Gallagher

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ORGANIZATIONAL WELLBEING

— 2024 —
WORKFORCE TRENDS REPORT SERIES

Benchmarks for strategy, HR technology, and healthcare cost controls to set the stage for success

US EDITION

— 2024 —
WORKFORCE TRENDS REPORT SERIES

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2024

1 **ORGANIZATIONAL WELLBEING**
Strategy, HR technology, and healthcare cost controls set the stage for success.

YOU ARE HERE

2 **PHYSICAL & EMOTIONAL WELLBEING**
Medical, pharmacy, and absence management benefits along with wellbeing initiatives help to optimize overall spend.

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Introduction

When organizations improve how their employees work and live, their families and communities often benefit. Total rewards decisions can be a central influence, but there's no template for achieving targeted outcomes. What often does work well, from year to year, is preparing to adapt to changing employee preferences, evolving staffing needs, ongoing technological progress, medical advancement costs, and unpredictable economic forces.

The most successful employers recognize that people are at the center of their success, which encourages investment in employee wellbeing. They respond to transformative trends with practical solutions that address essential needs and reduce risk. They also know the pivotal role that leaders play in setting the workforce priorities that matter most to employees — including development, performance, engagement, and rewards.

While employers often make do with limited budgets, data and insights can help them maximize their return on investment (ROI). Better intel on priorities helps inform better decisions across the board about key issues such as compliance, retention, medical costs, and time off.

Employers are ready for a conversation about building for the future. And this is the year to tackle it differently. People-related priorities now emphasize retention and development through reskilling and training, as job hierarchies and job definitions demand a more dynamic course of action. The stakes for benefit considerations are raised, and with structured guidance, employers can more confidently navigate the complex decisions that will set them up for the future.

Part of our US Workforce Trends Report Series, this installment covers organizational strategy, HR technology, and healthcare cost considerations. It presents recent findings on current and emerging trends to help employers optimize their investments in the wellbeing of their organization as a whole. Other reports in the series center on a specific aspect of employee wellbeing, including physical, emotional, career, and financial.

Data and insights are compiled from a variety of Gallagher benchmarking surveys conducted each year to capture current and emerging trends. In this report, they're based on the results of our US Benefits Strategy & Benchmarking Survey, gathered from January to March 2024. A total of 3,552 organizations across the US participated.

Findings are broken out by region, organization size, and ownership structure for peer comparison. Each section features core data highlights, contains tables with detailed results, and wraps up with key takeaways. From broad insights to specific findings, you'll gain a practical perspective on trends and best practices to help you face your future with confidence.

To discuss your total rewards strategies, contact your local Gallagher representative or one of the advisors listed in the back of the report.

1

2 in 3

Experienced turnover within or below their targeted range

Actual turnover rates either matched or were below projections, indicating that attrition is stabilizing. With retention still a top priority for HR and operations, employers continue to watch for rust-out and monitor the alignment of generational and gender expectations with employee experiences.

2

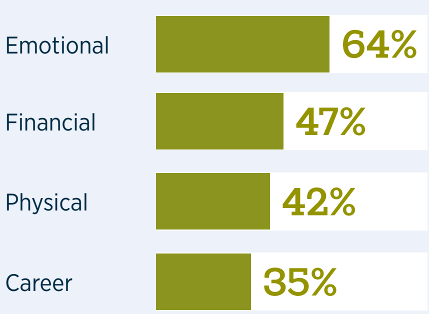
2%–8%

Total rewards enhancements used to support employee recruitment and retention

Total rewards enhancements continue at a slower pace. Employers are managing more strategically by simplifying and optimizing existing resources, instead of adding or upgrading tools.

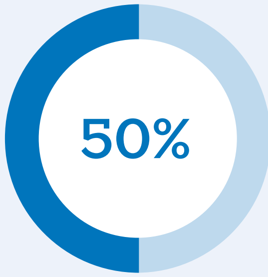
3

Wellbeing dimensions that increased in importance in 2024



The importance of each wellbeing aspect grew more gradually this year, compared to 2023. But emotional wellbeing continues to be the primary employer focus with an emphasis on mental health and social connectedness.

4



Plan to upgrade and/or add HR technology solutions by 2026

Technology can be a vulnerability or a competitive advantage. Due to improving capabilities and declining costs, small and midsize organizations may soon be able to use this asset as a competitive equalizer.

5

Nearly

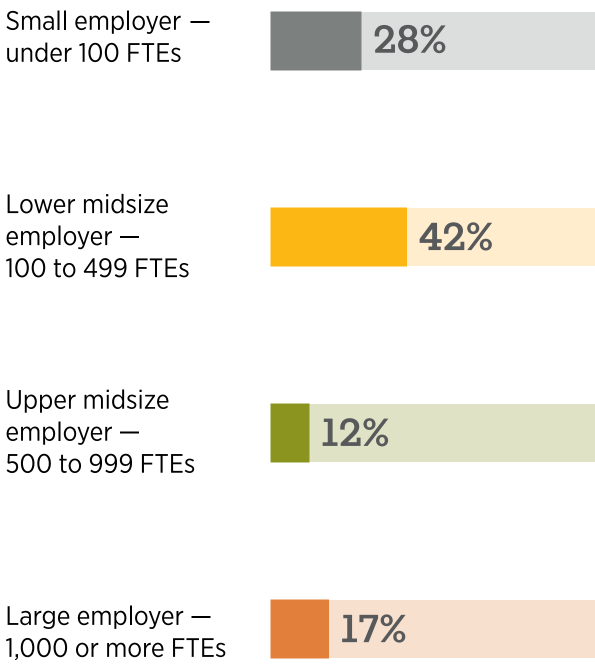
3 in 4

Expect healthcare costs to rise in 2024

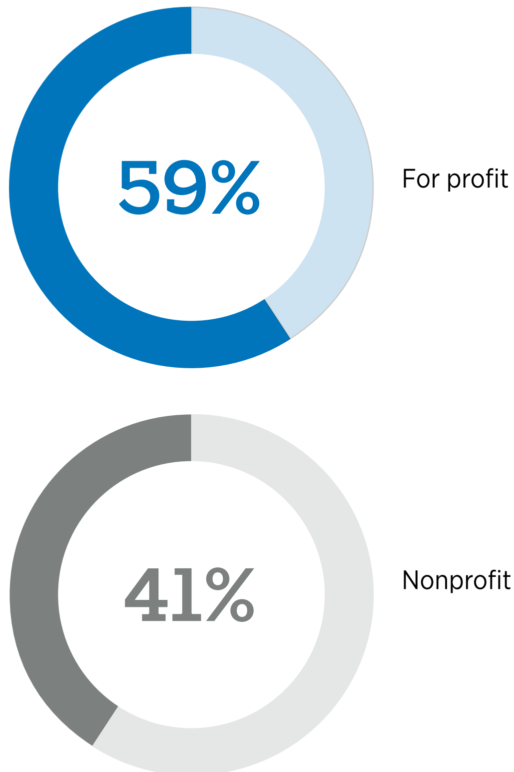
Employers are experiencing higher healthcare costs and expecting this pattern to continue. The expense of transformative trends such as new specialty drugs and cell and gene therapies are one underlying reason while medical inflationary pressures also contribute.

BENEFITS STRATEGY & BENCHMARKING SURVEY PARTICIPANT PROFILE

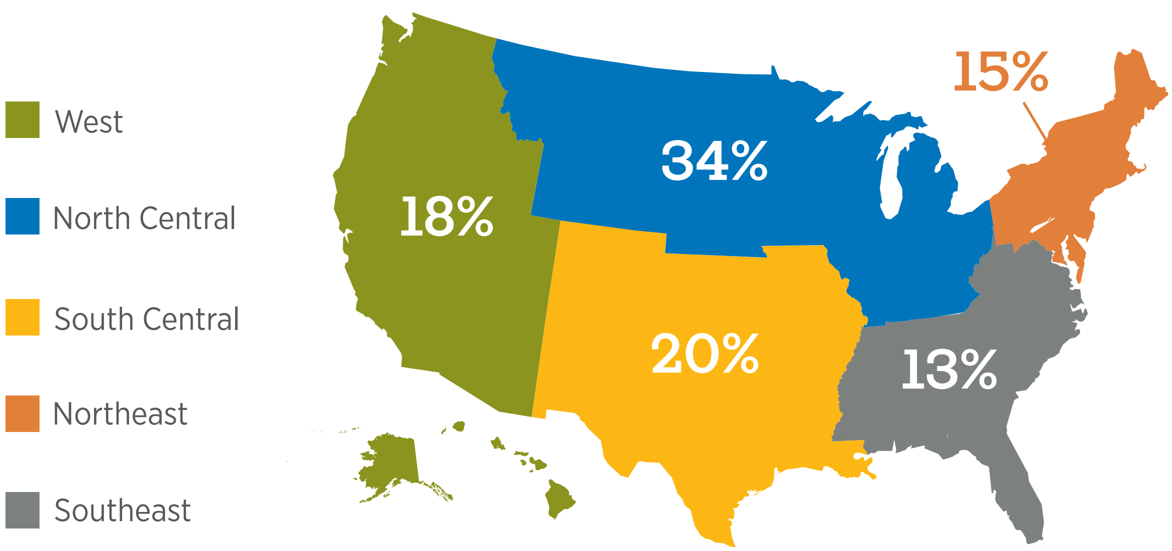
Workforce Size — Full-Time Equivalents (FTEs)



Ownership Structure



Geography



Number of Participating Organizations by Industry

Organizational Wellbeing

Developing and implementing an effective approach to organizational wellbeing revolves around six key themes:

- Stabilizing turnover through goal-setting, growth opportunities, and rewards
- Balancing organizational gains and work-life integration considerations
- Revisiting employee wellbeing support to improve benefits management and costs
- Optimizing digital technology to deliver the best possible ROI
- Responding to transformative but costly healthcare trends with a measured approach
- Minimizing the need for cost sharing with value-focused options and other tactics

Stabilizing turnover through goal-setting, growth opportunities, and rewards

Opposing economic forces are confronting organizations. They range from a strong stock market and asset returns for pension sponsors, to high inflation and the impact of cost-cutting and layoffs on industry segments. But overall, optimism persists in 2024. More than 9 in 10 employers either project an increase in revenue by 2025 (64%), or expect it stay about the same (30%). And most anticipate a rise in headcount (55%) instead of a decline (6%).

