Employee Benefits Report

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Volume 24 · Number 01

JANUARY 2026

Administration

Compliance Updates for 2026

As 2025 closes, several pressing compliance issues will shape your responsibilities in 2026. Updated PCORI fees, Affordable Care Act (ACA) reporting obligations, state-level mandates, and new federal requirements such as gag clause attestations are all on the horizon.

PCORI Fees Updated for 2026

The Patient Centered Outcomes Research Institute (PCORI) fee continues to apply to insurers and self-funded health plans through 2029. For plan years ending between October 1, 2024, and September 30, 2025, the fee is $3.47 per covered life, payable in mid-2026. Make sure you have accurate headcounts and prepare to file using IRS Form 720.

Determining Applicable Large Employer (ALE) Status

If you have 50 or more full-time equivalent employees, you must offer affordable health coverage or face penalties. As 2026 begins, reassess workforce size, especially if seasonal or variable-

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This Just In ...

Fiduciary Duties in the Spotlight

"Fiduciaries must act with an eye single to the interests of plan participants, not their own convenience." With that sharp reminder from a 2025 appellate court decision on benefit eligibility disputes, the judiciary has placed fiduciary responsibility squarely in the spotlight. The ruling underscored that even well intentioned administrative shortcuts can expose employers to liability if they compromise fairness or transparency.

Expanded Liability

Courts this year have broadened the scope of fiduciary accountability. Decisions in wage/hour disputes and discrimination claims make clear that fiduciaries are responsible not only for plan design but also for how benefits are communicated and administered. A failure to ensure nondiscriminatory access can now trigger fiduciary liability, raising the stakes for HR and compliance leaders.

Payroll Integration

Legislative proposals linking payroll tax exemptions to benefit funding add another layer of fiduciary oversight. Sponsors must now consider how payroll systems interact with benefit plans, ensuring that tax advantages are properly applied and documented.

hour employees are involved. ALE status determines whether you must file Forms 1094 C and 1095 C with the IRS, and misclassification can lead to significant penalties.

State Mandates: New York's Age 29 Requirement

New York enforces its Age 29 dependent coverage law, allowing unmarried young adults to remain on a parent's group health plan until age 29. If you employ staff in New York, ensure your plans comply, even if your headquarters are elsewhere. Other states are expanding mandates around fertility coverage, mental health parity, and telehealth, so multi state employers must track varying rules.

Gag Clause Attestation

Under the Consolidated Appropriations Act (CAA), group health plans must annually attest that they do not have "gag clauses" restricting access to cost or quality information. The next attestation is due at the end of 2026. Coordinate with carriers and third party administrators to confirm compliance and file with CMS.

ACA Reporting Instructions Finalized

The IRS has finalized ACA reporting instructions for 2025 filings, which set the stage for 2026. Updates include indexed affordability thresholds and clarifications on electronic filing requirements. If you have 10 or more returns, you must file electronically, reinforcing the need for accurate HRIS and payroll integration.

Highly Compensated & Key Employee Thresholds

The IRS has updated thresholds for highly compensated employees and key employees under retirement plan rules. Review nondiscrimination testing for 401(k) and cafeteria plans to avoid compliance failures.

Other Emerging Issues

- **Mental Health Parity Enforcement:** Regulators continue to scrutinize plan designs for compliance.
- **Dependent Care FSAs:** Clarifications now allow enrollment before a child is born, provided coverage begins at birth.
- **Pharmaceutical Recovery Opportunities:** Litigation against drug manufacturers may create opportunities to recover costs through specialized programs.

Action Steps for 2026

1. Audit plan documents for compliance with PCORI, ACA, and state mandates.
2. Confirm ALE status annually and prepare ACA reporting early.
3. Coordinate with carriers to meet gag clause attestation requirements.
4. Monitor state laws for fertility, mental health, and dependent coverage expansions.
5. Update nondiscrimination testing for retirement and cafeteria plans.

Religious Exemptions

Judicial recognition of broader religious exemptions complicates fiduciary duties for faith based organizations. Fiduciaries must balance compliance with organizational values, documenting decisions to withstand scrutiny.

The 2026 Imperative

For employers, the message is clear: fiduciary duties are evolving. In 2026, fiduciaries must anticipate risks, document decision making processes, and ensure benefits are administered with fairness and transparency. Courts are signaling that "good faith" is no longer enough — fiduciaries must demonstrate prudence, equity, and vigilance in every aspect of benefits governance.

In summary: Compliance in employee benefits is becoming more complex, with overlapping federal and state requirements. By proactively tracking PCORI fees, ACA obligations, gag clause attestations, and state mandates, you reduce risk and demonstrate fiduciary diligence.

AI Powered Benefits Solutions: Navigating Rising Costs in 2026

Health benefit costs are projected to rise nearly 9% in 2026, putting significant pressure on employers to balance affordability with employee satisfaction. Against this backdrop, artificial intelligence (AI) is emerging as a transformative tool in the benefits space. By personalizing offerings and automating administration, AI promises to reduce costs while enhancing the employee experience.

