Employee Benefits Report

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Benefits Administration

Is Your Company's Unused PTO Liability Putting You at Risk?

Nearly half of employees don't use all their paid time off (PTO). This trend signals problems for both workers and employers. Here's what HR needs to know—and do—about unused vacation time.

Employees Aren't Using All Their PTO

A recent survey found that 48% of employees don't expect to use all their earned vacation time this year, and 36% haven't taken any vacation days in the past 12 months. The top barriers include high vacation costs, heavy workloads, no available colleagues to cover work, manager discouragement, and an always-on culture. Experts say this indicates many employees face obstacles to taking time off. Establishing a culture that values recharging can benefit both workers and companies. Another survey found 45% of employees report burnout, which vacation time can help alleviate.

Risks of Unused PTO

When employees don't take vacation days, risks emerge for both them and their employers:

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This Just In ...

DOL Withdraws 2021 Tipped-Wage Rule

The U.S. Department of Labor (DOL) recently withdrew a 2021 tipped-wage rule vacated by a federal appeals court in August 2024, officially reinstating the pre-2021 regulation for tipped employees under the Fair Labor Standards Act (FLSA).

The Now-Withdrawn "80/20/30" Rule

The vacated "80/20/30 rule" outlined three work categories for tipped employees:

1. Tip-producing work providing direct service to customers
2. "Directly supporting" preparatory or assistive work
3. Non-tipped work unrelated to customer service

Non-tipped duties (category 3) had to be compensated at the full federal minimum wage. Category 2 work could be paid the tipped rate if performed for less than 30 consecutive minutes or 20% of the total workweek hours. This rule contradicted long-standing DOL guidance and was challenged by business groups.

For Employees:

- **Increased Burnout:** Vacation deprivation worsens stress and exhaustion, increasing the risk of health issues.
- **Work-Life Imbalance:** Without breaks, work overtakes personal life, reducing time for family, hobbies, and relaxation.

For Employers:

- **Retention and Engagement Issues:** Employees skipping vacations are more prone to burnout and quitting. Replacing workers incurs costs and disrupts productivity.
- **Productivity Declines:** Well-rested employees are more focused, creative, and collaborative. Using vacation time enhances performance.
- **Financial Liabilities:** Unused PTO accrues on balance sheets as a monetary obligation, similar to debt or pension liabilities. U.S. employers' total unused vacation liability is over $1 trillion, approximately $7,600 per full-time employee.

Current PTO Use Trends

Research shows employers provide an average of 20 total PTO days per year for longer-tenured staff. However, 75% of workers didn't use all their PTO days, 60% found it difficult to detach from work during vacation, and 86% still checked work emails or took phone calls. An Empower survey also showed 50% check email on vacation, and 35% feel anxious about requesting time off.

Strategies to Overcome PTO Utilization Barriers

Employers play a vital role in enabling staff to use earned vacation time. Best practices include:

- **Communicate Expectations:** Clearly explain PTO policies and protocols.
- **Encourage Managers to Take Vacation:** Urge managers to take PTO to model behavior.
- **Remind Employees About Balances:** Send notifications about unused days.
- **Educate on Benefits of Breaks:** Share how PTO usage reduces turnover and increases productivity.
- **Remove Organizational Barriers:** Identify and fix obstacles to PTO use.
- **Encourage Planning:** Counsel staff to submit vacation requests in advance.
- **Encourage Disconnecting:** Set expectations for workers to refrain from work contact during vacations.

Ultimately, leadership must catalyze a culture shift where self-care and recharging are valued. HR can drive this transformation through policy communication, data transparency, top-down encouragement, and removing obstacles to vacations. With buy-in, companies can achieve a well-rested, engaged workforce while controlling vacation liability risks.

Legal Dispute

The 80/20/30 rule, adopted under the Biden administration, was contested by the Restaurant Law Center and Texas Restaurant Association. A district court upheld the rule, but the 5th Circuit Court of Appeals vacated it in August 2024, leading to the DOL's formal withdrawal in December.

