ALERAGROUP

2023 EMPLOYEE BENEFITS

Market Outlook

2023 Employee Benefits Market Outlook

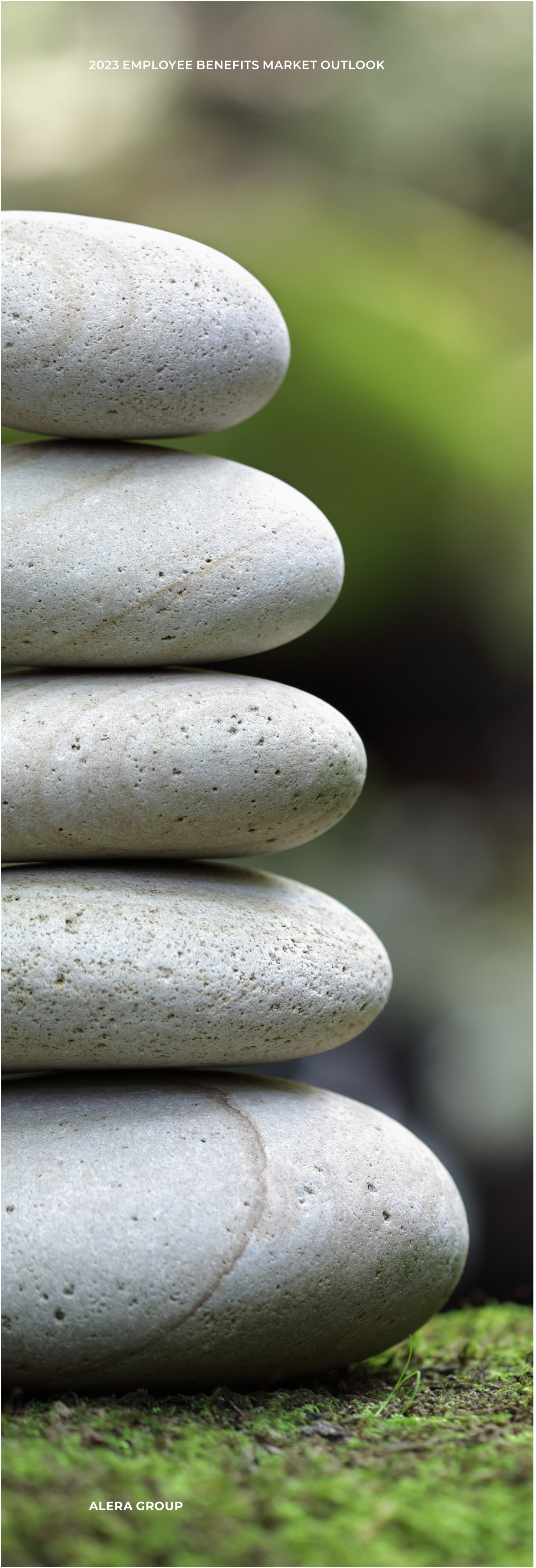
Events of the past few years have forced mangers and HR teams to grapple with unprecedented challenges, and have pulled employee benefits into the spotlight for the C-suite. As we look ahead in 2023, the aftermath of these events will continue to impact employers and employees navigating the lingering effects of COVID-19 on health and wellbeing while responding to upheaval from the Great Resignation, high inflation, global unrest and regulatory uncertainty.

This report, Alera Group's first *Employee Benefits Market Outlook*, provides valuable insights on what you can expect this year from a benefits perspective, the key factors driving these trends and what organizations should think about with respect to addressing these challenges.

We invite you to discuss these findings with your local Alera Group partner and tap into all that we have to offer your organization to further your growth and enable you to thrive during the turbulent months ahead.

Best regards,

Sally Prather
Executive Vice President
National Employee Benefits Leader



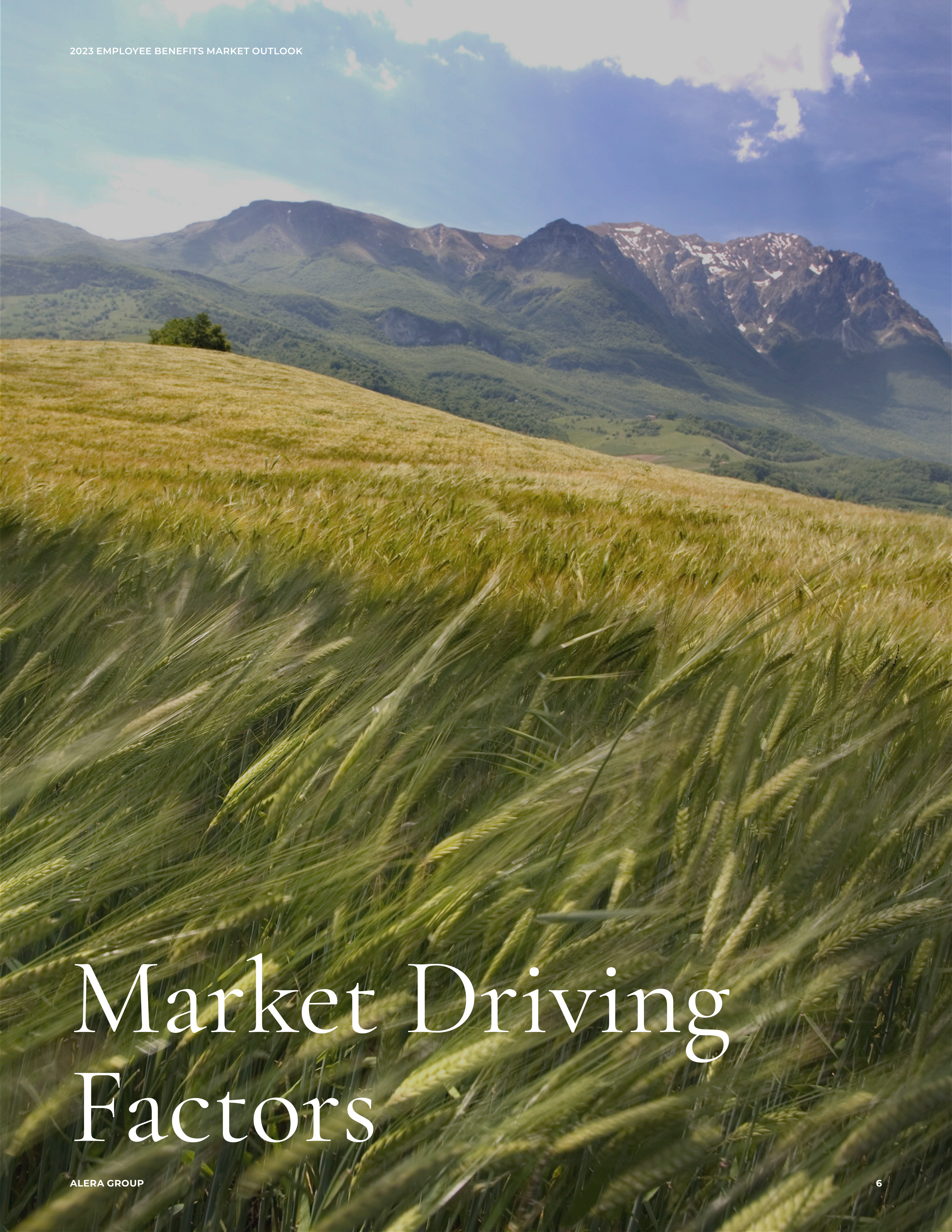
Contents

Key Takeaways

Key Takeaways

Inflation, a changing regulatory landscape, the long-tail impact of COVID on employee mental health and wellbeing, and a changing workforce demographic are just a few of the factors driving increases and adding to the complexities projected for 2023.

- Inflation will be a major driver in 2023, raising healthcare rates and pharmacy costs for employers and employees, who are already feeling the squeeze on tight budgets.
- The spike in use of specialty drugs and obesity medications are major cost drivers, and employers need to implement strategies to get ahead of this trend.
- Mental health concerns, including concerns about substance abuse, are rising for employees and their dependents as access to mental health providers is increasingly challenging. Employers are leveraging teletherapy to fill the gap.
- The ripple effect of the Great Resignation has put continued emphasis on retention as employers look for ways to balance economic uncertainty with strong benefits packages, including paid time off and voluntary benefits, to shore up their workforce.
- The regulatory environment is turbulent, with changes coming over the next 12 months that will have a significant impact on employers.
- In this multi-generational workforce, there is no “one size fits all” approach to benefits. Employers are getting creative by offering new options such as lifestyle spending accounts (LSAs) to meet employees where they are in their lives.
- The long-tail impact of COVID is bigger than the data indicates at first glance, impacting employee health and wellbeing, disability, retention and engagement.



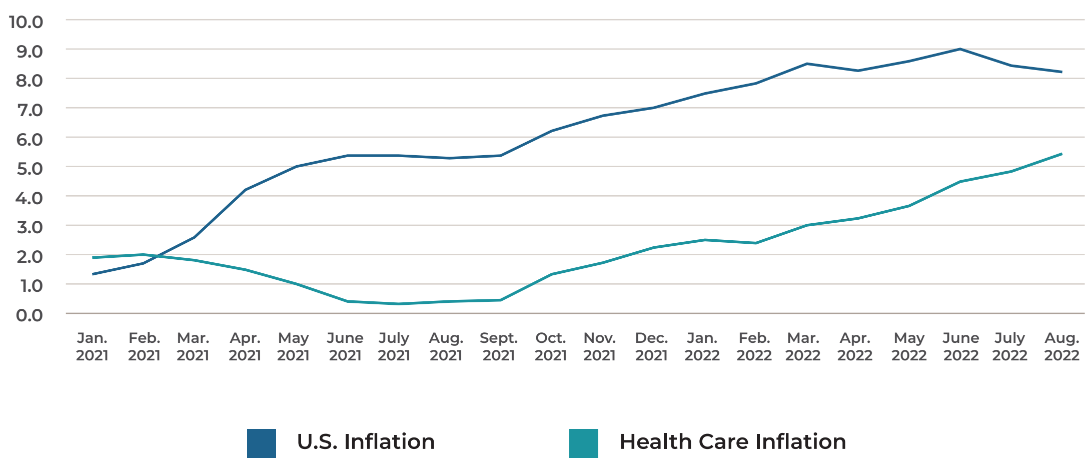
Market Driving Factors

Trends

Factors Driving the Current Environment

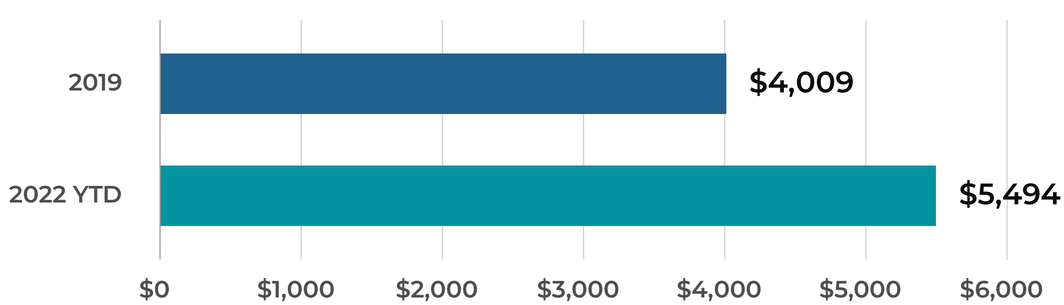
As the country battles high inflation, the healthcare industry is not immune. According to Kaufman Hall, a third-party consultant focused on the healthcare industry, labor costs are a considerable driver of the increase. They rose from 46% to 49% of total expenses from pre-pandemic to March 2022. Compounding these increases are overall cost increases in materials.

