



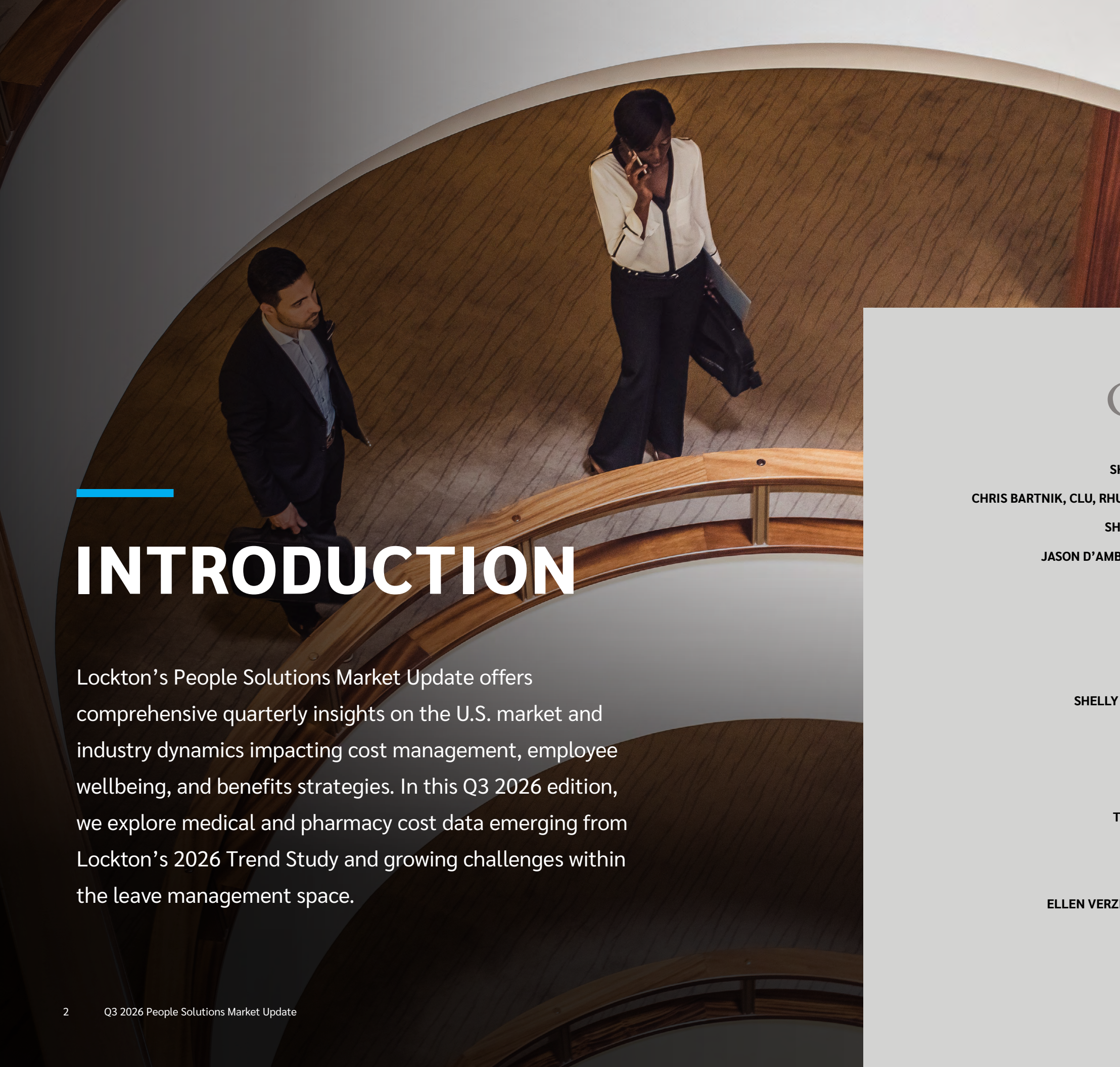
PEOPLE
SOLUTIONS

A high-angle, top-down photograph of two business professionals, a man and a woman, sitting at a wooden conference table. The woman, on the left, has dark hair in a ponytail and is wearing a white and dark blue top. The man, on the right, has dark hair and is wearing a dark blue suit jacket. They are both looking at a silver laptop. The laptop screen displays a business dashboard with various charts, including a bar chart, a pie chart, and a line graph. The text "Trending for last 4 years" is visible on the screen. The background shows a modern office interior with curved wooden walls and a large window.

