Employee Benefits Report

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Volume 22 · Number 7

JULY 2024

Administration

Everything Employers Need to Know About Overtime Pay Rule Changes

The U.S. Department of Labor (DOL) recently implemented the first phase of a two-step update to overtime pay regulations under the Fair Labor Standards Act (FLSA) that will substantially impact American workplaces.

As of July 1, 2024, the standard salary threshold for white-collar overtime exemptions rose from $35,568 per year to $43,888 per year, or from $684 per week to $844 per week. It will rise again on January 1, 2025, to $58,656 per year or $1,128 per week. Employers have important decisions to make concerning compensation for currently exempt employees who fall below these new thresholds.

New Overtime Exemption Salary Levels

On April 23, 2024, the DOL published the final version of a rule change that had been proposed in early 2023. The first phase increased the weekly salary threshold for executive, administrative and professional employees to qualify for overtime exemption from $684 to $844 effective July 1, 2024. The second phase will further increase the threshold to $1,128 per week, or $58,656 per year, as of January 1, 2025.

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This Just In ...

Inflation Drives 2025 HSA Contribution Limits Up Again

As inflation continues, the IRS has announced higher health savings account (HSA) contribution limits for 2025. The boosted limits give employees more room to save and invest money for medical expenses tax-free.

2025 HSA Limits Jump Thanks to Inflation

For 2025, the HSA contribution limit for individual coverage will increase by 3.6% to $4,300, up from $4,150 in 2024. The family coverage contribution limit will go up 3% to $8,550 next year, an increase from $8,300.

While it's welcome news for savers, the 2025 hike is notably smaller than this year's nearly 7% inflation-fueled boost. Contribution limits have increased steadily in recent years as prices and wages grow.

HSA participation continues to expand across employer-sponsored health plans. Industry research shows account balances reached a record $123.3 billion in 2023, up 19% from the prior year. Experts say rising limits indicate strong and expanding interest in HSAs as a way to save for healthcare.

Additionally, the minimum annual compensation required to claim overtime exemption under the highly compensated employee provision will rise from $107,432 to $132,964 on July 1, 2024, and subsequently to $151,164 as of January 1, 2025.

Future Adjustments Planned

In an effort to avoid initiating extensive rulemaking processes for future updates, the 2024 overtime rule change also introduces automatic threshold adjustments every three years beginning July 1, 2027. The DOL will recalculate salary levels based on the most current wage data available at least 150 days before the update.

Impact on Employers

The DOL estimates that around 4 million currently exempt workers will lose overtime eligibility due to the phased salary threshold increases. Approximately 1 million of those 4 million employees crossed the line into nonexempt status when the initial increase took effect on July 1, 2024. The remaining 3 million exemptions will end upon implementation of the second phase of the new rule on January 1, 2025, if salaries do not change.

Employers have several options for managing the transition and maintaining compliance with FLSA regulations:

Increase Salaries to Retain Exemption Status

The most straightforward approach involves raising employees' salaries to meet or surpass the updated thresholds for their category of exemption. This approach minimizes disruption but also generates additional costs in higher pay and elevated benefits expenses tied to wages. Compressing existing salary structures can also create morale problems if long-term employees feel pay inequity relative to more recently hired staff earning similar amounts.

Convert to Nonexempt Status

Converting impacted employees to nonexempt status shifts them into overtime eligibility. The inherent opportunity for extra earnings offsets the general absence of a salary increase for the employees. However, fluctuating pay could make budgeting difficult depending on variability in overtime needs. These newly nonexempt personnel will also lose access to certain salaried benefits and perks.

When calculating new hourly rates for converted employees, the goal should be cost neutrality in either direction. If workers typically do not incur overtime, divide their current annual salary by 2,080 hours to generate an hourly rate targeting the same overall compensation for a 40-hour work week. For employees who regularly accrue overtime, the total annual hours method will estimate the total hours expected including overtime. Divide the salary by those anticipated total hours to produce an hourly rate covering that typical extra time.

Implement Fixed Salary Plus Overtime

Rather than transitioning affected workers all the way to pure hourly nonexempt status, employers can elect to shift them to a fixed salary plus overtime structure. This hybrid approach allows for the retention of some salaried advantages even while paying time and a half for working over 40 hours per week, as the FLSA mandates. Careful tracking of hours will remain crucial for calculating accurate pay.

High-Deductible Health Plan Thresholds Also Climb

To be HSA-eligible, an individual must have a high-deductible health plan (HDHP) with minimum deductible and out-of-pocket maximum amounts. The IRS increased these thresholds for 2025 as well.

The minimum HDHP deductible will increase to $1,650 for individual coverage, up $50 from 2024 levels. For family plans, it will rise by $100 to $3,300 next year.

Additionally, out-of-pocket maximums will reach $8,300 for employee-only coverage and $16,600 for families in 2025. These represent respective $250 and $500 hikes. An exception applies to preventive care in HDHPs, which remains fully covered by insurance with no cost sharing.

