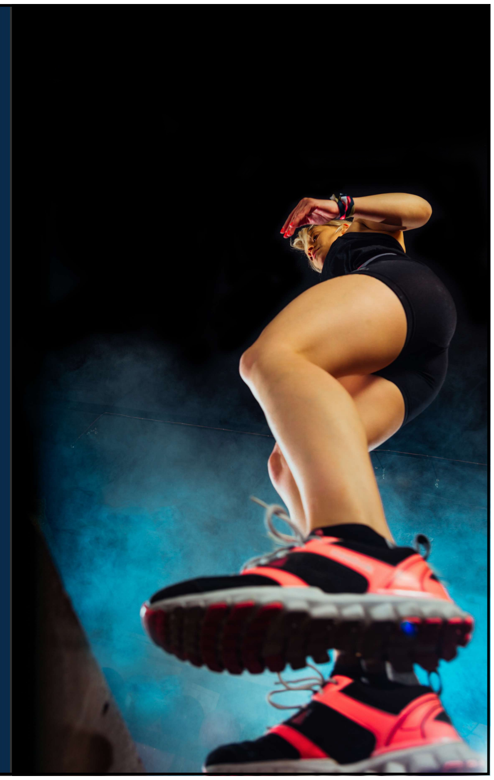
EMPLOYEE BENEFITS HEALTH CARE TREND INSIGHTS

# What's Driving Health Care Costs — and What Employers Can Do

Self-funding, large claims, GLP-1s, AI, gene therapy, and cost mitigation strategies

**2027 HEALTH CARE TREND REPORT**



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OVERVIEW

## What This Deck Covers

Eight forces reshaping employer health plan costs, and the levers that respond to them

01 **2027 Trend Outlook**
National and regional carrier projections

02 **Large Claims & Stop-Loss**
Frequency, severity, a hardening market

03 **GLP-1 Drugs**
Cost today vs. savings tomorrow

04 **AI in Health Care**
Adoption at scale, new liability

05 **Cell & Gene Therapy**
Million-dollar cures, unresolved financing

06 **PBM Reform**
The first federal mandate to regulate PBMs

07 **Premiums & Affordability**
Rate drivers and the employer squeeze

08 **Cost Mitigation**
Self-funding, telehealth, pharmacy, claims data



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NATIONAL 2027 TREND PROJECTIONS

## Nationwide Trend Projects a 10.6 Percent Rise

Medical costs are projected to rise faster across all five regions in 2027 compared with 2026



| Plan Type | National | West | Southwest | Midwest | Northeast | Southeast |
|---|---|---|---|---|---|---|
| HMO w/RX | 10.1% | 8.1% | 10.1% | 10.7% | 10.8% | 10.4% |
| PPO w/RX | 10.8% | 11.2% | 10.8% | 10.9% | 11.0% | 10.4% |
| CDHP w/RX | 10.4% | 9.7% | 10.6% | 11.0% | 10.9% | 10.1% |
| POS w/RX | 10.3% | 8.7% | 10.5% | 10.8% | 10.9% | 10.3% |

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LARGE CLAIMS

## Catastrophic Claims

Which medical condition was the highest dollar claim driver in 2025 for most stop loss and medical carriers?

A. Hemophilia
B. Neoplasms / Cancers
C. Transplants

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LARGE CLAIMS

# Catastrophic Claims Are Bigger — and More Frequent

Gene therapies, specialty drugs and rising co-morbidities are pushing more claims past $1 million

### Highest-dollar claim categories

1. Neoplasms / cancers
2. Cardiovascular diseases
3. Digestive system diseases
4. Endocrine & metabolic
5. Musculoskeletal & connective tissue

**61% → 75%**

of large firms carrying stop-loss insurance, 2020 to 2025

**66%**

of employers with 5,000+ employees now report stop-loss coverage

Transplants, hemophilia and congenital anomalies — once top-five — have slipped to 10th–20th as new cost drivers displaced them.