What's driving healthcare costs & where should employers focus?

Q3 2026

MARKET UPDATE



INTRODUCTION

Lockton’s People Solutions Market Update offers comprehensive quarterly insights on the U.S. market and industry dynamics impacting cost management, employee wellbeing, and benefits strategies. In this Q3 2026 edition, we explore medical and pharmacy cost data emerging from Lockton’s 2026 Trend Study and growing challenges within the leave management space.

Contributors

SHANNON DEMAREE	EVP, Regional Executive, People Solutions
CHRIS BARTNIK, CLU, RHU, REBC, CLF, CHHC	SVP, Growth & Innovation Leader, People Solutions
SHEALYNN BUCK, MD	SVP, Chief Medical Officer
JASON D’AMBROSIO, FSA, MAAA	Actuary
KATE EVERS	SVP, Client Advisor
STEPHEN GALVAN	AVP, Solutions Consultant
AMBER HARDWICK	SVP, HRO Practice Leader
KENT HORSMAN	SVP, Benefits Technology & Voluntary Benefits
SHELLY LEWIS, FSA, MAAA	VP, Director of Actuarial Analytics
ROB MCGEE	SVP, Director of Practice Operations, IAS
KRISTIN MOORE	SVP, Client Executive
RATNA PATEL	SVP, Pharmacy Operations
TRACY PEREZ, CEBS	SVP, Director of Collaborative Consulting
TAMMY QUINN	SVP, Head of Data Platforms and Governance
SLAYTON ROUS	VP, Growth & Strategy, Stop Loss
ELLEN VERZINO, PHARM.D, RPH	SVP, Pharmacy Consulting Director
ANNA YOUNGER	Healthcare Strategy & Innovation Leader
JENAE JOHNSON	Content Strategist, People Solutions

Table of contents

Q3 2026 snapshot	06
The high-cost environment continues	08
Expensive medications present different cost challenges	10
Checklist: 5 key steps for managing cost increases	14
Leave management is a growing administrative burden	16
Evaluating your leave administration approach	20



Q2 2026 MARKET UPDATE RECAP

In the Q2 2026 edition, we explored how employers are navigating cost pressure in benefits decision-making with results from Lockton's 2026 National Benefits Survey and rapidly shifting dynamics across the pharmacy and stop loss markets.

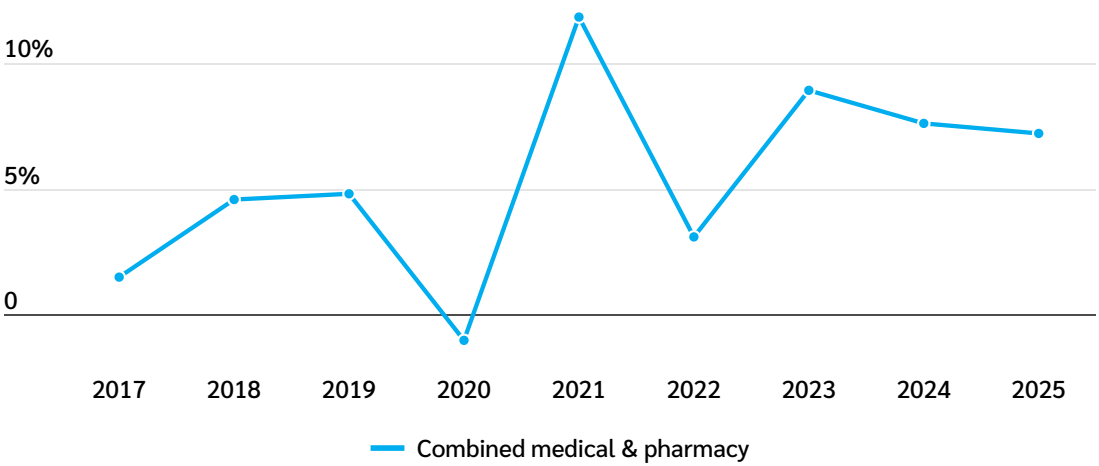
[GET THE REPORT](#)



Persistent pressures demand a closer look

Employers are managing several consecutive years of elevated healthcare cost increases while continuing to invest in their people, remain competitive, and maintain affordable benefits. At the same time, the programs supporting employees are becoming more demanding to manage as organizations navigate evolving workforce needs, administrative requirements, technology, and a growing number of solutions.

