Brown & Brown

2022

Market Trends

Employee Benefits

What's New in 2022

As we look ahead to 2022, we will focus on key trends and topics that are impacting employers and the market. Separately, each of these trends are critical to an employer's outlook and corporate strategy. Combined, they give a framework for your benefits plan for the upcoming year.

Medical Trends

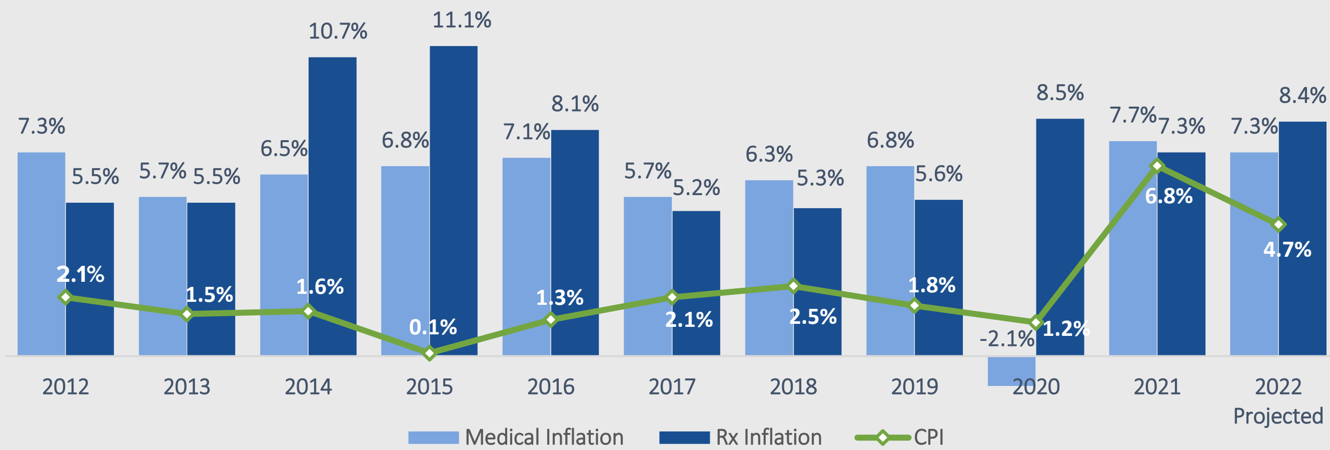
What is Impacting the 2022 Trends?

Medical and Rx cost increases in 2022 are expected to be consistent with pre-pandemic levels, Segal reports. While numerous uncertainties remain, experts assume COVID-19 will have a minimal or mixed impact on 2022 costs. The most significant factors in price change are related to inflated prices of goods and services, along with increased utilization of physician services.

2022 Projected Trend

Source: Segal Consulting, 2022

Medical & Rx Plan Inflation Versus the Consumer Price Index (CPI)



Sources: CPI: U.S Bureau of Labor Statistics, Inflation averaged over a one-year period; Segal 2022 Medical Plan Cost Trends, 2021 data as of November 2022 CPI Projection: Fred Economic Research / U of Michigan Consumer Survey

Other Key Findings

- Elevated prices of goods and services have played a far more significant role in increased hospital trend costs than higher utilization of services.
- Driven by ingredient cost increases and the replacement of lower-cost therapies, Specialty Rx actual costs increased by 11.5% in 2021. Now making up 53% of Rx spend, Specialty drug costs are expected to increase by 13.4% in 2022.
- Continual telehealth utilization increases are expected. Some anticipate this will be in addition to in-person visits and will result in even higher overall utilization and physician costs.