U.S. Inflation Rates



Source U.S. Inflation Calculator

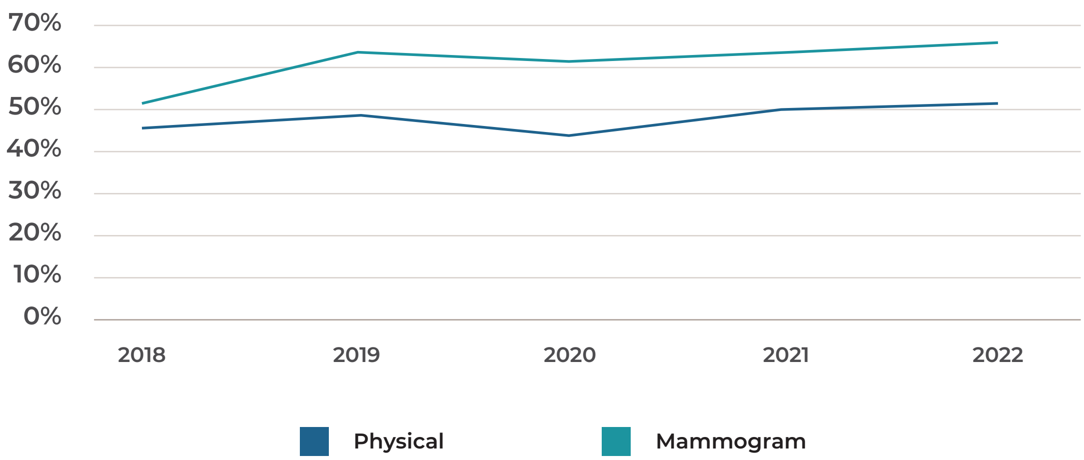
Median Labor Expense



Source: Kaufman Hall, "The Financial Effects of Hospital Workforce Dislocation," May 2022

COVID-19's impact on health and healthcare utilization continues. Preventative care utilization, which was low before COVID, dropped off during the pandemic. Overall healthcare utilization rates appear to have stabilized to pre-pandemic levels, which means that the majority of employees are still not engaging in preventative care. Of interest is that, despite predictions, the numbers don't point to an increase in late-stage cancer diagnoses or a rise in chronic conditions resulting from the pandemic.

Preventative Care Compliance

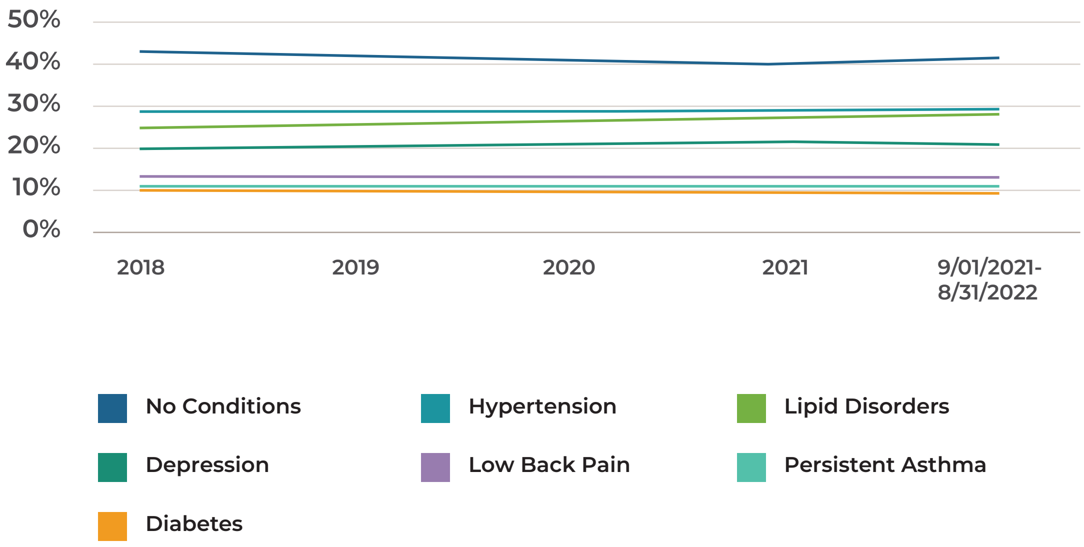


	2018	2019	2020	2021	2022
Physical	44%	48%	43%	49%	49%
Mammogram	49%	62%	60%	62%	64%

Source: Vital Incite

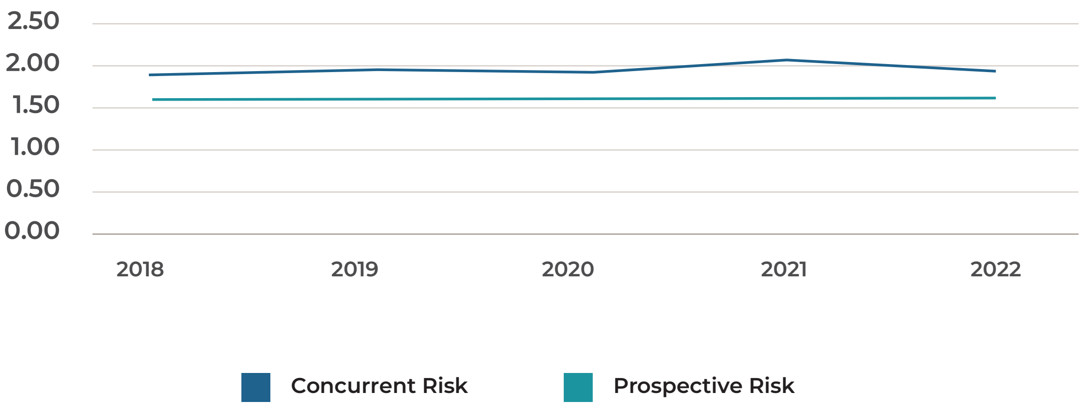
There is also a continue trend in increased incidence of hypertension, diabetes and lipidemia. Data also indicates that the lack of care in 2020 led to a higher risk in 2021, but that has improved as care has picked back up. Future risk remains constant.

Chronic Disease Prevalence Year Over Year



Source: Vital Incite

Concurrent and Prospective Risk Over Time

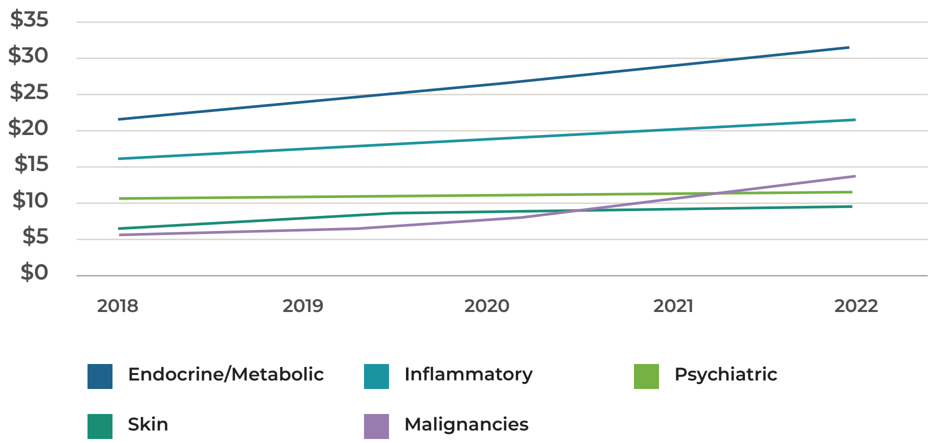


Source: Vital Incite

Demand for specialty drugs and weight-loss medications is fueling pharmacy costs. The rising cost of pharmaceuticals is compounded by an increased demand for specialty medications for chronic conditions. There has been a 43% increase in members taking approved weight-loss medications. This is due in part to a rise in sympathetic physicians prescribing diabetic weight-loss medications (endocrine drug class) to patients who don't have diabetes, according to Vital Incite and Alera Pharmacy Solutions, Alera Group's full-service pharmacy consulting practice.

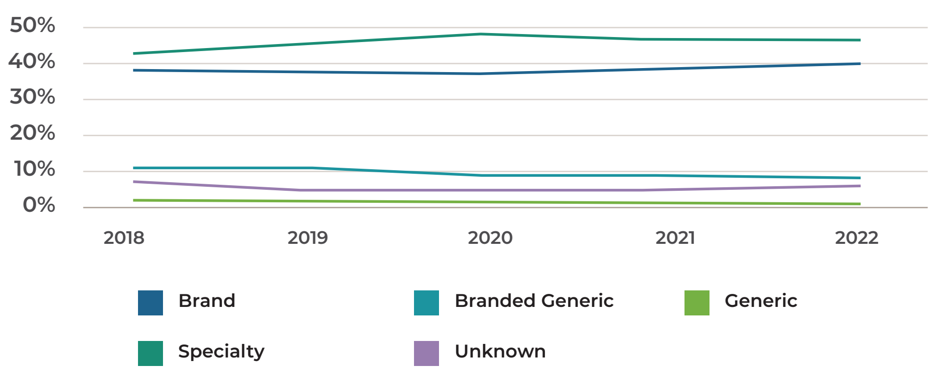
The cost of some of these specialty medications can be exorbitant. Consider, for example, that genomic medications continue to be introduced for rare conditions that affect populations of fewer than 20,000 total patients per year in the U.S., with a cost of between $750,000 and $3 million per person, according to Alera Pharmacy Solutions. There is a continued trend toward introducing biosimilars, however, and he acceptance of these medications by physicians will help temper the expected specialty drug trend toward a 7.7% price increase.

Per Member Per Month Rx Costs by Drug Category Year Over Year



Source: Vital Incite

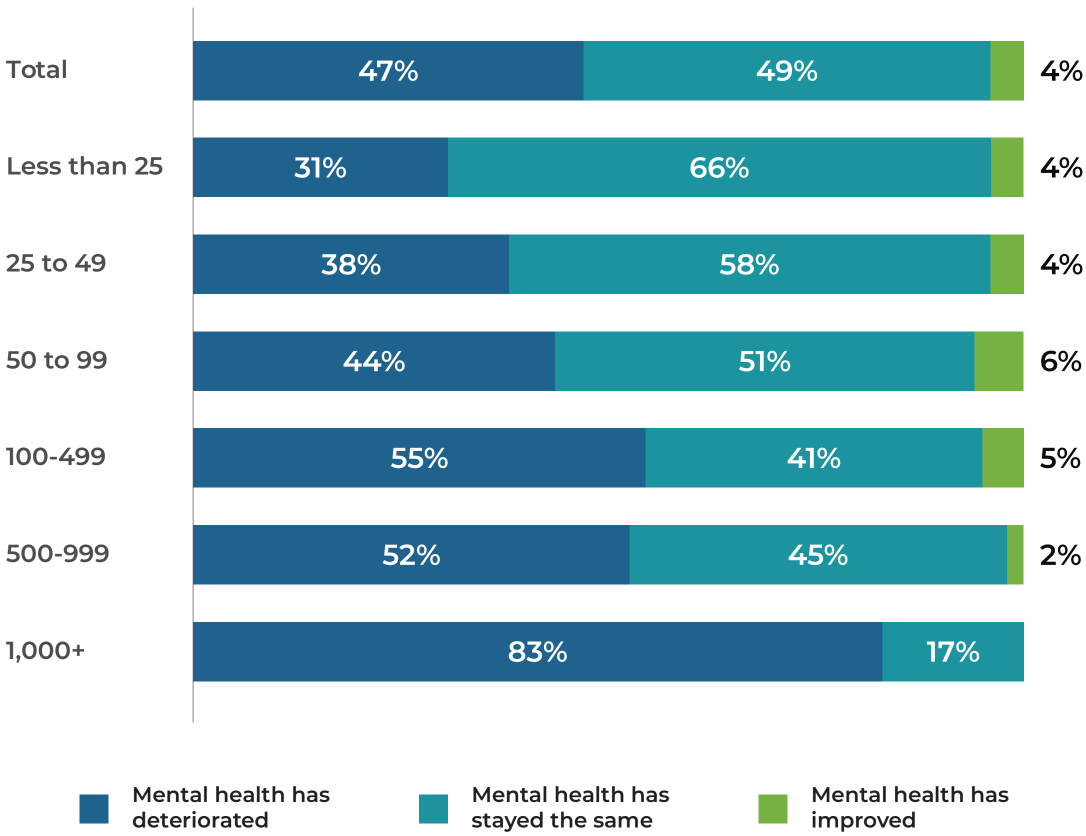
Trend in % of PBM $ Spent on Brand Generic Category Year over Year



