

The Hidden Cost of Guiding Employees to Better Benefits

by | Greg Ward



The often-rushed benefit choices that workers make during open enrollment can profoundly impact their health and financial well-being. Using the example of health plan enrollment, the author discusses common behavioral decision-making traps and offers a framework for decision support.

Wrong Choices: Decisions



When my daughter Rachel started her career several years ago, like most new hires, she faced a compressed time line to select her health care benefits during onboarding. As I looked at her options, I was struck by how overwhelming the choices were. She had several dozen health plans to choose from, each with different premiums, deductibles, copays and network configurations. As someone who has spent two decades in financial wellness, I found myself thinking, “I’m a professional, and this is overwhelming to me. I can’t imagine someone having to make this decision on their own without a dad who is a financial planner.”

Rachel was 25 at the time, which meant a poor decision made in haste could compound over potentially the next 40 years until retirement. She had defaulted to the most expensive health plan available because she noticed her doctors were listed as in network. When we sat down together, she realized that those same doctors were also in network for many of the other plans, and the extra coverage under the premium plan was of little value for someone young and healthy. We reenrolled her in a more appropriate option during that same benefits window, dropping her monthly cost from more than \$500 to around \$100.

benefits
MAGAZINE

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Rachel's experience isn't unique. It reflects a pattern I've observed throughout my career: Workers often don't have the time to fully understand their benefits. They make decisions out of haste or with incomplete information, or they consult an older colleague whose circumstances are completely different from their own. Then, perhaps most critically, they never make a correction during future open enrollments. What starts as a rushed decision becomes years or even decades of overpaying, lost savings opportunities and accumulated financial stress.

Every open enrollment season, millions of U.S. workers face decisions that will profoundly affect their health and financial well-being for the next 12 months—and potentially far beyond. These decisions aren't limited to health insurance. Employees must navigate elections for health savings accounts (HSAs) and flexible spending accounts (FSAs), disability and life insurance coverage, retirement plan contributions and investment selections, and various voluntary benefits.

The result is a systemic pattern of suboptimal benefits selections that may cost employees thousands of dollars while undermining the strategic investments that employers make in their benefits programs. The consequences of poor plan selection extend beyond immediate out-of-pocket

expenses to include lost investment opportunities, increased financial stress and diminished employee satisfaction with benefits that were designed to support their well-being.

The Long-Term Impact of One Choice

To understand what's at stake, consider a straightforward comparison between a traditional preferred provider organization (PPO) and a high-deductible health plan (HDHP) with an HSA. Using an individual coverage scenario with realistic assumptions, the following illustrates the long-term impact of this single decision.

The comparison considers a PPO with a \$600 monthly premium versus an HDHP at \$400, both subject to 3% annual inflation, with an employer HSA contribution of \$500 a year. For an employee with minimal health care utilization, the financial divergence becomes dramatic over time.

In the first year alone, choosing the HDHP saves \$2,675 in premium contributions compared with the PPO option. This advantage compounds annually. By year ten, the cumulative savings reaches \$40,797. Extend the time line to a full career of 30 years, and the gap widens to more than \$329,164 in accumulated savings and investment growth (if the savings are invested), assuming a 7% annual return on HSA investments (Figure 1).

To put this in perspective, Fidelity estimates that a 65-year-old who is retiring today can expect to spend an average of \$172,500 on health care and medical expenses throughout retirement.¹ The \$329,164 could cover most or all of a person's retirement health care costs (assuming that savings are set aside and not spent). Having that money, or not, can be the difference between financial resilience and vulnerability in later years when health care needs typically intensify.

When the PPO Makes More Sense

Of course, not every year will favor the HDHP. In years when health care utilization may be higher, the PPO may become the smarter choice. For example, an employee who requires physical therapy following surgery may have to pay the full cost of each session under the HDHP until the deductible is reached. By contrast, the employee may only have to pay a copayment under a PPO, potentially saving thousands in out-of-pocket costs.

The same could be true for someone managing a chronic condition requiring expensive brand-name specialty drugs. For example, a PPO's tier-three copay of \$40 per prescription

takeaways

- Failing to make optimal benefit choices during open enrollment can negatively impact workers' health and financial well-being in both the long and the short term.
- Factors that prevent employees from making good benefit choices include decision fatigue and a lack of decision-making support. Employees can also fall into behavioral finance traps, including present bias and complexity avoidance.
- Consequences of poor benefit plan selection for the employee can include increased financial stress, diminished productivity, higher absenteeism and poorer health outcomes. Such choices can limit a plan sponsor's ability to manage costs if plan adoption rates are low, and employee dissatisfaction with benefits can affect the ability to compete for top talent.
- Strategies for supporting better benefit choices include offering personalized decision tools and decision support, such as one-on-one consultations and small-group meetings.
- Employers should also build benefits awareness through communication throughout the year instead of only during open enrollment.

beats paying the full \$500 monthly cost under an HDHP until the deductible is met.