Personalization at Scale

Traditional benefits programs often rely on one size fits all structures that fail to reflect the diverse needs of today's workforce. AI changes this equation by analyzing large volumes of data—from claims history to wellness program participation—to identify patterns and preferences. With these insights, you can tailor benefits packages to specific employee segments.

For example, predictive analytics can highlight which employees are most likely to benefit from telehealth services, chronic disease management programs, or mental health resources. Instead of offering broad, generic coverage, you can allocate resources more strategically, ensuring employees receive support that truly matters to them. This personalization not only improves satisfaction but also reduces unnecessary spending on underutilized benefits.

Automating Administration

Administrative complexity is another driver of rising costs. Managing enrollment, compliance reporting, and claims processing consumes time and resources. AI powered platforms streamline these tasks by automating routine processes.

Chatbots and virtual assistants can guide employees through enrollment, answer common questions, and provide real time updates on coverage. Machine learning algorithms can flag anomalies in claims submissions, reducing fraud and errors. Automated compliance tools help ensure timely reporting under ACA and other mandates, minimizing the risk of penalties. By reducing manual workload, you free HR teams to focus on strategic initiatives rather than paperwork.

Cost Reduction Through Predictive Insights

AI's predictive capabilities extend beyond personalization and administration. By analyzing historical claims data, AI can forecast future healthcare utilization trends. These forecasts allow you to negotiate more favorable contracts with insurers and design wellness initiatives that target high cost conditions before they escalate.

For instance, if data suggests a growing prevalence of diabetes within your workforce, AI can recommend preventive programs, dietary support, or digital health tools. Addressing issues early reduces long term costs and demonstrates proactive care for employees.

Enhancing Employee Experience

Cost control is critical, but employee satisfaction remains equally important. AI driven benefits solutions improve transparency and accessibility. Personalized dashboards give employees a clear view of their coverage, costs, and available resources. Recommendation engines suggest relevant programs, from fitness subsidies to counseling services, based on individual needs.

This level of engagement fosters trust and loyalty. Employees feel their employer is investing in their well being, not just cutting expenses. In competitive labor markets, such differentiation can be a powerful recruitment and retention tool.

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Preparing for 2026 and Beyond

As health benefit costs climb, AI offers a path forward that balances fiscal responsibility with employee care. To maximize impact, begin by auditing your current benefits administration processes and identifying areas where automation can reduce inefficiencies. Explore AI enabled platforms that integrate with HRIS and payroll systems, ensuring seamless data flow.

Most importantly, view AI not as a replacement for human judgment but as a complement. HR leaders remain essential in interpreting insights, setting strategy, and maintaining empathy in employee interactions. AI provides the tools; you provide the vision.

To get started, first meet with your broker / consultant to learn which AI solutions for enrollment and claim analytics are available. Find out what your carrier or third-party administrator can provide. It's likely that these providers are already heavily invested in using AI, and those admin costs are already included in their fee. These professionals can advise where to start and how to layer in AI solutions over time. HIPAA privacy compliance should also be discussed with whoever provides AI solutions for claim analytics and disease management, as well as enrollment data security.

In summary: Rising costs demand innovative solutions. By adopting AI powered benefits strategies, you can personalize offerings, automate administration, and reduce expenses—all while improving employee satisfaction. As 2026 unfolds, those who embrace AI will be better positioned to manage compliance, control costs, and demonstrate genuine care for their workforce.

Health & Welfare Benefits Year End Roundup: 2025 Regulatory Highlights

As 2025 draws to a close, employers and benefits professionals face a shifting regulatory landscape that will shape health and welfare programs in 2026 and beyond. This year's developments underscore the government's dual priorities: expanding access, modernizing benefit delivery, and balancing compliance with practical flexibility. Below is a roundup of the most significant regulatory highlights.

Guidance Under the "One Big Beautiful Bill Act"

The centerpiece of this year's legislative activity was the One Big Beautiful Bill Act, a sweeping measure designed to streamline disparate benefits regulations into a unified framework. Guidance issued in late 2025 clarified employer obligations around consolidated reporting, simplified disclosure requirements, and harmonized compliance deadlines. For HR and compliance teams, this means fewer overlapping filings and a clearer roadmap for aligning health, welfare, and retirement benefits under one umbrella. While implementation will roll out gradually, the Act signals a long term shift toward integrated benefits governance.

Telehealth Expansion

Telehealth continued its rapid ascent, with regulators extending pandemic era flexibilities and codifying them into permanent rules. Employers can now offer telehealth services as a core benefit without jeopardizing compliance with group health plan standards. Expanded provisions allow for cross state provider licensing reciprocity, broader coverage for behavioral health, and incentives for digital health platforms. For employees, this translates into greater convenience and access, particularly in rural or underserved areas. For employers, telehealth expansion offers a cost effective way to meet rising demand for accessible care.