Looking at 2023 results, actual turnover rates are similar to the prior year. Half of organizations (50%) experienced turnover of 15% or more, including 16% that reported a rate of 30% or higher. However, compared to 2022, fewer employers were affected by higher than anticipated turnover (33%, down 5 points). Altogether, two-thirds (67%) recorded turnover rates that were either similar (48%, no change) or lower than projected (19%, up 5 points).

1 in 2

Experienced a turnover rate of 15% or more in 2023

While stable attrition rates are a positive indicator, they may not translate to higher levels of engagement and productivity. Watching for signs of rust-out, described as feelings of disinterest and detachment among employees who lack meaningful tasks or purpose, is important as attrition slows. In particular, this phenomenon can affect women who aren't recognized or given the opportunities they deserve. Attrition rates at the director level have been higher for women in recent years compared to men. And for women of color who are underrepresented in leadership positions, they're even more pronounced.[1]

Younger employees also pose a high risk of attrition. Within the 25–35 age group, 4 in 5 (80%) indicate they would leave their job if they feel underutilized or under stimulated, or they already have.[2] To avoid losing this talent, employers need to fully understand workforce needs and priorities, and deliver work experiences aligned with generational and gender expectations.

Helping employees set challenging and meaningful goals, providing continuous opportunities for learning and growth such as job rotation or cross-training, and developing progression plans should top the list. Throughout this process, motivation and engagement comes from recognizing and rewarding accomplishments. What employers may not realize is the relationship between how recognition and rewards are delivered — and how they're received. Consistency and inclusivity are important.

TECHNOLOGY & INNOVATION INSIGHT

Clearly identifying benefits and programs that are most likely to entice people to join and stay with the organization is a key challenge. But the right technology can solve it. To understand total rewards priorities and respond to them effectively, a free flow of data from analytics to reporting is required — allowing accurate measurement of gaps and outcomes. Communication among decision-makers, and directly with employees, also provides essential insights. So far, just 13% of employers have established a comprehensive dashboard that effectively brings together all organizational wellbeing metrics, including benefits, DEI, talent, engagement, and safety.[3]

Expected change in revenues by 2025

Category	Base	Decrease substantially	Decrease a little	Stay about the same	Increase a little	Increase substantially
ALL	2,986	1%	6%	30%	54%	10%
North Central	1,116	1%	6%	33%	55%	6%
Northeast	420	0%	5%	33%	51%	11%
South Central	575	0%	4%	31%	52%	12%
Southeast	373	1%	5%	26%	57%	12%
West	502	1%	7%	25%	56%	12%
For Profit	1,722	0%	4%	23%	59%	14%
Nonprofit	1,236	1%	7%	40%	48%	4%
Under 100 FTEs	836	1%	5%	29%	54%	11%
100 to 499 FTEs	1,266	1%	6%	28%	56%	9%
500 to 999 FTEs	353	0%	7%	37%	46%	10%
1,000 or more FTEs	516	1%	5%	31%	55%	8%

Expected change in workforce headcount by 2025

Category	Base	Decrease substantially	Decrease a little	Stay about the same	Increase a little	Increase substantially
ALL	3,029	0%	6%	38%	48%	7%
North Central	1,134	1%	6%	41%	48%	5%
Northeast	429	0%	8%	38%	45%	8%
South Central	585	0%	6%	37%	48%	8%
Southeast	375	1%	6%	34%	51%	9%
West	506	0%	6%	36%	50%	8%
For Profit	1,745	0%	6%	36%	48%	9%
Nonprofit	1,252	0%	6%	41%	48%	5%
Under 100 FTEs	840	0%	5%	39%	49%	6%
100 to 499 FTEs	1,291	0%	5%	38%	49%	7%
500 to 999 FTEs	357	1%	6%	36%	47%	10%
1,000 or more FTEs	525	1%	10%	37%	46%	7%

Actual turnover rate for FTEs in 2023

Category	Base	Less than 3%	3%–5%	6%–9%	10%–14%	15%–19%	20%–24%	25%–29%	30% or more
ALL	2,845	11%	10%	12%	17%	14%	13%	7%	16%
North Central	1,064	11%	10%	11%	19%	13%	13%	6%	18%
Northeast	385	12%	11%	18%	16%	14%	12%	7%	11%
South Central	564	9%	9%	11%	14%	16%	13%	8%	20%
Southeast	357	10%	10%	12%	18%	14%	15%	6%	16%
West	475	11%	11%	13%	16%	12%	14%	9%	15%
For Profit	1,650	11%	11%	12%	17%	12%	12%	6%	20%
Nonprofit	1,165	11%	8%	13%	18%	16%	15%	8%	12%
Under 100 FTEs	818	24%	13%	13%	14%	10%	9%	5%	13%
100 to 499 FTEs	1,228	6%	10%	12%	19%	13%	13%	8%	18%
500 to 999 FTEs	328	3%	8%	12%	19%	19%	17%	9%	14%
1,000 or more FTEs	470	4%	7%	14%	16%	18%	16%	7%	19%

Actual versus the targeted turnover rate for FTEs in 2023

Category	Base	Substantially lower	A little lower	About the same	A little higher	Substantially higher
ALL	2,846	4%	15%	48%	25%	8%
North Central	1,062	4%	15%	49%	24%	8%
Northeast	383	5%	16%	51%	23%	5%
South Central	566	3%	15%	46%	26%	9%
Southeast	356	4%	17%	46%	26%	7%
West	479	5%	15%	48%	24%	8%
For Profit	1,651	5%	14%	48%	25%	8%
Nonprofit	1,170	4%	17%	48%	24%	7%
Under 100 FTEs	809	4%	12%	48%	25%	11%
100 to 499 FTEs	1,225	5%	15%	47%	25%	7%
500 to 999 FTEs	330	5%	19%	47%	24%	5%
1,000 or more FTEs	479	3%	19%	51%	23%	4%

STRATEGY

Balancing organizational gains and work-life integration considerations

Post-pandemic strategies for wellbeing continue to view culture with paramount importance. HR technologies and data analytics are constantly improving, and they're starting to transform workforce management and employee engagement. With the right support structure and tools, HR can plan more strategically for the future.

Improving business-related metrics is a top operational priority in 2024, including growing revenue and sales (52%, up 5 points) and maintaining or decreasing overall operating costs (35%, up 6 points). Retention also ranks high, coming in at No. 2 for operations (45%) and No. 1 for HR (62%). However, since 2022, attraction has declined each year for both operations (27%) and HR (41%).

Pay and benefits significantly influence attraction, retention, and competitive differentiation, but work culture is often the most valuable currency. Besides training and development (40%, up 5 points), more than a third of employers rank a strong culture (35%, up 2 points) among their highest HR priorities.

TOP OPERATIONAL PRIORITIES

1. Growing revenue or sales
2. Retaining talent
3. Maintaining or decreasing overall operating costs
4. Attracting talent
5. Ensuring business continuity

TOP HR PRIORITIES

1. Retaining talent
2. Attracting talent
3. Training and developing employees
4. Creating a strong culture
5. Increasing workforce engagement and productivity

Unsurprisingly, an emphasis on developing leaders continues. Currently, the top competencies linked to leadership success are communicating effectively, building trust, thinking strategically, acting inclusively and respectfully, and fostering a sense of belonging.[3]

Leader effectiveness can strongly influence the career and emotional wellbeing of the workforce. When organizations budget for multi-phase learning programs to develop leaders, they proactively invest in their own future. Preparation often starts with basic manager training, followed by mid-career and senior executive training for those with high leadership potential. Participation should be open to employees at all career stages.

After base salary, work culture is the most prominent factor in hiring and retention success, so considering how to enliven this key aspect of the employee experience is vital. Preventive measures against burnout are highly important, which is evident from a recent study that found more than 4 in 5 employees are at risk for this condition.[4] Having an effective strategy for recognizing and responding to signs, early on, can help preserve productivity and keep absenteeism rates and healthcare costs from rising.

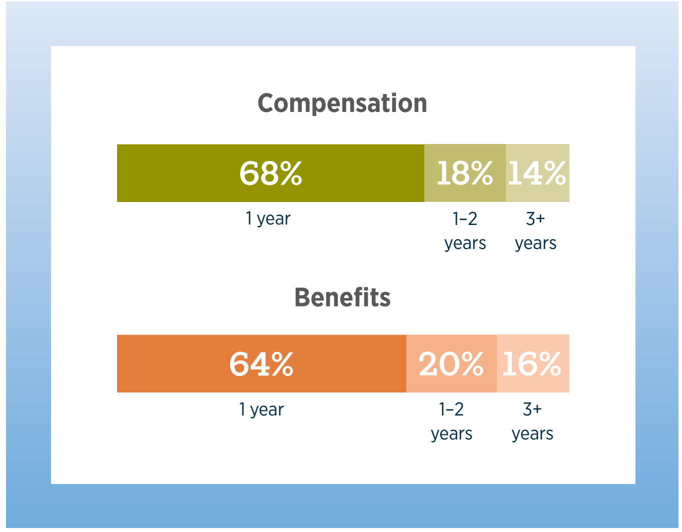
The most effective approaches to benefits selection consider the roots of engagement and wellbeing. By closely examining workforce generational characteristics and expectations, employers can make choices that enhance the employee experience — and bring the organization's culture to life. Tangible benefits with direct value are also more sustainable.

