Employee Benefits Report

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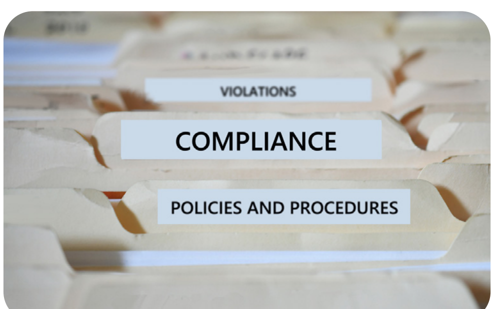
Administration

2026 Compliance Update: More on Last Month's Key Regulatory Changes

In our January issue, we outlined the major compliance themes shaping 2026. This month, we build on that foundation with a deeper look at the annual updates, effective dates, and action steps employers need as the new year begins.

As employers enter 2026, a wave of regulatory updates, benefit limit changes, and new reporting requirements are taking effect. This year's compliance landscape is shaped by provisions of the One Big Beautiful Bill Act (OBBBA), IRS inflation adjustments, and heightened federal scrutiny of mental health parity and plan administration. Below is a comprehensive roundup of the annual changes employers must address now to stay compliant and keep employees informed.



Dependent Care FSA Limit Increases to $7,500 (Effective January 1, 2026)

For the first time in nearly four decades, the Dependent Care Assistance Program (DCAP) limit has increased from $5,000 to $7,500 for plan years beginning in 2026. This change applies to all employer-provided dependent care assistance, including dependent care FSAs.

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This Just In ...

IRS Issues New Guidance on GLP-1 Coverage for Employer Health Plans

The IRS has released new interpretive guidance on the tax treatment and HSA compatibility of GLP-1 medications, a move that could significantly affect employer health plan design heading into 2026. The update, issued late last week, clarifies how plans may cover drugs such as Ozempic, Wegovy, and Zepbound when prescribed for obesity, diabetes, or metabolic conditions.

The most notable change: the IRS has confirmed that GLP-1 medications prescribed for obesity alone may now be treated as a medical expense for purposes of Section 213(d). This opens the door for broader coverage under employer health plans and may allow certain expenses to qualify for reimbursement through HSAs, FSAs, and HRAs — depending on plan design.

The guidance also addresses a long-standing gray area: whether covering GLP-1 drugs before a patient meets strict diagnostic criteria jeopardizes HSA-compatible HDHP status. The IRS now states that preventive metabolic care programs that include GLP-1 prescriptions may be permissible, provided they meet specific clinical criteria and are not broadly available as first-dollar coverage.

Employer action:

- Update plan documents and cafeteria plan materials
- Adjust payroll systems
- Communicate the new limit to employees during Q1

Fringe Benefit Changes Under OBBBA (Effective January 1, 2026)

Several fringe benefit rules shift this year, including the permanent elimination of the bicycle commuter reimbursement exclusion as a tax-free benefit. Employers who reinstated this benefit during the temporary relief period must amend their fringe benefit documentation to reflect the change.

Employer action:

- Review transportation and fringe benefit policies
- Update employee handbooks and onboarding materials

Telehealth Flexibility Becomes Permanent (Effective 2026 Plan Year)

Telehealth relief that began during the pandemic is now embedded in 2026 plan rules, allowing employers to continue offering virtual-first care options without jeopardizing HSA eligibility.

Employer action:

- Confirm carrier/TPA alignment
- Update Summary Plan Descriptions (SPDs)
- Communicate virtual care options to employees

Mental Health Parity Enforcement Tightens (Ongoing in 2026)

Federal agencies are increasing audits and enforcement of the Mental Health Parity and Addiction Equity Act (MHPAEA). Employers must be able to produce detailed comparative analyses showing that mental health and substance use disorder benefits are no more restrictive than medical/surgical benefits — including non-quantitative treatment limits.