Source: Vital Incite

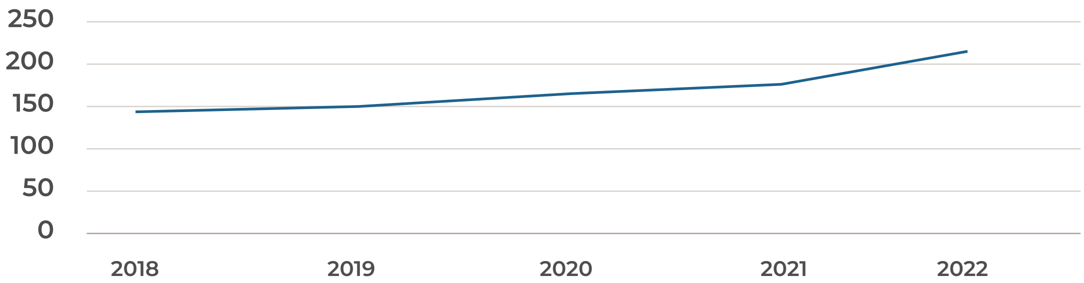
Mental health issues are rising as access to care declines. The fallout from COVID-19, compounded by the stress on employees caused by high inflation, is associated with a rise in mental health concerns, including substance abuse. According to Alera Group's November 2021 pulse survey, nearly half of the 790 employers who participated stated that the mental health of their workforce has deteriorated, while the number of qualified mental health professionals is declining.

How Would You Describe the Mental Health of Your Organization's Workforce Since the COVID-19 Outbreak?



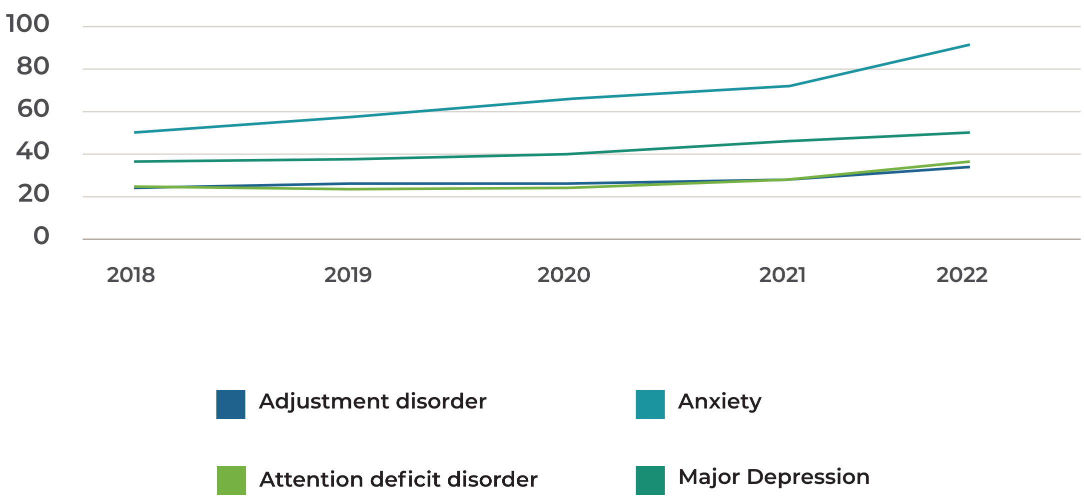
Alera Group COVID-19 Employer Pulse Survey #3, November 2021

Total Mental Health Prevalence Year Over Year



Source: Vital Incite

Mental Health Prevalence by Diagnosis



Source: Vital Incite

According to a recent study, "More than 150 million people live in federally designated mental health professional shortage areas. Within a few years, the country will be short between 14,280 and 31,109 psychiatrists, and psychologists, social workers and others will be overextended as well, experts say."

Source: AAMC.org, "A growing psychiatrist shortage and an enormous demand for mental health services," August 9, 2022

Source: U.S. News & World Report, "Many States Face Shortage of Mental Health Providers," June 10, 2021 (Right)

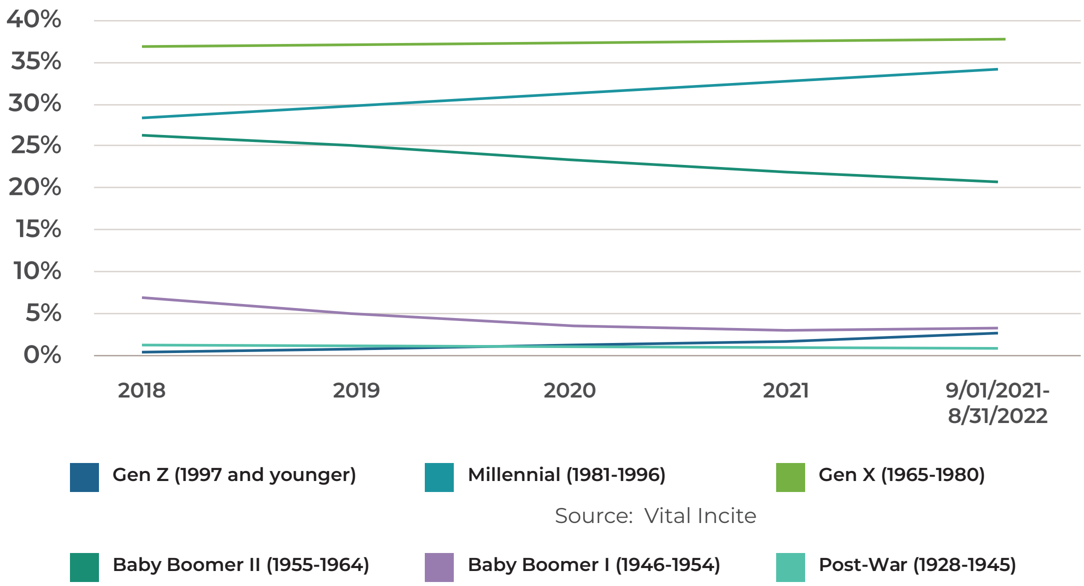
Percentage of Population Living in Mental Health Provider Shortage Area (2021)

59.49%	Alabama	73.52%	Louisiana	20.44%	Ohio
51.66%	Alaska	19.32%	Maine	38.13%	Oklahoma
38.59%	Arizona	21.09%	Maryland	39.03%	Oregon
46.83%	Arkansas	3.96%	Massachusetts	13.39%	Pennsylvania
27.34%	California	42.31%	Michigan	40.11%	Rhode Island
45.98%	Colorado	31.58%	Minnesota	44.02%	South Carolina
31.56%	Connecticut	79.76%	Mississippi	50.22%	South Dakota
8.99%	Delaware	30.44%	Missouri	46.82%	Tennessee
29.47%	Florida	53.10%	Montana	51.60%	Texas
45.86%	Georgia	53.68%	Nebraska	83.35%	Utah
37.02%	Hawaii	77.93%	Nevada	0.00%	Vermont
70.72%	Idaho	6.82%	New Hampshire	22.66%	Virginia
40.94%	Illinois	0.45%	New Jersey	36.87%	Washington
65.53%	Indiana	64.68%	New Mexico	39.70%	West Virginia
57.57%	Iowa	21.22%	New York	37.48%	Wisconsin
47.47%	Kansas	31.33%	North Carolina	96.37%	Wyoming
74.29%	Kentucky	39.59%	North Dakota	18.79%	Washington, D.C.

Millennials are pushing the “family first” mindset, as well as openness about mental health. Millennials, expected to represent 75% of the workforce by 2025, are the fastest-growing segment of the workforce. This generation is shaping the workforce with greater emphasis on workforce flexibility and lifestyle benefits, less stigma around mental health and a technology-based approach to communication and engagement.

> Millennials exceed other generations in claims for anxiety.

Percentage of Total Employee Population



Source: Vital Incite

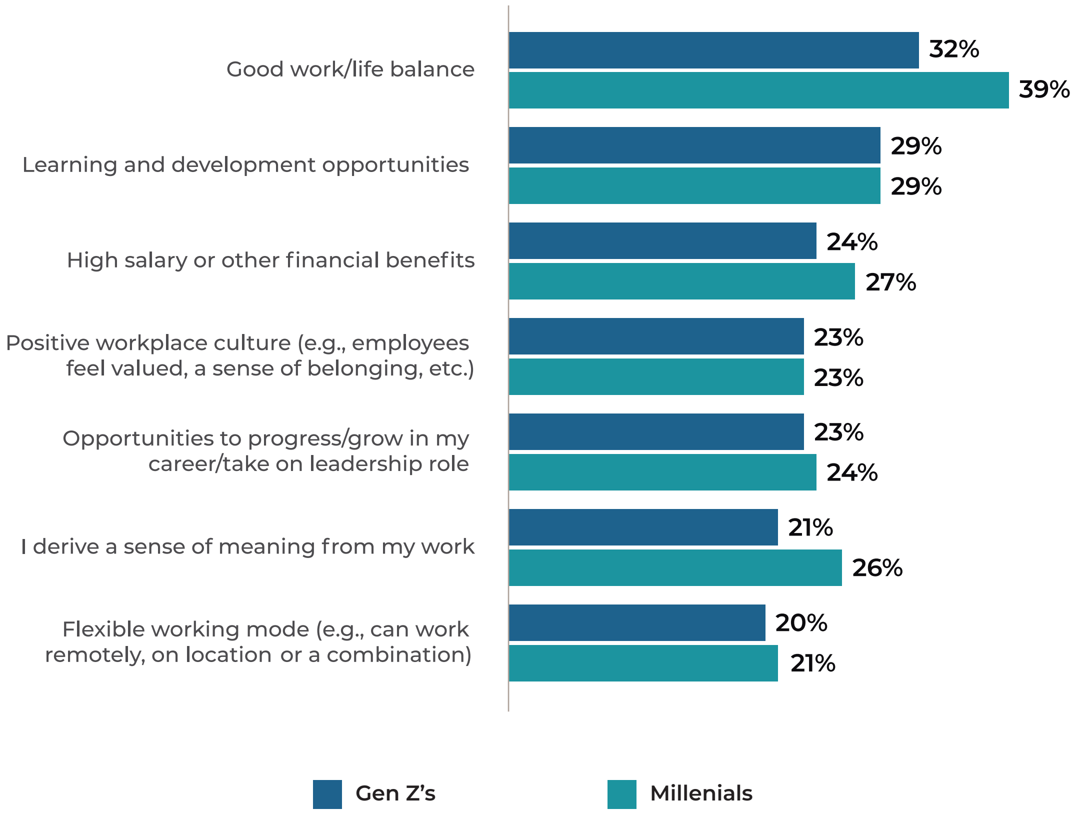
UNIQUE GENERATION	ADJUSTMENT DISORDER	ANXIETY	ATTENTION DEFICIT DISORDER	MAJOR DEPRESSION
Gen Z (1997 and before)	30	72	52	37
Millennial (1981-1996)	38	107	33	50
Gen X (1965-1980)	30	72	16	41
Baby Boomer II (1955-1964)	18	43	6	32
Baby Boomer I (1946-1954)	16	37	2	32
Post-War (1928-1945)	31	32		33
WWII (1927 and earlier)	30	30		