COSTS ARE STABLE, BUT HIGH



Annual historical trend. Source: 2026 Lockton Trend Study

Many of these pressures are not new. What matters now is understanding what is driving them and where employers have an opportunity to act. That means looking more closely at the factors behind rising costs, how programs are operating, and where resources and investments can have the greatest impact.

Why are health plan costs still so high?

LARGE CLAIMS & RATE INCREASES

30%



potential increase in renewal rates.

Stop loss carriers are targeting rate increases up to 30% as million-dollar claims become more frequent and severe. Cancer care is the top high-cost claim driver, while specialty medicines, neonatal care, and other complex conditions are adding additional pressure.

MUSCULOSKELETAL CARE

57%

of costs are driven by members with MSK conditions. Members with one or more musculoskeletal conditions represent just 35% of the population but drive 57% of overall total plan costs. Costs rise significantly when these members are managing multiple chronic conditions.

Source: Infolock, Incurred June 2025

MARKET PRESSURES

7.5% hospital expense growth.

Labor and supply costs, inflation, reimbursement shortfalls, and regulatory changes continue to put financial pressure on the healthcare system and affect the cost of care delivery.

Source: American Hospital Association (AHA) Cost of Caring Report

GLP-1s

1,100%

increase in GLP-1 costs in 4 years.

Employers that cover GLP-1s for weight management have seen a 1,100% increase in the per-member-per-month (PMPM) costs of these medications since they became prevalent in 2022.

BRAND MEDICATIONS

16.2% increase in brand-name medication prices, marking the third year of double-digit price increases.

The high-cost environment continues

Healthcare costs continue to increase at high levels year after year

Combined medical and prescription drug trend reached **7.7% in 2025**. While overall trend has become more consistent, it has settled at a higher level than historical ranges.

Employers are now managing several consecutive years of elevated healthcare cost increases, with continued pressure from both medical and pharmacy costs. These high trend levels are projected to persist through 2027.

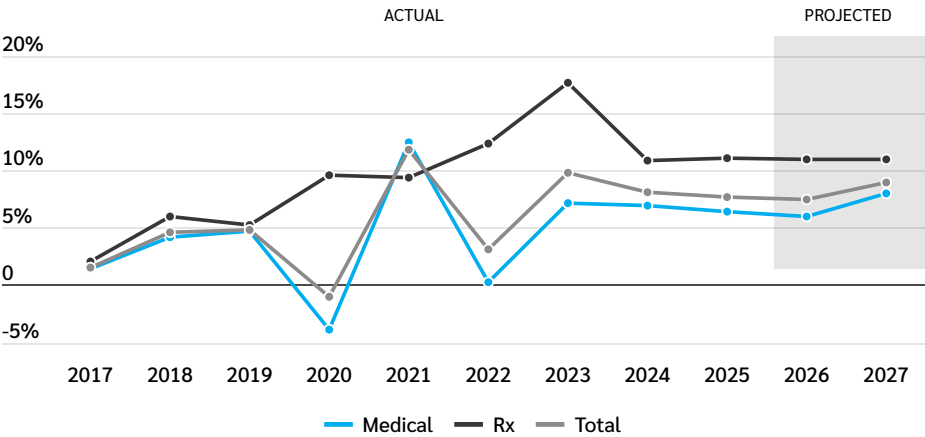
As these higher trend levels persist, the challenge is not simply managing another year of cost increases. Employers must find ways to manage sustained cost pressure while continuing to invest in their people, remain competitive, and maintain affordable benefits.

WHAT DO “COST PER UNIT” & “UTILIZATION” MEAN?

Healthcare trend measures year-over-year cost changes, which are shaped by both unit cost and utilization. The contribution of each provides important context for what is driving the overall increase.

Unit cost reflects changes in the price that is paid for healthcare services and medications, while utilization reflects changes in the amount of care being used.

HISTORICAL TREND



Source: 2026 Lockton Trend Study



What’s currently keeping trend elevated?

Healthcare services are becoming more expensive, while employees are continuing to use more care.