Operational targets in many organizations dictate certain priorities, making work to deliver HR products and services on time the priority over more strategic initiatives. Nearly two-thirds of HR teams (63%) have little or no untapped capacity, which suggests that heavy workloads may leave employees feeling overburdened.[3] Combined with changing market dynamics, this dilemma may explain why more employers now plan for both compensation and benefits on a year-to-year basis.

Annual planning is typical for both compensation (68%, up 4 points) and benefits (64%, up 5 points) in 2024. But the use of longer-term strategies to address employees' needs has declined. Timelines of 1–2 years are much less common at 18% for compensation (down 3 points) and 20% for benefits (down 4 points). A horizon of 3 or more years is the current choice of only 14% and 16%, respectively (down 1–2 points each).

Staying apprised of important HR-related developments at weekly, monthly, yearly, and even 3-year intervals can guide decisions that more closely align with the organization's strategy. Whether the overall plan for compensation and benefits is simple or complex, looking ahead can help ensure these plans are supportive of where the organization wants to be and the workforce that's needed to get there.

COMPENSATION AND BENEFITS PLANNING HORIZON



Top operational priorities

Category	Base	Attracting talent	Retaining talent	Ensuring employee safety	Improving employee health and wellbeing	Controlling employee benefit costs
ALL	2,992	27%	45%	13%	13%	19%
North Central	1,120	28%	48%	12%	11%	20%
Northeast	427	30%	46%	9%	15%	19%
South Central	575	24%	41%	17%	10%	21%
Southeast	367	28%	42%	12%	13%	17%
West	503	26%	42%	14%	17%	17%
For Profit	1,725	22%	38%	15%	9%	14%
Nonprofit	1,236	34%	54%	10%	18%	26%
Under 100 FTEs	830	22%	44%	11%	11%	17%
100 to 499 FTEs	1,271	27%	45%	14%	12%	20%
500 to 999 FTEs	355	30%	48%	15%	15%	23%
1,000 or more FTEs	521	32%	43%	12%	15%	17%

Category	Base	Increasing innovation	Ensuring business continuity	Maintaining profit margins	Maintaining or growing market share	Growing revenue or sales	Maintaining or decreasing overall operating costs	Managing risk and regulatory demands
ALL	2,992	17%	24%	19%	22%	52%	35%	12%
North Central	1,120	17%	23%	18%	22%	52%	35%	11%
Northeast	427	20%	23%	15%	23%	50%	35%	11%
South Central	575	15%	23%	21%	22%	52%	38%	13%
Southeast	367	16%	29%	25%	22%	49%	35%	11%
West	503	15%	24%	21%	23%	56%	31%	12%
For Profit	1,725	16%	22%	26%	28%	67%	34%	9%
Nonprofit	1,236	17%	26%	10%	14%	32%	38%	17%
Under 100 FTEs	830	18%	32%	21%	19%	58%	32%	12%
100 to 499 FTEs	1,271	15%	23%	21%	21%	54%	35%	12%
500 to 999 FTEs	355	18%	17%	14%	21%	45%	37%	15%
1,000 or more FTEs	521	19%	17%	16%	31%	45%	40%	11%

Top HR priorities

Category	Base	Attracting talent	Retaining talent	Ensuring employee safety	Improving employee health and wellbeing	Controlling employee benefit costs
ALL	3,011	41%	62%	10%	22%	28%
North Central	1,127	42%	65%	9%	21%	29%
Northeast	431	44%	61%	5%	26%	30%
South Central	579	42%	62%	13%	19%	31%
Southeast	373	43%	62%	8%	25%	27%
West	501	36%	58%	12%	23%	24%
For Profit	1,733	38%	59%	13%	20%	29%
Nonprofit	1,246	46%	66%	5%	25%	28%
Under 100 FTEs	827	34%	60%	11%	18%	25%
100 to 499 FTEs	1,280	40%	64%	10%	22%	28%
500 to 999 FTEs	355	45%	59%	8%	25%	29%
1,000 or more FTEs	536	52%	63%	7%	28%	33%

Top HR priorities (cont.)

Category	Base	Controlling salary and wage costs	Creating a strong culture	Increasing workforce engagement and productivity	Keeping remote employees connected	Increasing workforce inclusion and diversity	Training and developing employees	Managing risk and regulatory demands
ALL	3,011	12%	35%	29%	4%	9%	40%	6%
North Central	1,127	11%	35%	28%	3%	9%	39%	5%
Northeast	431	11%	34%	28%	7%	10%	37%	6%
South Central	579	16%	34%	28%	3%	7%	39%	5%
Southeast	373	10%	30%	28%	4%	9%	46%	6%
West	501	14%	39%	30%	4%	9%	43%	8%
For Profit	1,733	12%	35%	32%	4%	7%	43%	7%
Nonprofit	1,246	13%	34%	25%	3%	11%	37%	5%
Under 100 FTEs	827	13%	42%	31%	7%	7%	43%	7%
100 to 499 FTEs	1,280	13%	36%	27%	3%	9%	42%	5%
500 to 999 FTEs	355	12%	32%	29%	3%	10%	38%	8%
1,000 or more FTEs	536	11%	22%	28%	2%	12%	34%	5%

Approach to compensation planning

Category	Base	Year to year	Cycles of 1–2 years	Multi-year strategy
ALL	3,167	68%	18%	14%
North Central	1,102	69%	17%	14%
Northeast	492	65%	16%	19%
South Central	617	72%	17%	11%
Southeast	405	62%	22%	16%
West	551	68%	20%	13%
For Profit	1,814	72%	17%	12%
Nonprofit	1,296	63%	20%	18%
Under 100 FTEs	847	78%	15%	7%
100 to 499 FTEs	1,347	67%	19%	14%
500 to 999 FTEs	370	60%	20%	20%
1,000 or more FTEs	574	59%	20%	22%

Approach to employee benefits planning

Category	Base	Year to year	Cycles of 1–2 years	Multi-year strategy
ALL	3,241	64%	20%	16%
North Central	1,126	65%	19%	15%
Northeast	507	60%	16%	24%
South Central	633	69%	18%	13%
Southeast	412	58%	23%	19%
West	563	63%	23%	14%
For Profit	1,872	65%	19%	16%
Nonprofit	1,305	62%	21%	17%
Under 100 FTEs	858	81%	12%	7%
100 to 499 FTEs	1,379	66%	21%	13%
500 to 999 FTEs	381	51%	25%	24%
1,000 or more FTEs	593	43%	24%	33%

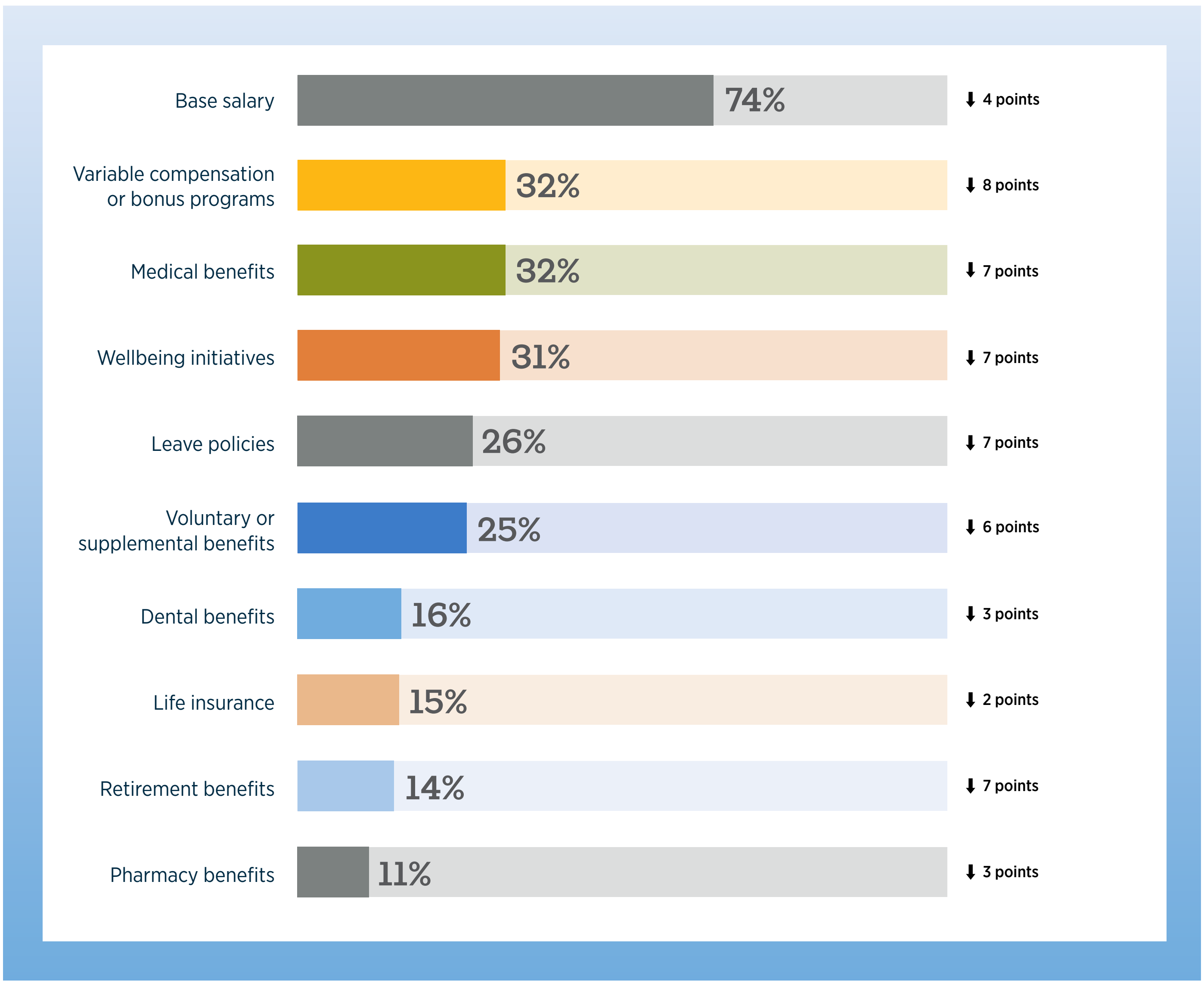
Revisiting employee wellbeing support to improve benefits management and costs

The quest for a more proactive and targeted approach to benefits may inadvertently complicate them. There's a need to consider how to meet employees' expectations and support their total wellbeing, while at the same time, improve both the management and costs of benefits. After a period of staying the course, many employers refreshed their total rewards during 2022 and 2023. And most are now pausing to reflect on these investments. They're reconsidering whether they offer the right mix of total rewards and if vendors are held accountable to deliver on the expectations they set.

