

2023 Employee Benefits **Market Pulse Report**

This 2023 Employee Benefits Market Pulse Report is from the 2023 Employee Benefits Market Pulse Survey conducted by Zywave for informational purposes.

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Introduction

In February 2023, Zywave conducted the Employee Benefits Market Pulse Survey to gather brokers' thoughts on the current state of the employee benefits market. Brokers across the United States were polled regarding market conditions, expected challenges in 2023 for brokers and their clients, the current state of the economy and the likelihood of a recession. Over 200 brokers responded to the survey, and the results are broken down by the top challenges brokers and their clients face, brokers' perceptions regarding economic conditions in 2023 and insights from the C-suite.

Overview

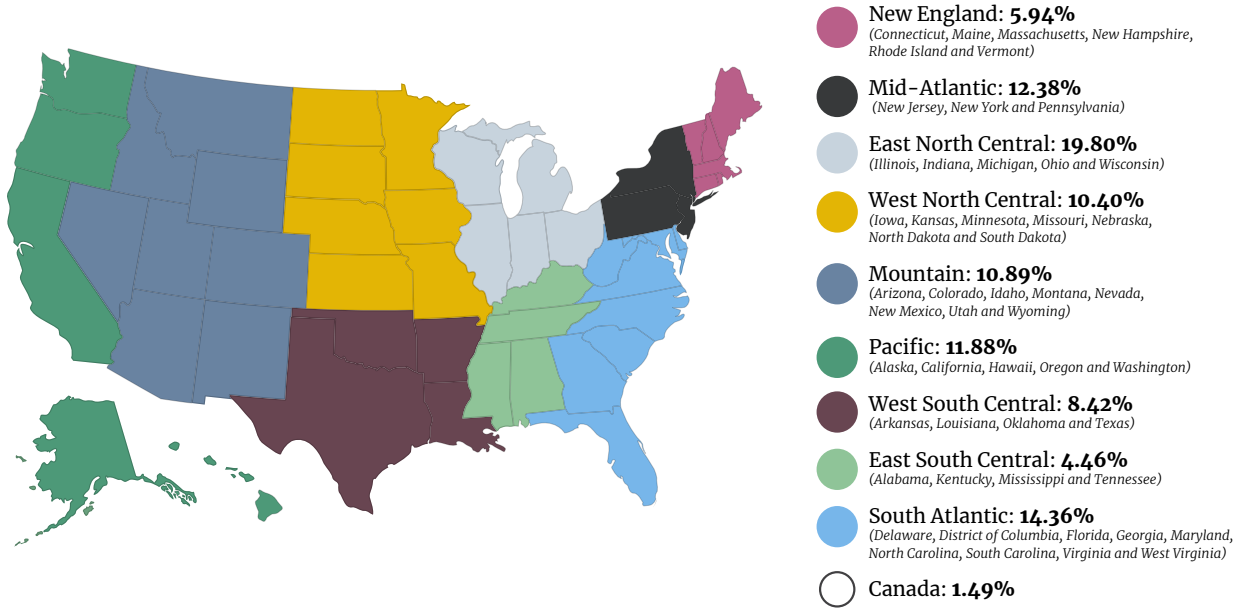
This survey provides valuable insights into the employee benefits market. Key findings from the survey remain largely consistent with previous years' results; health care cost mitigation and attraction and retention challenges play important roles in the industry, and most survey respondents believe a recession will likely occur within the next 12 months, causing some disruption to their business operations.

This report compiles broker responses to the survey questions and provides general insights and takeaways for the employee benefits market.

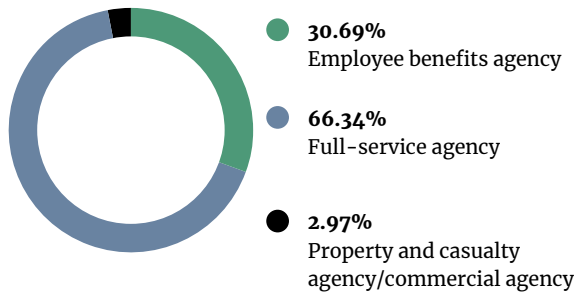
Demographics

The 2023 Employee Benefits Market Pulse Survey was completed by over 200 brokers. These brokers represent different lines of business, with the majority working for full-service agencies.