Pharmacy Trends

In the Market

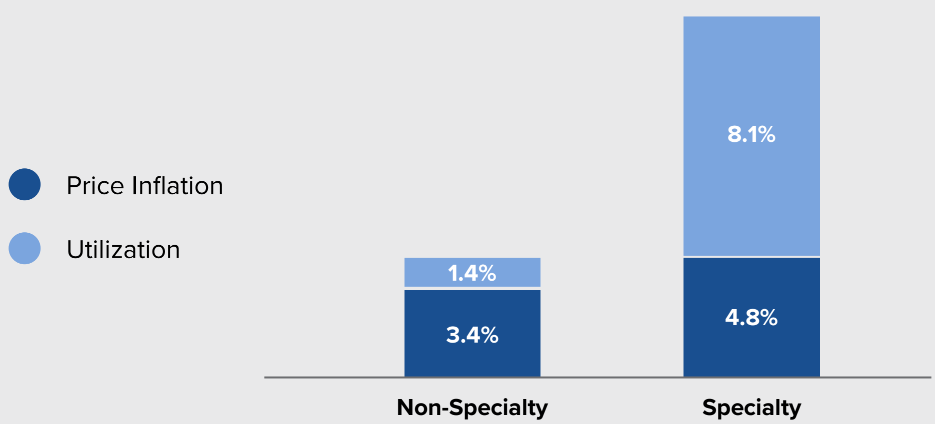
- High-cost specialty medications are continually gaining approval to treat additional conditions beyond the prescription drug's current therapies. This treatment expansion prolongs the patent and increases the potential that more specialty medications will be utilized on a group's plan.
- Gene therapy and orphan drug medications continue to be a trending topic. These treatments, or sometimes cures, are for extremely rare conditions and can cost millions of dollars for therapy. Pharmacy Benefit Manager Committees regularly evaluate these medications to qualify them for formulary coverage, and, in turn, employers strategize to mitigate the risk.

Specialty Medications

Sources throughout market data studies suggest specialty drugs continue to represent a small fraction of total pharmacy claims, at only 1% to 2% of total prescriptions filled. However, with an average specialty Rx projected cost increase for 2022 of 13.4%, employers remain concerned about how to best manage these high-cost therapies.

- Employers continue to look at plan management tactics to control spend, and many health plan sponsors are increasing or removing members' out-of-pocket spend limits for specialty drugs.
- Many plan sponsors are no longer giving deductible, coinsurance or out-of-pocket maximum credit for discounts attributed to manufacturer coupons.
- The remaining 98% to 99% of drugs filled are non-specialty drugs and represent only a 4.6% projected cost increase in 2022.

Price Inflation is the Leading Driver of Rx Trend with Specialty Rx a Major Factor



Note: The components do not add up to totals (13.4% Specialty / 4.6% Non-Specialty) because there are other components of trend not illustrated, reflecting such factors as the impact of cost shifting, technology changes and drug mix.

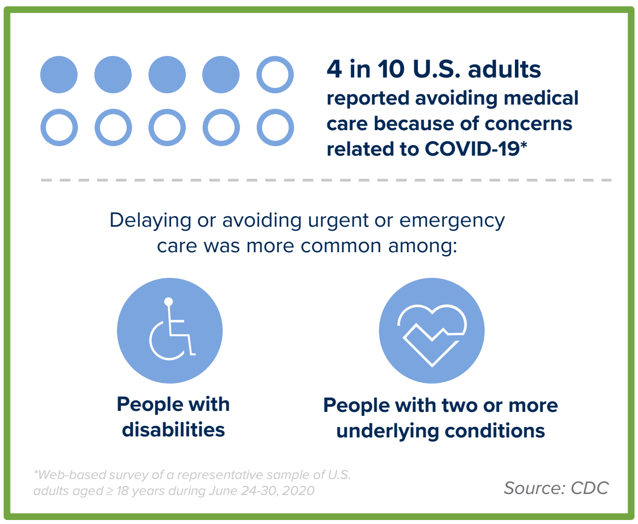
Source: Segal, 2021

Underwriting Projections

Forecasting faces ongoing challenges as the pandemic continues to foster uncertainty.

2020 was the first time the industry saw negative trends in both medical and dental plans due to deferred and postponed care. However, behavioral economics have changed since 2020, and utilization normalized and increased in 2021 relative to pre-pandemic levels in some industries, regions and demographics. While it is unclear how much longer this hyper-utilization will last in relation to the pandemic's ongoing impact and scope, expect elevated utilization to carry into 2022.

