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Benefit and Retirement Advisors

Key Drivers of 2026 Health Care Cost Increases

Health care costs have been growing at an alarming rate in recent years, and they're not slowing down. As such, surveys project that health care costs in the United States are likely to increase by 6.5% to, in many cases, as much as over 10% in 2026. Here's a breakdown of cost predictions:

- Mercer predicts that the total health benefit cost per employee will rise **6.5%** on average in 2026, which is the highest increase since 2010, even after planned cost-reduction measures.
- The Business Group on Health (BGH) expects a **7.6%** increase in health care costs for 2026 when offset with plan design changes.
- PwC expects medical costs to grow at **8.5%** for the third year in a row.
- The International Foundation of Employee Benefit Plans anticipates a **10%** increase in health care costs in 2026.
- A KFF analysis revealed the median proposed premium increase among 318 small group insurers is **11%** for 2026.

Furthermore, individual Marketplace plans are likely to go up even higher, as much as 15%-20%. Regardless of the exact figure, employers can expect their health care costs to continue to skyrocket throughout 2026. As the next year approaches, many employers remain curious about what is driving these increases. Here are key factors that will impact rising health care costs in 2026.

GLP-1s

Growing demand for glucagon-like peptide-1 (GLP-1) drugs continues to be a top factor in rising health care costs. Although initially approved as Type 2 diabetes treatments, GLP-1 drugs have been found to be effective for weight loss when paired with diet and exercise. These drugs have gained rapid popularity from plan participants eager to lose weight and improve their overall health. Mounjaro (which has the active ingredient tirzepatide), Ozempic and Rybelsus (which both use the active ingredient semaglutide) are approved for treating diabetes but are commonly prescribed off-label for weight loss. Zepbound (tirzepatide) and Wegovy (semaglutide) are drugs that use the same active ingredients but are approved to treat obesity for qualifying patients.

In addition to treating Type 2 diabetes and obesity, the active ingredients in these medications have shown promise for treating other conditions, including Alzheimer's disease, heart disease and even sleep apnea. While these use cases are still undergoing clinical trials for approval, the potential applications of GLP-1s could lead to these costly drugs being used to treat even more patients.

GLP-1 medications typically cost around $1,000 per month and are intended to be taken in perpetuity to achieve their benefits. This means that GLP-1 users may experience health benefits but will be required to use these high-cost treatments on an ongoing basis. In response to the popularity of GLP-1s, more employers may require employees who use these medications for weight loss to get prior approval, participate in weight management programs or meet other requirements.

GLP-1 use for weight loss is already widespread, but these costly medications are expected to grow in popularity. A recent RAND report revealed that 12% of Americans have used GLP-1 medications for weight loss, and 14% are interested in using the drugs. Moreover, the number of prescriptions for the drugs has more than tripled since 2020.

It's important to note that additional GLP-1 drugs are expected to hit the market by 2026, which could further drive up employers' health plan costs. With pharmaceutical companies recognizing the success of semaglutide and tirzepatide, more than 100 drugs are in clinical development for obesity.

Specialty Medications

Concerns about pharmacy trend are nothing new, but they're intensifying. As such, GLP-1s are not the only high-priced drugs driving up health care costs. Core factors of health care inflation in 2026 are also attributed to specialty medications.

The specialty drug market continues to expand rapidly in 2025, driven by a surge in approvals by the U.S. Food and Drug Administration (FDA) and a robust pipeline of innovative therapies. These high-cost, high-impact treatments are reshaping the pharmaceutical industry, with specialty drugs now accounting for the vast majority of new drug approvals. Industry experts estimate that nearly 80% of all FDA approvals in 2025 fall into the specialty category, reflecting a shift toward more targeted, complex therapies for chronic and rare conditions.

This rapid growth is being fueled by more plan participants using these key specialty drugs:

- **Biologics and biosimilars**—Biologics dominate the specialty market, offering targeted treatment for autoimmune diseases, cancers and more. At the same time, biosimilars are gaining traction as cost-effective alternatives, especially as major biologics lose exclusivity. In 2024, the FDA approved 19 new biosimilar drugs, compared to five in the preceding year, which was the most biosimilar approvals in a year. The momentum continues as 10 biosimilars have been approved so far in 2025. This trend is expected to continue, with predictions indicating that at least 10 new biosimilars will be approved annually over the next five years. This dual trend of popularity and lapsing exclusivity is expected to reshape employer strategies and formulary decisions. When a biosimilar is approved, the matching biologic must lose exclusivity rights before the biosimilar can be marketed. These exclusivity rights last for 12 years.
- **Cell and gene therapies (CGT)**—These cutting-edge treatments are seeing a record number of approvals in 2025, with several first-in-class therapies entering the market. Whether it's cell therapies for blood cancers or gene editing for rare genetic disorders, these innovations promise transformative outcomes but also come with significant cost and logistical challenges. In particular, one of the biggest bottlenecks in CGT has been manufacturing. Traditional biologics infrastructure is ill-suited for the personalized, small-batch nature of many CGTs. In 2025, the industry is shifting toward purpose-built automation and analytical technologies designed specifically for CGT production. These innovations aim to reduce costs, improve scalability and accelerate time to market, all critical factors for broader patient access.