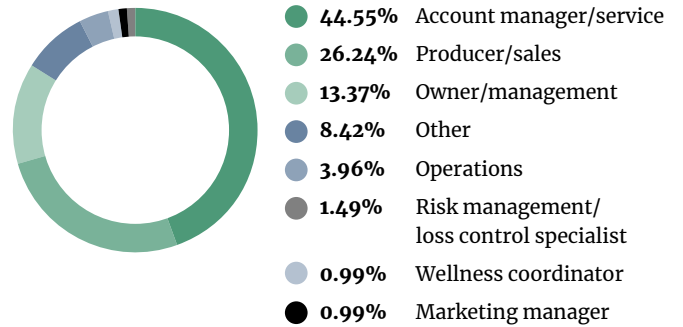
In which state/region do you operate?



What best describes your organization?



What is your role within your organization?



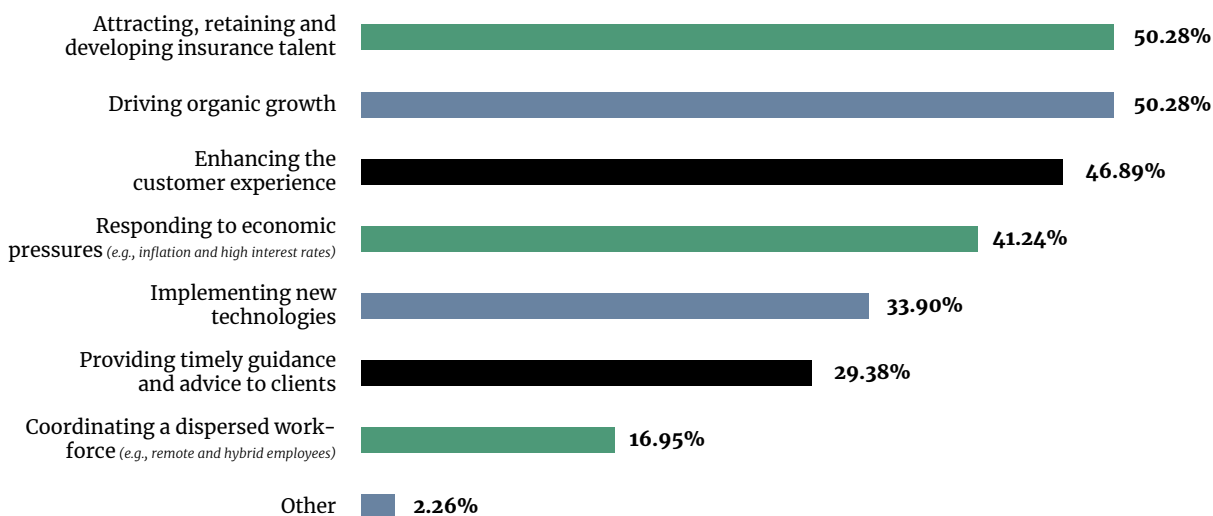
Employee Benefits Challenges

The 2023 Employee Benefits Market Pulse Survey asked brokers their views on the most pressing employee benefits challenges facing their organizations and clients. This section compiles these responses and provides general insights regarding the employee benefits market in 2023.

Market Challenges for Brokers in 2023

Survey respondents reported that the top employee benefits challenges facing brokers in 2023 include attracting, retaining and developing insurance talent; driving organic growth; and enhancing the customer experience. Other top concerns include responding to economic pressures, such as inflation and high interest rates, and implementing new technologies.

Which of the following are your organization's most pressing challenges in 2023?
Select the top three that apply.



Here are key takeaways from today's broker challenges.

Attracting, Retaining and Developing Insurance Talent

In line with recent years, attracting, retaining and developing talent remains a top challenge facing brokers in 2023 (50.28%). However, brokers ranked attraction and retention as the third most pressing employee benefits challenge in previous years' surveys. Attracting, retaining and developing talent likely moved to the top of the list as organizations struggled to fill a record-high number of job openings in 2022. There was a significant gap between the number of job openings and available workers last year, increasing competition among employers to recruit new hires and retain existing employees. As a result, employees gained the advantage in negotiations, with many feeling confident to leave their jobs to find better opportunities (e.g., higher pay, better benefits). While the labor market has shown signs this may be changing, attraction, retention and talent development remains a major concern for brokers, and these challenges are expected to continue in 2023.