2025 trend	What’s driving it
MEDICAL 6.4%	Unit cost price & utilization For the second year, increases in the price of care and the amount of care being used contributed at similar levels. With neither easing significantly, medical trend has remained above 6% for years.
PHARMACY 11.1%	Primarily unit cost price Brand medications continue to experience double-digit unit cost increases, while GLP-1s contributed 1.8 percentage points to pharmacy trend. Declining utilization for generic and specialty medications helped offset some of the increase.
COMBINED 7.7%	Persistent medical & pharmacy cost pressures Pharmacy costs are increasing at a higher rate, while medical spending accounts for a larger share of total plan spend. Together, they continue to keep overall trend elevated.

2026 trend data shows cost pressures holding steady at high levels

Employers should prepare for ongoing health plan cost pressures in this new environment of higher trend levels. See the latest data from Lockton’s 2026 Trend Study.

[READ THE ARTICLE](#)



Expensive medications present different cost challenges



GLP-1 price continues to climb

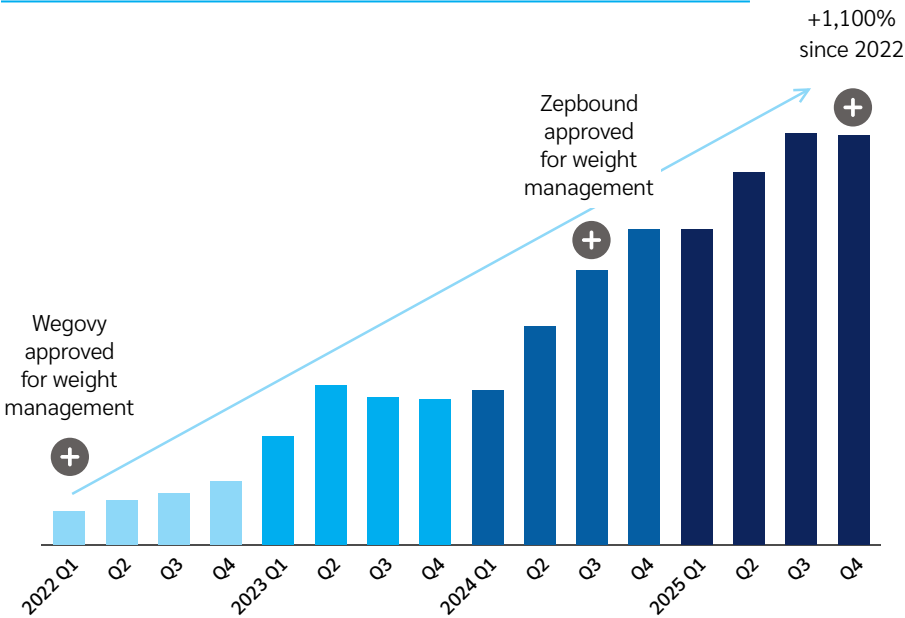
\$2.41 to **\$29.33**
allowed cost, PMPM

Since knowledge of GLP-1s for weight management became more prevalent in the marketplace in 2022, these drugs have spurred intense cost growth. In groups that cover GLP-1s for weight management, allowed PMPM cost rose **from \$2.41 to \$29.33, roughly a 1,100% increase**. GLP-1s also contributed 1.8 percentage points to overall prescription drug trend in 2025.

High-cost therapies continue to put pressure on employer health plans as prices rise, but they can vary in how they affect overall health plan costs. Understanding these differences is important when evaluating how to manage each.

GLP-1s and cell and gene therapies are two prominent examples. Weight management GLP-1s are creating broader, ongoing cost pressure, while cell and gene therapies remain very rare but can result in multimillion-dollar claims.

GLP-1s FOR WEIGHT MANAGEMENT: PMPM QUARTERLY GROWTH



Source: Lockton 2026 Trend Study

The cost impact of obesity is substantial, and as obesity rates approach 50% among working-age Americans, interest in GLP-1s is high. The challenge for employers, as the fiduciary of their plans, is how to manage the cost-effectiveness of treatment. Obesity is a complex disease that requires specialized care, and GLP-1s are indicated as ongoing treatment in conjunction with intensive lifestyle intervention.