Employer action:

- Request updated parity analyses from carriers or TPAs
- Review prior authorization, network adequacy, and reimbursement policies
- Prepare for potential audits

Retirement Plan Updates Under SECURE 2.0 (Effective January 1, 2026)

Several SECURE 2.0 provisions take effect this year, including:

- Roth catch-up contributions for certain high-income earners
- Annual paper statement requirements for many plans
- Updated contribution and income limits for 2026

Employer action:

- Coordinate with recordkeepers and payroll
- Update plan notices and enrollment materials
- Communicate changes to employees during annual meetings

ACA Reporting and Affordability Requirements (2026 Filing Season)

Employers must continue filing Forms 1094-C and 1095-C, but mailing requirements have shifted. Employers no longer need to mail 1095-C forms if they provide clear notice of electronic availability.

Affordability thresholds for 2026 have also changed, requiring employers to reassess safe harbor strategies.

Employer action:

- Update employee communications regarding electronic access
- Validate affordability calculations for 2026
- Confirm ALE status for the new year

PCORI Fees for 2026 (Due July 31, 2026)

PCORI fees continue through 2029. For plan years ending between October 1, 2024, and September 30, 2025, the fee is \$3.47 per covered life, payable by July 31, 2026.

Employer action:

- Confirm headcounts
- Prepare Form 720 filing

For employers, the implications are immediate. GLP-1 drugs remain one of the fastest-growing cost drivers in health plans, and clearer federal rules will influence formulary decisions, wellness program design, and cost-management strategies for 2026.

Benefits managers should review the new guidance with carriers and PBMs to determine whether plan amendments or employee communications are needed this quarter.

COBRA and Account-Based Plan Adjustments (Effective 2026)

COBRA continuation coverage rules and account-based benefit limits (FSAs, HSAs, HRAs) have been updated for 2026, including higher contribution limits and new administrative requirements for some plans.

Employer action:

- Update COBRA notices
- Adjust plan documents and payroll systems

The Bottom Line for Employers

2026 brings one of the most significant rounds of benefits compliance changes in recent years. Employers should prioritize:

- Updating plan documents and employee communications
- Coordinating with carriers, TPAs, and payroll vendors
- Reviewing parity, affordability, and reporting obligations
- Preparing for increased regulatory scrutiny

A proactive approach now will reduce compliance risk and ensure employees start the year with accurate, timely information about their benefits.

How Employers Are Responding to Rising Employee Expectations in 2026

Over the past two months, several major surveys — including the 2025 SHRM Employee Benefits Survey, the ADP TotalSource Employee Benefits Survey, and the 2025 National Benefits Survey — have painted a clear picture: employees are demanding more meaningful, more personalized, and more supportive benefits than ever before. Employers, facing a tight labor market and rising competition for talent, are responding by reshaping their benefits strategies around five core themes.

1. Increased Demand for Family-Building Benefits

Family-building benefits continue to surge in importance. SHRM's 2025 survey highlights a growing employer focus on expanding fertility, adoption, and surrogacy benefits as part of a broader commitment to inclusive family support. Employees increasingly expect these benefits as table stakes, not luxuries.

Employers are responding by:

- Adding or expanding fertility coverage
- Offering paid parental leave beyond statutory minimums
- Providing dependent-care FSAs and childcare subsidies

The National Benefits Survey reinforces this trend, noting that employers see family-building benefits as a differentiator for younger workers and mid-career professionals balancing caregiving responsibilities.

2. Mental Health Support as a Core Expectation

Mental health support remains one of the most requested benefits. SHRM reports that mental health coverage, counseling access, and stress-management programs are among the fastest-growing benefit categories in 2025.

Employers are responding by:

- Expanding EAP offerings
- Adding virtual therapy and tele-mental health
- Training managers to recognize and support mental health needs

This shift is driven not only by employee expectations but also by heightened federal enforcement of mental health parity rules, making mental health both a compliance and workforce priority.