To attract and retain talent, it's essential for brokers to offer competitive compensation and benefits packages; however, current market conditions (e.g., the looming recession, record-high inflation and high interest rates) are making it increasingly difficult for brokers to meet employee expectations in this respect. This presents brokers with an extremely difficult dilemma at a time when their budgets are shrinking due to challenging economic conditions. Additionally, with the same recurring problems year over year and fewer carrier options in the market, it's increasingly difficult for individual producers to distinguish themselves from the competition. This results in increased competition among brokers to hire or retain a handful of producers who can reliably demonstrate the ability to provide quality service and harness out-of-the-box problem-solving abilities.

With a smaller talent pool to draw from and increased competition, it's becoming harder for brokers to attract, retain and develop key talent. Although attraction and retention struggles are common across all industries, the insurance industry continues to lag behind other industries, such as technology and finance, when competing for talent. Brokers offering competitive compensation and benefits, flexibility, and meaningful career growth and development opportunities will likely gain a leg up on the competition.

Driving Organic Growth

Driving organic growth (**50.28%**) is as much of a pressing challenge in 2023 as attracting, retaining and developing insurance talent (**50.28%**), according to brokers. Organic growth is the process of gaining new customers and growing an organization by using the organization's own efforts and resources rather than through mergers and acquisitions. This is typically accomplished by providing outstanding customer service and strengthening customer engagement, which prompts current customers to purchase more and in higher amounts. It's often considered one of the most sustainable and cost-effective ways for an organization to grow long-term. This survey finding indicates that brokers are concerned about growing their customer base in cost-effective ways.

The current economic climate is likely at the root of this concern. In recent years, the low rates created circumstances where it was advantageous and affordable to purchase agencies or books of business in order to fuel organizational growth. With the recent economic downturn and the possibility of an upcoming recession—more than **90%** of survey respondents said they believe a recession is somewhat or very likely to occur within the next 12 months—increasing the customer base in cost-effective ways is more critical than ever. Doing so can help organizations position themselves for sustainable growth and long-term success.

Enhancing the Customer Experience

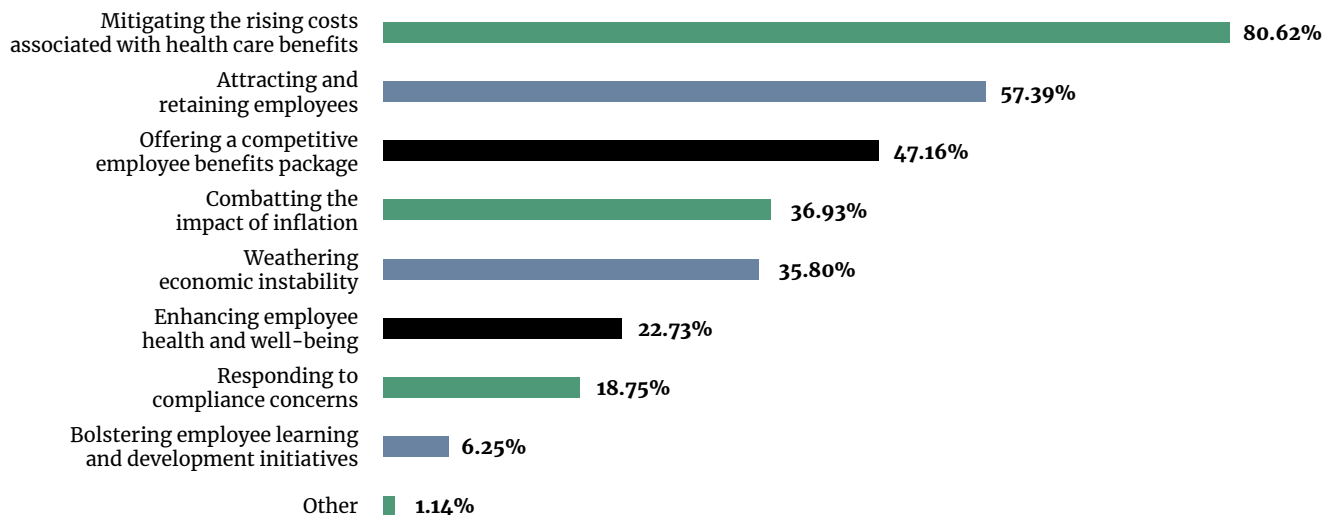
Survey respondents ranked enhancing the customer experience (**46.89%**) as the third most pressing challenge for their organizations in 2023. Customer experience is a customer's perception of how an organization treats them, which can affect consumers' behaviors—positively or negatively. Positive perceptions can create loyal customers and favorable associations with an organization's brand.