The complexity of these therapies—often requiring special handling, administration and monitoring—and their unique payment structures add to the challenge. Still, the momentum behind specialty drug innovation shows no signs of slowing, signaling a continued evolution in how health care is delivered in the years ahead.

Chronic Health Conditions

According to the U.S. Centers for Disease Control and Prevention (CDC), around 90% of U.S. health care spending is for people with chronic and mental health conditions. These chronic conditions include heart disease, stroke, cancer, diabetes, arthritis and obesity. An increasing percentage of the population has two or more chronic, high-cost diseases.

Cardiovascular diseases are one of the most significant contributors to health care costs. The American Heart Association estimates that heart disease and stroke could affect over 60% of older adults in the United States by 2050 and reach $1.8 trillion in related expenses. After adjustments for inflation, this estimate suggests that costs related to cardiovascular diseases would triple over the coming decades.

Other conditions, such as obesity, also drive higher health care costs. The CDC reported that more than 2 in 5 adults in the United States have obesity, which is defined as having a body mass index of 30 or higher. Obesity is correlated with other costly chronic conditions, including heart disease, Type 2 diabetes and sleep apnea. The agency published a report that found annual obesity-related medical care costs in the United States were estimated to be nearly $173 billion.

Keep in mind that these are just two examples of chronic conditions among Americans. In general, chronic disease is increasing in prevalence in the United States and is projected to continue to do so in 2026 and the upcoming decades.

Aging Populations

While life expectancy in the United States has increased significantly over the past 50 years, birth rates have trended down consistently. According to Congressional Budget Office projections, life expectancy at birth is expected to increase from 78.9 years to 82.3 years from 2025 to 2055, and life expectancy at age 65 is forecast to increase from 19.7 years to 21.8 years. On the other hand, the most recent data from the CDC revealed that the birth rate in the United States hit a record low in 2024, with fewer than 1.6 children per woman. These factors contribute to a U.S. population with an average age that is slowly rising.

In general, health care costs increase as people age. Adults over 65 use health care more frequently and are more likely to incur costs. The Centers for Medicare & Medicaid Services reported that per-person personal health care spending for the 65 and older population is around five times higher than spending per child and almost 2.5 times the spending per working-age person. Despite making up a smaller percentage of the population, this category accounts for a sizable proportion of health care spending, largely driven by their likelihood of having one or even multiple chronic conditions. Every year, more Americans enter the 65 and over category. With more Americans entering retirement age, the impact of an aging population is likely to continue increasing overall health care spend.

Cancer Care

According to BGH, cancer care has been the top driver of employer cost increases for four years in a row. The spending has worsened due to the growing prevalence of cancer diagnoses and the escalating cost of treatment. Cancer is complex; therefore, its diagnosis and treatment don't follow the same path for every individual.

Cancer diagnoses are increasing, not just among older adults but also among younger working-age individuals. This means more employees and dependents are entering treatment, often requiring long-term and intensive care. Additionally, new and innovative therapies—including CGTs, immunotherapies, targeted drugs and personalized medicine—may offer better outcomes but come with high price tags. These treatments often cost hundreds of thousands of dollars per patient, especially in late-stage cases.

Medical Inflation

As inflation increases, costs are expected to rise. However, medical inflation is outpacing regular inflation. The consumer price index (CPI) is an economic indicator widely used to gauge inflation and inform policymaking, investment decisions and cost-of-living adjustments. The CPI's medical care index, one of eight major groups in the CPI, measures the change in prices paid by consumers for medical goods and services.

The latest West Health-Gallup research revealed that 11% of U.S. adults—nearly 29 million people—can't afford or access quality health care, the highest level since 2021. Furthermore, more than one-third of Americans feel they're paying too much for the quality of care they receive and that their most recent experience was not worth the cost.

The medical care index was at 3% in May 2025, exceeding general inflation, and has crept up to 3.4% as of August 2025. However, this medical inflation does not account for all factors that employers and plan participants end up paying for. Keep in mind that employers are reporting as high as more than 10% due to other key drivers (e.g., increased spend, rising demand for services and inflationary pressures) factored in.

Health Care Labor Costs

Lastly, the supply of health care workers continues to fall short of the growing demand for utilization. This shortage is due to rising health care demands, an aging population, retiring workforces and insufficient talent entering the health care industry. When key players in the health care industry are required to spend more on labor, those expenses are often passed on to both employers and users of the health care benefit: employees and their dependents.

Employer Takeaway

Offering quality health care to employees carries a significant financial cost for organizations, comprising a substantial part of an overall budget. It's more than just organizations that pay the price for growing health care costs; such expenses are often shared between employers and employees.

Rising health care costs may be unavoidable, but informed employers can better understand these trends and act appropriately. Contact us today for more information about these topics or resources about health care costs.
