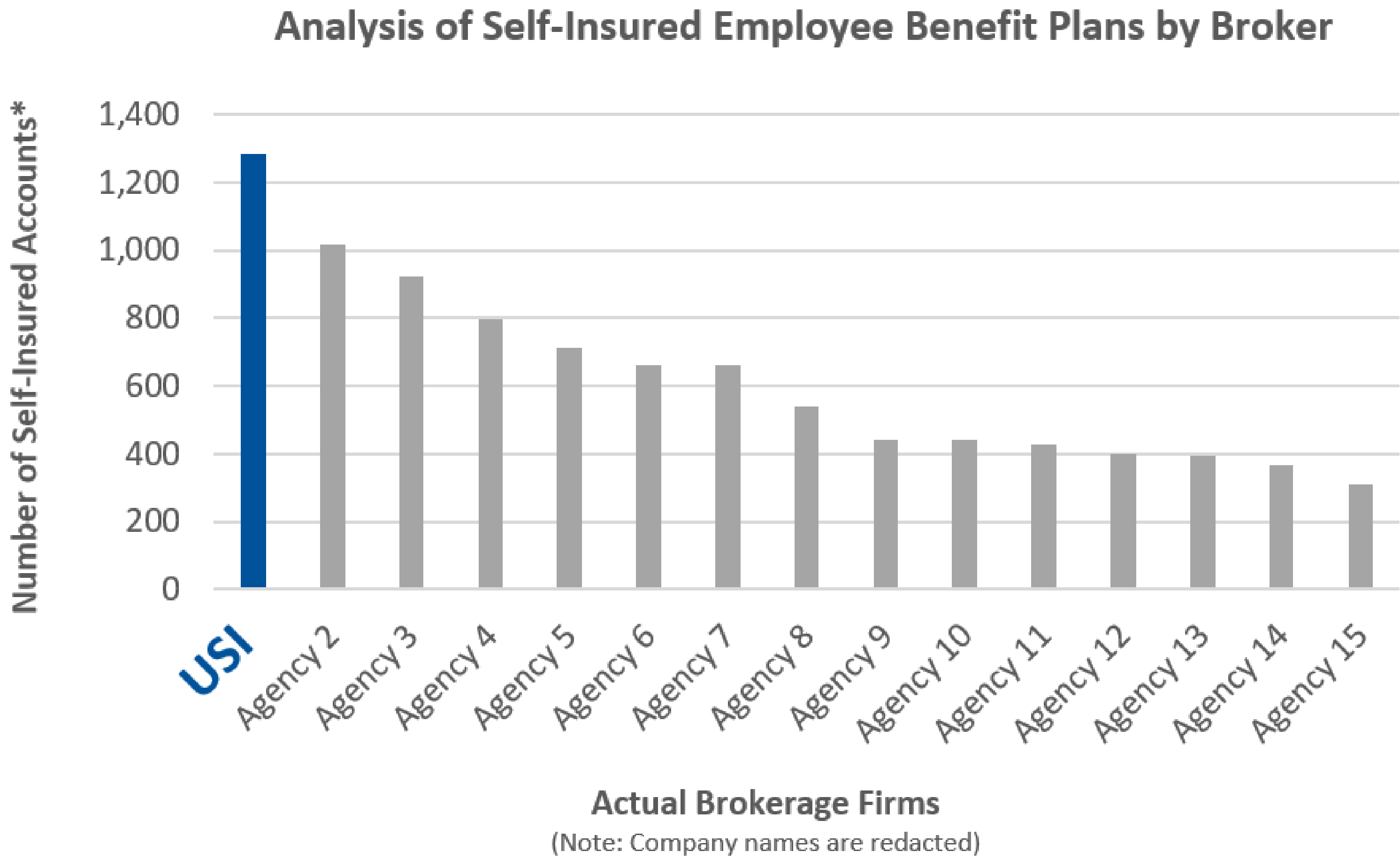
How USI Can Help

As a broker managing the largest book of self-funded clients in the United States, USI offers a variety of solutions designed to help employers understand the value of switching to a partially self-funded plan, and strategies to optimize savings, including:

- Alternative funding analysis to determine if a current fully insured health plan is a good fit for a self-funded arrangement
- Proven strategies to optimize partially self-funded plans and reduce fixed costs from the experience of more than 3,200 self-funded clients
- Advanced data analytics from USI's proprietary 3D system of more than 1,600 clients and 2.3 million health plan members to help employers identify and reduce the impact of top cost-driving conditions on health plan spending
- Population health management strategies designed to improve employee health outcomes and reduce employer benefits costs

Contact your local USI employee benefits broker or ebsolutions@usi.com to learn more.