Main psychosocial conditions, number of members per 1,000 in each generation

Source: Vital Incite

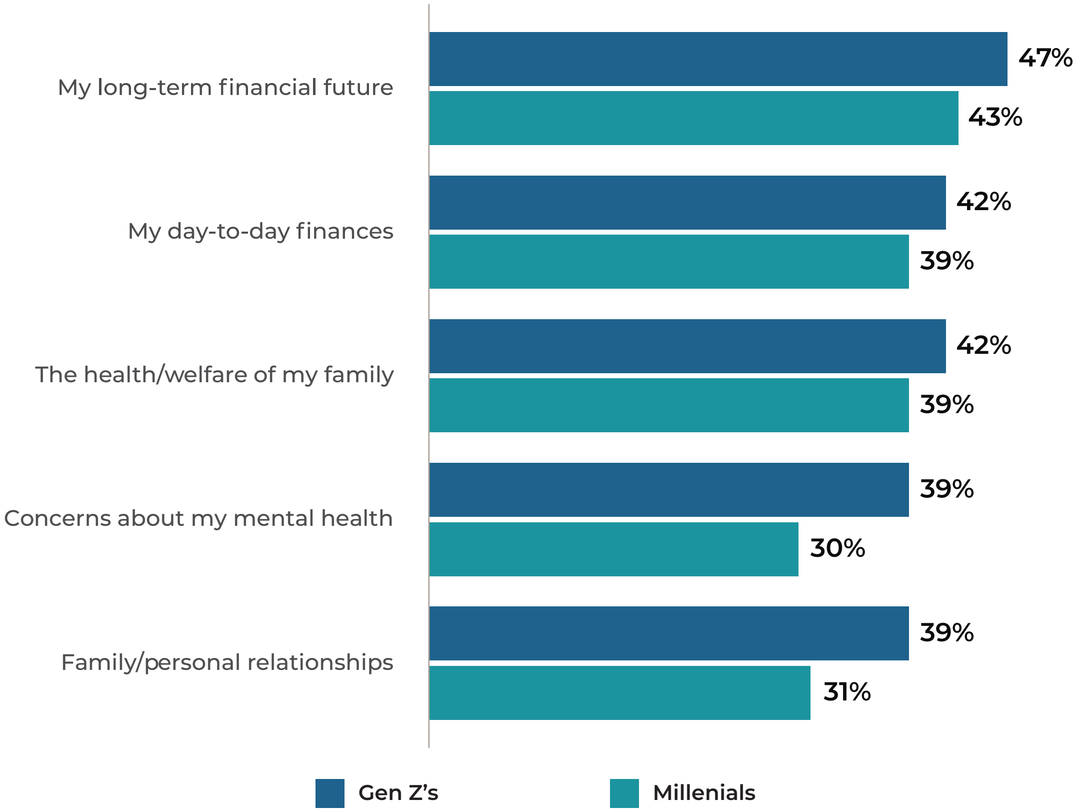
Millennials are looking for benefits that are in line with their life stage, including offerings that promote work-life balance and reduce financial stress.

Top Reasons Respondents Choose To Work for Their Current Organization



Source: Deloitte Global 2022 Gen Z and Millennial Survey

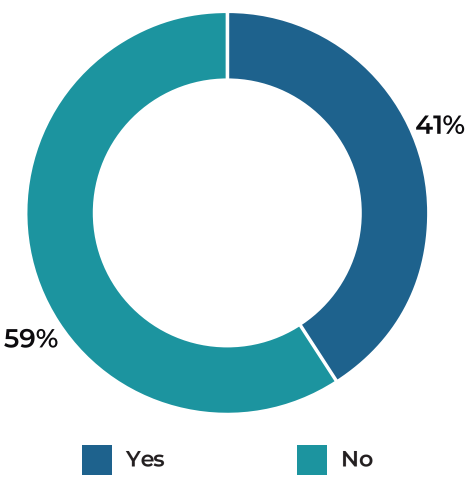
Top Factors Contributing to Feelings of Stress

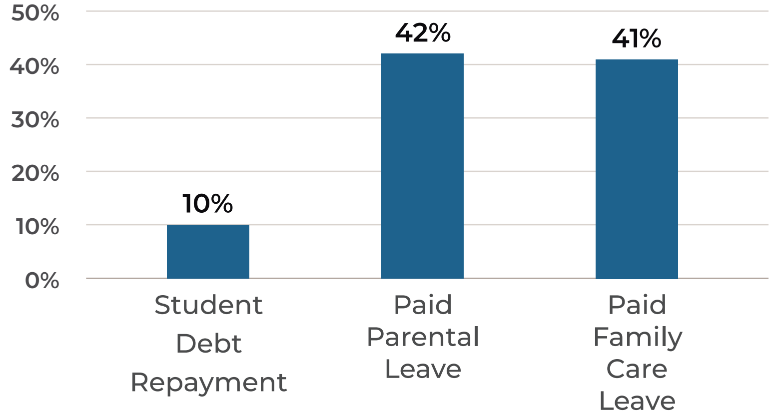


Source: Deloitte Global 2022 Gen Z and Millennial Survey

The changing workforce demographic is having an impact on the benefits companies are offering. From infertility to paid parental leave, employers are shifting benefits to meet the expectations of a younger and ever-changing workforce.

Percentage of Medical Plans Covering Infertility Treatments





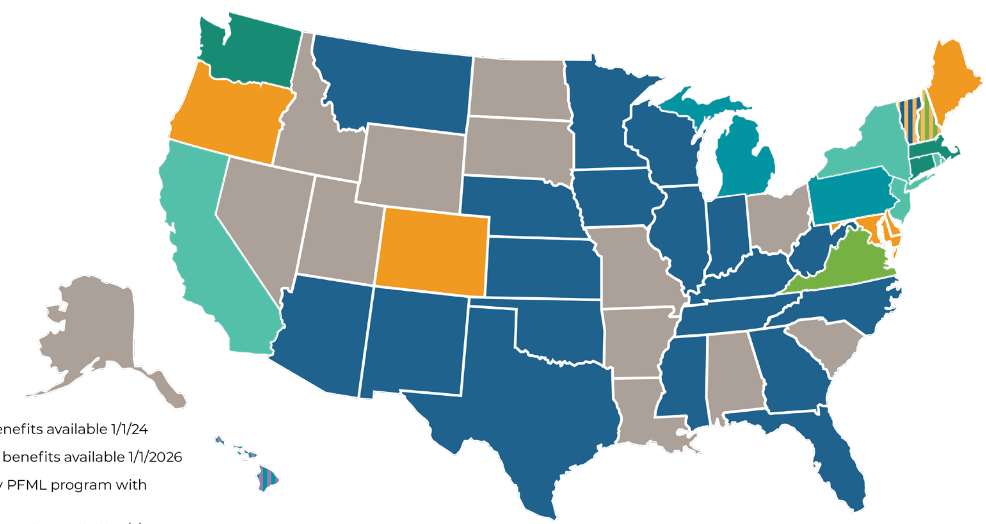
Source: Alera Group Healthcare and Employee Benefits Benchmarking Survey, 2022

A changing regulatory landscape is causing increased financial pressure on employers. Over the past few years, there have been a number of unexpected, and in some cases recurring, compliance-related fees that keep building for employers, starting in 2020 with COBRA.

- **COBRA Subsidies:** Fees charged by COBRA vendors were much higher than anticipated in 2020 for all mailings and administration of COVID-19-related COBRA subsidies.
- **Machine Readable File Requirements:** Fees charged by carriers, TPAs or IT vendors to set up websites or microsites to house the required URLs.
- **NQTL Analysis:** Self-funded employers have had to engage vendors to undergo analysis, at a yearly cost between $7,500 and $25,000, depending on the number of plans and complexity.
- **RxDC (pharmacy reporting):** Upcoming for the first round of reporting in December of 2022 for the past two years, annually in June thereafter. PBMs, TPAs and vendors are charging between $1,500 and $5,000 per reporting year.

In addition to national pressures, ongoing variations in state laws and regulations are making it challenging for employers to keep pace with regulatory compliance. The U.S. Supreme Court's decision on abortion in Dobbs v. Jackson Women's Health Organization is at the forefront of challenges for employers, along with impact from an expanding number of states enacting or exploring the addition of paid family and medical leave (PFML).

Paid Family and Medical Leave Landscape



- **SDI + PFL Currently in Place**
- **SDI Currently in Place**
- **PFML Currently in Place**
- **PFML Insurance Rules in Place**
- **Proposing PFML Program**
- **PFML Proposal Rejected***
- **PFML in Regulatory Phase**

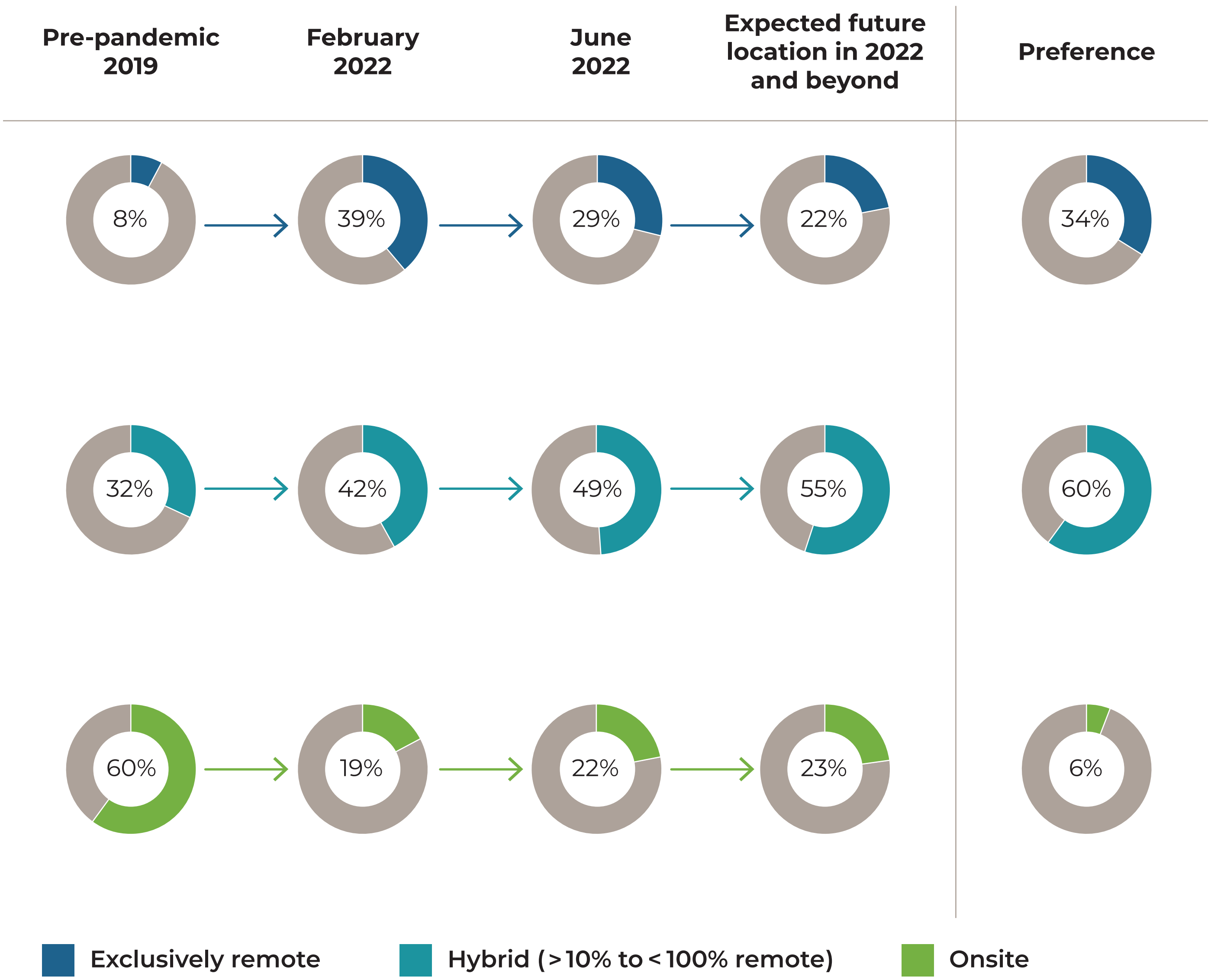
Colorado	Contributions begin 1/1/23; benefits available 1/1/24
Delaware	Contributions begin 1/1/2025; benefits available 1/1/2026
Maine	Created commission to study PFML program with proposal expected in 2023
Maryland	Contributions begin 10/1/23; benefits available 1/1/25
New Hampshire	Voluntary program expected to begin 1/1/23
Oregon	Contributions begin 1/1/23; benefits available 9/3/23
Vermont	Voluntary program expected to begin 7/1/23 for state employees, 7/1/24 for other employers and 7/1/25 for individuals

*Additional states have had PFML proposals rejected but may have current proposals under consideration. States may appear twice (e.g., Hawaii, New Hampshire) depending on activity.