Additionally, economic inflation combined with standard medical and Rx trends will compound the challenges of mitigating health plan costs for employers.



COVID-19: Mixed Impact on Employers Plans

Positive impacts from COVID-19 include the accelerated use of virtual health care – a trend that is likely here to stay. It has also raised awareness of the importance of mental health services across numerous dimensions.

Negative impacts include delays in care and missed screening opportunities. This has given rise to late-state and more severe diagnoses. Now, with more people resuming preventive screenings and in-person services, health care costs are expected to rebound or even rise.

Top Health Care Cost Inflators & Deflators

Cost Inflators

1. Missed preventive screenings leading to late-stage diagnoses
2. Deferred or delayed care for chronic conditions
3. The increasing need for behavioral health services to treat depression, substance abuse, stress, anxiety, etc.
4. Growth in the specialty drug pipeline driven by new and innovative specialty Rx therapies
5. Newly adopted unhealthy behaviors (inactivity, poor nutrition, substance abuse)
6. Potential long-term health issues from COVID-19
7. Added costs of COVID-19 (vaccine/boosters, testing supply/demand, developed therapeutics)
8. Inflation adding to rising medical and Rx trend
9. Providers and insurance carriers attempting to recoup lost revenue through price increases

Cost Deflators

1. Increased utilization in lower-cost sites of care (virtual care, retail clinics, self-care)
2. Foregone care that is not coming back
3. Health systems finding new ways to provide lower-cost care (remote workforces, automation)
4. Cost transparency and no-surprises regulations driving more competitive pricing by providers
5. Employers continuing to focus on well-being initiatives
6. Cost-sharing changes for certain COVID-19 coverages that were previously regulated at 100% coverage

Reengineering the Employee Experience

"The Great Resignation" – "The Big Quit" – "Turnover Tsunami" – "The Great Disruption"

Whatever it is being called, this phenomenon is a real trend that is changing the working world rapidly. Historically low unemployment claims mixed with unprecedented voluntarily quit rates and millions of baby boomers suddenly retiring is creating a hiring challenge.

Why Are So Many People Quitting Their Jobs?

As with any significant shift in the workforce, there are various contributing factors to why people are quitting. Here are some of the reasons why an unprecedented number of employees are leaving their jobs:

- The pandemic's impact on reshaping fundamental values in society
- Employers not offering quality benefits
- Seeking a better work/life balance
- Lack of recognition for accomplishments
- Lack of relationships with peers
- Start a business
- Little to no room to negotiate salaries or compensation
- Opting for "career downsizing" to achieve more satisfaction out of life
- Poor employee experience and burnout from high work demands, stress and being overworked
- Company values and culture do not align with employee's
- Poor management
- Telecommuting or work flexibility is limited or is not offered
- Lack of career advancement opportunities
- Vague goals or no clear direction

Why Employees are Considering Changing Jobs in 2021

36%	Better compensation and corporate benefits
25%	Better work/life balance
16%	Lack of recognition for their work
8%	To find better corporate culture
5%	Company values don't align with theirs
5%	Lack of strong relationships with peers
5%	Don't Know

Source: Engagement and Retention Report, Achievers Workforce Institute, February 2021.

Who is Quitting?

Women

Women are currently quitting at the highest rates. In the past three years, women resignation rates have been on the rise and have reached nearly 3 million. This is largely due to the fact that women have been bearing the brunt of the pandemic events, such as daycare shutdowns and school cancellations. This has caused many families to reevaluate.

Gen Z & Millennials

Gen Z and Millennials (ages 18-40) are more likely to be on the move. This is the generation that values flexibility, and they are willing to give up future earnings for things like remote work options.

Gen X & Boomers

Gen X and Boomers are more likely to problem solve and have a greater desire to learn new skills. Gen Xers are ready to learn and adapt through career changes, new business start-ups and early retirement.

What Industries are Impacted?

No organization is safe from the current high levels of turnover. Employees are quitting across all levels and within all roles. Nonetheless, some industries have been hit harder than others. Restaurants, retail and hotels require in-person interactions and have seen the largest increase in resignations.