Growth in GLP-1 spending is now being driven not only by new utilization but also by the expanding number of members who remain on therapy over longer periods of time. Growing evidence suggests GLP-1 medications may improve health outcomes and reduce certain obesity-related medical costs over time. However, there is currently no demonstrable return on investment for employer health plans that cover GLP-1s for weight loss at current prices, and the timing and magnitude of potential savings remain uncertain.

SHOULD I REMOVE GLP-1 COVERAGE BECAUSE OF HIGH COSTS?

Claims alone do not account for prescription drug rebates or member cost share. Both can materially reduce the amount ultimately paid by the employer.

This distinction is important when evaluating GLP-1 coverage. Removing coverage may reduce paid claims, but those savings should not be viewed in isolation. Changes in GLP-1 utilization can affect associated rebates and may also affect other rebate guarantees, contractual terms, or pricing within the broader PBM arrangement.

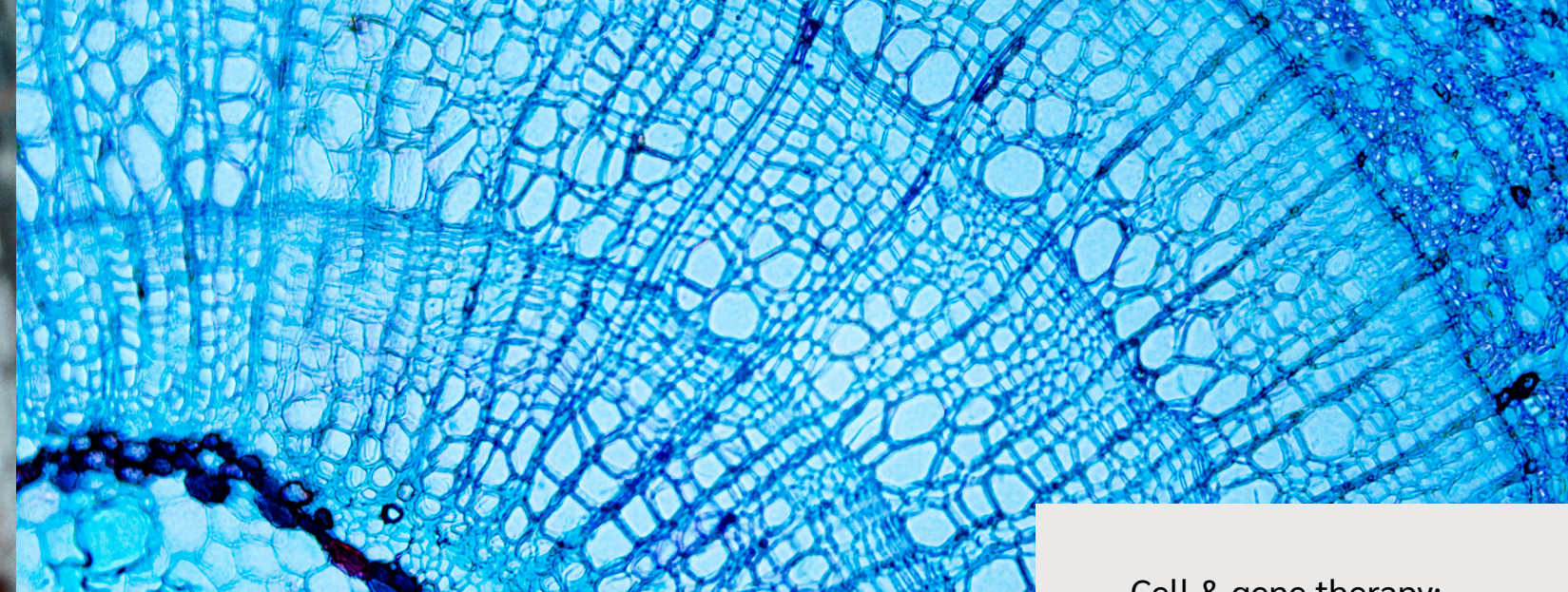
Employers considering coverage changes should evaluate the net financial impact across the pharmacy benefit rather than assuming the reduction in claims represents the amount they will save.