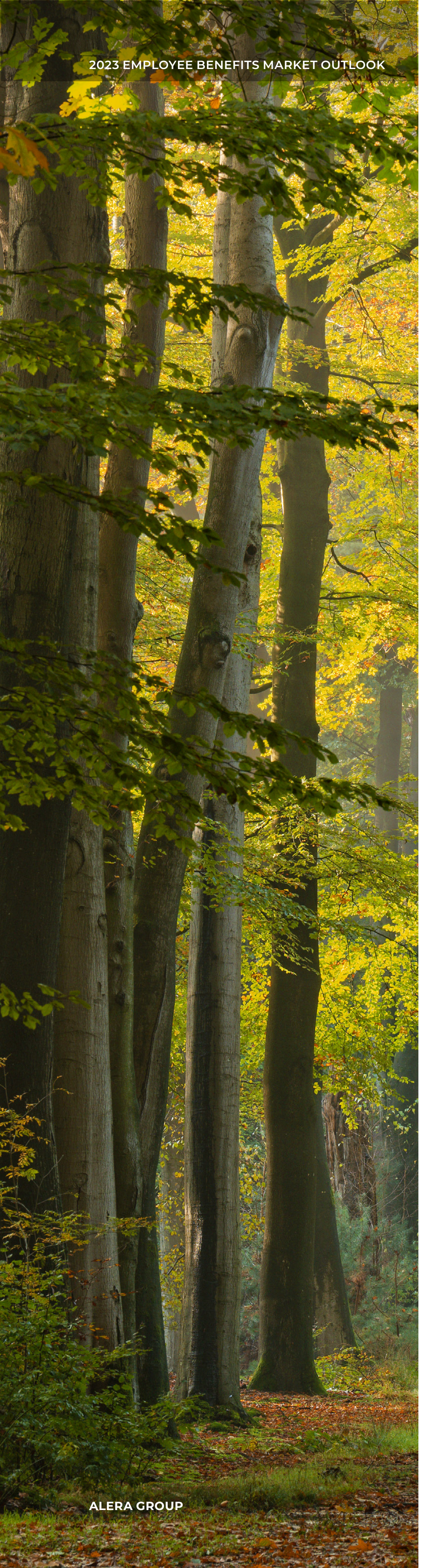
Source: Spring Consulting Group, an Alera Group company

Employee preference for remote work is not likely to go away in 2023. As companies continue to hire employees in different parts of the country, they'll need to stay on top of compliance issues by state.

Past, Current, Anticipated and Preferred Employee Work Location for Remote-Capable Jobs



Source: Gallup Poll, sample of 8,090 remote-capable U.S. employees surveyed in June 2022



Diversity, equity and inclusion (DEI) efforts will increase diversity in the workplace and the need for personalized benefits. Employers are increasingly focusing on DEI efforts in the workplace: 76% of employees and job seekers said diversity was important when considering job offers, and 35% of HR leaders said diversity, equity and inclusion were among their top five priorities in 2022.

Source: ClearCompany, "12 Workplace Diversity Statistics You Should Know in 2022," February 1, 2022

Employers are having to balance retention and resignation. Data from the Bureau of Labor Statistics indicates that there were 38.6 million resignations between January and September 2022. Employee turnover is not only expensive for employers but also has a significant impact on productivity and morale. The Great Resignation and heightened focus on retention is causing employers to re-evaluate their benefits and look for ways to enhance their offerings while containing costs.

Sources: U.S. Bureau of Labor Statistics, "Job Openings and Labor Turnover;" Forbes, "Out With The Great Resignation, In With The Great Retention: How To Keep Valuable Employees In 2023"

Quiet quitting" is fueling absenteeism and dragging down productivity. The term "quiet quitting" goes hand in hand with the "Great Resignation" for catch phrases in 2022. The mental and physical drain of the pandemic, combined with a focus on work-life balance, is dragging down workplace performance and productivity among employees who have disengaged from the workplace. According to Gallup's *State of the Global Workforce: 2022 Report*, just 33% of employees feel fully engaged at work.

2023 Market Outlook

2023 Market Outlook

The employee benefits market looks stormy as the global trends developing over the past few years are projected to have a heightened impact in 2023. Alera Group surveyed more than 200 brokers on multiple lines of benefits — including Medical and Pharmacy, Dental and Disability/Absence Management — and rated them based on five attributes:

- Price
- Administrative burden
- Plan design opportunities
- Employee experience
- Policy/regulatory environment.

Ratings for these five attributes were weighted to compute a favorability score. A score below 50 means these attributes will result in an unfavorable market for employers.

We also evaluated two other, unscored types of benefits products, Voluntary Benefits and HR technology.

Medical and Pharmacy Insurance Market

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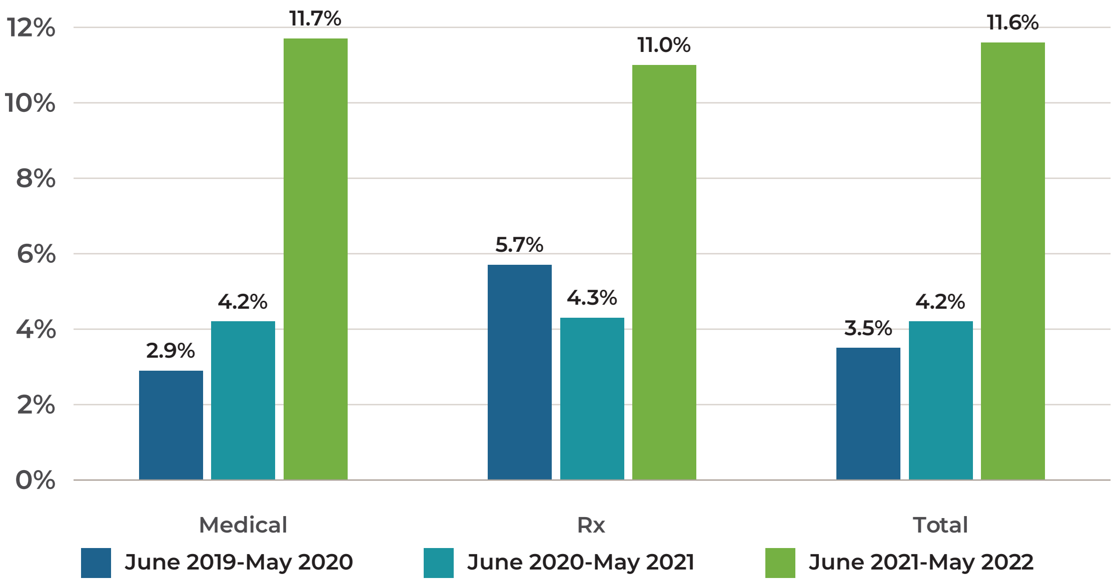
Outlook Score

The unfavorable rating for price and policy/regulatory environment brought the score down for medical and pharmacy insurance.

Premium rates are expected to increase to offset cost increases and overall inflation trends. National inflation is having a significant impact on all costs, including healthcare. According to Alera Healthcare Trend Guidance (updated September 2022), “In light of factors such as general inflation, the impact of COVID-19 pandemic, pricing increases by providers, and the impact of the changes in prescription drugs, the guidance for 2023 healthcare trend factors was set higher than the developed trend factors based on historical data.”

Historical Trend Rates in Healthcare Data



Preliminary data indicates that the annual trend factor for medical and pharmacy costs is continuing to rise, with employers facing steep rate increases for 2023.

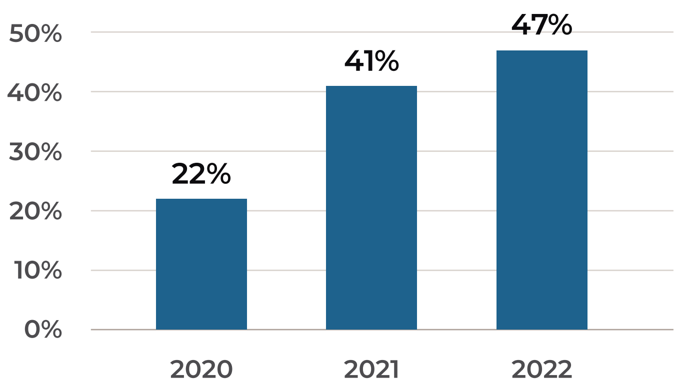
	ANNUAL TREND FACTOR BASED ON HISTORICAL DATA REVIEW	PRELIMINARY ANNUAL TREND FACTOR FOR 2023 RATE SETTING/BUDGETING
Medical	6.1%	7.0%
Rx	7.8%	9.0%
Combined	6.5%	7.5%

Cost controls for state-regulated plans are not keeping pace with expenses and inflation rates. As noted in the Alera Healthcare Trend Guidance report, “State-regulated health insurance programs require carriers to offer ‘standardized plans’ within the individual and small-group markets at reduced prices. Some plans include provisions that cap the allowable growth in premiums each year. For plans whose premiums are not keeping pace with the costs of providing care, healthcare providers will be forced to choose between cutting services and passing on costs to the private insurance market.”

All these factors are likely to impact negotiations between healthcare providers and private insurers. Some insurers have already negotiated their contracts; others can expect the process to be challenging at best.

Demand for specialty drugs is increasing, putting added pressure on costs. There has been an increase in the percentage of plans, including the higher-tier formula, that are likely to cover specialty drugs.

Percentage of Employers Offering 4 Pharmacy Formulary Tiers



Source: Alera Group Healthcare and Employee Benefits Benchmarking Survey

The good news is that there has been an increase in biosimilars and corresponding prescribing that will continue into 2023. This will help to offset the continued double-digit trend for rising costs of specialty medications, which has been driven by new medications that are more expensive in existing therapy categories, as well as by price increases from drug manufacturers on existing drugs. For example, Humira, the world’s most prescribed specialty medication, with $22 billion in annual sales, will have a generic competitor in 2023, bringing some cost relief, according to Alera Pharmacy Solutions.

Mental health diagnoses are on the rise, and the cost of treatment is as well. From 2018 to 2021, the cost to treat plan members with psychosocial conditions increased 6%, going from $9,991 to $10,600. As indicated in the “Trends” section of this report, the mental health challenge is not projected to abate in the next 12 months.

Fixing the ACA “family glitch” may impact enrollment in employer-sponsored plans. The ACA’s “family glitch” has impacted 5.1 million people – many of whom are enrolled in an employer-sponsored plan. With this “glitch” fixed, employers may find more dependents leaving their plan and taking advantage of lower-cost plans under the ACA. Industry experts will be following enrollment rates closely to see if the glitch fix impacts consumer choice.