Sources: Visier – People Analytics Tool; PwC – Professional Services Organization;

Reengineering the Employee Experience *continued*

How Do Companies React to Potential Turnover

No company wants its employees to have a negative work experience, but that has been a driving factor fueling resignations. Strengthening your employee retention strategy may help your company retain its employees.

1. Enhance employee engagement
    - Listen to feedback, understand the request and act
2. Build a strong employee experience and value proposition
3. Build a stronger company performance
4. Retain top talent
    - Invest both in hiring the right talent and retaining your current high-performing talent
5. Make effective use of company funds
6. Remain flexible when employees choose their work location
7. Keep an open line of communication with your employees
    - High employee retention rates in part depend on managers who develop genuine relationships with their people
8. Emphasize the importance of employees' mental and physical well-being
9. Prioritize pay equity and adopt a culture of transparency
10. Remind your employees about your company's mission, values and vision
11. Treat those who leave with kindness
    - Track, report and monitor turnover
    - Conduct stay interviews and exit interviews
    - Listen, seek to understand and act

Where Does All of This Fit?

Total Rewards Strategy

Total Rewards encompasses all that you offer your employees in exchange for their skillset and contributions to your organization.

The Total Rewards you offer employees goes beyond the foundational pieces of compensation and employee benefits. It includes differentiators like culture and your approach to change management. Whether or not you focus on it, every company offers Total Rewards to their employees.

Pay Compression Analysis
Base pay structures, Positions/Job Architecture, FLSA, Merit Cycle, Sales incentives, Equal pay analysis

Employee Benefits
EB Consulting, Time off policies, Retirement, Sabbaticals, Health and Wellness Strategy

Processes
Job Descriptions, System integrations, Employee Factors, Performance Management

Culture
Employee Focus Groups, Surveys, Leadership interviews

Change Management
Communication (FAQs, Manager talking points, presentation tools), Statements, Speaking/Training

State & Local Leave Laws

The recruitment landscape continues to open doors for employers of certain industries to hire remote employees across state lines. While this eases some of the burden of finding dependable talent, it adds new considerations for leave laws. State and local paid family leaves and mandated disability coverage is continuing to evolve state by state and municipality by municipality. Employers should consult with their employment law experts when evaluating these ever-changing requirements.

Diversity, Equity & Inclusion Initiatives

The Importance of DEI

What is Diversity, Equity & Inclusion (DEI)?

Diversity is the presence of differences within a given setting.

Equity is the process of ensuring that processes and programs are impartial, fair and provide equal possible outcomes for every individual.

Inclusion is the practice of ensuring that people feel a sense of belonging in the workplace.

The DEI Movement

In 2022, DEI initiatives will rise in purpose-led organizations. Collaboration will be empowered no matter your background, experience, gender, race, etc.

Organizations will need to address the issues of “invisible people and unheard voices” to unlock the true power and potential of their workforce. **Get ready for the big shift from “me” to “we.”**

Embracing & Moving the DEI Dial in 2022

DEI is an ethos that recognizes the value of diverse voices and focuses on inclusivity and employee well-being as central facets of success.

To bring those values to life, companies must implement programs and initiatives that actively make their offices more diverse, equitable and inclusive spaces. **To the right are four ways to move the DEI dial in 2022.**

Recruit & Develop Inclusive Leaders
Inclusive leaders embrace diversity and know how to create a safe space where people feel accepted & empowered.

Hold Leaders Accountable
One of the most effective ways to integrate DEI with talent management and business processes is to hold leaders accountable.

Build DEI into the Fabric of the Organization
Re-examine your structures, processes and policies to remove systemic biases and ensure they are equitable for all.

Make DEI Part of How You Innovate
Start deploying diverse-by-design teams to boost collective intelligence, problem solving and decision making.

Source: 2022 Korn Ferry; Future of Work Trends / the New Era of Humanity

What is the Corporate Equality Index (CEI)?

Originally produced in 2002, the CEI is a tool published by the Human Rights Campaign Foundation to specifically rate business in America on their treatment of gay, lesbian, bisexual and transgender employees.

Published annually, the CEI is a series of questions guided around three main criteria to measure how well any provided benefits satisfy DEI initiatives.