Currently, customer expectations are extremely high, and brokers must continually enhance the customer experience to build brand loyalty and avoid churn. This is even more important during an economic slump, as a poor customer experience not only hurts an organization's brand but can also reduce profits. Organizations that prioritize enhancing the customer experience can improve their odds of standing out in an increasingly competitive market.

Market Challenges for Employers in 2023

Brokers reported that employers' top employee benefits challenges in 2023 are mitigating rising health care costs, attracting and retaining employees, and offering competitive benefits packages.

Which of the following are your clients' most pressing challenges in 2023?
Select the top three that apply.



These results are consistent with previous years' surveys, in which managing health care costs was identified as the most pressing employee benefits challenge for employers. Employee attraction and retention has been ranked among the top three challenges since 2018. However, in past years, survey respondents have identified responding to compliance concerns as the second most pressing challenge, although in some years, it was ranked third (2019) or fourth (2018).

Surprisingly, only **18.75%** of survey respondents identified compliance concerns as one of the most pressing challenges facing employers in 2023. The striking drop in compliance concerns being a top-three challenge for employers is likely a strong indication that Zywave's extensive content library and offerings like client portals and the HR Hotline are meeting employers' compliance-related needs.

Instead of compliance concerns, offering competitive employee benefits packages is considered the third most pressing challenge (**47.16%**) for employers in 2023. While the impacts of the COVID-19 pandemic may have waned over the past year, employers continue to face pandemic-related challenges that are likely driving concerns related to employee benefits packages. These challenges include increased labor market competition, worsening workforce health and wellness, and heightened employee expectations related to compensation and benefits.

The following are key insights from today's challenges facing employers.

Mitigating Rising Health Care Costs

Consistent with the prevailing trend in recent years, mitigating the rising costs associated with health care benefits is what brokers believe to be, by far, the most pressing challenge (**80.62%**) to employers. Over the last year, employer health care costs have continued to increase as health care utilization rebounds to pre-pandemic levels, outpacing the consumer price index. Inflation is also causing health care costs to rise, and it will likely drive up costs moving forward.

While reigning in rising health care costs has historically been employers' top employee benefits challenge, it's becoming increasingly difficult in 2023. The current economic conditions likely have many employers operating with smaller budgets; however, the competitive labor market is forcing employers to keep employee coverage affordable to attract and retain talent. As employers brace for further health care cost hikes in 2023, they are urgently searching for solutions to manage their growing costs and address the long-term impacts of these increases on their organizations. Planning and embracing bold strategies may be the only way to help employers reign in these costs and keep employees healthy.

Continuing Attraction and Retention Challenges for Employers

Attraction and retention continues to be a challenge that's impacting employers. In previous surveys, this trend was identified as the second and third most pressing employee benefits challenge facing employers. In 2023, attraction and retention is once again employers' second most pressing challenge (57.39%).

Attracting and retaining employees was a difficult task in 2022 as employers struggled to fill a record-high number of job openings and navigate inflation. The labor market transitioned through various phases (e.g., the Great Resignation, the Great Reshuffle and the Great Reconsideration), resulting in many employers experiencing difficulty filling open positions. These talent shortages were the result of various factors, many of which stemmed from workers reevaluating their employment priorities in response to the pandemic. There was a significant gap between the number of job openings and available workers, causing increased competition among employers to recruit new employees and retain existing ones. This resulted in employees having leverage in negotiations, which they used to demand higher pay, competitive benefits and more flexibility.

