

A New Benefits Landscape to Engage a Workforce for the Future



Employers building the workforce for the future face tough challenges. Labor markets are already tight, yet 97% of executives expect an increase in the competition for talent!¹ Pay and benefits remain the foundation for attracting talent, but designing effective rewards programs has become an increasingly complex task as employers grapple with changes in employee needs, market dynamics and multiple generations in the workplace.

The one-size-fits-all approach of employee benefits policy no longer meets the needs of the American workforce. Employers need policymakers to give them the flexibility to create individualized benefit offerings that empower workers to make benefit decisions in their own best interests.

As the largest human resources consultant for America's businesses, we know employers want to design and offer more flexible rewards packages. The technology to administer individualized benefit plans exists today, but too often, the most innovative ideas in this area are stymied by laws and regulations that haven't been updated to reflect the current business environment.

Mercer Recommends Reforms to Improve the Flexibility of Benefits Programs

We identified the biggest challenges employers face when creating innovative benefit programs to provide "ultimate choice" to employees amongst a wide range of health, retirement, financial and wellbeing benefits. We encourage policymakers to update laws and regulations, and enable changes that will allow employees to choose benefit offerings to meet their individual needs and improve their quality of life. We offer our experience and expertise to achieve the following reforms:



Ease ACA Restrictions on Cafeteria-Style Plans. If an employer provides employees with funds they can use to purchase benefits from a menu of options, any dollars that are not restricted exclusively to health benefits are ignored when determining if employer coverage is affordable. An employer who offers “too much” choice could face assessments under the Affordable Care Act.



Provide Flexibility for 401(k) Contributions Within Cafeteria-Style Plans. When an employer offers a menu of benefits for employees to choose from, all dollars that can be contributed to a 401(k) plan through a cafeteria-style plan would need to be available as cash. Employers concerned about the long-term retirement savings gap (less than a third (31%) of Americans are confident they will be able to save enough for retirement²) prefer that employees use employer provided funds to boost retirement savings or purchase other offerings that promote health and well-being.



Ease Restrictions on Non-discrimination Testing. Nondiscrimination testing seeks to ensure that highly compensated employees are not covered disproportionately or provided with more generous benefits. Unfortunately, the siloed mechanics of the testing can create scenarios where offering ultimate choice increases the risk of testing failure, despite a plan design that allows employees to choose the best benefits for their individual needs. There are some legislative proposals that could address individual program components (such as encouraging employers to make matching contributions to 401(k) plans tied to employee payment of student loans) but no proposals that more broadly address the inflexibility created by non-discrimination testing.



Ease Tax Restrictions That Hamper Flexibility. Employees may make pretax contributions through a cafeteria-style plan for “qualified benefits” and receive certain benefits on a tax-free basis. Other benefits, such as long-term care, educational assistance and dependent life insurance, cannot be purchased on a pretax basis or offered in lieu of cash or other taxable benefits under a cafeteria-style plan. And some benefits cannot be offered on a tax-advantaged basis at all, such as fitness memberships and weight-loss programs. The differing tax treatments of these benefits make it challenging to offer ultimate choice to employees via a cafeteria-style benefits plan.



Provide More Flexibility for Paid Time Off. Time off is still one of the most-valued employer-provided benefits. However, under the current rules, if an employee wishes to select more time-off benefits in lieu of cash or other benefits, the employee loses the ability to carryover unused days into a future year. This restriction is a main reason employers do not offer buy/sell paid time off plans.



Create Effective Benefits for Gig Workers. The gig economy is raising expectations of what is possible in the world of work. Some 82% of surveyed employees say they would consider working on a contract basis.³ But only employees can participate in a cafeteria-style plan; independent contractors cannot. We’re headed towards a future where employers will be substantially limited in regard to the health and retirement benefits they can offer to a growing segment of the workforce.

² Mercer, Healthy, Wealthy and Work-Wise: The New Imperatives for Financial Security, 2018

³ Mercer, HR2025