DEI SPECTRUM

Workforce Protections

- Inclusion of sexual orientation within benefit-specific language
- Inclusion of gender identity provisions within benefit-specific language

Inclusive Benefits

- Offering of spousal medical and other benefits regardless of identifying gender
- Benefit coverage for domestic partners
- Transgender-inclusive health insurance offering

Supporting an Inclusive Culture & Corporate Social Responsibility

- Internal education and training best practices
- LGBTQ employee resource group or diversity council
- Outreach or engagement with the LGBTQ community

Source: Corporate Equality Index 2021, Human Rights Campaign Foundation

Acceleration of the Health Care Delivery Model

Telemedicine & Innovative Digital Solutions

Health care delivery has certainly evolved over the last two years.

Virtual health services are now providing an avenue to maintain continuity of care through virtual primary care visits. Virtual primary care is looking to avoid, where possible, negative consequences from delayed preventive, chronic or routine care. Remote access to health care services may increase participation for those who are medically vulnerable and can also help preserve the patient-provider relationship at times when an in-person visit is not practicable or feasible.

Traditional virtual health services provide:

- Low-risk, urgent care conditions
- Identify individuals who may need additional medical consultation or assessment, and refer as appropriate
- Screen patients who may have symptoms of COVID-19, and refer as appropriate

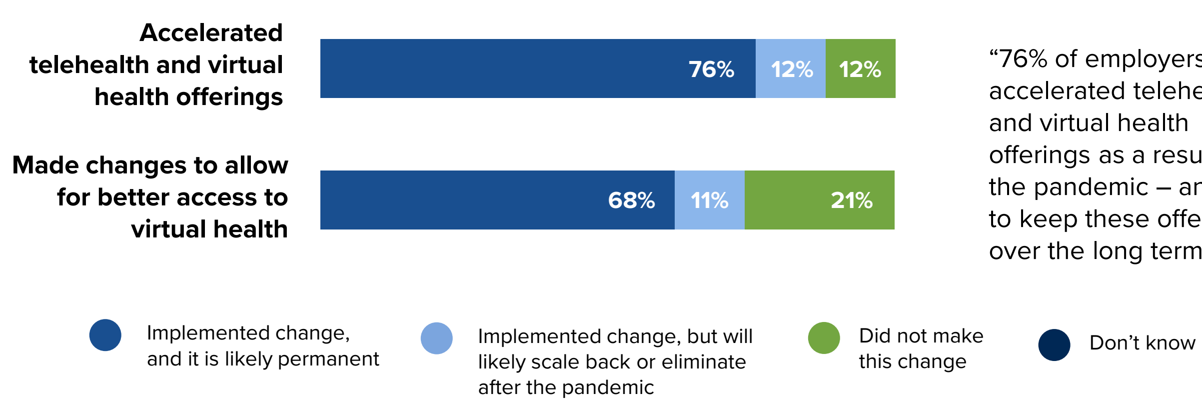
Growth Within Virtual Services

As technology capabilities have increased in the market, additional virtual services have surged.

Wellness/PCP Visits: Annual wellness exams can now support recommended screenings, diabetic testing and other chronic condition management through virtual visits with audio and video capabilities. These visits are now available through many app-based programs and telemedicine providers.

Tele-Dentist: For after-hours dental issues and dental issues while traveling, providers have begun supporting 24/7 access to virtual dentists who can answer questions about unexpected issues and write prescriptions for individual's dental concerns via smartphone, tablet or computer.

On-site Clinic: For employers looking to provide care at their workplace while employees are at work, organizations are setting up on-site clinics which offer COVID-19 testing, occupational health services, on-the-job injury triage and health education to support employees with chronic conditions and illnesses. Compliance considerations per ERISA guidelines may apply based on services offered.



"76% of employers accelerated telehealth and virtual health offerings as a result of the pandemic – and plan to keep these offerings over the long term."