Create or Revise Existing Flat Dollar Allowances

Employers can explore instituting or reworking monthly or annual flat-dollar bonus payments as a way to help close the exemptions salary gap. Designating part of employees' compensation as a recurring flat allowance avoids the additional administrative work of documenting hours. These payments must meet requirements regarding discretion and calculation methods for exemption eligibility. They also do not scale relative to hours worked in the same manner as hourly overtime rates.

Working Moms Mean Business: Supporting Your Parent Workforce

Balancing parenting duties while holding down a full-time job is no easy feat. But with some strategic support from employers, working moms and dads can find greater success both at home and in the office.

Companies that create a parent-friendly culture and back it up with family-focused benefits stand to gain in productivity, engagement, and retention.

The Parent Population

Roughly 70% of U.S. families with kids under 18 have a mom in the workforce, according to recent Bureau of Labor Statistics data. More support for these working mothers is especially critical, as research shows they are more likely than working fathers to make career sacrifices when the stress of balancing parenting and employment becomes too heavy. Without adequate support, companies risk losing valuable female talent.

Luckily, there are several steps employers can take to help alleviate work-life conflicts for working parents. Experts point to three key areas companies should focus on: 1) leave policies, 2) childcare assistance, and 3) promoting disconnection from work.

1. The Case for Leave

Though paid family leave has grown more common, only 27% of U.S. workers had access to it in 2023. But research indicates offering the benefit can help working parents tremendously while benefiting companies as well. Studies show employers that provide paid family leave enjoy 10-15% higher employee retention on average, plus a boost in engagement.

Parental leave policies shouldn't stop at maternity and paternity leave alone. Experts advise structuring the benefit to include gradual return-to-work options as well. This added component helps transition working mothers back into their roles after taking leave.

2. Help Beyond Childcare

In addition to leave policies, companies are wise to consider providing resources and financial assistance to help working parents arrange care for their children. Options may include connecting employees to childcare referral services, Sittercity.com and similar databases, before- and after-school programs, summer camps, backup childcare services, and more.

But childcare is far from the only extra support available to working parents. As kids grow older, needs shift expenditures into new areas like

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summer activities, academic assistance, college prep and even mental health services. Employers would do well to expand their offerings to support school-aged kids and young adults. Resources could cover topics such as securing Individualized Education Programs, researching schools and colleges, opening 529 college savings accounts, and locating scholarship opportunities.

3. Promoting Disconnection

While digital tools have enabled unprecedented schedule flexibility for working parents, they've also blurred the lines between work and home. Experts underscore the importance of helping employees disconnect outside of work hours.

Companies can encourage better work-life balance by normalizing and openly discussing the issue. Other ideas include instituting something akin to "Wellness Wednesdays" where employees can opt to spend time on self-care or family matters rather than work. Employers may also consider modeling disconnection by refraining from off-hours emails and enabling true vacations free of work contact.

Why Supporting Parents Pays Off

Along with directly benefiting working caregivers, family-friendly policies provide measurable returns for companies as well. One example came from a parent-focused financial transaction platform. After making the tool available to its workforce, the employer documented over eight hours of productivity savings per employee user. For the company, this translated to nearly $7 million in bottom line impact.

Additionally, research shows most working parents say they'd be far less likely to voluntarily leave an employer who treated their parenting responsibilities more sympathetically, with flexibility and access to resources. And by supporting employees during major life events like new children or divorces, companies can build lasting goodwill and loyalty.

Meeting Parent Employees Where They Are

Every family's needs are different. To best serve working parents, companies should gather direct feedback about the areas of greatest struggle. Surveys, focus groups, and community message boards can help uncover work-life trouble spots and opportunities for better support.

For example, what new mothers might appreciate most could be extended paid maternity leave and phase-back programs. Parents of young children could use help locating affordable childcare and funding for services. Those supporting college-aged kids might value access to loans, scholarships, and mental health resources instead.

By listening, employers can pinpoint the solutions that fit their working parent population best. Offering support tailored to various life stages and family situations wins loyalty and extends tenure.

How Well are Current Employee Benefits Programs Meeting the Needs of Modern Families?

When it comes to supporting employees with families, traditional benefit offerings may no longer cut it.

As concepts of family expand beyond the nuclear unit, benefits must evolve to meet a wider range of needs. With shifts in social norms, advancements in reproductive technology, and greater awareness of diversity, companies that modernize their family benefits stand to attract and retain more talent.

Rising Demand for Fertility Support

Many see the lack of fertility coverage as a major gap in today's benefits packages. According to the World Health Organization, one in six couples worldwide experience infertility issues. For those looking to conceive, treatments like in vitro fertilization (IVF) provide hope but carry hefty price tags. A single IVF cycle costs anywhere between $7,000 to $20,000 out of pocket in the United States.

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With so many struggling to afford treatment, demand for fertility benefits has skyrocketed. In a 2023 survey, 42% of employees said lack of fertility benefits would be a dealbreaker when considering a job offer. Of those planning to use assisted reproductive technology to start a family, 22% told Maven Clinic they'd likely be more focused at work if their employer covered IVF.