From a cash flow perspective, the PPO offers predictable monthly premiums rather than having to maintain \$6,000 in liquid savings ready for unexpected medical bills. Without that emergency cushion, employees may end up charging health care costs to high-interest credit cards, turning a medical event into a financial crisis.

The key is matching the plan to the individual's circumstances. For employees who can accurately predict high utilization, the PPO's structure provides both financial protection and peace of mind.

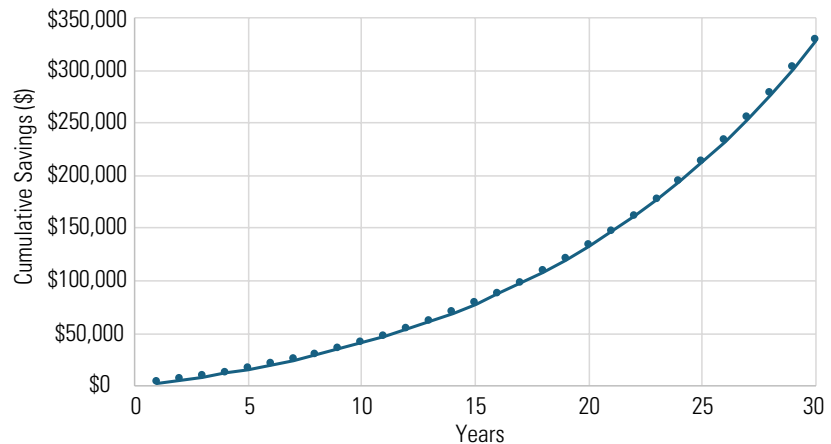
Why Employees Choose Poorly

The pattern of poor selection isn't a failure of intelligence or diligence. Rather, it reflects predictable behavioral patterns that plan sponsors must understand to provide effective support.

One such pattern is *decision fatigue*. According to the Cleveland Clinic, decision fatigue is a phenomenon in which the more decisions a person makes over the course of a day, the more physically, mentally and emotionally depleted they become, leading to impaired judgment and struggles with executive functioning.² When employees face the tight window and cognitive demands of open enrollment, they're making consequential decisions at precisely the moment when their decision-making capacity may be most compromised. Decision fatigue leads to more conservative decision making, where individuals default to familiar options or take the easiest path rather than engaging in the complex analysis

FIGURE 1

Projected Cumulative Savings With a High-Deductible Health Plan



Source: Author's calculations, assuming a 7% annual return on investments.

required to identify optimal choices.³ This explains why 55% of employees spend less than 30 minutes deciding on their health insurance plan and why 24% take no action at all, simply reenrolling in their prior plan regardless of whether it still fits their needs (Figure 2).⁴

The problem compounds when we consider that employees often lack adequate support for these critical decisions. When asked what resources they use during open enrollment, 50% rely on their annual benefits guide, 39% use their online benefits portal, and 25% engage in video or training sessions. Only 16% consult with human resources (HR) staff, family or friends, and a mere 4% work with a financial advisor who could provide personalized guidance through the complexity (Figure 3).⁵

Another challenge is *present bias*, which leads employees to overweigh immediate, visible costs like copays

and deductibles while discounting future benefits and long-term savings potential. A \$25 copayment versus a \$250 deductible feels more concrete and immediate, while tax-advantaged compound growth over decades feels distant and uncertain. *Loss aversion* may also weigh into decision making, because the risk of paying a high deductible may feel more painful than the loss of higher premiums.

Then there's *complexity avoidance*, which leads employees to default to familiar options or make snap judgments based on simplified heuristics. When faced with plan documents filled with unfamiliar terminology and intricate cost-sharing provisions, many simply choose what they had before or what sounds most "complete."

And let us not forget the *information gaps* that compound these challenges. Many employees lack the health literacy and financial sophistication to accurately estimate their expected

utilization, calculate the total cost of ownership across different scenarios, or understand the true value of tax-favored savings and spending accounts. To illustrate the point, Heather Ruff of Visa reported that 34% of HSA users know little or nothing about their account, and more than four in five nonusers (81%) said they know little or nothing about HSAs.⁶

These behavioral patterns are not limited to health insurance decisions. A new hire might stick with a 3% default retirement contribution rate, missing out on a full 6% employer match and effectively leaving free money on the table every pay period. An employee may decline optional long-term disability coverage to save \$15 a month, unaware that a single illness could jeopardize 60% of their lifetime earnings. Another might overfund an FSA due to complexity avoidance, only to lose several hundred dollars at year end due to the use-it-or-lose-it rule.