Source: Business Group On Health 2022 Large Employers' Health Care Strategy And Plan Design Survey

Acceleration of the Health Care Delivery Model *continued*

Expanding Telemedicine Services

The chart below illustrates how many health care delivery modalities are having profound influence over employers' overall population health strategy. Since virtual health care can be used to increase access and usage, it can be approached with a consultative mindset to launch targeted solutions designed to support employee needs and help control costs.

Emerging Offerings in Virtual Care

Future growth resides particularly in areas focused on chronic conditions, such as diabetes care management.

Musculoskeletal care management and physical therapy virtual care continues to expand and is expected to see the most growth out of any condition-focused offering. The increase is expected to rise from 34% in 2021 to 77% in 2023 and 2024.

Cardiac care delivered virtually is expected to double in large employer offerings in just two years. This signals that companies are looking to expand their suite of virtual condition management tools beyond musculoskeletal and diabetes.

The following virtual health care offerings are also expected to increase in prevalence between 2022 and 2024:

- Genetic counseling
- Kidney disease management
- Fertility care
- Sleep management

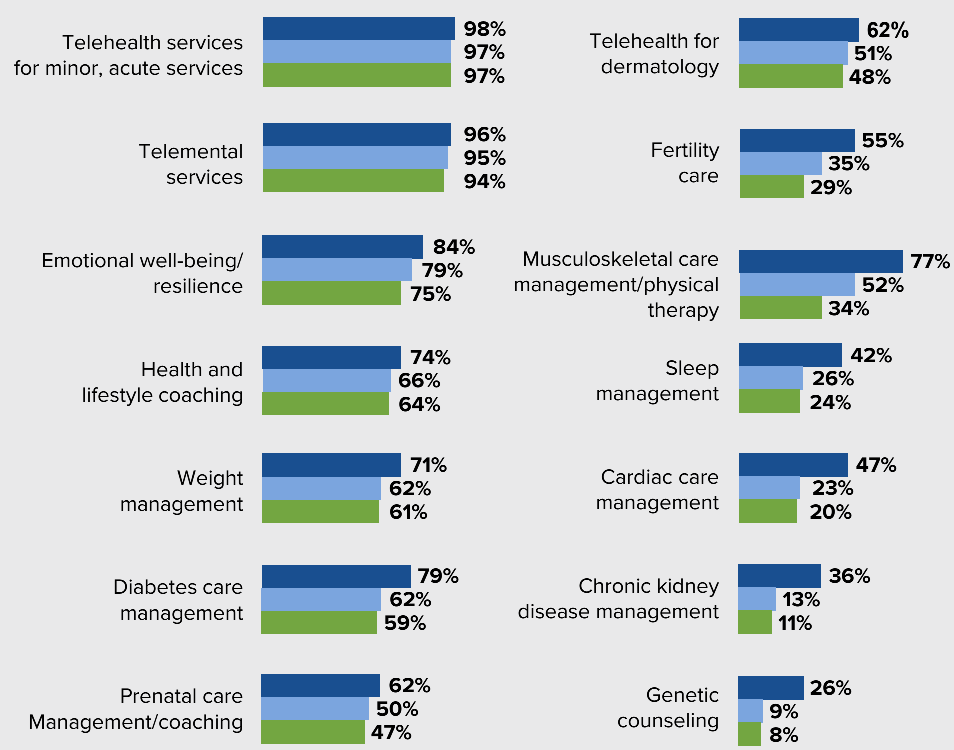
FIGURE 3.6

Current & Projected Virtual Health Offerings, 2021 – 2024

2023 / 2024*

2022

2021



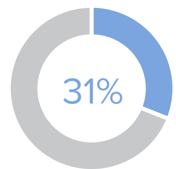
Source: Business Group On Health 2022 Large Employers' Health Care Strategy And Plan Design Survey

Mental Health & Emotional Well-Being

In the Market

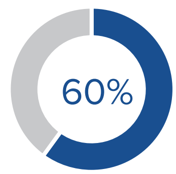
The COVID-19 pandemic has continued to increase employers' desires to support employees and their families in managing their mental health.

The market has responded to these requests by broadening access to mental health resources outside of traditional mental health office visits and by continuing to reshape corporate culture and stigma. Most commonly, employers are curating online resources like apps, articles, videos and webinars—something nearly all employers will do in 2022.