In 2023, the labor market has shown signs that this may be changing, driven by economic uncertainty and a potential recession. Many employers have slowed or frozen hiring, with some even conducting layoffs. Despite these changes, attraction and retention remains a major challenge for employers—one that's likely to continue through 2023.

Offering Competitive Benefits Packages

Offering competitive benefits packages emerged as a top-three challenge for employers for the first time, displacing compliance challenges. Employers' increased concern about offering competitive benefits may be related to their two most pressing challenges: mitigating rising health care costs and attracting and retaining employees. In response to their recent labor challenges, many employers increased employee salaries and expanded employee benefits. Compounding concerns, the U.S. inflation rate reached a 40-year high in June 2022, leading to significant price increases for many consumer goods. Employers responded in various ways to lessen inflation's impact on employees, such as reevaluating employee benefits, offering remote and hybrid work schedules, and increasing employee compensation. While the inflation rate has steadily decreased over the last several months, it's still expected to impact employees in 2023.

Additionally, during the pandemic, employers boosted their mental health and well-being benefits to address issues such as employee burnout, poor mental health and elevated stress. These benefits have been popular with employees. However, with a potential recession looming, employers are likely struggling to design and offer competitive benefits packages that meet employees' needs and wants and help them remain attractive to key talent while remaining affordable. In 2023, organizations can benefit by evaluating their benefits packages to focus on the long term and what matters most to employees.

Most employers' compliance needs have increased since the last survey. Yet, brokers ranked offering competitive benefits packages as a top concern for employers in this year's survey, ousting compliance challenges. This is likely a strong indication that Zywave's resources, such as the content library and the HR Hotline, are helping employers feel confident they can meet their compliance needs.

Key Takeaways

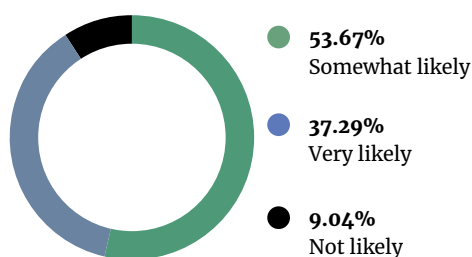
The responses to the 2023 Employee Benefits Market Pulse Survey seem to suggest that brokers and employers continue to deal with many of the same challenges as they did before and during the pandemic. Given the survey results, it appears that the pandemic worsened existing employee benefits challenges employers have been facing for years instead of creating new and unique ones. This makes it more difficult for brokers to distinguish themselves from their competition, which likely forces brokers to work harder to demonstrate to their clients the value they're adding. Therefore, successful brokers will need to establish effective strategies to respond to these challenges and position themselves for long-term success.

State of the Economy

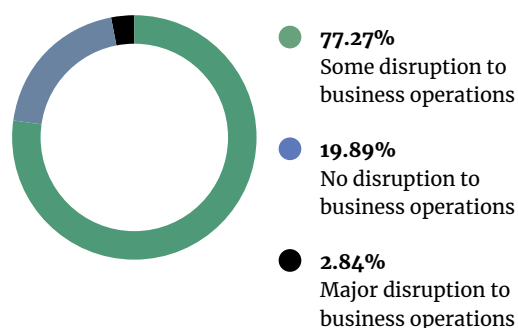
In 2023, there seems to be growing concern that the U.S. economy is heading into a recession. A recession is a prolonged and pervasive reduction in economic activity that can last several months or years, and recovery can take years. Because a recession can cause diminished economic output, lowered consumer demand and a drop in employment, such an economic downturn can present many challenges for brokers and their clients.

Survey results show the majority of brokers (**90.96%**) perceive a recession is at least somewhat likely to occur within the next 12 months, with nearly **40%** believing a recession is very likely. Additionally, most survey respondents (**77.27%**) expect the economy to have some impact on their business operations in 2023 but that it will not cause major disruption.

What do you perceive as the likelihood of a recession occurring within the next 12 months?



To what extent do you expect the economy to impact your business operations in 2023?