GLP-1 DISCONTINUATION RATES

46.1%
Weight loss GLP-1s

30.1%
Diabetes GLP-1s





Exploring more disruptive pharmacy strategies

Rising specialty drug costs, expanding demand for high-cost therapies, and continued pressure on health plan budgets are pushing many organizations to explore more disruptive or innovative pharmacy strategies. Options such as specialty carve-outs, utilization management carve-outs, biosimilar-first approaches, direct-to-consumer or direct-to-employer channels, patient assistance programs, and alternate funding arrangements may create opportunities to reduce spend, improve pricing transparency, and apply more targeted clinical oversight.

But these strategies are not one-size-fits-all solutions. Employers need to evaluate the full picture before moving forward, including savings potential, member disruption, operational complexity, vendor coordination, contract implications, compliance exposure, and the long-term sustainability of the model.

The right strategy depends on the employer's population, current pharmacy spend, plan design, risk tolerance, and ability to manage change well.

SPEAK TO AN EXPERT

CAN I COVER GLP-1s THROUGH DIRECT-TO-EMPLOYER CHANNELS INSTEAD?

Employers considering alternative pathways for weight loss GLP-1 coverage outside the traditional pharmacy benefit should be aware of strategies that include direct-to-consumer and direct-to-employer channels.

These strategies allow employers to bypass traditional PBM coverage and instead contract directly with manufacturers to obtain medications at known, predictable costs. However, these programs vary in how they are administered and often bypass clinical oversight and lifestyle management, which is critical for successful health outcomes. Employers considering these approaches should evaluate them based on total net cost and from a utilization and clinical management perspective and consider integration fees and the potential impact on member out-of-pocket costs, deductibles, and rebates.

Cell & gene therapy utilization is currently low but may soon become more prevalent

Cell and gene therapies present a very different cost challenge. Individual treatments can exceed \$2 million to \$4 million, but utilization among employer populations remains extremely low.

ANNUAL CELL & GENE THERAPY PREVALENCE

6.25

Gene therapy cases per million lives

High treatment costs have not translated into widespread employer cost pressure because utilization has been constrained by limited treatment capacity, strict clinical eligibility requirements, complex manufacturing and scheduling, and care delivery concentrated within specialized treatment centers.

But those constraints are beginning to shift. Cell therapies are increasingly moving into outpatient settings, which can expand treatment capacity and make treatment accessible to more eligible patients. At the same time, the pipeline is expanding into

15

Cell therapy cases per million lives

autoimmune diseases, which are more prevalent among working-age populations and already represent significant specialty drug spend.

This does not mean employers should expect cell and gene therapies to suddenly become a broad cost driver. Today's low utilization may not remain at current levels as access expands and new indications enter the market. The market is responding to the uptick in these therapies with strategies such as mandatory Center of Excellence steerage and stop loss exclusions.

Cell & gene therapy: Preparing for the next phase of employer health plan risk

The key strategic question is no longer whether cell and gene therapies will affect employer health plans, but how employer exposure will evolve as utilization expands over the next few years. Managing these decisions requires aligning clinical, financial, and compliance considerations in a coordinated and specialized way.

READ THE ARTICLE

CHECKLIST: 5 KEY STEPS FOR MANAGING COST INCREASES



What should employers do next?

☐ UNDERSTAND WHAT’S DRIVING YOUR UNIQUE COSTS

- Identify the primary factors behind your healthcare spend.
- Use claims data and analytics to pinpoint the combination of conditions, claimants, and prescriptions driving costs.
- Determine which cost drivers you can influence, and which are less within your control.

Understanding what is driving your plan costs helps focus resources and strategies where they can have the greatest impact.

☐ REVIEW PURCHASING EFFICIENCY & CONTRACTUAL TERMS

- Assess whether you are purchasing the right services at the most cost-effective price.
- Review carrier, administrator, and vendor contracts to understand how each partner generates revenue.
- Identify opportunities to negotiate costs, improve terms, or strengthen transparency.

Reviewing these areas can uncover opportunities to get greater value from your healthcare spend.

☐ EVALUATE RISK TOLERANCE & READINESS FOR INNOVATION

- Define your organization’s appetite for financial risk and evaluate whether your current approach aligns with it.
- Explore available solutions across medical, pharmacy, specialty drug management, and stop loss.
- Determine which new approaches align with your cost drivers, organizational goals, and ability to implement change.

Understanding both your risk tolerance and the options available in the market can help you pursue innovation that makes sense for your organization.