As a broker managing the largest book of self-funded clients in the United States, **USI has more self-funded benefits experience than any other competitor broker**, delivering long-term, meaningful financial impact for clients.



*Self-insured accounts that have named a broker on their 5500

Proposed Rule May Impact the Future of Fixed Indemnity Products

As employee benefits become more expensive and complex, more vendors have emerged with new solutions and plan designs that propose to meet employees' needs at a much lower cost to employers.

Fixed indemnity products — which pay a fixed cash payment upon the occurrence of a health-related event — can help supplement employee health plan coverage at no additional cost to employers when offered as a voluntary benefit. As these products provide income replacement, not comprehensive medical coverage, these plans are categorized as "excepted benefits" and are not required to include the same coverage as a major medical plan under the Affordable Care Act (ACA).

While offering fixed indemnity benefits is generally not an issue, there has been an increase in products sold as fixed indemnity but more closely resembling traditional health insurance. The products purport to avoid various ACA market reforms and consumer protections as fixed indemnity excepted benefits. Some vendors aggressively push these products, causing confusion for covered members as they believe the coverage to be a major medical plan, when in fact the benefits are limited. Regulators have taken notice and are taking steps to reign in these practices.

On July 7, 2023, the U.S. Departments of Health and Human Services, Labor, and the Treasury released a notice of proposed rulemaking, addressing fixed indemnity and other health plan arrangements. The notice reinforces that to qualify as an excepted benefit, fixed indemnity coverage must pay benefits as a fixed dollar amount per day/other time period of hospitalization or illness, regardless of the amount of expenses incurred, and affirms that benefits cannot be paid on any other basis (e.g., per-item or per-service). Additionally, indemnity products are not "excepted benefits" when coverage is coordinated with another group health plan maintained by the plan sponsor, such as fixed indemnity paired with a minimum essential coverage (MEC, or "skinny") plan.

There may be unintended consequences to the regulators' crackdown on these products. **As the costs for healthcare increase, narrowing the scope of fixed indemnity policies available in the market may reduce access to the financial support employees need to offset out-of-pocket costs upon the occurrence of unexpected health-related events.** This could result in higher costs to employees when they need the coverage the most. Thus, trying to curtail the practices of some bad actors could undercut access to benefits that employees find valuable and affordable.

Should the rule be finalized "as is," employers may continue to offer indemnity products alongside their group health plan, but will need to review their existing offering to ensure the product meets the definition of an excepted benefit. A product that does not meet this definition is likely considered a group health plan — one that may not comply with the ACA and may be subject to penalties of $100 per affected individual per day. Employers should work with a knowledgeable broker to identify their goals for offering indemnity products and align with trusted voluntary benefits providers.

How USI Can Help

USI's Ancillary specialists help employers determine where voluntary benefits would provide real value to employees without running into potential compliance challenges. USI works with a wide range of reputable carriers and products with best-in-class service to help employers meet employees' benefits expectations and needs. Contact your local USI employee benefits broker or ebsolutions@usi.com to learn more.

Clarifying Tax Treatment of Fixed Indemnity Arrangements

The Department of Treasury and the IRS have also expressed concerns about certain fixed indemnity arrangements claiming to avoid income and employment taxes by characterizing cash benefits as amounts paid for reimbursement of medical care — despite those amounts being paid without regard to incurred medical expenses. The June 2023 proposed rule clarifies the tax treatment of payments made to individuals under these arrangements:

Pre-Tax Basis

If premiums are paid for coverage on a **pre-tax basis (or by the employer)**, benefits received would be considered income to the individual, if paid regardless of the amount of medical expenses incurred. For any amount to be excluded from income, the payment or reimbursement must be substantiated.

After-Tax Basis

If the employee pays for the fixed indemnity or similar coverage on an **after-tax basis**, the reimbursement should remain tax-free.

If finalized "as is," the rule would take effect the date the final rule is published or January 1, 2024, whichever is later.