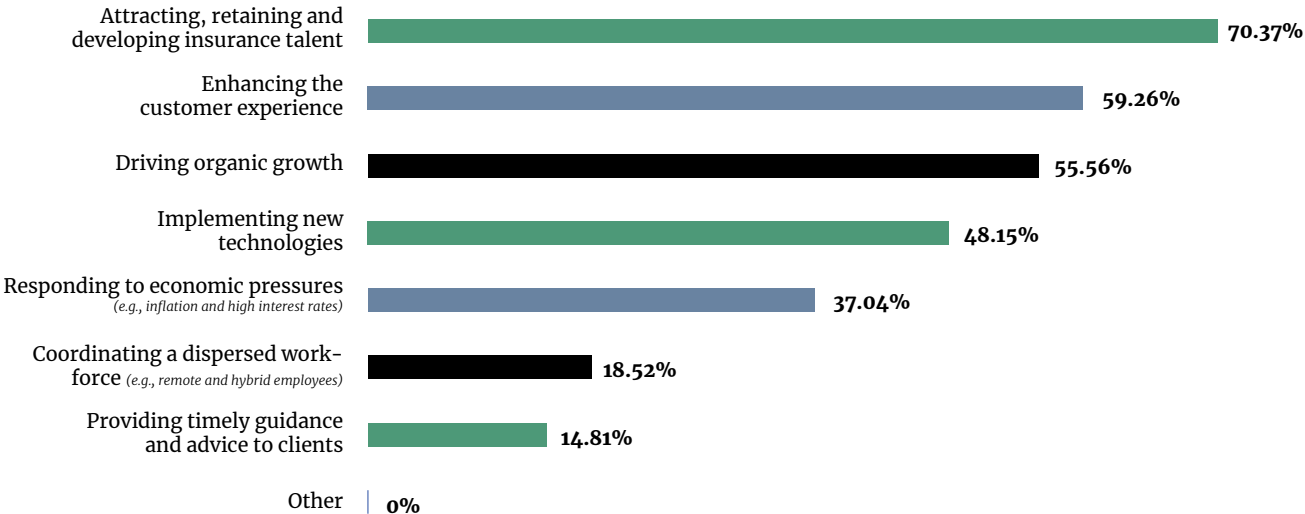
These results indicate that while most brokers believe a recession is likely to occur within the next 12 months, it will not have a major disruption on business operations. This seems to suggest that most brokers feel confident that if a recession hits, it will be a mild one—meaning the looming recession will either be short or shallow instead of having deep, lasting impacts on their organizations.

C-suite Insights

When it comes to perceived employee benefits challenges, the C-suite has much in common with the brokers. While the C-suite represents a smaller sample size of survey respondents, this group has a unique perspective that can provide valuable insights into the employee benefits market.

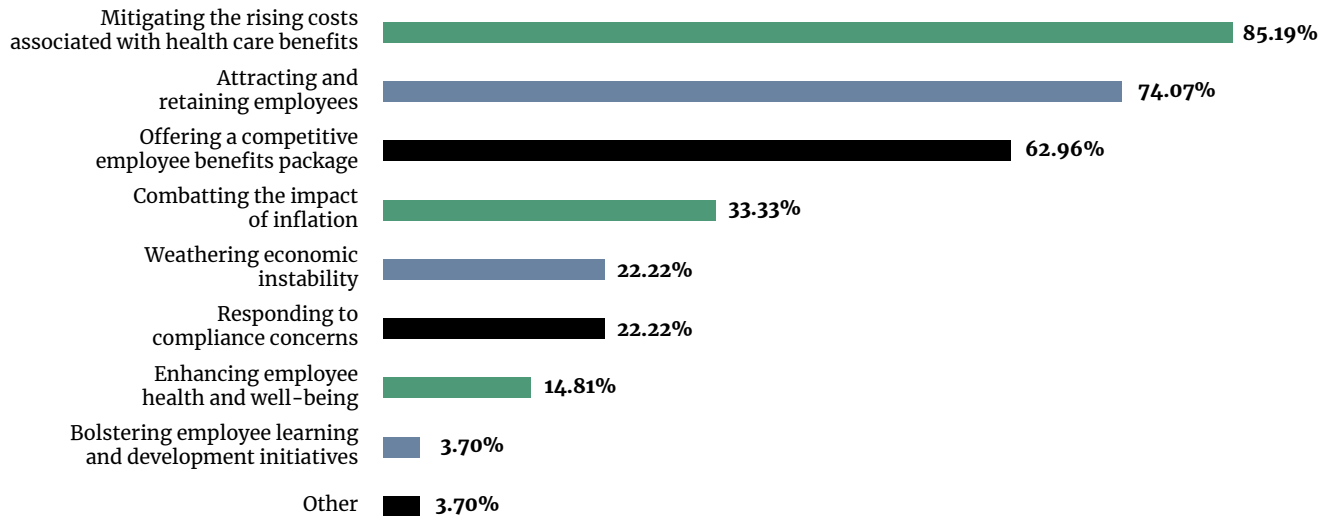
The C-suite views enhancing the customer experience (59.26%) as a more pressing challenge than driving organic growth (55.56%). Additionally, while brokers and the C-suite both view attracting, retaining and developing insurance talent as their organizations' top employee benefits challenge in 2023, the C-suite sees this as a much greater issue (70.37%) than rank-and-file employees (50.28%). This difference is likely due to the fact that the C-suite spent most of 2022 dealing with and responding to a tight labor market and its impact on their organizations. So, it's not surprising that attracting, retaining and developing talent is a greater concern for the C-suite compared to workers.