☐ BALANCE COST, RISK, POPULATION NEEDS, & DISRUPTION

- Consider your workforce demographics, health needs, and preferences.
- Weigh potential cost savings against financial risk and the impact on employees.
- Assess how much disruption your organization and employees can absorb and when change should occur.

Considering these trade-offs together can help ensure cost management decisions support both financial objectives and the needs of your workforce.

☐ BUILD A MULTIYEAR STRATEGY

- Establish guiding principles around competitiveness, cost sharing, and plan design.
- Prioritize opportunities based on their potential impact and organizational readiness.
- Build a multiyear road map that sequences changes over time and can evolve as needs and market conditions change.

A multiyear strategy provides a clear direction while allowing you to introduce change thoughtfully and pursue opportunities when the timing is right.

Bringing the right expertise to the table

Most importantly, partner with the right specialists across clinical, pharmacy, funding, risk, population health, employee experience, and more to connect insights, rather than making decisions in isolation.

A thoughtful benefits strategy considers how individual plan decisions work together to support broader organizational goals.

CONTACT US



Leave management is a growing administrative burden

Leave administration demands more time, resources, and expertise as employers manage greater leave volume, evolving regulatory requirements, and coordination across multiple systems. For some organizations, what was once part of an employee’s role now requires dedicated staff to manage.

Employers are navigating several challenges

- **Increasing regulatory requirements:** Employers must manage state leave requirements, federal regulations, and ADA considerations while administering cases consistently and meeting required deadlines.
- **Limited internal capacity:** Growing administrative demands are putting additional pressure on internal teams.
- **Disconnected processes and systems:** Leave administration can require coordination across HRIS, payroll, benefits, time and attendance, carriers, and other vendors.

These pressures are leading employers to explore different methods to manage leave, from internal administration and technology-supported models to outsourced support. There is no single model that solves every challenge, and the right approach depends on internal capabilities, processes, technology stack, data flows, and desired employee experience.

WHY “OUTSOURCING” IS REALLY “CO-SOURCING”

Even with an outsourced leave solution, employers remain part of the process. Internal teams may still support employee and manager communication, return-to-work processes, escalations, and other internal responsibilities.

Leave administration models

	Insourced	Insourced with SaaS	Outsourced/co-sourced
	Employer manages the entire leave process internally using manual tools, spreadsheets, email, or basic HRIS functionality. This may be centralized or decentralized.	Employer retains responsibility for leave decisions but uses a cloud-based leave management platform to automate workflows, compliance rules, documentation, and reporting.	Administration of LOA performed by an outside vendor; employer still engaged in some aspects of program management and vendor management
Strengths	• Stronger employee engagement and support • Faster adaptation of policies and procedures		• Reduced internal HR workload and administrative burden • Compliance support • Access to specialized leave and compliance expertise • Scalable support during high leave volumes • Standardized practices and improved consistency compared to fully in-house models • Scalability to support organizational growth, acquisitions, or changing workforce needs • Access to external expertise without increasing head count
	• Full control over policies, decisions, and employee experience • Alignment with organizational culture and management discretion • No software subscription or vendor fees • No implementation or change management effort	• Automated, evergreen compliance rules • Centralized case management and standardized workflows • Improved reporting, analytics, and trend visibility • Employee self-service and greater transparency • Consistent administration across locations • SaaS vendor maintains technology and updates system based on regulatory changes	
Limitations	• High administrative burden on HR and payroll teams • Increased compliance risk due to manual tracking of laws and deadlines • Inconsistent employee experience across managers or locations • Limited reporting and analytics	• Implementation effort involving HR, IT, payroll, and change management • Ongoing subscription/integration cost • Administration effort remains with employer • Employer remains accountable for leave outcomes	• Potential culture gaps and significant related change management efforts • Ability to customize is decreased • Less control over process and data • Implementation effort can be significant for employer



Why the technology & data environment matters

Technology is playing a larger role in how employers approach leave administration. Human capital management (HCM) vendors are investing in leave capabilities, while employers are exploring technology and integration to reduce manual work and better connect leave administration with their existing systems.

But technology should not be evaluated in isolation. The value of a solution depends on how it fits within the employer's broader HR, payroll, and benefits technology environment and whether the information needed to administer leave can move effectively between those systems.