31% of employers will offer a mental health navigation program to help employees find providers. This is an 11-point increase from 2021.

Source: Business Group on Health Source



On average, 60% of members visit a mental health professional on an annual basis.

Source: HealthPlan Intelligence

Broaden Access

Prior to the pandemic, access to mental health providers was limited to in-person visits and behavioral health telemedicine visit options.

In response to provider restrictions because of the pandemic, the market has adopted new avenues of care through enhanced Employee Assistance Programs (EAPs) and online, app-based programs which focus on wellness and mental health related navigation programs and resources.

Programs are now offering embedded resources, such as virtual counseling and digital navigation tools, along with cognitive behavioral therapy that highlights the six areas of well-being: emotional, professional, social, physical, financial and social.

These new mediums allow individuals to receive care in the comfort of their home, at a pace they prefer with licensed therapists.

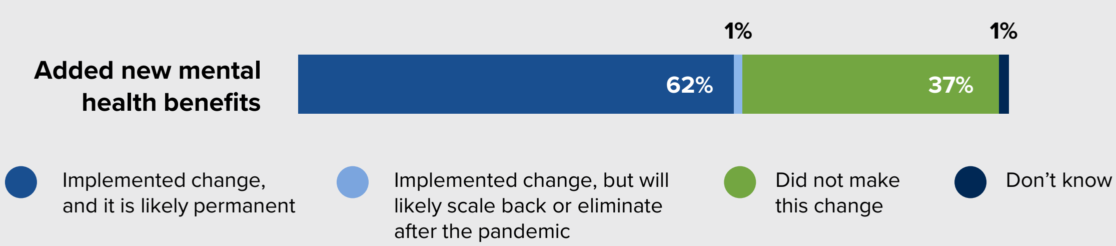
Corporate Culture

Organizations are exploring creative strategies that will not only attract employees but also promote a healthy work-life balance by building corporate culture initiatives that promote mental health and well-being.

With the pandemic challenging traditional working norms, employers are looking to allow for increased remote working opportunities. This includes flexible schedules, four-day work weeks or the ability to specify workdays free from meetings. This break has resulted in a less stressed workforce, improved business productivity and an overall more sustainable work environment. Below are other examples of ways to help enhance corporate culture and support employee mental health and well-being:

- Anti-Stigma Campaigns
- Manager/Peer/Employee training to help recognize mental health issues

Improving Mental Health Benefits



Source: Business Group on Health 2022 Large Employers' Health Care Strategy and Plan Design Survey

Financial Wellness

Financial wellness remains critical to employees' well-being, and it means different things to different people. In general, it involves helping employees increase financial security and freedom, both now and in the future. It is often achieved through the following:

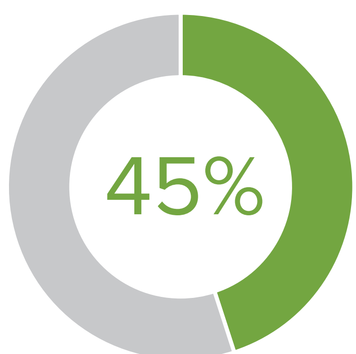
- Eliminating "toxic" debt like credit cards and high-interest loans
- Managing financial stress by controlling monthly expenses and living within one's means
- Having cash set aside as a rainy-day fund – enough to absorb a sudden financial shock
- Being on track to meet one's financial goals, e.g., saving for retirement or a home
- Planning for loved ones with sufficient insurance coverage and end-of-life documents

Financial wellness programs continue to be a focus for employers looking to build their total rewards strategy and to support employees' holistic well-being. The pandemic and subsequent economic turmoil drew increased attention to this area of employee benefits.

This uptick in interest is evident by the number of employers who are recognizing the need for financial wellness in their comprehensive compensation package. In fact, more than a third of employers—up from one-quarter in prior years—rate their concern for employees' financial well-being as nine out of 10.