*Sources: KFF Employer Health Benefits Survey 2025; Sun Life High-Cost Claim and Injectable Drug Trend Analysis, 2026 edition*

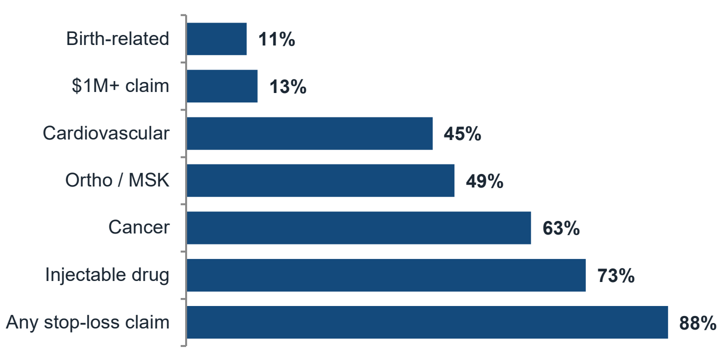




STOP-LOSS CARRIER EXPERIENCE

# A Hard Market Meets a Record Trend

Loss ratios rose from 80.4% to 85.8% between 2023 and 2024 — expect tighter terms at renewal




Employers with a stop-loss claim in a given year

### What to do before renewal

- Seek rate caps and no-new-laser provisions
- Expect wider use of lasers on known conditions
- Consider a higher specific deductible to offset premium
- Model large-claim exposure early, not at renewal

*Sources: NAIC 2024 Accident and Health Policy Experience Report; Sun Life High-Cost Claim and Injectable Drug Trend Analysis*

GLP-1 DRUGS

# Can GLP-1s Deliver Long-Term Medical Savings?

How many US adults are currently taking Ozempic or other GLP-1 drugs?

A. One in Eight
B. One in Ten
C. One in Twenty

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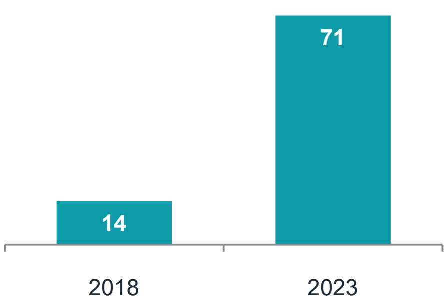
GLP-1 DRUGS

# The Cost of a Miracle

About one in eight U.S. adults now takes a GLP-1 — and spending has followed




U.S. GLP-1 spending, $ billions — a 400%+ increase

**$936–$1,349**
list price for one month's supply

**30M+**
people in the U.S. taking GLP-1 drugs

**The employer squeeze**

Nearly 8 in 10 employers say GLP-1s are raising their health insurance costs. 67% cover them for weight loss today — but 72% of those employers say they won't in 2027.

*Sources: KFF Health Tracking Poll 2025; JAMA Network; National Consumers League; Business Group on Health*



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GLP-1 DRUGS

# Could GLP-1s Deliver Long-Term Savings?

The question is no longer whether these drugs are expensive, but whether the health gains outweigh the cost

### The case for covering

- U.S. obesity peaked at 39.9% in 2022 and fell nearly 3 points by 2025
- Obesity-related medical spending exceeds $261 billion a year
- Employers lose $271–$542 per obese employee in yearly productivity
- Coverage aids recruiting and retention as other employers cut benefits

### The catch

- Weight returns at nearly one pound a month after stopping treatment
- Patients hit baseline weight again in about 1.7 years
- Cholesterol and other cardiometabolic markers revert too
- Benefits require long-term commitment — plus maintenance and wellness support

*Sources: Gallup; Journal of Managed Care & Specialty Pharmacy; CDC; The BMJ*



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HOW AI IS TRANSFORMING HEALTH CARE

# AI Is Already Standard Practice

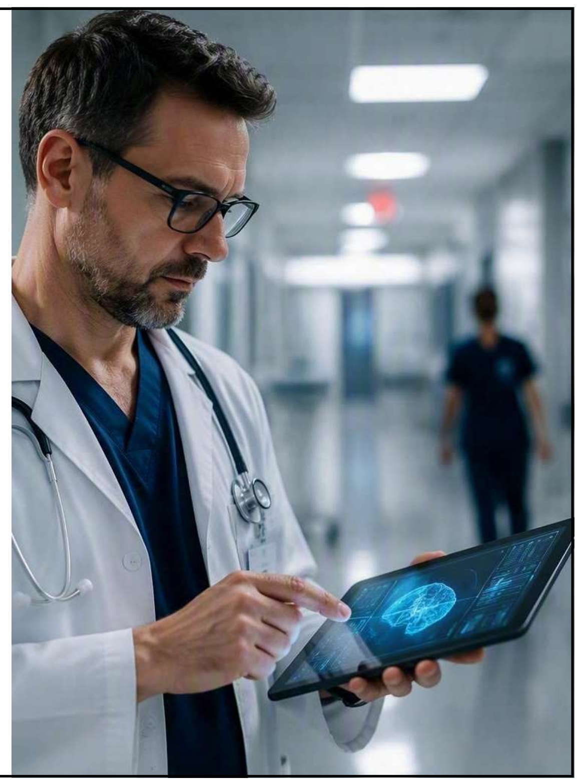
**81%** of physicians now use AI professionally — more than double 2023