Implications for Employers

With the rule nullified, employers of tipped staff have more flexibility in assigning duties without losing tip credit eligibility. However, some state or local jurisdictions may still embrace similar time-based limitations on non-tipped work.

The Smart Employer's Guide to Combating Rising Healthcare Costs in 2025

While no one knows what 2025 will bring from an economic point of view and there are several factors that are beyond the control of organizations, they can implement various strategies to manage a major expense, namely healthcare.

Healthcare Costs Continue Climbing

In 2024, the average premium for family health coverage rose 4% to exceed $23,000 per year—marking the 15th straight year of increases. Employees are handling a growing share of these costs through higher deductibles and out-of-pocket expenses. In fact, the average deductible for individual coverage has rocketed from around $300 in 2006 to nearly $1,500 in 2024.

With wages lagging, many workers are feeling strained. Per BambooHR's recent survey, half of employees struggle to cover basic living expenses, with 60% paying down debt which consumes nearly one-third of their income. At the same time, raises have dropped from 6.2% in 2022 to a meager 3.6% in 2024. Two in five salaried workers got no raise last year.

Rethink Compensation Strategy

Given these trends, some employers may consider cutting back health benefits or compensation to protect profits. But reducing health coverage or pay could seriously backfire when talent is already scarce. As one expert notes, replacing workers is incredibly expensive in terms of hiring, onboarding, and lost productivity.

So before scaling back benefits or freezing salaries, organizations should carefully weigh those savings against losing their best people to competitors with better packages. With unemployment below 4%, retention matters more than ever. Employers could get creative with non-cash perks like remote work, professional development stipends, or wellness incentives.

4 Essential Cost Control Strategies

While boosting compensation makes sense for retention, getting healthcare cost growth under control remains critical. Experts emphasize smart benefit design as the best route to affordability. Here are four important strategies organizations should consider employing:

1. **Boost Plan Efficiency**

Organizations should consider shopping around for health plans every year and negotiating better rates. Another tactic to employ is to switch pharmacy benefit managers, which can result in major savings. Analytics can also uncover waste on high-cost claims. As one analyst puts it, with medical inflation far outpacing overall inflation, these moves are non-negotiable now.

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2. Make Employees Partners in Benefits

Staff behaviors drive around half of benefits spending. So, companies should consider improving engagement through strong communication about healthcare options and costs, rewards for healthy choices, and annual surveys to capture employee priorities and pain points on benefits. After all, relevant solutions require understanding people.

3. Rethink Plan Offerings

Businesses should also consider revisiting all elements of health plans to confirm they align with value and affordability, including copays, deductibles, and caps on out-of-pocket spending. Supplemental options such as telehealth should also be considered, while analyzing usage patterns can help right-size investments across the board. One expert emphasizes that an evidence-based approach delivers the most bang for the benefits buck.

4. Spotlight Mental Health

Despite the lingering stigma, more employers are prioritizing behavioral health given the massive costs linked to conditions like depression, addiction, and anxiety in medical claims and lost productivity. Thus, organizations should think about promoting mental health resources like employee assistance programs, training managers accordingly, and confirming health carriers offer adequate support. As experts note, supporting mental well-being now benefits workers and the bottom line alike.

Wages Set to Reflect 2024 Levels as Labor Market Pressures Ease

Compensation budgets are holding steady for 2025, even as concerns over talent attraction and retention ease. Employers plan to allocate similar salary increases as in 2024, according to expert projections.

Pay Raises Remaining Consistent

Salary-increase budgets at U.S. employers are expected to stay close to 2024 levels, found Mercer's 2025 Compensation Planning Survey. Participating organizations estimate hiking total compensation for nonunion staff by 3.7% on average—matching last year's 3.8% rise. Meanwhile, merit increases should hit 3.3%, on par with 2024's 3.3% bumps.

According to one labor economist, unless there's some major disruption in the labor market, compensation increases in 2025 will likely remain the same as 2024, or might even decline slightly.

Predictions Vary Slightly

Projections from other experts indicate slight dips in 2025 raises versus 2024, albeit still robust historically. Payscale's mid-2024 data showed U.S. employers budgeting 3.5% pay hikes on average next year—down from 2022 and 2023 amid cooling labor markets, but above the pre-pandemic 3% standard. Similarly, consultancy WTW recently forecasted American businesses allotting 3.7% average salary increases for 2025, versus 2024's 3.8%.