The Cascading Consequences

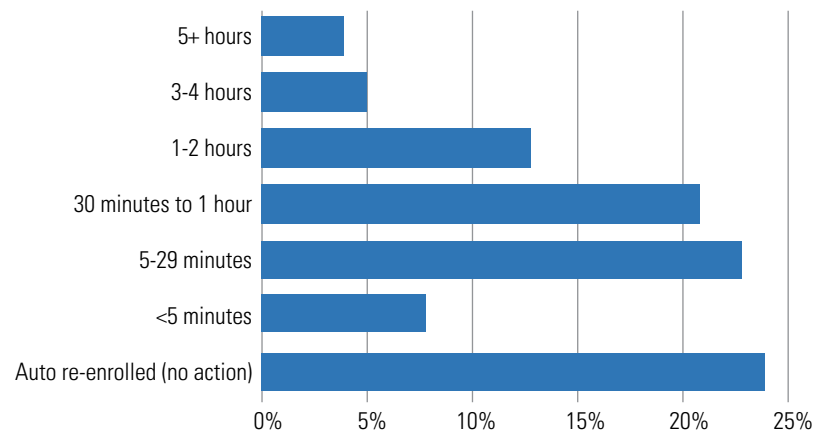
Poor plan selection can create a cascade of negative outcomes that extend well beyond the immediate financial hit.

At the individual level, employees who choose the wrong coverage for their situation may experience increased financial stress, which research consistently links to diminished productivity, higher absenteeism and poorer health outcomes.⁷ They may spend more than necessary during their working years, leaving less to provide security during retirement when health care expenses may be higher.

For plan sponsors, widespread sub-optimal selection undermines strategic benefits objectives. When employees don't understand or appreciate the

FIGURE 2

Time Spent Making Health Insurance Decision



Source: Cleveland Clinic.

value of employer-sponsored health care benefits, adoption rates remain low, limiting the plan sponsor's ability to manage costs while maintaining quality coverage. Poor selection and usage could keep employees financially vulnerable to unexpected medical expenses, the very risks health benefits programs aim to mitigate.

Moreover, employee dissatisfaction with benefits can affect an employer's ability to compete for top talent, as well as lead to decreased focus, higher stress and low benefits satisfaction among employees. If the workforce doesn't understand the true value of the benefits an employer is providing, the employer is not receiving credit for its investment. This represents both a financial and strategic loss.

A Framework for Better Decision Support

Forward-thinking plan sponsors recognize that providing choice isn't enough. They must actively support

better decision making. The following is a practical framework for elevating an approach.

- Lead with personalized decision tools.** Employees don't experience their benefits in silos, so while point solutions that help compare health care plans are useful, the real opportunity lies in connecting all benefits and financial information under one roof to show how each decision impacts total financial security. Specialized tools for health care selection can work alongside holistic financial wellness platforms, with artificial intelligence (AI) integrating data across medical plans, health care and retirement savings, employer incentives and personal finances to generate recommendations grounded in an employee's full financial life. These systems must be built with robust privacy protections, ensuring that personal health and financial data remain

secure and are used solely to provide personalized guidance with the employee's explicit consent.

- **Keep humans in the loop.** Using technology to personalize decisions is good, but employers can make it great by pairing that intelligent automation with credentialed financial coaches, typically provided through vendor partners rather than internal staff. These coaches offer the context, guidance and support required for complex decisions that technology alone cannot provide. This combination of interoperable technology and human coaching not only helps employees choose the right plan for the year ahead but also empowers them to build long-term financial resilience.
- **Make the long term visible.** Most decision support focuses exclusively on the coming plan year. Employers should help workers understand the cumulative impact of their choices over longer time horizons and show them the financial impact of their decisions over ten, 20 or 30 years.
- **Provide decision support, not just information.** Information dumping overwhelms rather than enlightens. Communications should be structured to guide employees through a clear decision process. In the case