3. Flexible Work Arrangements Remain a Top Driver of Satisfaction

ADP's TotalSource survey shows that flexibility — whether hybrid schedules, remote options, or compressed workweeks — remains one of the strongest predictors of employee satisfaction and retention. Even as some employers recalibrate return-to-office policies, employees continue to rank flexibility as essential to well-being and productivity.

Employers are responding by:

- Formalizing hybrid work policies
- Offering flexible scheduling for caregiving employees
- Providing stipends for home office equipment

Flexibility is no longer a perk; it is a core component of the employee value proposition.

4. Financial Wellness Programs Gain Momentum

With economic uncertainty and rising household expenses, financial wellness has become a central concern. ADP's survey shows a sharp increase in employee demand for retirement readiness tools, emergency savings programs, and financial coaching.

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Employers are responding by:

- Adding financial literacy workshops
- Offering emergency savings accounts linked to payroll
- Enhancing 401(k) matching and auto-enrollment features

The National Benefits Survey notes that employers see financial wellness as a high-ROI benefit that improves retention and reduces stress-related productivity loss.

5. Personalized Benefits Experiences Are Becoming the New Standard

SHRM's 2025 survey emphasizes that employees want benefits tailored to their life stage, health needs, and personal goals — not one-size-fits-all packages. Personalization is emerging as the defining trend of modern benefits design.

Employers are responding by:

- Offering modular or "build-your-own" benefits packages
- Using AI-powered navigation tools to guide employees to the right benefits
- Expanding voluntary benefits to increase choice

Personalization allows employers to meet diverse needs without dramatically increasing costs.

Across all major surveys, the message is consistent: employees expect more support, more flexibility, and more personalization. Employers who respond strategically — especially in family-building benefits, mental health, flexibility, financial wellness, and tailored experiences — are positioning themselves to win in a competitive labor market.

Telehealth in 2026: How Virtual Care Is Transforming Access, Quality, and Cost

Telehealth has moved far beyond the video-visit boom of the pandemic. In 2026, virtual care is becoming a core component of the U.S. healthcare system — improving access, reducing administrative burden, and lowering costs for employers and employees alike. New technologies, expanded reimbursement, and AI-driven tools are reshaping how care is delivered across specialties.

AI Is Turning Telehealth Into Proactive Care

Telehealth is shifting from reactive "on-demand visits" to proactive, continuous care thanks to artificial intelligence. According to TelehealthWatch, AI will function as healthcare's "central nervous system" by 2026, predicting health problems before symptoms appear and guiding clinicians with real-time decision support.

One of the most significant advancements is Ambient Clinical Intelligence, which automatically generates SOAP (Subjective Objective Assessment Plan) notes during virtual visits. This technology can recover up to 20 hours per week for clinicians by eliminating manual documentation. For employers, this means faster appointments, shorter wait times, and lower administrative overhead — all of which reduce plan costs.

Wearables Are Becoming Medical-Grade Diagnostic Tools

Wearables are no longer simple fitness trackers. By 2026, they are evolving into medical-grade diagnostic devices capable of capturing heart rhythms, blood oxygen levels, sleep patterns, and early signs of chronic disease. TelehealthWatch reports that these devices now integrate with AI-powered analytics to detect abnormalities and alert clinicians before conditions escalate.

This shift supports earlier intervention, fewer emergency visits, and better chronic disease management — a major cost driver for employer plans.

Remote Diagnostics and Virtual Monitoring Reduce High-Cost Care

Remote diagnostics are one of the fastest-growing areas of telehealth. New tools allow clinicians to conduct virtual physical exams using connected stethoscopes, otoscopes, and high-resolution imaging. These capabilities reduce unnecessary in-person visits and help triage patients more effectively.

CMS's 2026 telehealth rule expands reimbursement for Remote Patient Monitoring (RPM) and Chronic Care Management (CCM), restoring momentum to value-based care models. With higher payments and new CPT coding flexibility, providers are more willing to adopt remote monitoring — which has been shown to reduce hospitalizations and improve outcomes for chronic conditions like diabetes and hypertension.