Fewer employers enhanced their total rewards in 2024 compared to the year before, and this change affects all categories. In particular, this trend applies to variable compensation (down 8 points); medical and retirement benefits, wellbeing initiatives, and leave policies (down 7 points each); and voluntary or supplemental benefits (down 6 points).

Selective improvements to total rewards continue at a lower rate. By far, base salary increases are the most common, applied by nearly three-quarters (74%). About a third enhanced variable compensation (32%) and/or upgraded their medical benefits (32%) and wellbeing initiatives (31%). Other benefit categories that received a slight investment bump include leaves (26%), voluntary or supplemental (26%), dental (16%), life insurance (15%), retirement (14%), and pharmacy (11%).

TOTAL REWARDS ASPECTS ENHANCED TO MEET RECRUITMENT AND RETENTION OBJECTIVES — 2024 VS. 2023



Slower growth also occurred in the level of importance employers place on each aspect of employee wellbeing. Physical, emotional, career, and financial wellbeing each dropped 2–10 points in 2024. Yet emotional wellbeing, which saw the steepest decline, continues to be the dominant focus for 64% of employers. Interest in improving access to mental health resources, and their use, is grounded in the ability to promote social connectedness. Strong relationships and a sense of community at work can provide emotional support, reduce stress, and contribute to a sense of belonging. They also help to lower the risk of mental health issues and physical conditions, from anxiety and depression to heart disease.

Instead of declining in importance, wellbeing initiatives and programs are really just shifting their emphasis. Employers are considering the value that individual benefits provide, and their goal is to find an optimal balance between offering employees protection and personalization. Behind emotional wellbeing, the importance of financial wellbeing increased the most (47%), followed by physical (42%) and career (35%) aspects. Employers duty of care to employees is reflected in affordable and accessible benefit coverages, while greater choice allows each person to make a selection based on career stage and lifestyle.

Once wellbeing priorities are set, engagement and the intent to stay are driven by meaning and purpose in employee roles, long-term opportunities for career development, and the employer's ability to manage change. Intentional and iterative approaches — and more productive use of data and workforce input — can guide decisions that are refined and verified by first-hand experience.

Total rewards enhanced for 2024 to support employee recruitment and retention

Category	Base	Base salary	Variable compensation or bonus programs	Medical benefits	Pharmacy benefits	Dental benefits
ALL	2,314	74%	32%	32%	11%	16%
North Central	888	75%	30%	29%	11%	16%
Northeast	336	71%	30%	33%	11%	16%
South Central	446	72%	34%	37%	14%	18%
Southeast	280	70%	38%	31%	11%	13%
West	364	76%	32%	33%	8%	18%
For Profit	1,311	69%	37%	34%	11%	17%
Nonprofit	959	80%	25%	29%	11%	16%
Under 100 FTEs	600	79%	33%	33%	9%	18%
100 to 499 FTEs	1,008	75%	32%	33%	11%	16%
500 to 999 FTEs	272	70%	31%	34%	13%	17%
1,000 or more FTEs	408	65%	32%	28%	14%	15%

Category	Base	Wellbeing initiatives	Voluntary or supplemental benefits	Life insurance	Leave policies	Retirement benefits
ALL	2,314	31%	25%	15%	26%	14%
North Central	888	31%	23%	11%	25%	13%
Northeast	336	33%	27%	15%	27%	16%
South Central	446	29%	25%	17%	28%	16%
Southeast	280	32%	23%	16%	25%	14%
West	364	30%	27%	19%	23%	15%
For Profit	1,311	30%	26%	16%	27%	15%
Nonprofit	959	31%	22%	13%	24%	14%
Under 100 FTEs	600	20%	18%	18%	23%	15%
100 to 499 FTEs	1,008	30%	24%	14%	27%	15%
500 to 999 FTEs	272	36%	27%	14%	25%	13%
1,000 or more FTEs	408	43%	34%	13%	26%	14%

Wellbeing dimensions that have become more important to the organization in 2024

Category	Base	Physical	Financial	Career	Emotional	None
ALL	1,501	42%	47%	35%	64%	12%
North Central	582	41%	47%	32%	64%	12%
Northeast	204	46%	51%	47%	67%	8%
South Central	286	38%	41%	33%	59%	13%
Southeast	206	46%	48%	34%	67%	12%
West	223	42%	48%	37%	66%	15%
For Profit	799	44%	49%	38%	61%	11%
Nonprofit	676	39%	43%	31%	67%	13%
Under 100 FTEs	212	33%	38%	38%	54%	17%
100 to 499 FTEs	655	42%	46%	38%	63%	13%
500 to 999 FTEs	236	44%	49%	33%	64%	11%
1,000 or more FTEs	383	46%	51%	31%	71%	8%

TECHNOLOGY & INNOVATION INSIGHT

Support for employee financial stability has revolved around healthcare coverage and retirement contributions for many years. Separately, these benefits often go a long way toward meeting needs and realizing goals, but the spending and savings decisions that participants need to make don't automatically intersect. As an evolutionary change maker, artificial intelligence (AI) empowers a more integrated and holistic approach. Key examples are connecting the value of a health savings account to retirement targets, and clarifying the relationship between health plan selection and the ability to make 401(k) contributions.

HR TECHNOLOGY

Optimizing digital technology to deliver the best possible ROI

The latest generation of HR technology builds on automation-based efficiencies. Key capabilities include enhancing employee engagement through personalized communication, recognition, and performance management, and providing professional development support. Half of employers (50%) plan to upgrade their current HR tech (17%), add new solutions (14%), or both (19%) by 2026. AI adjustments and other tech developments may have temporarily sidelined this focus for the rest (49%), who don't plan to take any action (up 4 points).

Multiple HR tech strategies (38%) or one that supports the people strategy (27%) are the two most common choices among employers. Another 19% don't have a plan, possibly due to industry dynamics or leadership priorities, and just 16% rely on a comprehensive strategy that's aligned with organizational strategies.

Topmost among several motivators, increasing efficiency through process automation is the key reason for HR solution investments (89%). A popular efficiency feature of this capability is enabling self-service for all. Other employer priorities include complying with regulations (51%), supporting the people strategy (47%), and meeting the expectations of employees (46%) or leadership (38%). Improving employee productivity (34%) and organizational wellbeing (31%) follow.

1 in 2

Plan to upgrade and/or add HR technology solutions by 2026

Optimizing HR technology makes the most of these significant investments. More than 3 in 4 employers (77%) take one or more approaches, such as evaluating how well solutions meet their needs on a regular basis (59%). Keeping current with market trends is also important to many (43%). In practice, this involves actively seeking information through industry publications and conferences, engaging with vendors and consultants, and benchmarking with peers.

Some employers apply formal processes including overseeing vendor relationships (16%), establishing an internal committee that governs the HR technology strategy (12%), and completing and monitoring new software releases (11%). About a quarter (23%) don't take a structured approach to assessing and optimizing outcomes, a segment that typically consists of more small organizations than larger ones.

TECHNOLOGY & INNOVATION INSIGHT

Used in conjunction with human interaction and appropriately managed, AI can be a real boon to employee engagement efforts and outcomes. This technology has the capacity to deliver personalized experiences, such as guidance on benefits or career development, based on an analysis of individual data and preferences. And in the aggregate, its ability to assess employee sentiment offers insight about workforce satisfaction and engagement levels, helping to identify areas of concern. AI can also peer into the future. Predictive analysis makes it possible to study large volumes of data, allowing patterns and trends in employee behavior, such as attrition, to be identified early on.

Expected changes to HR technology solutions by 2026

Category	Base	Upgrade existing solutions	Add new solutions	Both	Neither
ALL	2,997	17%	14%	19%	49%
North Central	1,129	18%	15%	16%	51%
Northeast	413	18%	16%	22%	44%
South Central	582	18%	13%	20%	50%
Southeast	372	17%	15%	20%	48%
West	501	16%	15%	23%	47%
For Profit	1,731	16%	16%	18%	50%
Nonprofit	1,234	19%	13%	21%	47%
Under 100 FTEs	831	13%	13%	13%	61%
100 to 499 FTEs	1,265	17%	16%	20%	47%
500 to 999 FTEs	348	20%	13%	26%	42%
1,000 or more FTEs	536	24%	14%	23%	38%

Strategic approach to HR technology

Category	Base	Don't have an HR technology strategy	Have some HR technology strategies	Have an HR technology strategy that supports the people strategy	Have a comprehensive HR technology strategy that aligns with organizational strategies
ALL	3,298	19%	38%	27%	16%
North Central	1,152	22%	37%	26%	14%
Northeast	506	19%	39%	29%	13%
South Central	646	18%	38%	23%	21%
Southeast	418	11%	38%	32%	19%
West	576	18%	40%	25%	17%
For Profit	1,923	17%	37%	29%	17%
Nonprofit	1,345	21%	40%	23%	16%
Under 100 FTEs	912	34%	39%	18%	9%
100 to 499 FTEs	1,394	14%	40%	29%	17%
500 to 999 FTEs	389	11%	37%	30%	22%
1,000 or more FTEs	589	10%	34%	31%	25%

Top reasons for investing in HR technology

Category	Base	Meet employee expectations	Meet leadership expectations	Automate processes to increase HR efficiency	Increase employee productivity	Comply with regulations
ALL	2,374	46%	38%	89%	34%	51%
North Central	863	47%	36%	90%	35%	47%
Northeast	324	43%	37%	90%	34%	48%
South Central	467	48%	42%	87%	33%	55%
Southeast	324	46%	38%	91%	34%	52%
West	396	43%	35%	89%	34%	55%
For Profit	1,399	43%	37%	89%	33%	52%
Nonprofit	957	50%	38%	89%	36%	49%
Under 100 FTEs	526	42%	32%	83%	29%	52%
100 to 499 FTEs	1,059	46%	36%	90%	33%	51%
500 to 999 FTEs	309	50%	43%	91%	37%	49%
1,000 or more FTEs	470	48%	44%	93%	41%	50%

Top reasons for investing in HR technology (cont.)