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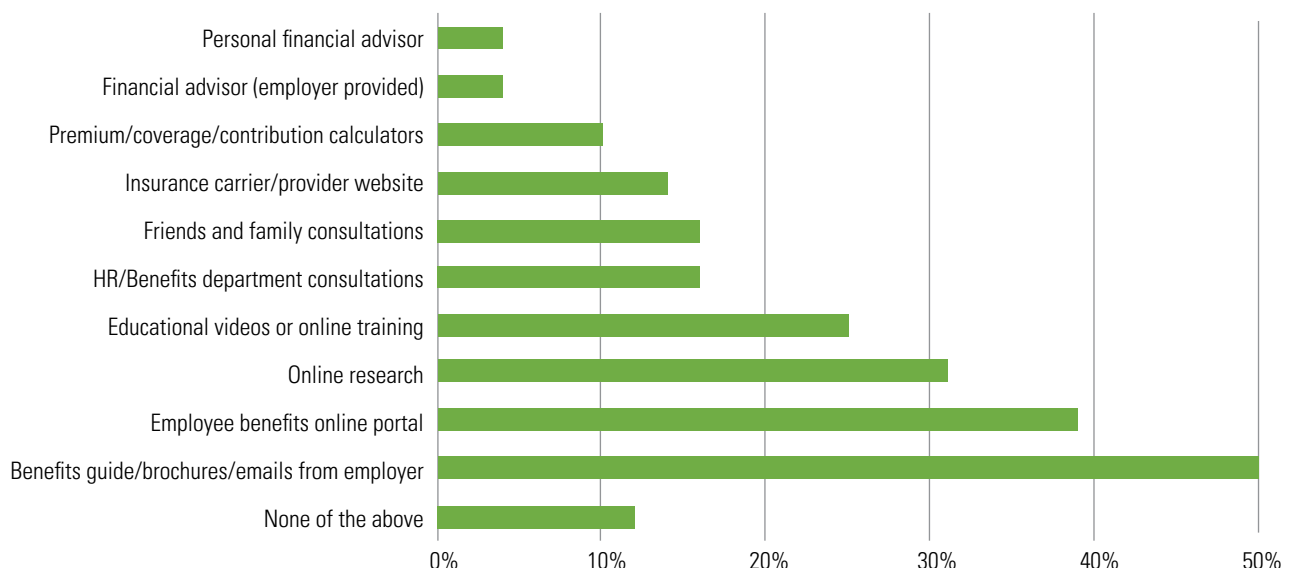
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of health care, employees should estimate utilization, compare total costs across scenarios, understand the tax benefits and evaluate the investment opportunity. Offering one-on-one consultations or small-group sessions would allow employees to ask questions and work through scenarios specific to their situations.

- **Time communications strategically.** Benefits education shouldn't be limited to the compressed open enrollment window. Employers can build awareness throughout the year with regular touchpoints that reinforce key concepts, share success stories and provide ongoing guidance. One effective approach is to deliver this education through a single digital platform where

FIGURE 3

Tools/Resources Used During Open Enrollment



Source: Employee Benefit Research Institute.

employees can access all their benefits information year-round. This centralized benefits hub serves as a one-stop destination integrating benefit summaries, decision-support tools, educational content and personalized recommendations. The hub can also incorporate employees' financial situations, which allows them to gain insight into how their benefits meet their unique goals and needs. When open enrollment arrives, employees should already understand their options and how they may fit their lives.

Build Organizational Capability Strategically

Improving employee decision making requires more than better communication. It demands the right infrastructure. Equipping HR teams and benefits counselors with intelligent tools powered by AI and machine learning may help them handle the full spectrum of employee questions without creating additional workload. These technologies can instantly answer questions through chatbots, virtual assistants or interactive platforms. The best solutions draw exclusively from approved plan documents while delivering personalized guidance on everything from basic coverage questions to sophisticated topics, including investment strategies tailored to different life stages and income levels, tax optimization approaches and long-term financial planning. This ensures that employees receive accurate, compliant answers at any level of complexity while freeing the benefits team to focus on strategic initiatives rather than repetitive inquiries.

Employers should measure what matters by tracking not just benefit engagement numbers but indicators of decision quality: savings rates, investment election percentages, employee confidence scores and satisfaction ratings with the decision support provided. This data can be used continuously to refine the approach.

Partnering with benefits advisors, technology vendors and the financial wellness benefit can help employers to stay current with emerging decision support tools and behavioral science insights. The field of benefits communication is advancing rapidly, and it's important to ensure that approaches evolve accordingly.

The Path Forward

The gap between optimal and actual employee choices is likely to continue to widen unless plan sponsors take delib-

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erate action. Time and time again, the employees who suffer most from poor decisions are often those who can least afford the financial consequences.

The good news is that the tools, technology and insights needed to transform benefits decision making from a source of confusion and frustration into a driver of financial well-being are now readily available. Gone are the days of extensive benefits paperwork that drowns out key details for most employees. When employees are empowered to make better choices, they build financial security, appreciate their benefits more fully and feel greater confidence in their employer's commitment to their well-being.

Plan sponsors that act decisively can fundamentally alter the financial trajectory of their workforce, potentially helping employees capture real monetary value that would otherwise be lost to suboptimal choices. That's a great feeling for any benefits leader and a great business strategy. 🎯

Endnotes

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