According to the April 2021 Kaiser Family Foundation report *The ACA Family Glitch and Affordability of Employer Coverage*: “Our analysis finds 5.1 million people fall into the ACA’s family glitch. Most Americans who fall into the family glitch are currently enrolled in employer-based coverage, but some could pay lower premiums if they are allowed to buy subsidized Marketplace coverage.”

Dental Insurance Outlook

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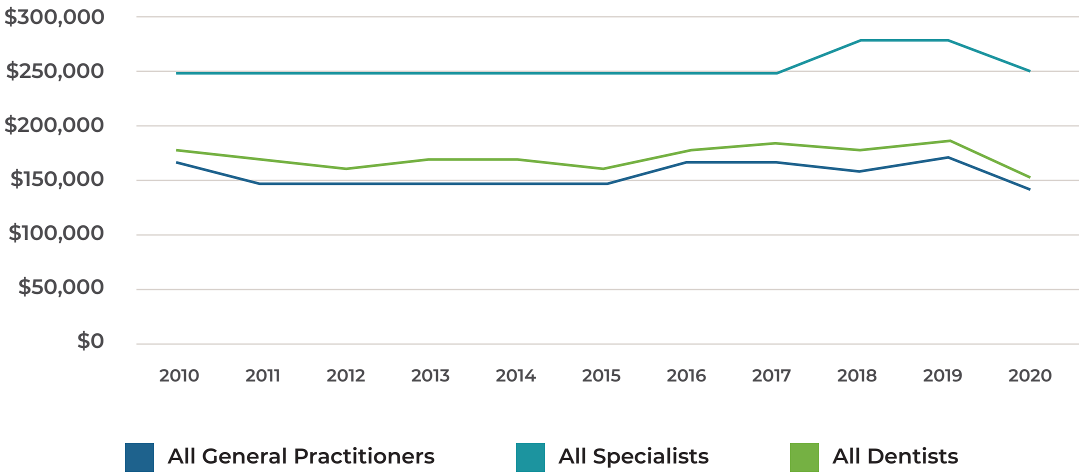
Outlook Score

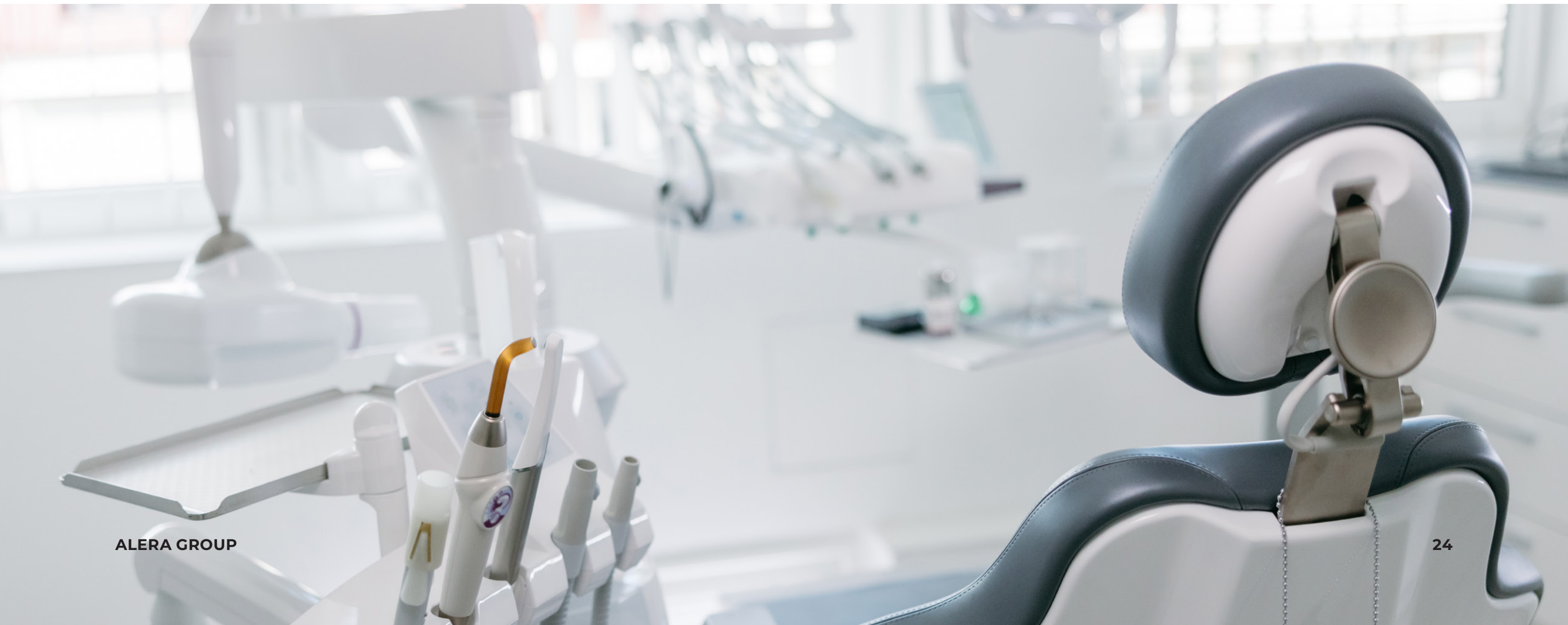
For Dental Insurance, the price and policy/regulatory environment ratings brought the score down, but the overall impression is for a slightly favorable market compared to Health Insurance.

Dental offices lost a significant amount of revenue during the pandemic and are now looking to recoup some of their losses. As with medical rates, dentists are increasing their costs to adjust for inflation and lost revenue.

Median Annual Net Income

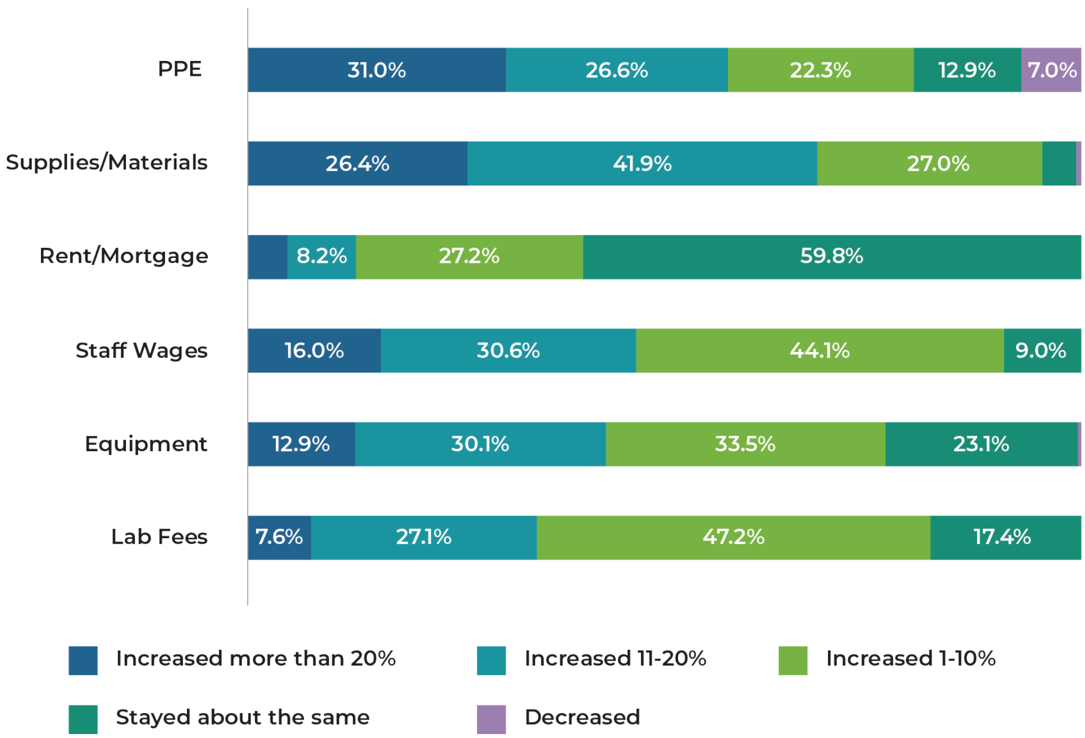


Source: American Dental Association, Health Policy Institute surveys of dental practices



The dental market is also feeling the squeeze from inflation. Similar to the healthcare market, dentists are experiencing increases in everything from labor to supplies and lab fees, driving costs and making contract negotiations with dental support organizations (DSOs) and carriers tricky.

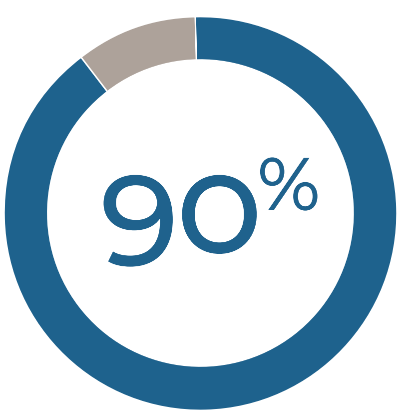
Increased Practice Costs



Source: American Dental Association

SOME DENTAL INSURANCE CARRIERS ARE WATCHING TO SEE HOW THE INCREASED LINK BETWEEN ORAL HEALTH AND OVERALL MEDICAL HEALTH WILL IMPACT DENTAL CARE NEEDS AND COSTS.

Dental coverage is a key benefit for employees. Dental Insurance remains a top-tier benefit to employees who are increasingly interested in the connection between oral health and overall health.



The promising news is that 9 in 10 (90 percent) adults are interested in learning about oral health's critical connection to overall health.

Source: Delta Dental State of Oral Health Report, 2022

Disability Insurance and Absence Management Outlook

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Outlook Score

For Disability Insurance, the policy/regulatory environment is seen as the greatest challenge, with price and administrative burden following close behind.

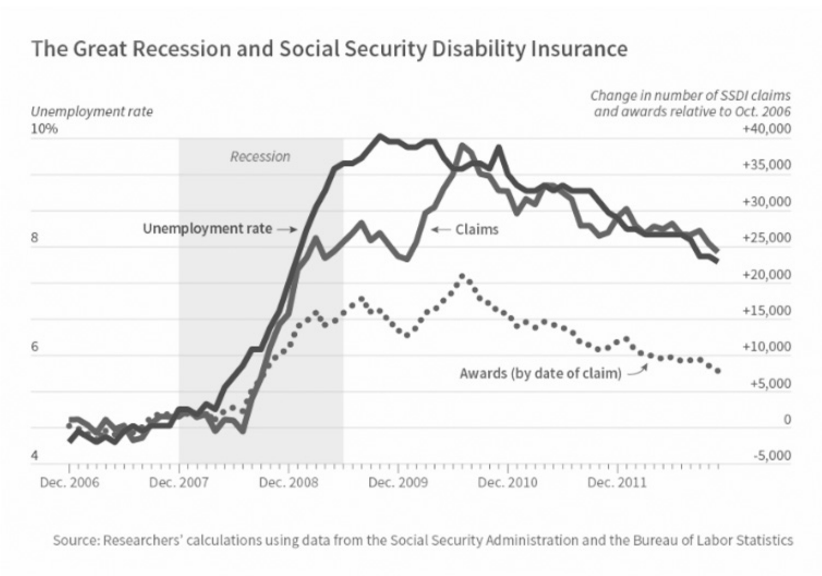
Employee experience and employer ease are driving decisions. Employers are increasingly looking at employee experience and ease as the top advantages of integration and as the top factors in selecting a Disability Insurance/Family and Medical Leave Act (FMLA) vendor. Outsourcing is increasingly common, while systems usage, delivery and information sharing for leave management have become more sophisticated.

Paid leave momentum continues, with the majority of employers having made changes to their absence management programs as a result of the pandemic. Employers are also putting a high priority on mental and behavioral health and wellbeing by helping employees feel supported through improved processes, along with providing more affordable and available benefits.