Category	Base	Gain a competitive advantage in attracting and retaining talent	Improve organizational wellbeing	Manage and invest in employees more strategically	Support the organization's people strategy
ALL	2,374	30%	31%	41%	47%
North Central	863	30%	32%	42%	46%
Northeast	324	30%	28%	40%	48%
South Central	467	34%	35%	45%	46%
Southeast	324	31%	29%	41%	50%
West	396	24%	31%	36%	45%
For Profit	1,399	29%	29%	44%	50%
Nonprofit	957	32%	34%	37%	43%
Under 100 FTEs	526	24%	32%	38%	40%
100 to 499 FTEs	1,059	33%	33%	42%	47%
500 to 999 FTEs	309	30%	31%	40%	51%
1,000 or more FTEs	470	32%	27%	43%	52%

Actions taken to optimize the organization's HR technology investment

Category	Base	Regularly evaluate the ability of HR technology solutions to meet current needs	Formally govern HR technology vendor relationships	Stay current on HR technology market trends
ALL	2,327	59%	16%	43%
North Central	849	58%	15%	43%
Northeast	320	58%	18%	43%
South Central	456	60%	16%	44%
Southeast	319	63%	17%	45%
West	383	58%	17%	42%
For Profit	1,371	60%	17%	45%
Nonprofit	939	58%	16%	41%
Under 100 FTEs	523	45%	11%	36%
100 to 499 FTEs	1,042	62%	15%	45%
500 to 999 FTEs	303	61%	18%	44%
1,000 or more FTEs	449	68%	24%	46%

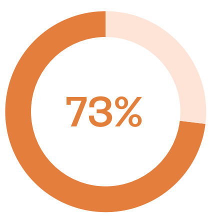
Category	Base	Conduct periodic reviews of HR technology by the internal governance committee	Apply a formal process to successfully complete and monitor software releases	Don't currently have a process for optimization
ALL	2,327	12%	11%	23%
North Central	849	12%	11%	26%
Northeast	320	14%	10%	24%
South Central	456	10%	11%	21%
Southeast	319	12%	13%	18%
West	383	11%	12%	24%
For Profit	1,371	12%	11%	22%
Nonprofit	939	12%	12%	24%
Under 100 FTEs	523	6%	5%	36%
100 to 499 FTEs	1,042	10%	7%	21%
500 to 999 FTEs	303	11%	18%	20%
1,000 or more FTEs	449	23%	25%	13%

HEALTHCARE COSTS & CONTROLS

Responding to transformative but costly healthcare trends with a measured approach

Healthcare expenses are a perennial challenge. Concerns about managing pharmacy benefits are rising alongside the emergence of high-priced weight loss medications as well as other cell and gene therapies. With transformative new medical advances becoming the norm, exploring how to provide access while controlling expenses may be the better approach to a more viable and sustainable solution.

Nearly 3 in 4 employers (73%) believe their healthcare costs will likely rise in 2024, and most expect them to be moderate (64%) rather than significant (9%). Only 13% believe spending will stay about the same, while relatively few predict a moderate (7%) or significant (1%) decline. Controlling employee benefit costs increased as top priorities for operations (19%, up 4 points) and HR (28%, up 7 points) after hitting a multi-year low the year before.



Expect healthcare costs to rise in 2024

Evaluating and optimizing benefits, as well as effectively communicating their value, promotes stronger total rewards engagement. These actions support improved health outcomes, workforce satisfaction, and cost savings for employees as well as the organization.

It starts with an inventory. When employers identify benefits that no longer provide significant value, phasing them out or replacing them with more relevant options allows for cost neutrality. Funds reallocated to more important benefits can better address the changing needs of employees.

Ongoing communication is crucial to total rewards awareness and engagement because employees may not fully understand what they offer. But familiarizing them with the purpose of each benefit helps guide appropriate use — and increases appreciation for the value they can provide. Certain options such as preventive care coverage and disease management programs also help to offset costs, avoiding unnecessary expenses while improving overall employee health.

Contract terms with pharmacy benefit managers can heavily influence financial results for employers. To minimize expenses, it's important to closely examine non-financial terms such as definitions, market check language, and drugs excluded from rebates or minimum rebate guarantees. Other coverage requirements should also be scrutinized, such as the location of the healthcare delivery organization designated as the center of excellence for each therapy. Careful review of all proposed contract terms by a pharmacy benefit consultant can help protect the organization's interests.

The median health plan premium increase at the most recent renewal was 5%–5.9% in 2024. Lower cost-of-care settings, virtual care delivery, and biosimilars have the potential to help manage costs. However, multiple rounds of medical cost inflation and a rising trend for pharmacy are anticipated, which would continue to put pressure on healthcare expenses.

5%–5.9% Median health plan premium increase at the most recent renewal

The midpoint for average annual dollars spent on benefits per eligible employee reached $11,000–$11,999 in 2024, up from $10,000–$10,999 in 2023. This increase is reflected at each end of the cost spectrum, with amounts of less than $6,000 set by 17% (down 3 points) and $21,000 or more set by 19% (up 3 points). The median spend on benefits remains at 20%–21.9%, but benefit costs as a percentage of total compensation have increased for 41% and decreased for just 3% since 2022. Median compensation and benefits spending as a percentage of total operating revenue is 30%–34.9%, up from 25%–29.9%.

2024 MEDIAN COMPENSATION AND BENEFIT COSTS

$11,000–$11,999	Annual dollars spent on paid benefits per eligible employee
20%–21.9%	Benefits as a percentage of total compensation
30%–21.9%	Compensation and benefits as a percentage of total operating revenue

TOP HEALTHCARE COST-MANAGEMENT CHALLENGES

1. High cost of medical services
2. High cost of specialty drugs
3. Unhealthy covered population (employees and dependents)

A recent actuarial consensus forecasts cost trends of 6.2%–7.7% for medical and 8.6%–10.5% for pharmacy in 2024, depending on the plan member's cost-sharing level. Combined medical and pharmacy projections are 6.8%–8.5%, up from 6.3%–7.9% last year. Dental and vision annual trends are projected at 4% each.[5]

Commonly stubborn healthcare expense issues include the high costs of medical services (68%) and specialty drugs (44%). One maneuver that's increasingly used to slow the pace of climbing specialty prices is adding cost-containment measures to the prescription drug plan. Examples are formulary exclusions and mandatory generics.

Lesser but notable concerns also compromise affordability, including unhealthy covered populations (37%, up 4 points) and the high cost of non-specialty prescription drugs (36%, up 5 points). Population issues often arise with chronic conditions and lifestyle habits that pose a health risk to employees and dependents.

Expected change in 2024 healthcare costs compared to 2023

Category	Base	Significantly higher	Somewhat higher	No difference	Somewhat lower	Significantly lower	Don't know
ALL	2,801	9%	64%	13%	7%	1%	6%
North Central	1,061	8%	65%	13%	8%	1%	5%
Northeast	374	10%	66%	11%	6%	0%	6%
South Central	550	8%	63%	13%	8%	1%	7%
Southeast	347	8%	59%	16%	7%	1%	9%
West	469	10%	66%	12%	6%	1%	6%
For Profit	1,633	8%	63%	14%	8%	1%	6%
Nonprofit	1,111	11%	65%	11%	6%	1%	6%
Under 100 FTEs	708	11%	60%	14%	6%	1%	8%
100 to 499 FTEs	1,202	9%	61%	15%	7%	1%	6%
500 to 999 FTEs	338	8%	68%	9%	9%	1%	5%
1,000 or more FTEs	524	6%	73%	10%	7%	0%	4%

Top operational priorities

Category	Base	Attracting talent	Retaining talent	Ensuring employee safety	Improving employee health and wellbeing	Controlling employee benefit costs
ALL	2,992	27%	45%	13%	13%	19%
North Central	1,120	28%	48%	12%	11%	20%
Northeast	427	30%	46%	9%	15%	19%
South Central	575	24%	41%	17%	10%	21%
Southeast	367	28%	42%	12%	13%	17%
West	503	26%	42%	14%	17%	17%
For Profit	1,725	22%	38%	15%	9%	14%
Nonprofit	1,236	34%	54%	10%	18%	26%
Under 100 FTEs	830	22%	44%	11%	11%	17%
100 to 499 FTEs	1,271	27%	45%	14%	12%	20%
500 to 999 FTEs	355	30%	48%	15%	15%	23%
1,000 or more FTEs	521	32%	43%	12%	15%	17%