Which of the following are the most pressing challenges facing your organization in 2023?
Select the top three that apply.



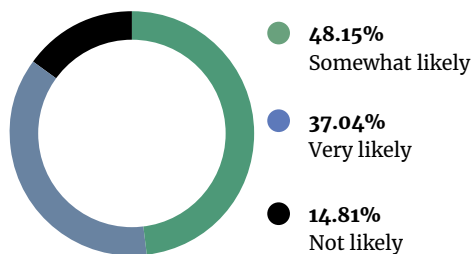
C-suite views regarding the top employee benefits challenges facing employers in 2023 mirrored that of workers, with mitigating rising health care costs (**85.19%**), attracting and retaining employees (**74.07%**) and offering competitive benefits packages (**62.96%**) being the top challenges. As with the rank and file employees, the C-suite viewed compliance concerns as a less pressing challenge for employers than in past years. However, the C-suite did rank it higher than workers, with **22.22%** believing it to be a top three challenge for employers in 2023.

**Which of the following are the most pressing challenges facing your clients in 2023?
Select the top three that apply.**

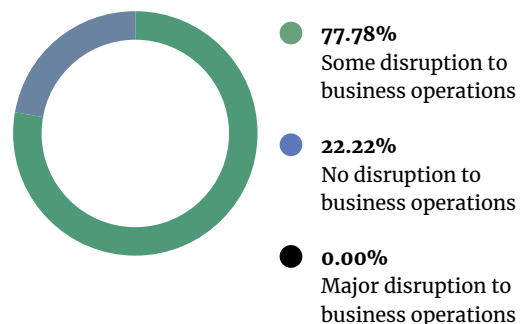


Finally, when thinking about the 2023 economic outlook, the C-suite is more optimistic, with less than half (**48.15%**) believing a recession is likely to occur within the next 12 months and nearly **15%** believing a recession is unlikely. However, the C-suite's expectation of the economy disrupting business operations in 2023 is nearly the same as brokers', with **77.78%** expecting some impact and **22.22%** expecting no disruption.

What do you perceive as the likelihood of a recession occurring within the next 12 months?



To what extent do you expect the economy to impact your business operations in 2023?



Conclusion

The 2023 Employee Benefits Market Pulse Survey results suggest that brokers and their clients continue to deal with many of the same employee benefits challenges as they did before the pandemic, and, despite not creating new or unique challenges, the pandemic likely intensified these existing challenges. Since many employee benefits challenges are the same year over year, it's becoming more difficult for brokers to differentiate themselves from the competition. As a result, brokers have to do more for their clients, whose expectations are already high and increasing each year.

Therefore, it's essential that brokers find ways to help employers become more efficient and implement impactful strategies to respond to these challenges effectively in order to deliver value and truly stand out in today's competitive employee benefits market. The most successful strategies will vary by organization, but being aware of these survey results and their likely implications can guide brokers and their clients as they respond to these challenges in 2023.

Contact us for more employee benefits resources or any topics discussed in this report.