**92%** of hospitals use machine learning to predict inpatient risk

**79%** use it to flag high-risk outpatients for follow-up care

**21.2%** drop in reported physician burnout where AI scribes are used

*Sources: American Medical Association; Health Affairs; JAMA Network Open*



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HOW AI IS RESHAPING RISK

## Where AI Helps — and Where It Hurts

Physicians spend 44.9% of their time on records; AI can win that back, but not without oversight

### Diagnostics & Devices

Mayo Clinic's system flags pancreatic cancer on routine CT scans up to three years early — but models hallucinate and tend to agree with the user, risking a confirmed wrong diagnosis.
An AI-enabled ENT surgical tool went from 7 malfunction reports to 100+, with at least 10 injuries

### Documentation

AI scribes free clinicians to be present with patients. At Mass General Brigham 3,000 doctors use them — yet scribes sometimes invent text, and unsecured tools expose patient data.

### Billing

AI coding may add roughly $663M to inpatient spending, and 'upcoding' concerns are growing.

**Unlikely that the trend of AI adoption in health care will reverse anytime soon.**



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CELL AND GENE THERAPIES

## Million-Dollar Cures, Unresolved Financing

**$4.25M**
U.S. list price for a one-time Lenmeldy treatment

**4,164**
cell and gene therapies in development

**340K**
patients expected by 2030, up from 12,000 in 2020

**$20.4B**
projected annual gene therapy spending

Costs land unevenly: if a patient changes jobs after treatment, the former employer and plan absorb the bill. Stop-loss carriers now price in identified candidates — and some write gene-therapy-specific cover.

*Sources: Evernorth Health Services; Nature; Pharmaceutical Technology*

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CELL AND GENE THERAPIES

# The Rise of Cell and Gene Therapies

There are currently just over 40 FDA cell and gene therapies on the market. How many are expected by 2035?

A. 4,164

B. 1,380

C. 79





LEGISLATIVE UPDATE

# PBM Reform: Where Are We Now?

The Consolidated Appropriations Act of 2026 is the first federal mandate to directly regulate PBMs

### The unsettled ground

- 77% of members with drug coverage are served by a vertically integrated insurer and PBM
- All 50 states have passed PBM legislation, but federal courts have struck many down under ERISA
- California's 2026 spread-pricing ban stands for now, with challenges already filed
- TrumpRx.gov lists cash prices for about 60 generics; GoodRx and Cost Plus Drugs often beat it

### What the law requires

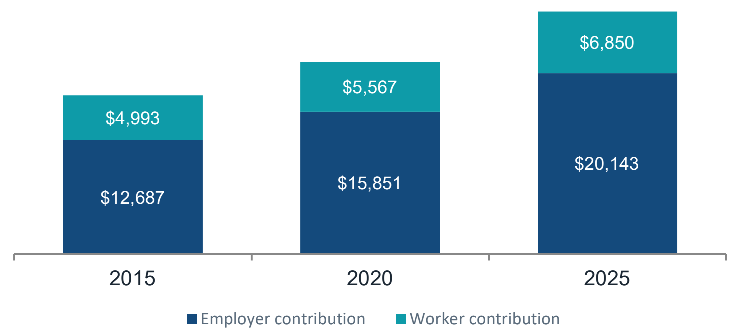
- Pass all manufacturer rebates and discounts through to plan sponsors
- End spread pricing — no profit on the gap between plan and pharmacy payments
- File extensive disclosures on how PBMs make money
- Submit to audits by plan sponsor representatives
- Provisions take effect in 2028 and 2029