HSA and Dependent Care Program Updates

The IRS released updated contribution limits for Health Savings Accounts (HSAs) and Dependent Care Assistance Programs, reflecting inflation adjustments and policy priorities. HSAs saw modest increases, encouraging employees to save more for out of pocket medical expenses. Dependent care programs

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received expanded eligibility thresholds, making it easier for working parents to offset childcare costs. Employers should revisit plan communications to ensure employees understand the new limits and opportunities. These updates reinforce the government's focus on financial wellness as a pillar of overall employee wellbeing.

Paused Enforcement of Mental Health Parity Rules

In a surprising move, regulators announced a temporary pause on enforcement of certain Mental Health Parity and Addiction Equity Act (MHPAEA) provisions. The pause is intended to give employers and insurers time to adapt to complex comparative analyses required under the rules. While parity remains a statutory requirement, enforcement discretion acknowledges the challenges of measuring mental health benefits against medical/surgical benchmarks. Employers should use this window to strengthen parity compliance frameworks, audit plan designs, and prepare for eventual resumption of enforcement.

What Employers Should Do Now

- Audit benefits programs for alignment with the One Big Beautiful Bill Act's consolidated requirements.
- Expand telehealth offerings to leverage new regulatory flexibilities.
- Update plan documents and communications to reflect HSA and dependent care changes.
- Prepare for mental health parity compliance despite the enforcement pause, treating it as a grace period rather than a reprieve.

Looking Ahead

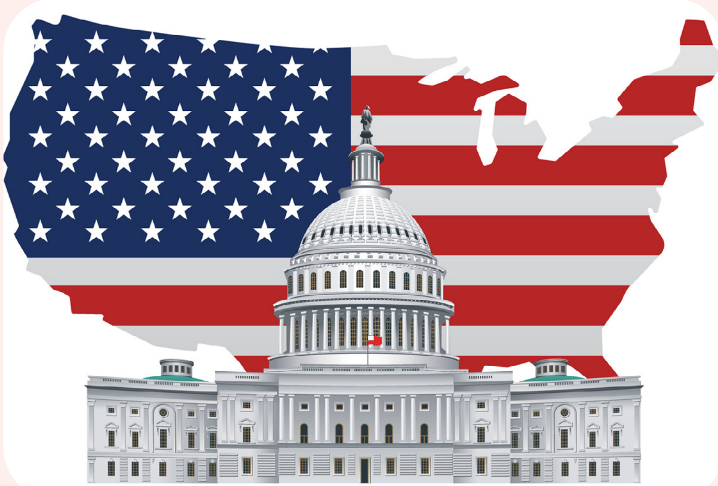
The 2025 regulatory cycle reflects a broader trend: benefits policy is evolving to meet modern workforce needs while balancing cost pressures. Employers who act proactively—integrating telehealth, promoting financial wellness, and ensuring parity—will be better positioned to navigate rising costs and employee expectations in 2026.

Judicial and Legislative Developments in Employee Benefits: Year End 2025

As 2025 closes, employers face not only regulatory updates but also judicial decisions and legislative shifts that will influence benefit plan design in 2026. Mayer Brown's year end advisory highlights several developments that deserve attention from plan sponsors and fiduciaries.

Judicial Developments

The U.S. Supreme Court and federal appellate courts issued rulings that directly affect benefit administration and fiduciary responsibilities:



- **Wage and Hour Compliance:** A series of unanimous Supreme Court decisions clarified employer obligations under the Fair Labor Standards Act. These rulings narrowed ambiguities around overtime pay and tipped employee compensation, reinforcing the need for precise payroll and benefits integration.
- **Religious Tax Exemptions:** Courts upheld broader exemptions for faith based organizations, impacting how certain employers structure health and welfare benefits. This development may influence plan design for nonprofits and religious institutions.
- **Workplace Discrimination Claims:** Judicial rulings expanded protections in benefit eligibility disputes, requiring employers to ensure nondiscriminatory access to health and retirement plans.

Together, these cases underscore the judiciary's role in shaping compliance expectations beyond statutory text.

Legislative Developments

Beyond the One Big Beautiful Bill Act, other legislative activity in 2025 reshaped the benefits landscape:

- **Payroll Tax Policy:** Congress debated permanent extensions of key provisions from the Tax Cuts and Jobs Act, including exemptions for overtime pay and employee tips. These proposals, if enacted, would directly affect benefit funding and payroll integration.
- **Dependent Care and Retirement Incentives:** Legislative updates expanded eligibility thresholds for dependent care programs and introduced new tax credits for small employers offering retirement benefits. These measures aim to broaden access while easing cost burdens.
- **Digital Health and Data Privacy:** Lawmakers advanced bills requiring stronger data protections in telehealth and benefits platforms, signaling heightened scrutiny of AI powered solutions.

Employer Takeaways

Employers should:

- Monitor judicial rulings for compliance implications in wage/hour, discrimination, and tax exemption contexts.
- Prepare for legislative changes that may alter payroll tax treatment and benefit funding.
- Strengthen nondiscrimination policies and audit benefit eligibility frameworks.
- Update governance documents to reflect evolving fiduciary standards.

In 2026, proactive adaptation will be critical. Judicial clarity and legislative momentum are converging to reshape benefits administration, demanding vigilance from HR and compliance leaders.

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