Employees are concerned about the short- and long-term financial effects of the pandemic:

- Paying bills without government relief programs (26%)
- How long the pandemic will last before impacting me financially (20%)
- Meeting retirement goals (10%)
- Catching up on deferred payments - student loan, mortgage, car payments (9%)



of businesses see access to a financial professional as the most useful financial wellness offering for employees.*

*Out of 25 financial wellness options presented

Source: The Principal Financial Well-Being, Index, June 2021.

EMPLOYERS' GOALS FOR FINANCIAL WELLNESS

1. Improve employee retirement preparedness (36%)
2. Help control health care costs (33%)
3. Reduce financial-related stress (30%)

POTENTIAL BARRIERS

1. Lack of understanding for how the benefits work (42%)
2. Cost of this benefit to both employers and employees (30%)
3. Data and privacy concerns with employees not wanting to disclose financial issues to employer (28%)

Sources:
PwC Employee Financial Wellness Survey 2021
2021 EBRI Financial Wellbeing Employer Survey, October 2021

Regulatory & Legislative Strategy Updates

Regulation Updates

Extended COBRA & HIPAA Special Enrollment Timeframes

Extended deadlines under COBRA, HIPAA and claims filing timeframes remain in effect and must be disregarded until the earlier of:

- 1 year from the date they were first eligible for relief, or
- 60 days after the announced end of the Outbreak Period. As of December 2021, the Outbreak Period has not ended.

Group health plans subject to COBRA and HIPAA will need to consider deadline extensions into 2022.

Flexibility for DCAPs & FSAs

Pre-tax election change relief for group health plan coverage, DCAPs and health FSAs for plan years ending in 2021 ends. Employers who implemented election change relief under the CAA, 2021 must amend their cafeteria plan documents by the end of the first year beginning after the amendment is effective.

Mental Health Parity & Addiction Equity Act (MHPAEA)

Self-insured medical plans must ensure compliance with MHPAEA requirements to conduct comparative analyses of non-quantitative treatment limitations (NQTLs). Plan sponsors should work with their TPAs for assistance in completing the requirements. The DOL's authority to request information began February 10, 2021.

Transparency Regulations

On August 20, 2021, the agencies issued FAQs addressing a number of the health plan transparency requirements found in the final regulations issued under the ACA October 2020 and in the No Surprises Act, enacted late December 2020.

The FAQs provide some welcome relief for plan sponsors, as several compliance dates have been delayed.

- The requirements surrounding health plan ID updates, the prohibition on gag clauses, provider directories and continuity of care take effect as of the first day of the plan year beginning on or after January 1, 2022.

Regulatory & Legislative Strategy Updates *continued*

HSA Eligibility & Telemedicine

If an individual is covered by any health coverage that pays for significant medical care or treatment (besides preventive care) before the Qualified HDHP minimum deductible is satisfied, that individual is not HSA eligible.

COVID Exemptions in 2020 & 2021

- Telemedicine was considered permissible coverage, not preventing HSA eligibility, for a limited time (through the plan year beginning on or before December 31, 2021, for services beginning on or after January 1, 2020).

2022 & Beyond

- Telemedicine will once again be considered impermissible coverage for plans and service dates outside of the limited time window.

In other words, if an individual has access to telemedicine coverage without being charged the fair market value of services provided, they will not be HSA eligible as of the first day of the plan year beginning on or after January 1, 2022.

2022 Webinars

Regulatory & Legislative Strategy

January 6:
ACA Reporting, Are You Ready?
Watch Recording

February 17:
Benefits Nondiscrimination: What You Need to Know

March 17:
Health Savings Accounts: From Eligibility to Distributions

April 21:
The ACA's Employer Mandate & Look Back Measurement Method

May 19:
The Family & Medical Leave Act and Employee Benefits

June 16:
A Benefits Checklist for Mergers & Acquisitions

August 18:
Where do Wellness Plans Stand?

September 15:
HIPAA Privacy & Security Overview

October 20:
Clearing the Air on Transparency Regulations

November 17:
2022 Common Questions

How Brown & Brown Can Help

Connect with our Brown & Brown team to learn about our knowledge in your industry, how we build our risk mitigation strategies and how we can aid your business in building a cost-saving employee benefits program.

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Find Your Solution at BBrown.com