Despite this demand, most health plans leave fertility treatment uninsured. Specialty "family building" benefits can help fill the gap through medical grants, discounted rates at partner clinics, access to specialty pharmacies, and more. With customized fertility offerings, employers can stand out in recruitment and improve retention

Welcoming Parenthood with Diverse Paths

Besides rising interest in fertility treatment, societal shifts also point to a need for benefits that support diverse family structures. Households headed by same-sex couples have tripled over the past decade, and anywhere between 2 and 3.7 million U.S. children have an LGBTQ+ parent. With this demographic more likely to grow their families through foster care, adoption, or surrogacy, tailored offerings can affirm employees across the spectrum of lived experiences.

To back surrogacy and adoption processes, some employer packages now include reimbursements for agency fees as well as storage costs for frozen eggs and embryos. Packages also increasingly offer access to emotional support resources – from choosing an egg/sperm donor to coping with failed attempts – that recognize diverse needs. Beyond financial assistance, paid family leave equally available to all and policies that don't assume a "mom and dad" signal cultural awareness.

Holistic Support for the Perinatal Period

In addition to conception hurdles, employees today seek backup during pregnancy, childbirth, and early parenting, and robust family benefits can provide this support.

According to Gallup, 18% of women switch employers while pregnant or immediately after parental leave. A LinkedIn survey similarly found that 86% of working mothers don't think their company supports them enough through major life events. The perinatal period is a fragile time professionally, emotionally, and physically.

To promote retention, leading companies now offer access to virtual care, extended leave options, return-to-work programs, coaching/counseling, childcare stipends, and more – for all parents, not just new moms. For example, consulting firm Deloitte offers 16 weeks paid leave for all parents. Accounting giant EY (formerly Ernst & Young) provides $25K lifetime fertility benefits, while Pinterest covers up to $20K for surrogacy costs.

Lactation consultants, pelvic floor therapists, sleep coaches, and mental health counselors are increasingly covered too, often available remotely through family benefit platforms. Rather than one-size-fits-all offerings, the goal is holistic support tailored to each transitioning family's needs.

The Rise of Virtual Care

No discussion of modernizing benefits is complete without mentioning virtual care. Over the past decade, telehealth platforms have granted patients on-demand access to providers without the constraints of geography or scheduling. Today, virtual appointments represent a natural evolution of family benefits – providing convenient support during life's often messy milestones.

In the fertility space, those struggling to conceive can connect with reproductive endocrinologists for timely evaluations, referrals, and treatment plans. The option saves costs of repeat pregnancy tests and long wait times for consultations.

Throughout pregnancy and postpartum, 24/7 telehealth means connecting with lactation specialists, therapists, pediatricians, obstetricians, and more whenever needs arise.

For children's care, pediatric telemedicine lets parents skip urgent care runs for minor concerns like ear infections, reducing time away from work. Such offerings join the growing list of family benefits employers can leverage to stand out.

Mixed Signals on Retirement Savings: Higher Balances But More Hardship Withdrawals

Americans have made strides in retirement savings account balances early this year, but financial strain continues to lead some to dip into those funds to make ends meet.

Higher Balances, Contribution Rates

Experts report that the average 401(k) balance stood at about $92,000 at the end of March, representing a nearly 17% jump from $79,000 during the same period last year. The data from Bank of America's first quarter 2024 Participant Pulse reveals things are looking up from a savings standpoint.

Additionally, the average contribution rate ticked up slightly to 6.6% in the first quarter, compared to 6.5% at the end of 2023. Roughly 15% of 401(k) participants increased their contribution rate in the first quarter, while only 3.6% decreased it.

Continued Financial Hardship

However, while retirement balances are up overall, some consumers still feel economic pain. Hardship distributions and loan amounts paint a more troubling picture. The percentage of people taking a hardship distribution from their 401(k) climbed to 0.61% in the first quarter, higher than the 0.57% rate in the fourth quarter of 2023 and up substantially from 0.46% during the same period last year.

The average hardship distribution now stands at $5,030, up markedly from $4,366 in the previous quarter.

Additionally, though fewer people took out new 401(k) loans in the first quarter at 2% versus 2.3% in the fourth quarter, those who did borrowed more on average.

The typical new loan per person was $9,140, more than 10% higher than the $8,207 average in the fourth quarter of last year. This indicates that continued financial stress and high living costs are pressuring some Americans to tap retirement funds.

Savings Rebound on Horizon

Experts remain optimistic that people will continue redirecting their focus on long-term retirement savings after a historic confidence plunge last year. One recent report showed that 68% of workers and 74% of retirees feel confident about having adequate retirement finances.

While still low compared to pre-2022 figures, confidence improved slightly from 64% to 73%, in 2023 amid skyrocketing inflation. The general consensus points toward a savings rebound being within reach.

HSA Savings See Uptick

The Bank of America data also revealed increased usage of health savings accounts (HSAs) for retirement savings purposes. In the first quarter, account holders saved 39% of HSA contributions versus just 24% in the fourth quarter last year.

Millennials led generational groups with a 47% savings rate of contributions in the first quarter, a large gain over 34% in the previous quarter. This indicates consumers are viewing HSAs more as long-term savings vehicles.