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Telehealth Is Now a Permanent Part of Care Delivery

Telehealth is no longer an emergency measure. Policy updates confirm that virtual care is now a permanent fixture in healthcare delivery. *U.S. Healthcare News* notes that telehealth has transitioned into a long-term care model, with states and payers expanding coverage and refining cross-state licensure rules.

For employers, this means:

- More predictable plan design
- Broader access to behavioral health providers
- Lower costs for routine and follow-up care
- Improved access for rural and underserved employees

Market Growth Signals Long-Term Stability

The global telehealth market is projected to grow from $160.13 billion in 2025 to $709.69 billion by 2034, according to TelehealthWatch's 2026 predictions. This explosive growth reflects rapid adoption across primary care, behavioral health, chronic disease management, and specialty care.

Telehealth in 2026 is smarter, more integrated, and more cost-effective than ever. AI-powered diagnostics, medical-grade wearables, remote monitoring, and expanded reimbursement are transforming virtual care into a high-value component of employer health plans. For organizations looking to improve access, reduce costs, and support a distributed workforce, telehealth is no longer optional — it's essential.

What the Latest Surveys Reveal About Employee Expectations

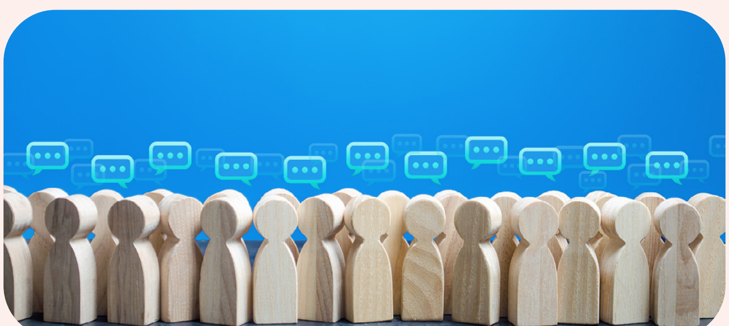
Recent national surveys offer a clear, numbers-driven picture of what employees value most — and where employers are investing to stay competitive. Here are the most significant findings, grouped by survey.

SHRM 2025 Employee Benefits Survey

Sources: SHRM Executive Summary; SHRM press release; LinkedIn summary of SHRM data

Health & Core Benefits

- 97% of employers offer general health coverage
- 99% offer dental coverage
- 96% offer vision coverage
- 88% of employers say health benefits are "very" or "extremely" important — the highest-ranked category



Retirement & Leave Benefits

- 81% of employers rank retirement savings and leave benefits as top priorities
- 93% offer a 401(k) plan, and 85% of those include a match
- 76% now offer a Roth 401(k), up 12% since 2021

Workplace Flexibility & Lifestyle Benefits

- 60% of employers offer hybrid work options
- 55% help cover home-office equipment costs
- Wellness and lifestyle perks are declining, including smoking cessation programs, onsite flu shots, and stress-management offerings

Emerging Trends

- 16% of employers now cover GLP-1 drugs for diabetes and weight management — a notable 2025 trend
- Executive and leadership coaching is rising, with 47% of employers offering it

ADP TotalSource® Employee Benefits Survey (2025)

Source: ADP survey results

Top Employee Priorities

- 56% of employees rank compensation as their top work consideration
- 94% say medical insurance is a top request
- Demand for 401(k) plans has risen from 30% in 2018 to 62% today

Implications for Employers

Employees are signaling a desire for stronger financial security, more robust medical coverage, and benefits that adapt to their life stage and personal needs.

Across both surveys, the message is consistent: employees want comprehensive health coverage, flexible work options, stronger retirement support, and benefits that feel personalized. Employers who respond to these expectations are gaining a clear competitive edge in today's labor market.