Category	Base	Increasing innovation	Ensuring business continuity	Maintaining profit margins	Maintaining or growing market share	Growing revenue or sales	Maintaining or decreasing overall operating costs	Managing risk and regulatory demands
ALL	2,992	17%	24%	19%	22%	52%	35%	12%
North Central	1,120	17%	23%	18%	22%	52%	35%	11%
Northeast	427	20%	23%	15%	23%	50%	35%	11%
South Central	575	15%	23%	21%	22%	52%	38%	13%
Southeast	367	16%	29%	25%	22%	49%	35%	11%
West	503	15%	24%	21%	23%	56%	31%	12%
For Profit	1,725	16%	22%	26%	28%	67%	34%	9%
Nonprofit	1,236	17%	26%	10%	14%	32%	38%	17%
Under 100 FTEs	830	18%	32%	21%	19%	58%	32%	12%
100 to 499 FTEs	1,271	15%	23%	21%	21%	54%	35%	12%
500 to 999 FTEs	355	18%	17%	14%	21%	45%	37%	15%
1,000 or more FTEs	521	19%	17%	16%	31%	45%	40%	11%

Top HR priorities

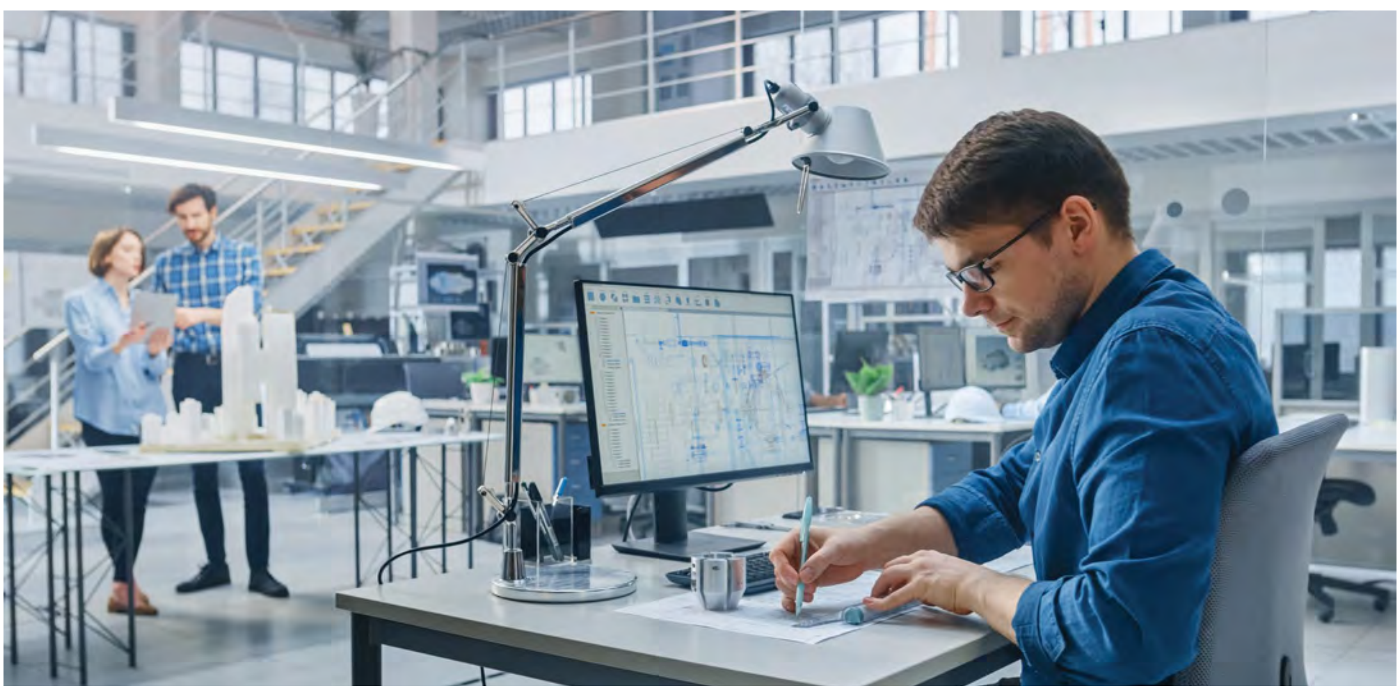
Category	Base	Attracting talent	Retaining talent	Ensuring employee safety	Improving employee health and wellbeing	Controlling employee benefit costs
ALL	3,011	41%	62%	10%	22%	28%
North Central	1,127	42%	65%	9%	21%	29%
Northeast	431	44%	61%	5%	26%	30%
South Central	579	42%	62%	13%	19%	31%
Southeast	373	43%	62%	8%	25%	27%
West	501	36%	58%	12%	23%	24%
For Profit	1,733	38%	59%	13%	20%	29%
Nonprofit	1,246	46%	66%	5%	25%	28%
Under 100 FTEs	827	34%	60%	11%	18%	25%
100 to 499 FTEs	1,280	40%	64%	10%	22%	28%
500 to 999 FTEs	355	45%	59%	8%	25%	29%
1,000 or more FTEs	536	52%	63%	7%	28%	33%

Category	Base	Controlling salary and wage costs	Creating a strong culture	Increasing workforce engagement and productivity	Keeping remote employees connected	Increasing workforce inclusion and diversity	Training and developing employees	Managing risk and regulatory demands
ALL	3,011	12%	35%	29%	4%	9%	40%	6%
North Central	1,127	11%	35%	28%	3%	9%	39%	5%
Northeast	431	11%	34%	28%	7%	10%	37%	6%
South Central	579	16%	34%	28%	3%	7%	39%	5%
Southeast	373	10%	30%	28%	4%	9%	46%	6%
West	501	14%	39%	30%	4%	9%	43%	8%
For Profit	1,733	12%	35%	32%	4%	7%	43%	7%
Nonprofit	1,246	13%	34%	25%	3%	11%	37%	5%
Under 100 FTEs	827	13%	42%	31%	7%	7%	43%	7%
100 to 499 FTEs	1,280	13%	36%	27%	3%	9%	42%	5%
500 to 999 FTEs	355	12%	32%	29%	3%	10%	38%	8%
1,000 or more FTEs	536	11%	22%	28%	2%	12%	34%	5%

Increase in the health plan premium at the most recent renewal (final %)

Category	Base	Decreased	0%–0.9%	1%–1.9%	2%–2.9%	3%–3.9%	4%–4.9%	5%–5.9%	6%–6.9%	7%–7.9%
ALL	2,920	8%	13%	4%	5%	8%	8%	10%	6%	6%
North Central	1,040	8%	11%	5%	6%	8%	8%	10%	6%	7%
Northeast	413	6%	12%	4%	5%	8%	11%	10%	5%	8%
South Central	577	9%	19%	4%	5%	7%	6%	10%	5%	5%
Southeast	380	10%	11%	4%	6%	9%	8%	11%	4%	6%
West	510	5%	10%	2%	4%	7%	7%	9%	9%	6%
For Profit	1,702	8%	12%	4%	5%	7%	8%	10%	6%	6%
Nonprofit	1,125	7%	13%	4%	6%	8%	6%	10%	6%	7%
Under 100 FTEs	747	9%	11%	3%	4%	8%	8%	7%	4%	6%
100 to 499 FTEs	1,274	8%	13%	5%	6%	7%	6%	9%	6%	5%
500 to 999 FTEs	348	6%	11%	5%	6%	9%	7%	12%	6%	8%
1,000 or more FTEs	516	4%	15%	2%	6%	8%	10%	13%	8%	7%

Category	Base	8%–8.9%	9%–9.9%	10%–10.9%	11%–11.9%	12%–12.9%	13%–13.9%	14%–14.9%	15% or more
ALL	2,920	6%	5%	6%	2%	3%	2%	2%	9%
North Central	1,040	5%	5%	6%	3%	2%	2%	2%	9%
Northeast	413	6%	4%	5%	2%	2%	1%	2%	8%
South Central	577	5%	5%	6%	2%	3%	1%	2%	8%
Southeast	380	7%	3%	5%	1%	2%	2%	2%	11%
West	510	7%	7%	7%	3%	4%	3%	2%	9%
For Profit	1,702	5%	5%	6%	2%	3%	2%	2%	8%
Nonprofit	1,125	6%	5%	6%	2%	2%	2%	2%	10%
Under 100 FTEs	747	5%	6%	7%	3%	3%	2%	2%	9%
100 to 499 FTEs	1,274	6%	5%	5%	2%	3%	1%	2%	10%
500 to 999 FTEs	348	6%	4%	7%	2%	2%	2%	1%	8%
1,000 or more FTEs	516	5%	3%	4%	2%	2%	2%	2%	6%



Average annual cost of employer-paid benefits per eligible employee

Category	Base	Less than $5,000	$5,000–$5,999	$6,000–$6,999	$7,000–$7,999	$8,000–$8,999	$9,000–$9,999	$10,000–$10,999	$11,000–$11,999
ALL	1,967	11%	6%	5%	5%	6%	5%	9%	4%
North Central	743	10%	5%	5%	5%	6%	5%	9%	4%
Northeast	263	9%	6%	2%	2%	7%	4%	8%	2%
South Central	391	14%	7%	6%	6%	5%	5%	9%	3%
Southeast	248	10%	7%	8%	4%	7%	4%	11%	5%
West	322	13%	5%	5%	4%	4%	6%	9%	4%
For Profit	1,115	12%	6%	5%	4%	7%	5%	10%	4%
Nonprofit	825	9%	6%	4%	5%	4%	5%	8%	4%
Under 100 FTEs	562	15%	7%	7%	5%	6%	6%	9%	2%
100 to 499 FTEs	820	10%	7%	4%	4%	6%	5%	9%	4%
500 to 999 FTEs	235	6%	6%	5%	6%	6%	3%	11%	3%
1,000 or more FTEs	334	9%	3%	3%	3%	6%	6%	9%	7%