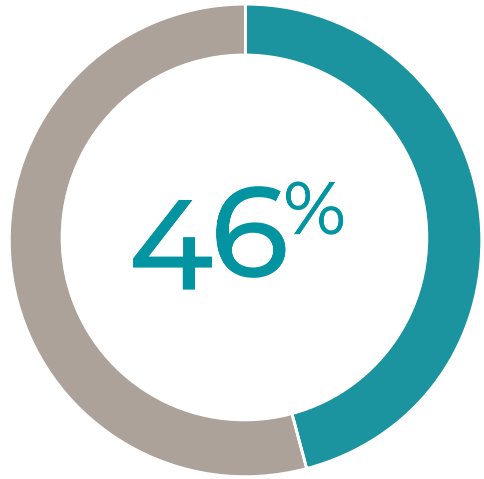
Integrating disability benefits with paid family leave leads to an increased workload for employers and concern over meeting compliance requirements. As more states offer paid family leave, managing the workload has been an ongoing concern for employers.

According to the 2022 employer survey conducted by Spring Consulting Group, improved compliance is one of the top advantages of implementing an integrated program.

Disability claims follow unemployment rates, which remain low. Past recessions included increases in unemployment rates. Despite high inflation, unemployment remains low, with more jobs than people to fill them. Evidence compiled by the Social Security Disability Insurance (SSDI) program shows that disability claims follow unemployment rates.

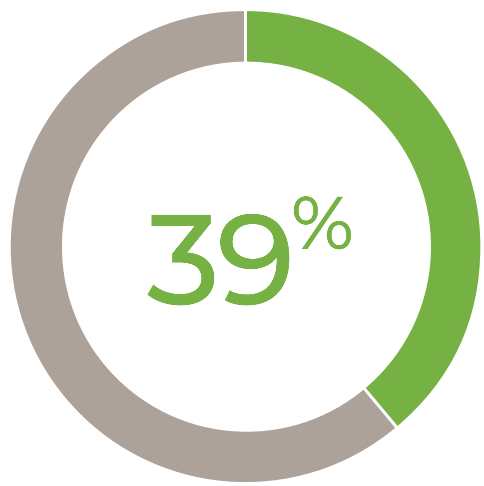


The correlation between COVID-19 and disability claims is murky. Although disability claims remain low with respect to COVID-19, there is more going on in the data than appears. Anecdotally, COVID appears to be the underlying driver of many health conditions, but the presenting condition is what is listed on the claim. How COVID impacts disability going forward remains to be seen, but employers should be aware of this trend.



don't know how state plans integrate with their other absence programs.

Source: The Standard, 2020 Employer PFLM Planning Study



expect difficulty managing compliance across multiple leave programs.

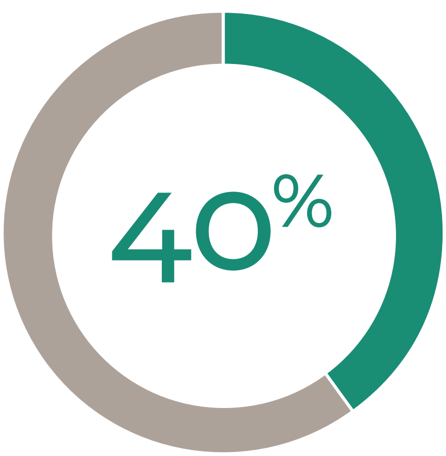
Source: The Standard, 2020 Employer PFLM Planning Study

Voluntary Benefits Outlook

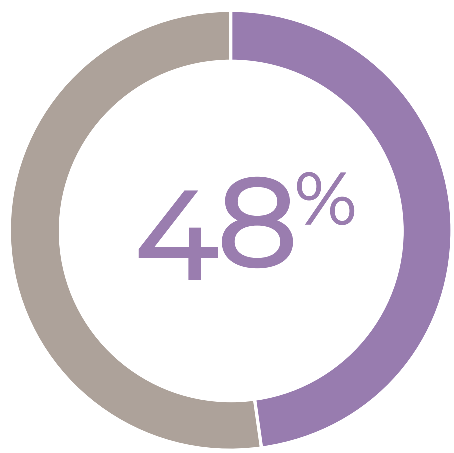
No Outlook Score

External market pressures such as inflation, rise in mental illness and low unemployment are all impacting the market for voluntary benefits. In addition:

- **Employers are turning to voluntary benefits to address rising premiums.** Employers faced with rising health premiums in a competitive job market are increasingly turning to voluntary benefits to round out benefits packages without increasing the overall cost to the employer.
- **Cash-strapped employees are using voluntary benefits to address unexpected bills.** As employees continue to grapple with tight budgets and rising inflation, they have fewer dollars in reserve in the event of the unexpected. Voluntary benefits can fill this gap by providing cash on hand to address accidents, unexpected illnesses and other unanticipated life events.



of U.S. workers reported inflation will make them scale back on the employee benefits they choose during open enrollment.



of U.S. workers reported inflation is making it difficult for them to pay for their benefits.

Source: The Hartford, Future of Benefits Pulse Survey, August 2022

Events of the past three years have produced a sea change in how employers view benefits plan design. Prior to the pandemic, the Great Resignation and a sharp rise in inflation, only 14% of employers anticipated adding a fully or partially employer-paid benefit in the next 12-18 months. In 2022, 31% anticipated such a change. During that same time period, the rate of employers considering the addition of a new voluntary benefit rose from 18% to 24%. Other numbers tell the story of a dramatically changing landscape for benefit offerings

ANTICIPATED BENEFIT CHANGES	2022	2020
Add a new employer-paid or partially employer paid benefit	31%	14%
Add a new voluntary (employee-pay-all) benefit	24%	18%
Shift more costs of group plans (other than medical) to employees	22%	15%
Move one or more employer-paid benefits to voluntary basis	20%	13%
Drop one or more benefits completely	6%	13%
No benefit changes planned	38%	56%

Source: Eastbridge, MarketVision – The Employer Viewpoint, September 2022

Percentage Likely to Participate in Voluntary Benefits Offered by Their Employer

49%	64%	50%	22%
Gen Z	Millennial	Gen X	Baby Boomers

Source: Voya Financial Survey conducted October 10-11, 2022, on the Ipsos eNation omnibus online platform among 1,004 adults aged 18+ in the U.S.

Voluntary benefits can help curb quiet quitting. According to a recent study from insurancenews.net, 49% of people believe it's an employer's responsibility to improve their employees' sense of financial wellbeing. Voluntary products such as Life and Long-Term Care Insurance can help provide financial security while health products can fill the financial gap in the event of an unexpected accident or illness. These products can help employees feel as though employers are paying attention to their financial wellbeing and provide another platform to engage with employees.

HR Technology Outlook

We’re seeing an increasing demand for HR technology that will continue in the foreseeable future.

No Outlook Score

HR technology is playing a critical role in employee engagement. The pandemic has fueled the need to leverage technology for employee engagement and communication. We don’t foresee this decreasing in 2023 as employee retention and financial pressures are some of the main priorities for employers going forward.

The use of AI-powered automation will help streamline HR processes. We foresee artificial intelligence technology helping employers address some the top HR challenges in 2023 and beyond. AI-powered automation improves many HR related processes, including recruitment, onboarding, performance management, payroll processing and offboarding. In addition to helping automate HR tasks, AI and advanced analytics are helping to improve HR decision-making by leveraging data generated directly from business processes that will allow organizations to better understand trends and patterns, visualize current processes and identify improvement opportunities.

Strategies for Navigating the Market

What Employers Can Do to Thrive in the Year Ahead

With inflation and retention top of mind, employers face a conundrum: balancing rising healthcare costs with offering a competitive benefits program. Many employers are looking to absorb premium increases rather than pass them along to employees, making cost containment strategies a key focus for 2023.

Employers also need to stay focused on creating a stable and engaged workforce. Meeting employees where they are and communicating the value of their benefits is key.

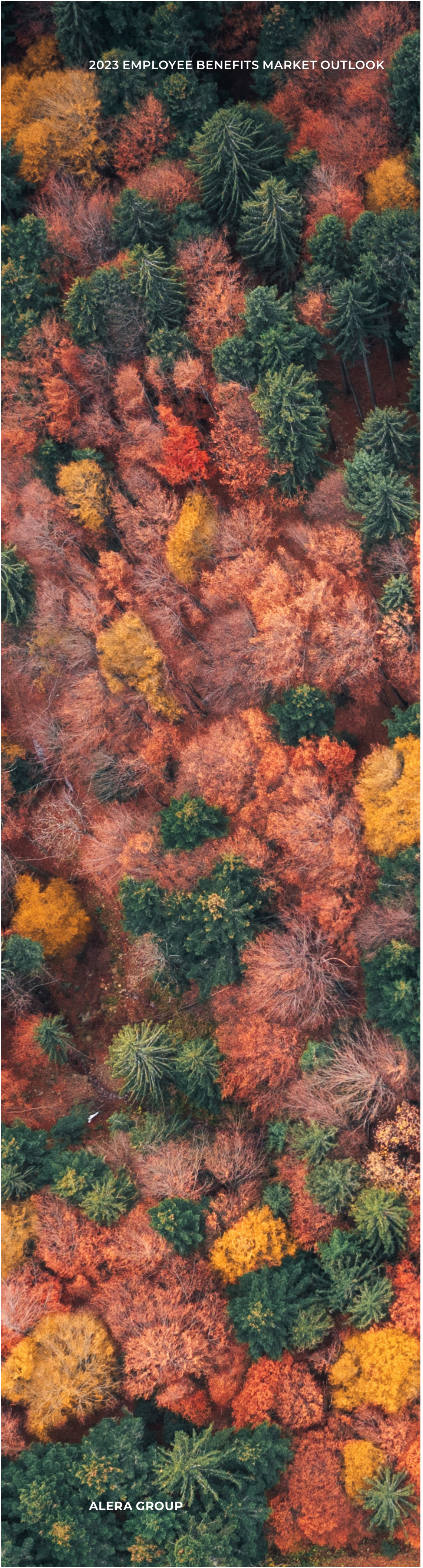
Following are strategies and approaches employers should consider for success in 2023 and beyond.

> There is no 'one size fits all' approach to benefits. Employers need to tap into the data on what their employees need and want, and shape their benefit plans, cost and retention strategies to address these needs.
>
> **MARY DELANEY**
> MANAGING PARTNER
> VITAL INCITE

TOP 10 STRATEGIES EMPLOYERS USED TO CONTROL COSTS IN 2022

Implementing plan design changes: Increase deductible/out-of-pocket maximums	40%
Implementing plan design changes: High-deductible health plan with health savings accounts	31%
Implementing plan design change: Other	22%
Changing carrier/conducting request for proposal (RFP)	20%
Increasing employee share of monthly premium	18%
Offering wellness discount program	16%
Encouraging use of cost comparison tools for participants	14%
Implementing disease management	13%
Leveraging alternate health plan funding: self-insured/self-funding	12%
Implementing narrow networks (smaller hospital/physician network)	12%

Source: Alera Group Healthcare and Employee Benefits Benchmarking Survey, 2022

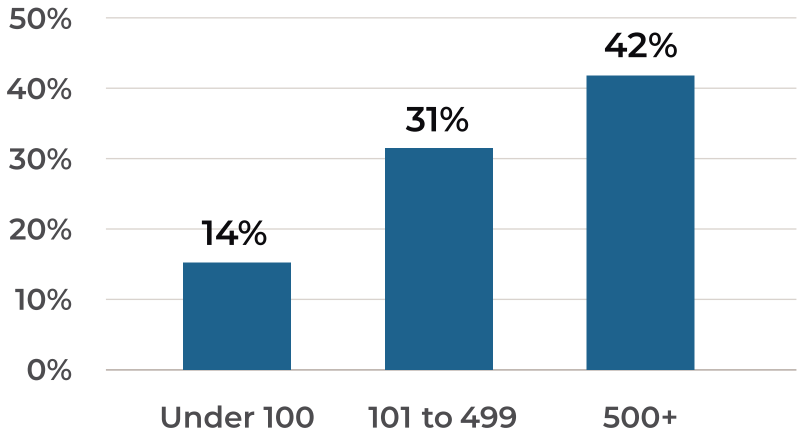


Changes in Plan Design

In 2022, employers looked to implement plan design changes to combat rising healthcare costs. This trend will be more important than ever based on projected increases in 2023.