*Sources: American Medical Association (2025 update); NASHP March 2026 report; Consolidated Appropriations Act of 2026*

PREMIUM TRENDS

# Are Steep Rate Hikes the New Norm?

Family coverage rose 26% over five years while inflation ran 23.5%




Average annual family premium, employer vs. worker share

### What's driving it

- Inflation and wage pressure since the 2022 peak of 9.1%
- Labor shortages: 141,160 physicians and 108,960 nurses short by 2038
- Rebounding utilization, aging population, behavioral health demand
- Drug spending set to top $1 trillion in 2026
- ACA subsidy expiration thinning the risk pool

*Sources: KFF 2025 Employer Health Benefits Survey; Commonwealth Fund; HRSA; Health Affairs; McKinsey & Company*

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EMPLOYER PERSPECTIVE

# Health Care Affordability – The Challenge for Employers

Costs are rising 6–10% a year while salaries track inflation near 3%. Many employers are absorbing more of the increase rather than shifting it to employees.

**75–80%** of employees call the benefits package a deciding factor in taking or keeping a job

- Cost-shifting behaves like a wage cut — it weakens morale and competitiveness
- Demand is growing for mental health, fertility, women's health and caregiving benefits
- Year-round, multi-channel communication is replacing once-a-year enrollment packets

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COST MITIGATION STRATEGIES

# Alternative Funding Is a Platform, Not a Discount

It buys data, flexibility and financial alignment — the savings come from what you do with them

### HRA

Pairs with an ACA-compliant high-deductible plan: capture the lower premium, restore the benefit through employer funding, and start seeing utilization patterns.

### Level-funded

Predictable monthly payments with self-funded advantages — detailed claims data, plan design flexibility, and a share of favorable experience.

### Medical captive

Pools risk across like-minded employers, dampening renewal volatility and opening a path out of the fully insured market without years of claims history.

Claims visibility is the point: it lets employers target high-cost conditions, steer to high-value providers, and manage plan design against real experience.



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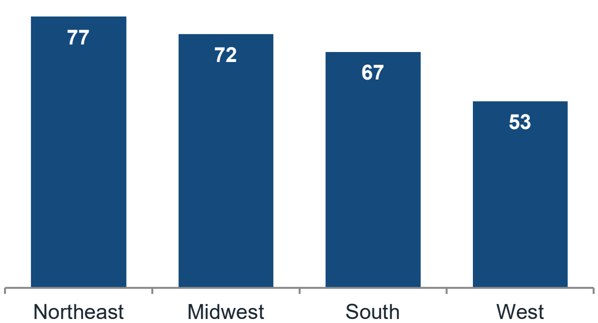
OUTLOOK ON THE SELF-FUNDED MARKET

# A Mature Market, Still the Default for Scale

Adoption climbed for 25 years, then flattened within about two points




Self-funded enrollment by region

*Source: KFF Employer Health Benefits Survey (2025)*

**67%**
of covered employees are now in a self-funded plan, up from 46% 25 years ago

**27%**
small-employer adoption — more than double the 13% of 25 years ago

**51%**
of small employers when level-funded plans are included



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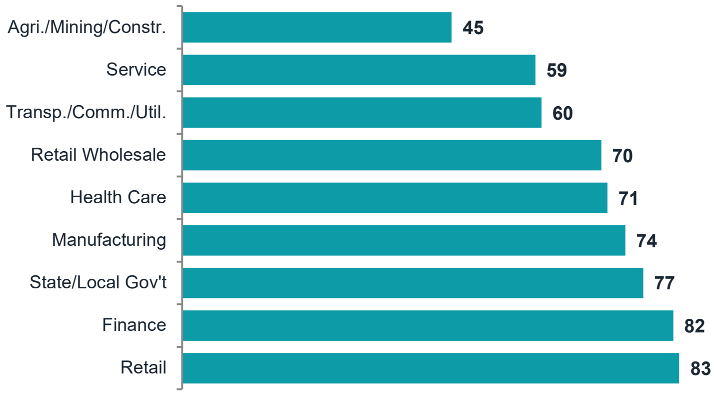
OUTLOOK ON THE SELF-FUNDED MARKET

# Industry Matters More Than Geography

Workforce size, demographics, financial resources and risk tolerance drive the spread




## 38-point spread

between the highest and lowest adopting industries — far wider than the regional gap.