Learn more about the services and solutions USI's national employee benefits compliance team can provide to help your business meet compliance obligations and avoid penalties and fines.

Reduce the Risk of Noncompliance With Leave Management Support

Regardless of size, industry or sector, every employer will have employees in need of leave. For many organizations, leave management can be a struggle. Sometimes leaves will be covered by one leave law, sometimes multiple leave laws, and sometimes they won't be covered by any laws at all. Employers with employees in multiple states, or even cities within the same state, face the additional challenge of mastering the intricacies of how each law operates and they may (or may not) overlap.

Employers can also get into trouble when leave programs are not administered consistently. The average cost to defend an FMLA-related lawsuit is $80,000, and settlements range from $87,500 to $450,000. The Americans with Disabilities Act (ADA) and state/local laws create similar penalty and risk exposures.

Is Outsourcing the Right Solution?

More employers are looking to outsource their leave management programs to not only meet compliance obligations, but to also improve the employee experience and free up time to spend on strategic priorities.

Leave management vendors can take on responsibility for a broad range of functions that often burden HR departments, including claim intake, forms processing, claim evaluation, leave tracking, and ongoing communication through the end of the leave. Offered by both traditional disability insurance providers and third-party specialty vendors, determining the appropriate option will depend on the employers' specific needs.

Disability Insurance Provider

Employers that choose to partner with their current disability insurance provider often do so for the convenience of having a single source for managing leaves and the disability benefits that accompany them. However, the scope of services, the types of leave managed, and the employee experience provided by disability providers can vary, so the convenient solution may not always be the best one.

Third-Party Specialty Vendor

In many cases, a third-party leave management vendor may be the better option, since it can offer greater flexibility, a more robust platform, and additional service options not available through a disability insurance provider. However, using a third party may be less convenient for employees since they may have to work with multiple vendors to receive leave benefits.

For employers considering outsourcing leave management, understanding the different options is crucial in choosing the vendor partner most closely aligned with the organization's needs.

How USI Can Help

To help clients navigate the challenges of leave management and determine the outsourcing solution that best fits their needs, USI partners with both disability insurance companies and third-party vendors:

- USI's Ancillary Marketing Desk maintains relationships with carrier vendors and markets ancillary lines of coverage for clients, including leave management. The marketing desk works with USI's service teams to help clients evaluate and select the best option for their organization.
- USI's Internal Leave Specialist maintains relationships with non-carrier vendors, and provides tools and resources to help clients narrow down the broad list of leave management vendors to those most closely aligned with their needs.

Outsourcing leave management can help employers reduce the risk of noncompliance while improving employee satisfaction. Contact your local USI employee benefits broker or ebsolutions@usi.com to learn more.

Employers looking for more flexibility could consider a self-funded short-term disability (STD) plan. USI's Ancillary team can help you determine whether your organization would benefit from a self-funded STD arrangement.

Consider the Value of Self-Funding Your Short-Term Disability Benefits

Under most self-funding arrangements, employers partner with a carrier to help manage the claims, but assume the financial risk of the plan and use their own funds to pay any incurred claims.

There are two types of self-funded STD plans:

- **Administrative Services Only (ASO)** — Uses the expertise of the carrier to help **manage and pay disability claims**, but the benefit dollars ultimately come from the employer
- **Advice to Pay (ATP)** — Similar to an ASO, benefit dollars come from the employer; however, the carrier only helps manage the claim and does not issue the payment

Neither are insurance contracts, and the carrier does not accept liability for any employee claims.

When considering a switch from a fully insured plan to self-funding, there's no single all-purpose solution. What's right for a particular employer depends on a few considerations, including an employer's size, risk appetite, historical STD experience, desired plan design, costs and available resources. Coordination with any applicable state disability or medical leave requirements should also be taken into consideration. USI's dedicated team of knowledgeable Ancillary specialists can help employers evaluate the potential benefits of a self-funded STD arrangement.

How Can We Help?

To help clients navigate complex business challenges, USI shares expert insights and key solutions through our Executive Series. Our cross-functional teams work to provide timely information on new and evolving topics in risk management, employee benefits, personal insurance and retirement. We then share tailored solutions to successfully guide your organization, enhance insurance coverage, and control costs. For additional information and resources, please visit our Executive Insights page: usi.com/executive-insights.

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