Many employers have also been considering a self-funded medical plan as a cost containment strategy. According to data from Alera Group, 31% of the medical plans for employers with 100-499 insured lives are self-funded.

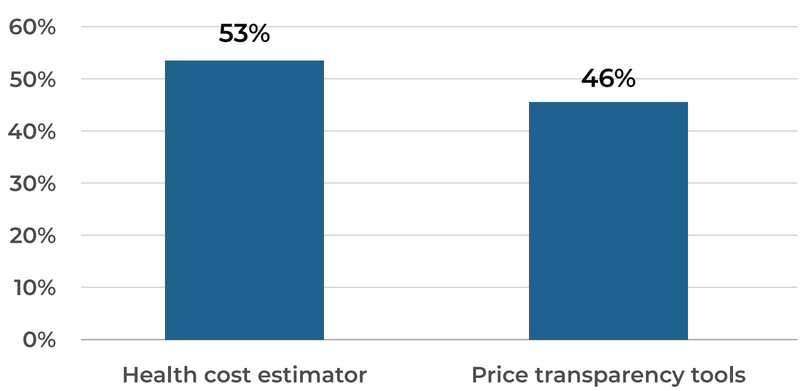
Percentage of Employers Offering Self-Funded Medical Plans



Source: Alera Group Healthcare and Employee Benefits Benchmarking Survey, 2022

Plan members also used pricing tools and health cost estimators to shop for better prices. When asked what tools employers offer, about half of respondents checked off the following:

Pricing Tools

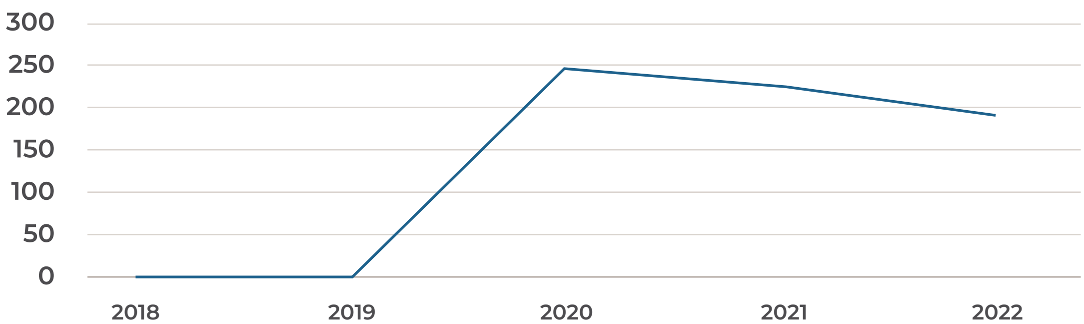


Source: Alera Healthcare and Employee Benefits Benchmarking Survey, 2022

Telemedicine and Virtual Visits

As an offset of the pandemic, insurers continue to offer telemedicine and virtual visits to contain costs and boost employee wellness. We see this trend continuing in 2023 as options for telehealth continue to expand. Telemedicine currently enjoys a COVID-19-related safe harbor for high-deductible heal plan (HDHP) participants. If regulators choose to eliminate this, telemedicine usage could be impacted.

Office visits - virtual utilization
(Visits per 1,000 members)



Source: Vital Incite

Specialty Carve-Outs, Top-Tier Onsite Labs and Strict Prior Authorization for Pharmaceuticals

Although prescription drug prices continue to rise, pharmacy benefits mangers (PBMs), are slowly adopting funding programs for high-cost specialty medications, allowing plans to offload up to 50% of their total specialty-drug spend.

In addition, to combat the growing trend toward obesity medications for patients with low body mass index (BMI) or diabetic conditions, employers are implementing stricter prior authorization for these medications.

As employers look to shape benefits around their employee populations, creative strategies such as onsite, top-tier labs are often a win-win: attracting and retaining key employees while containing costs for employers.

> "In light of escalating prescription drug prices, employers should look to contain increases in specialty drug costs through specialty carve-outs and strict prior authorization."
>
> **JOHN R. ADLER**
> ALERA PHARMACY SOLUTIONS

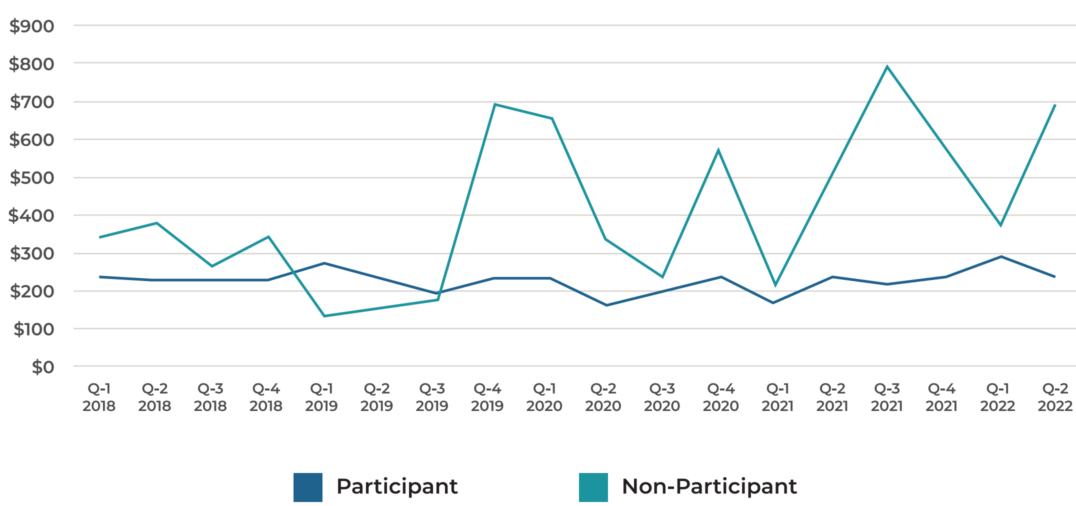
Specialized Health Management Programs

As a cost-containment strategy, employers are embracing specialized health management programs, with 80% either offering or interested in offering them as of 2021. While low engagement may sometimes prevent employers from getting where they want to go in terms of reduced costs, these programs can still be effective. For example, research shows that musculoskeletal programs in particular can yield lower and more consistent costs for participants than for non-participants.

	YES, WE CURRENTLY OFFER THIS	NO, BUT WE ARE INTERESTED IN OFFERING	NO, WE ARE NOT INTERESTED IN OFFERING THIS
Diabetes	33%	48%	19%
Hypertension	32%	49%	19%
Musculoskeletal	28%	51%	21%
Behavioral health	33%	47%	19%
Family-building benefits	32%	48%	19%

Source: McKinsey & Company, Employer Health Benefit Survey, 2021

Musculoskeletal Medical Spend



Source: Vital Incite Data of a Musculoskeletal Program

"The shortages of mental health practitioners around the country are real, but there are increasingly expanded options for services. Communication is key to ensure employees are aware of available mental health resources and also feel comfortable accessing them."

ANDREA DAVIS
DIRECTOR OF WELLBEING
ALERA GROUP

Teletherapy and Mental Health Resources

The rising cost of mental health treatment is compounded by a lack of qualified practitioners to support the increase in demand. Teletherapy is growing in popularity to fill the gap and contain direct costs and absences. Employers are also implementing strategies to connect employees and their dependents with care and to foster a culture where employees are comfortable asking for help.

Increasingly, managers are finding themselves dealing directly with employees on mental health and substance abuse issues. Employers are looking for ways to train managers on how to handle these situations. HR teams are also tasked with addressing compassion fatigue as managers are overwhelmed by employee mental health challenges.

Communication, Education and Engagement Tools

With so much at play in 2023, employers need to focus on educating employees about benefit choices to make sure they are selecting those that match their needs. Consider these statistics from the HR and payroll-management platform Paycor:

- 49% describe the process of making health insurance decisions "very stressful";
- 41% find open enrollment "extremely confusing";
- 20% have regrets about their decisions;
- 53% know their out-of-pocket maximums;
- 47% know their employer's contributions.

Communication tools are key to helping employees understand how to navigate any gaps in medical coverage, the risks based on their life stage and the value of the benefits they're receiving.

According to a Voya survey conducted in June of 2022, 70% of employed individuals said they planned to spend more time reviewing their benefit selections during their next Open Enrollment to help make the most of their benefit dollars because of inflation.

The Voya survey also revealed that 7 in 10 are interested in receiving help in optimizing their benefits dollars across retirement savings, health insurance, health savings accounts (HSAs) and voluntary insurance benefits such as Critical Illness, Hospital Indemnity, Disability Income and Accident.

HR Technology

While technology can't solve all of these HR problems, it can definitely solve some and assist others. It is critically important to ensure that the technology used for engaging with your employee base fits not only your needs today but also for future growth goals.

Using technology to efficiently and effectively communicate to your employee base will not only afford your workforce ease and transparency, it also will be more cost-effective for the members of your HR team, who, due to retention and financial pressures, are forced to function in a more lean capacity.

> "Choosing the right HR technology is incredibly important when thinking through your employee engagement, and there are very real risks involved if the wrong system is chosen. A failed implementation will cost your team time and money, so it's imperative that you're choosing a vendor that will truly see you as a partner to ensure your implementation success."

BRIAN PARKER
VICE PRESIDENT
NATIONAL BENEFITS TECHNOLOGY
AND SERVICES LEADER

Voluntary Benefits Address the Needs of a Changing Workforce

Workplace DEI initiatives and changing demographics, combined with rising costs, are making it increasingly important for employers to offer diverse benefits based on employee needs.

Voluntary products, competitive disability and leave benefits, job flexibility and an emphasis on all aspects of employee wellbeing are strategies employers should focus on in 2023, as organizations around the country take an increasingly employee-centric approach to workforce culture.

"Employers are asking themselves, If these benefits are truly voluntary, why wouldn't I offer benefits that allow employees to design a package that meets them where they are in their stage of life?"

TINA SANTELLI,
VICE PRESIDENT
VOLUNTARY BENEFITS
AND ENROLLMENT SOLUTIONS
ALERA GROUP

Staying Ahead of the Curve

If there's anything the past few years have taught us, it's that nothing is constant. Circumstances can change in the blink of an eye and leave a major impact on all aspects of our lives. Alera Group's Engage series of webinars provides monthly insights into what's happening with regard to compliance, the insurance marketplace and employee benefits. We invite you to tune into our webinars and whitepapers to stay informed and on the cutting edge of employee benefits solutions.

As you navigate your way through 2023 and beyond, your local Alera Group partners are here to help you maximize your benefits program and meet your business goals – whatever comes your way.

Thank you to the Alera Group colleagues who collaborated on this year's Market Outlook.

About Alera Group

Alera Group is an independent, national insurance and wealth services firm with more than $1 billion in annual revenue, offering comprehensive employee benefits, property and casualty insurance, retirement plan services and wealth services solutions to clients nationwide. By working collaboratively across specialties and geographies, Alera Group's team of more than 4,200 professionals in more than 150 offices provides creative, competitive services that help ensure a client's business and personal success. For more information, visit **aleragroup.com** or follow us on **LinkedIn**.

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