January 2024

Small Business Bulletin

Provided by ToughComp

Small Employers Focus on Retention, While Large Employers Hire Slower

Recent findings from payroll provider ADP showed that small businesses hired more than large employees during the fall of 2023. According to ADP, employers with fewer than 50 employees added 95,000 employees, while employers with 500 or more employees cut 83,000 jobs in September 2023. The divergent trends suggest that small businesses still need employees to produce and grow, while large employers can afford to reduce their workforce to mitigate inflation's impact on their businesses.

For job seekers, this means that although job opportunities are available, they may not come with the most competitive wages or benefits. In fact, ADP found that only 18% of small businesses plan to change wages in the next three months, compared to 50% of midsized businesses and 58% of large businesses. Therefore, small businesses may need to consider other tactics to attract and retain workers.

"From a retention perspective, the most cited reason for small businesses' challenges is the demand for higher salaries."

- **Tina Wang, vice president of HR at ADP**

With many midsized and large businesses planning on improving compensation to better retain workers, small businesses will need to make tough decisions about how to increase compensation or face the prospect of losing workers to competitors who are offering more. For small businesses unable to raise employee compensation as high as they would like, voluntary benefits can offer more perks to employees without raising health care costs. Voluntary benefits supplement traditional benefits (e.g., health insurance) and are usually employee-paid.

While many organizations have embraced offering voluntary benefits as an integral part of their benefits strategy, more small businesses will either embrace these benefits or expand their offerings in 2024.

According to ADP, 24% of small businesses plan on expanding employee benefits in the next three to six months. Voluntary benefits are extremely popular with employees and allow employers to tailor their benefits to employee demands and needs. Bolstering voluntary benefits will be an effective way to expand their benefits offerings to strengthen retention efforts without raising costs in 2024.

When increasing wages isn't an option, many employers understand that connection and communication can improve employee productivity and retention. ADP found that 27% of small businesses are focused on improving the employee experience in the next three to six months and 25% are upskilling current employees. Workplace flexibility and mental health support will also be essential for small businesses trying to establish a healthy and positive workplace culture.

Employer Takeaways

Competition to win over talent remains a challenge for many small businesses. Since the onset of the COVID-19 pandemic, the talent market has been a day-to-day challenge for most organizations, but especially for smaller ones. While labor challenges are trending down in 2024, they will likely remain an operational challenge for small businesses. The recent ADP report indicates that the Federal Reserve's interest rate hikes could finally be impacting the labor market. According to the U.S. Bureau of Labor Statistics' October jobs report, the number of job openings decreased to 8.7 million—the lowest level recorded since March 2021. This report indicates that the labor market is cooling. As a result, many employees will likely choose to stay with their current employer rather than look for opportunities elsewhere. This decreases employers' need to replace departing workers and could cause further cooling of wage growth.

Employers Try to Contain Health Care Costs in 2024 and Balance Employee Needs

U.S. employers expect a sizable increase in health care costs in 2024, according to industry surveys. These surveys report that, on average, employers anticipate between a 6.5% and 8.5% increase in health care costs for 2024, which are higher than 2022 and 2023 projections. Recent findings from Willis Towers Watson's (WTW) 2023 Best Practices in Healthcare Survey revealed that 69% of U.S. employers are focused on managing health care costs over the next three years. However, mental health remains a priority, with 63% of employers reporting that they're focused on enhancing mental health and well-being programs for the foreseeable future. These numbers indicate that employers are trying to strike a balance between skyrocketing health care costs and employee needs. This article outlines the ways that small businesses plan to manage health care costs.

Survey Results

Many organizations are attempting to manage costs and improve affordability by finding health care plan and vendor efficiencies. In fact, 50% of employers are planning or considering implementing programs or using vendors to reduce costs in 2024/2025, and over one-third have already taken action. Additionally, 47% of organizations are planning or considering taking vendor or health plans out to bid to find a lower-cost provider.

At the point of care, employers are controlling costs by planning (or considering offering) a narrow network of higher-quality or lower-cost providers (24%), using centers of excellence within health plans (19%), eliminating specialty pharmacy services (16%) and offering plan options that restrict or eliminate out-of-network coverage for non-emergency services (3%) in the next two years. Employers are also focusing on reducing prescription drug care costs by planning or considering switching to biosimilars (27%), evaluating and addressing specialty drug costs and utilization that are paid through the medical benefit (26%), and having plan coverage exclusions or higher cost sharing for high-cost/low-value medications (14%).

Despite high costs, employers continue to prioritize mental health. More than half of employers have conducted or plan to conduct a mental health parity audit, and 48% have engaged or plan to engage with their employee resource groups to address population-specific mental health issues. Employers are also evaluating mental health networks from a diversity lens to ensure diverse representation and offering mental health days off.

Summary

Heightened health care costs are likely to continue impacting small businesses for the foreseeable future. In fact, small businesses typically face the largest hikes in health care premiums and costs, especially when compared to large employers. This is likely the result of these organizations having less bargaining power with health insurers than large employers and often lacking dedicated HR professionals to manage their organizations' employee benefits.

Looking ahead to 2024, many small businesses are focusing on impacts related to mental health, medications and health care delivery. To combat rising costs, small businesses are focusing on improving employee health outcomes, reducing unnecessary services and prioritizing preventive and primary care. Additionally, it may be advantageous for employers to focus on benefits education and employee communication to help employees understand their benefits and the best ways to utilize and maximize them.

Many employees are looking for ways to stretch their hard-earned dollars further, and employers can step in to provide that much-needed guidance. In turn, employer efforts focused on preventive and proactive health care can help curb health care costs. Successfully navigating rising health care costs and employees' mental health needs can improve attraction and retention, boost employee health and well-being and provide employers with a competitive advantage. However, every organization is different. Small businesses must evaluate their organization's unique needs to find the balance between providing critical mental health support and implementing cost-saving measures.

Reach out to ToughComp for more workplace resources.

212-390-8772

info@toughcomp.com