There is no one-size-fits-all funding answer. Employers evaluate self-funding against their own workforce needs, financial objectives and risk appetite.

*Source: KFF Employer Health Benefits Survey (2025)*



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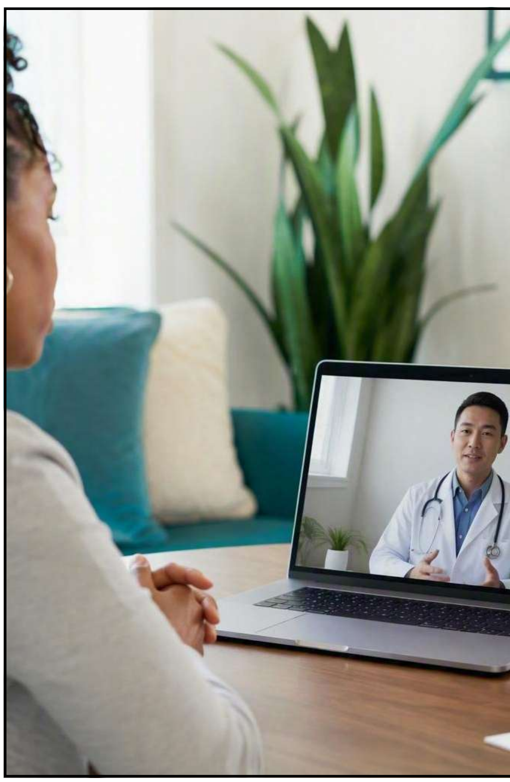

COST MITIGATION STRATEGIES

# Telehealth: From Perk to Core Strategy

Intercepting low-acuity care before it escalates

| | |
|---|---|
| $79 | Telehealth visit |
| $168 | Urgent care visit |
| $1,150 | Emergency room visit |

62.1% of mental health visits are now virtual, with neurology (32.2%), endocrinology (24.2%) and gastroenterology (20.4%) following. Virtual care also cuts facility fees, absenteeism and no-shows.

*Source: 2025 telehealth utilization and cost analysis cited in the report*

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COST MITIGATION STRATEGIES

# Pharmacy Is Where the Money Concentrates

A small number of specialty drugs account for a large share of employer pharmacy spend

**20–30%**
of total plan spend now goes to pharmacy

**50–55%**
of pharmacy spend is specialty — under 2% of scripts

**35%**
of pharmacy spend sits in the top 10–15 specialty drugs

### PBM levers that work

- Biosimilar and generic substitution — the largest single opportunity
- Step therapy, prior authorization and quantity limits
- Site-of-care optimization and specialty pharmacy management

### Hold the PBM accountable

- Market PBM services at least every other year
- Test pricing, rebate pass-through, fees and clinical guarantees
- Treat discount cards as a supplement — they bypass deductibles and hide utilization

*Sources: Mercer National Survey of Employer-Sponsored Health Plans 2025; American Journal of Health-System Pharmacy; Milliman Medical Index*



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KEY INSIGHTS

# Employers Can't Control Medical Inflation — Only How Their Dollars Are Spent

**Expand telehealth access**
Divert low-acuity care from urgent care and the ER

**Evaluate alternative funding**
HRAs, level-funded plans and captives open the door to data

**Leverage claims data**
Find high-cost conditions before they become renewals

**Optimize pharmacy benefits**
Market the PBM, push biosimilars, manage specialty spend

**Encourage preventive care**
Cost-shifting deters the care that prevents bigger claims

**Target population health**
Chronic disease management and centers of excellence

*No single strategy eliminates rising costs — but employers who evaluate their programs actively and decide with data are better positioned for what comes next.*

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COST MITIGATION STRATEGIES

## Strategies to Control Costs

What cost saving strategies are you most likely to explore?

A. Expand telehealth services and employees' education about accessing care
B. Leverage claims data through alternative funding solutions
C. Encourage preventive care
D. Optimize pharmacy benefits
E. Manage claims and population health through centers of excellence or disease management.

ALL ARE CORRECT



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# Thank You

Let's talk about what these trends mean for your plan, your funding strategy, and your people.

BASED ON

**2027 Health Care Trend Report**

Prepared by Heffernan Benefits Advisors

Health Care Trend Report 2027

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