Category	Base	$12,000–$12,999	$13,000–$13,999	$14,000–$14,999	$15,000–$16,999	$17,000–$18,999	$19,000–$20,999	$21,000–$22,999	$23,000–$24,999	$25,000 or more
ALL	1,967	6%	4%	4%	8%	4%	5%	3%	2%	14%
North Central	743	7%	4%	5%	7%	5%	5%	2%	3%	13%
Northeast	263	5%	6%	6%	6%	5%	6%	5%	3%	18%
South Central	391	6%	4%	2%	8%	4%	4%	3%	3%	12%
Southeast	248	2%	2%	4%	14%	3%	4%	2%	2%	11%
West	322	7%	3%	3%	7%	4%	7%	3%	1%	15%
For Profit	1,115	6%	4%	4%	8%	4%	4%	2%	2%	12%
Nonprofit	825	7%	3%	4%	8%	5%	6%	3%	2%	16%
Under 100 FTEs	562	8%	2%	4%	6%	3%	4%	2%	2%	11%
100 to 499 FTEs	820	5%	5%	4%	8%	4%	5%	3%	3%	16%
500 to 999 FTEs	235	6%	5%	5%	9%	6%	6%	4%	2%	13%
1,000 or more FTEs	334	5%	3%	3%	10%	7%	5%	3%	2%	14%

Total cost of employer-paid benefits as a percentage of total compensation and benefits

Category	Base	Less than 5%	5%–9.9%	10%–11.9%	12%–13.9%	14%–15.9%	16%–17.9%	18%–19.9%	20%–21.9%
ALL	1,583	6%	11%	9%	5%	7%	4%	4%	8%
North Central	589	6%	9%	9%	5%	8%	5%	4%	8%
Northeast	210	2%	9%	9%	4%	8%	7%	5%	10%
South Central	330	6%	15%	8%	7%	7%	4%	4%	8%
Southeast	192	5%	9%	10%	5%	7%	3%	4%	8%
West	262	8%	15%	8%	5%	6%	3%	5%	9%
For Profit	847	7%	16%	11%	5%	8%	4%	4%	9%
Nonprofit	719	4%	6%	7%	5%	7%	5%	4%	8%
Under 100 FTEs	462	13%	13%	11%	8%	6%	5%	5%	10%
100 to 499 FTEs	653	3%	12%	8%	4%	8%	4%	5%	7%
500 to 999 FTEs	185	3%	9%	6%	6%	7%	3%	4%	9%
1,000 or more FTEs	273	4%	9%	7%	3%	7%	4%	3%	10%

Category	Base	22%–23.9%	24%–25.9%	26%–27.9%	28%–29.9%	30%–31.9%	32%–33.9%	34%–35.9%	36%–37.9%
ALL	1,583	4%	7%	3%	3%	8%	3%	3%	1%
North Central	589	4%	6%	3%	3%	9%	3%	3%	1%
Northeast	210	7%	8%	4%	3%	8%	4%	2%	0%
South Central	330	4%	9%	4%	1%	6%	1%	2%	1%
Southeast	192	3%	7%	2%	5%	8%	3%	5%	2%
West	262	4%	6%	1%	3%	6%	4%	2%	2%
For Profit	847	3%	6%	2%	2%	7%	2%	2%	1%
Nonprofit	719	6%	9%	4%	3%	8%	4%	3%	1%
Under 100 FTEs	462	2%	4%	2%	2%	4%	2%	2%	1%
100 to 499 FTEs	653	7%	8%	3%	2%	7%	3%	3%	1%
500 to 999 FTEs	185	3%	10%	5%	4%	12%	4%	2%	1%
1,000 or more FTEs	273	4%	9%	4%	5%	12%	3%	4%	1%

Category	Base	38%–39.9%	40%–41.9%	42%–43.9%	44%–45.9%	46%–47.9%	48%–49.9%	50% or more
ALL	1,583	1%	2%	1%	1%	0%	1%	8%
North Central	589	1%	2%	1%	1%	0%	1%	6%
Northeast	210	1%	1%	0%	1%	0%	0%	9%
South Central	330	1%	2%	0%	1%	1%	1%	8%
Southeast	192	1%	2%	1%	1%	0%	1%	9%
West	262	1%	3%	0%	0%	0%	1%	8%
For Profit	847	1%	2%	1%	0%	0%	0%	7%
Nonprofit	719	1%	3%	1%	1%	0%	1%	8%
Under 100 FTEs	462	0%	1%	0%	0%	0%	1%	8%
100 to 499 FTEs	653	1%	3%	1%	1%	0%	1%	8%
500 to 999 FTEs	185	3%	2%	1%	1%	1%	1%	7%
1,000 or more FTEs	273	1%	2%	0%	0%	0%	0%	6%

Change in the total cost of employer-paid benefits since 2022 as a percentage of total compensation and benefits

Category	Base	Decreased	Stayed about the same	Increased	Don't know
ALL	2,392	3%	39%	41%	17%
North Central	905	3%	38%	42%	17%
Northeast	326	4%	41%	41%	15%
South Central	471	3%	41%	38%	18%
Southeast	292	2%	41%	41%	16%
West	398	3%	35%	43%	18%
For Profit	1,368	3%	38%	40%	20%
Nonprofit	990	2%	41%	43%	13%
Under 100 FTEs	648	4%	38%	42%	17%
100 to 499 FTEs	1,018	3%	37%	43%	16%
500 to 999 FTEs	282	2%	42%	41%	14%
1,000 or more FTEs	421	2%	43%	33%	21%

Total cost of compensation and benefits as a percentage of total operating revenue

Category	Base	Less than 5%	5%–9.9%	10%–14.9%	15%–19.9%	20%–24.9%	25%–29.9%	30%–34.9%	35%–39.9%
ALL	1,513	6%	8%	9%	7%	8%	8%	9%	6%
North Central	576	6%	8%	9%	5%	6%	7%	9%	6%
Northeast	193	6%	6%	10%	8%	7%	11%	9%	7%
South Central	309	6%	7%	7%	8%	8%	8%	10%	6%
Southeast	187	4%	10%	8%	6%	11%	7%	11%	8%
West	248	8%	8%	9%	8%	10%	7%	7%	6%
For Profit	804	7%	10%	12%	9%	8%	8%	11%	7%
Nonprofit	694	4%	5%	5%	4%	7%	8%	7%	5%
Under 100 FTEs	458	10%	10%	9%	8%	7%	7%	8%	6%
100 to 499 FTEs	633	4%	8%	8%	7%	9%	8%	10%	6%
500 to 999 FTEs	168	1%	6%	8%	4%	9%	8%	10%	9%
1,000 or more FTEs	243	5%	4%	10%	7%	7%	7%	9%	6%

Category	Base	40%–44.9%	45%–49.9%	50%–54.9%	55%–59.9%	60%–64.9%	65%–69.9%	70%–74.9%	75%–79.9%	80% or more
ALL	1,513	6%	4%	7%	4%	4%	4%	4%	3%	4%
North Central	576	7%	3%	7%	3%	5%	5%	4%	3%	6%
Northeast	193	5%	4%	3%	3%	5%	3%	8%	4%	3%
South Central	309	6%	4%	9%	6%	5%	2%	3%	2%	2%
Southeast	187	3%	4%	7%	5%	2%	5%	3%	3%	4%
West	248	6%	5%	5%	4%	4%	5%	2%	2%	5%
For Profit	804	5%	3%	5%	2%	3%	3%	3%	2%	2%
Nonprofit	694	6%	5%	9%	6%	6%	5%	5%	4%	7%
Under 100 FTEs	458	5%	3%	5%	3%	4%	4%	4%	3%	3%
100 to 499 FTEs	633	6%	4%	6%	4%	4%	4%	3%	3%	5%
500 to 999 FTEs	168	4%	4%	9%	6%	5%	5%	7%	2%	4%
1,000 or more FTEs	243	7%	4%	10%	4%	6%	5%	3%	2%	4%

Top challenges of healthcare cost management

Category	Base	Unhealthy covered population (employees and dependents)	High cost of medical services	High cost of prescription drugs (non-specialty)
ALL	2,975	37%	68%	36%
North Central	1,070	41%	68%	37%
Northeast	455	32%	72%	37%
South Central	584	38%	67%	41%
Southeast	380	39%	67%	32%
West	486	33%	66%	31%
For Profit	1,723	37%	68%	34%
Nonprofit	1,203	38%	68%	39%
Under 100 FTEs	739	27%	71%	31%
100 to 499 FTEs	1,278	38%	68%	38%
500 to 999 FTEs	368	42%	67%	36%
1,000 or more FTEs	565	48%	65%	38%

Category	Base	High cost of specialty drugs	Lack of employee selection of the most cost-effective health options (network providers, generic drugs, etc.)	Lack of transparent hospital and physician pricing
ALL	2,975	44%	19%	14%
North Central	1,070	44%	21%	15%
Northeast	455	42%	14%	12%
South Central	584	49%	20%	12%
Southeast	380	46%	17%	16%
West	486	40%	19%	16%
For Profit	1,723	43%	20%	16%
Nonprofit	1,203	46%	17%	12%
Under 100 FTEs	739	24%	15%	18%
100 to 499 FTEs	1,278	44%	20%	14%
500 to 999 FTEs	368	54%	20%	12%
1,000 or more FTEs	565	64%	20%	12%

Category	Base	Reluctance of senior management to take bold cost-management actions	Need for high-cost benefit plans to attract and retain top talent	Lack of data-driven insights to help identify needed benefit changes	Other
ALL	2,975	5%	17%	20%	11%
North Central	1,070	4%	15%	18%	10%
Northeast	455	12%	21%	22%	10%
South Central	584	4%	15%	16%	11%
Southeast	380	4%	17%	23%	12%
West	486	5%	20%	23%	12%
For Profit	1,723	5%	18%	21%	10%
Nonprofit	1,203	6%	16%	18%	11%
Under 100 FTEs	739	4%	23%	26%	15%
100 to 499 FTEs	1,278	6%	16%	19%	11%
500 to 999 FTEs	368	5%	16%	17%	8%
1,000 or more FTEs	565	6%	12%	15%	6%

Minimizing the need for cost sharing with value-focused options and other tactics

As healthcare cost concerns grow, the use of cost-control tactics rises. Cost sharing and other proven solutions for steering employees toward optimal healthcare plan participation are still the most common. Interest centers on telemedicine in 2024 (70%, up 7 points). Cost-transparency tools also recorded a boost (31%, up 1 point), and healthcare decision support is provided by over a quarter (27%).