01

THE FULL TECHNOLOGY ENVIRONMENT

Information needed for leave administration may reside across multiple systems, including:

- Human resource information system (HRIS) or HCM
- Payroll
- Benefits administration
- Time and attendance
- Leave administrators and carriers

Technology footprints vary significantly from one organization to another. Integrations and APIs can help systems exchange information, but connectivity alone does not create an integrated leave process. Employers should understand what connections already exist, what may need to be built, and how each connection fits into the broader process.

02

THE FLOW OF DATA

Effective leave administration also depends on how information moves across the employer's technology environment and how that information is ultimately used. Employers should understand:

- **Where the data resides:** Identify which systems hold the information required to administer leave.
- **Where it needs to go:** Determine which internal teams, systems, carriers, or vendors need that information.
- **How it will get there:** Understand whether existing integrations can be used or whether new connections or processes will be required.
- **How often it needs to move:** Different systems may exchange information at varying cadences.
- **What happens next:** Understand how the information will be used, what it indicates about the leave process, and what actions need to follow.

03

THE QUALITY & TIMING OF DATA

Connections alone are not enough. The data flowing between systems must also be accurate, complete, and timely to support compliant and consistent eligibility decisions and help employers make decisions with greater confidence. Outdated or incomplete data can cause delays, inconsistent determinations, and increased compliance risk.

Without reliable data flow, even a well-designed leave process can become difficult to administer at scale. Accurate and timely data supports faster eligibility reviews, clearer employee communications, better coordination with payroll and vendors, and a more consistent employee experience.

The goal is not simply to connect systems. It is to make sure the right information can move to the right place at the right time.

KEY QUESTIONS TO CONSIDER

Evaluating your leave administration approach



The decision to manage leave internally or work with an external partner isn't just about cost; it's about expertise, risk, scalability, and employee experience. Often, the best outsourcing partnerships do not replace HR; they become an extension of the HR team and allow internal resources to focus on strategic priorities instead of administrative tasks.

People

- Do we have sufficient internal expertise to effectively manage leave administration?
- Are we dependent on one individual?
- Do we have adequate cross-training and backup coverage in place?

Compliance

- Are our policies and procedures up to date and compliant?
- How consistent and thorough are our documentation and record-keeping practices?
- How do we stay informed about changing leave laws?

Process

- Are procedures clearly documented and consistently followed?
- Can all leave types be tracked accurately and efficiently?
- Do managers understand their roles and responsibilities in the leave process?

Technology

- How well are our HRIS, payroll, and leave systems integrated?
- Are leaves tracked through spreadsheets or other manual processes?
- Do we have access to robust reporting and analytics?
- Do our systems provide accurate, timely, and complete data so eligibility requirements can be evaluated quickly and consistently?

Employee experience

- Are employees receiving timely and effective support?
- Is the leave process easy to understand?
- Do employees understand the resources available and know where to seek assistance when needed?

Scalability

- Are we equipped to manage a significant increase in leave volume?
- What contingencies are in place if our leave administrator is no longer with the organization tomorrow?
- Is our current support model sustainable as the organization grows?



Across the market, employers continue to manage sustained cost increases and operational pressures. As these pressures persist, employer focus should be on understanding what is driving them, how they interact, and where meaningful opportunities exist. Taking a more connected view can help employers make deliberate decisions about where to focus resources, what changes make sense, and how to balance financial priorities with the needs of their workforce.

ABOUT LOCKTON

What makes Lockton stand apart is also what makes us better: independence. Lockton's private ownership empowers its 15,000+ Associates doing business in 150+ offices around the world to focus solely on clients' risk, insurance, and people needs. With expertise that reaches around the globe, Lockton delivers the deep understanding needed to accomplish remarkable results. For more information, visit global.lockton.com.

ABOUT LOCKTON PEOPLE SOLUTIONS

The same power to improve the health of your people also accelerates the growth of your business. Lockton helps you achieve elevated people intelligence by transforming complex data into clear, actionable insights and intelligence. By pairing advanced analytics with specialized expertise, we help clients attract and retain talent, manage rising costs, and elevate wellbeing through strategies shaped around their unique goals. The result is confidence to act, outcomes that matter, and healthier organizations built for what's next. Visit [Lockton People Solutions](#) to learn more.





UNCOMMONLY INDEPENDENT