The same economist explained that the expectation is wage growth will likely be in line with the already slowing salary increases, which is based on data from the Bureau of Labor Statistics' Employment Cost Index, showing that annual growth rates in compensation categories were around 3.7—4% through the first three quarters of 2024.

Varies By Industry

The survey found compensation budgets differing by sector. Tech employers expect above-average raises at 3.5% merit and 3.8% total. Healthcare services projected below-average bumps of 3% merit and 3.5% total.

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Causes For Steady Budgets

Experts cited cooling labor markets allowing businesses to maintain—rather than accelerate—pay investments next year. Mercer showed 36% of surveyed organizations struggling with attraction and retention lately, down 9 percentage points year-over-year and 17 points from 2022's heights.

Another expert explained that the U.S. labor supply has remained the same while the demand from companies for talent has declined a lot since 2021. Even so, competition for workers is quite healthy in a variety of industries. Employers need to be careful where they spend the money they have allocated for raises to make sure they retain their top talent, according to the expert.

Don't Stall Pay Strategies

While economic indicators may prompt slowing salary growth, experts warned against reversing recent progress.

The same expert stated that companies should focus on retention, which is why they should be careful where they spend their budget for salary increases. In other words, the focus should be on retaining existing talent, which would help companies protect themselves in the event that demand picks up in 2025.

A fall 2024 BambooHR survey showed employee pay satisfaction plummeting—33% feel negatively about compensation versus 23% one year ago.

A human resources expert advises companies to make sure that the people driving the business forward are competitively compensated to retain them and avoid an unpleasant situation in the future.

Employers Face Third Year of Double-Digit Healthcare Increases

Global employers are bracing for another year of substantial healthcare cost increases, marking the third consecutive year of double-digit growth, according to new industry data. The trend shows no signs of slowing, creating mounting pressure for organizations to develop strategic responses to these escalating expenses.

Rising Costs Across Regions

Insurance industry projections indicate a 10.4% increase in global medical costs for 2025, matching 2024's increase. North American employers face a projected 8.7% rise, up from 8.1% in 2024, while U.S. organizations specifically are looking at a steeper 10.2% increase, jumping from 9.3% the previous year.

The cost surge varies by region, with Asia Pacific, the Middle East, and Africa expecting accelerated increases, while Europe and Latin America anticipate somewhat slower growth rates.

Long-Term Outlook Remains Challenging

The financial pressure on employers shows no signs of easing. Industry data reveals that 64% of insurers anticipate even higher medical trends globally over the next three years. Adding to these concerns, two-thirds (67%) of insurers expect increased demand for healthcare services during the same period.

Important Drivers Behind the Increases

Several factors are fueling these persistent cost increases:

- New medical technologies and pharmaceuticals continue to drive up expenses
- Post-pandemic healthcare utilization remains elevated
- Mental health service demands are surging dramatically

Mental Health Impact

Mental health services represent a particularly important cost driver. Industry data shows employee leaves of absence for mental health issues, including anxiety and depression, increased by 300% from 2017 to 2023.

Looking ahead, one-third of insurers (33%) predict substantial increases of 15% or more in per-person mental health service costs over the next three years. European insurers are particularly concerned, with 44% expecting such increases, followed by Asia Pacific (25%) and Middle East/Africa (23%).

Cost Per Employee

The impact on U.S. employers is substantial, with average employer-sponsored healthcare coverage expected to exceed $16,000 per employee in 2025, representing a 9% increase. This follows a 6.4% rise from 2023 to 2024, when costs averaged $14,823 per employee after implementing cost-saving measures.

Strategic Responses

Industry experts suggest several approaches for employers to manage these increasing costs:

- Evaluating vendor and digital health solutions that expand well-being resources
- Reducing unnecessary healthcare utilization
- Reviewing markets to ensure efficient private healthcare coverage sourcing
- Implementing data-driven business and health outcomes strategies.

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