Some progress has been made toward implementing more innovative and value-focused options. While the use of narrow or high-performance provider networks declined (10%, down 2 points), care coordination and care navigation models gained a slightly higher following (9%, up 1 point). Part of the appeal is the potential to reduce employees' spending and support their emotional wellbeing, and in turn, increase provider and services use. Second-opinion services also rose (8%, up 2 points) and the rate of integrated health and disability management programs is unchanged (8%).

Audits present the opportunity to directly eliminate excess spending and improve transparency. Clarity about the value received for goods and services, cash flow, and profits is an operational necessity because it affects the ability to examine and audit contracts properly, including health plan information. Increasingly, employers conduct eligibility audits to monitor contract accuracy more closely, and avoid the potential for a significant cost impact (15%, up 1 point). This process establishes a clear basis for evaluation and generally provides thorough coverage at a relatively low cost. Improving transparency in the healthcare supply chain through claims audits also registered an uptick in 2024 (15%, up 2 points).

Employee contributions to healthcare premium costs are required at higher rates compared to 2022 (44%, up 7 points), and more employers increased cost share through plan design changes during that same two-year period (31%, up 3 points). Surcharges offer another option that directly and cost-efficiently lowers plan spending. In 2024, spouses with access to other coverage are more likely to incur an extra payment or be excluded from the health plan (15%). Separately, 13% of organizations stipulate a monthly surcharge for tobacco users. An opt-out credit for employees who waive coverage provides a cost-reduction alternative, but only 11% apply this approach.

Large employers are much more likely than their small cohorts to apply both standard and value-based cost controls, including 84% vs. 54% that use telemedicine. Size gaps are somewhat narrower for many other cost-control measures. Through incremental changes and more focused decisions, progress can be made toward optimized approaches that maximize the combined potential of solutions.

USE OF STANDARD COST CONTROLS — LARGE VS. SMALL EMPLOYERS

Large	METHOD	Small
84%	Telemedicine	54%
37%	Healthcare decision support	19%
33%	Plan eligibility audits	6%
30%	Claims audits	5%

USE OF VALUE-BASED COST CONTROLS — LARGE VS. SMALL EMPLOYERS

Large	METHOD	Small
19%	Care coordination or care navigation model	2%
17%	Narrow or high-performance provider networks	7%
15%	Second-opinion services	4%
11%	Integrated health and disability management programs	3%

Healthcare cost-control tactics used in 2024

Category	Base	Increase the employee contribution to premium costs	Increase employee cost share through medical plan design changes	Implement prescription drug plan design changes (formulary exclusions, mandatory generics, etc.)	Change plan carriers	Use narrow or high-performance provider networks
ALL	2,816	44%	31%	27%	30%	10%
North Central	1,018	49%	31%	28%	28%	11%
Northeast	395	42%	34%	23%	25%	7%
South Central	557	40%	29%	30%	34%	10%
Southeast	376	41%	29%	29%	27%	7%
West	470	41%	31%	22%	35%	13%
For Profit	1,669	45%	32%	26%	31%	9%
Nonprofit	1,097	42%	28%	29%	28%	13%
Under 100 FTEs	647	36%	24%	6%	41%	7%
100 to 499 FTEs	1,225	41%	30%	22%	31%	10%
500 to 999 FTEs	355	48%	33%	37%	22%	8%
1,000 or more FTEs	563	56%	39%	56%	20%	17%

Healthcare cost-control tactics used in 2024 (cont.)

Category	Base	Use reference-based pricing for healthcare services	Offer an onsite or near-site clinic or a direct primary care solution	Offer telemedicine	Provide employees with healthcare decision support	Provide employees with cost-transparency tools
ALL	2,816	4%	6%	70%	27%	31%
North Central	1,018	4%	6%	69%	28%	34%
Northeast	395	2%	3%	64%	26%	28%
South Central	557	5%	8%	70%	29%	29%
Southeast	376	4%	8%	80%	28%	31%
West	470	3%	4%	68%	24%	30%
For Profit	1,669	4%	4%	73%	29%	33%
Nonprofit	1,097	4%	8%	66%	24%	29%
Under 100 FTEs	647	2%	3%	54%	19%	22%
100 to 499 FTEs	1,225	4%	5%	70%	26%	32%
500 to 999 FTEs	355	3%	8%	77%	27%	30%
1,000 or more FTEs	563	5%	11%	84%	37%	42%

Category	Base	Provide wellbeing incentives	Implement enhanced mental and behavioral health programming	Integrate health and disability management programs	Apply a care coordination or care navigation model	Implement a surgical carve-out
ALL	2,816	44%	19%	8%	9%	2%
North Central	1,018	49%	20%	9%	8%	1%
Northeast	395	47%	19%	8%	9%	1%
South Central	557	40%	17%	7%	11%	3%
Southeast	376	44%	22%	9%	12%	3%
West	470	36%	20%	7%	7%	1%
For Profit	1,669	42%	18%	8%	9%	2%
Nonprofit	1,097	47%	21%	8%	9%	1%
Under 100 FTEs	647	30%	10%	3%	2%	0%
100 to 499 FTEs	1,225	44%	16%	8%	7%	1%
500 to 999 FTEs	355	50%	27%	10%	12%	1%
1,000 or more FTEs	563	56%	31%	11%	19%	6%

Category	Base	Perform eligibility audits	Perform claims audits	Offer second-opinion services	Provide nonsmokers a discount on premiums (smoker or tobacco surcharge)	Apply a surcharge or exclusion for spouses with access to other coverage	Offer an opt-out credit to employees who waive coverage
ALL	2,816	15%	15%	8%	13%	15%	11%
North Central	1,018	16%	13%	8%	16%	21%	14%
Northeast	395	13%	16%	7%	12%	14%	14%
South Central	557	15%	18%	10%	14%	12%	4%
Southeast	376	19%	16%	10%	19%	15%	6%
West	470	13%	13%	4%	4%	6%	13%
For Profit	1,669	14%	14%	8%	15%	16%	8%
Nonprofit	1,097	17%	16%	7%	12%	14%	16%
Under 100 FTEs	647	6%	5%	4%	4%	5%	10%
100 to 499 FTEs	1,225	11%	12%	6%	11%	12%	12%
500 to 999 FTEs	355	20%	16%	10%	14%	19%	11%
1,000 or more FTEs	563	33%	30%	15%	29%	29%	9%

Key Takeaways

Empowering HR to improve organizational outcomes enhances its role as a strategic collaborator. Working more closely with other departments contributes to operational efficiency, productivity gains, new solutions, and a competitive advantage. In combination with HR technology, AI is also helping to drive better decisions about people-focused digital solutions.

Keeping people connected through two-way communication strengthens culture. Strategic use of listening channels is becoming more important as employees' interest in sharing their perspectives and needs increases, but a higher volume of feedback can outpace the employer's ability to respond promptly. With the growing desire for person-to-person connections, delivery methods — including when, where, how, and how often an employee is messaged — must be carefully considered to maximize receptivity.

Focusing on benefits optimization supports a simpler total rewards approach. This helps employees to maximize the value of what they're offered. When they don't understand or don't use the full potential of their benefits, investments are likely to underperform expectations. Selectively paring back on the quantity makes room for more engaging choices that are a higher priority among the workforce. And raising awareness of improvements encourages access, appreciation, and use.

Setting the organization up for success is an ongoing process that starts early on. When leaders and managers realize how powerfully they affect the behavior of everyone around them, they understand the importance of their direct involvement in driving performance. A comprehensive and systematic approach to identifying, engaging, and developing leaders is needed. Once in place, training, acquiring role-specific skills and competencies, and succession planning can provide the right support structure. Forecasting workforce needs, with a view into potentially significant influences, is the place to start.

Embracing transformative trends helps to set the right course for the future. Organizations are focused on determining how to best apply AI and other technology to boost and simplify operational performance. Steps for optimization include strategizing, buying, implementing, improving, and paying the right amount for digital applications. Similarly, emerging specialty drugs and cell and gene therapies bring promising potential for innovative treatment while adding complexity. Solutions require patience and a renewed focus on healthcare cost management, such as reviewing contract language and exclusions, first-dollar coverage status, and the timing for coverage after therapy approval.

Modernizing goals for people and the organization drives performance. Goals need to be aligned with operational strategies, cultural aspirations, and the employee value proposition. They should also be championed by leadership and scalable across the organization. Consistent implementation and governance, enabled by digital technology, allows employees and organizations to step confidently into the future of work.

ENDNOTES

[1]McKinsey & Company, "Women in the Workplace 2023," October 2023

[2]Forbes, "5 Actions To Address Rising Productivity 'Rust-Out' Among The American Workforce," May 2023

[3]Gallagher, Organizational Wellbeing Poll: What's Hot in People and Benefits Planning, December 2023

[4]Fortune, "About 82% of employees are at risk of burnout this year — but only half of employers design work with well-being in mind," March 2024

[5]Gallagher actuarial consensus trend forecast, June 2023

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That's why every aspect of your benefits and compensation program needs to work in concert to promote overall employee wellbeing. Offering robust medical coverage and a competitive retirement plan isn't enough in today's hyper-competitive labor market.

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