

LOCKTON | PEOPLE SOLUTIONS

LOCKTON PEOPLE SOLUTIONS MARKET UPDATE

Emerging costs are higher than expected

Q3 2025

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 2025 edition, we explore rising medical and pharmacy cost projections emerging from Lockton's 2025 Trend Study.

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Q2 2025 MARKET UPDATE RECAP

With benefit plan costs continuing to rise, as seen in our Q1 Market Update data, plan sponsors are under growing pressure to make changes. In the Q2 2025 edition, we explored how employers are responding to the pressured, uncertain landscape and rising costs, based on results from Lockton's 2025 National Benefits Survey and 2025 Workforce Priorities Survey.

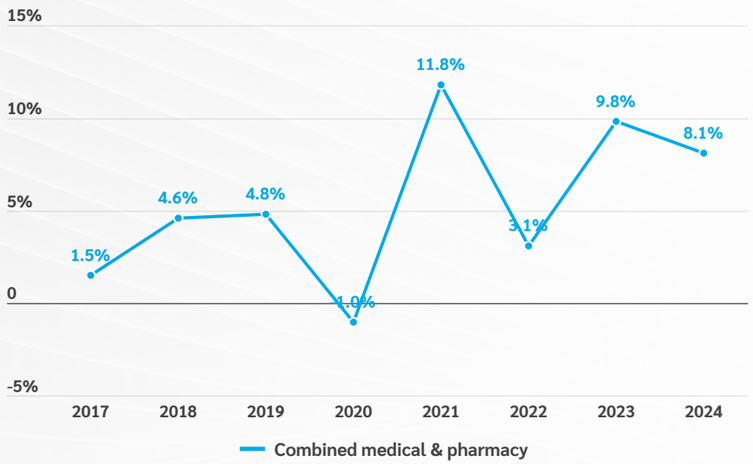


Q3 2025 snapshot

Healthcare costs will remain higher than historical norms.

While cost trends have steadied as expected, they've stabilized over the past couple of years at a higher level than the industry had hoped, with no expectations of a decline in the coming years. In this sustained high-cost environment, employers will need to be diligent in finding savings and monitor emerging market factors driving higher costs.

HEALTHCARE TREND



Source: 2025 Trend Study; Lockton's book of business



Why are healthcare costs so high?

01

BRAND & SPECIALTY MEDICATIONS

The cost of brand medications continues to increase significantly each year, alongside utilization increases of specialty medications.

14%: The unit cost of brand medications increased 14% in 2024, primarily driven by GLP-1s for diabetes treatment.

>50%: Specialty medications are driving over half of Rx costs.

02

GLP-1s

The cost and utilization of GLP-1s is rising, and employers will feel additional pressure to cover for conditions beyond diabetes as more indications are FDA approved.

840%: Employers that cover GLP-1s for weight management have seen an almost 840% PMPM increase since they became prevalent in the marketplace in 2022.

03

HIGH-COST CLAIMS

The occurrence of million-dollar-plus claims is increasing, with emerging rare disease treatments expected to drive additional high-cost claims in the coming years.

04

CHRONIC CONDITIONS

Chronic conditions are driving higher utilization of both medical services and pharmacy spend.

8.3x: Plan members with multiple chronic diseases have over eight times higher costs than members without.

05

MARKET PRESSURES

Continued inflationary pressures in the U.S. and at a global level, tariff developments, and challenges around provider contract negotiations are introducing additional cost concerns for plan sponsors.

Cost projections are higher than expected, with little relief in sight

HEALTHCARE TREND REACHED 8.1% IN 2024, & EMPLOYERS SHOULD PREPARE FOR EVEN HIGHER COSTS AHEAD

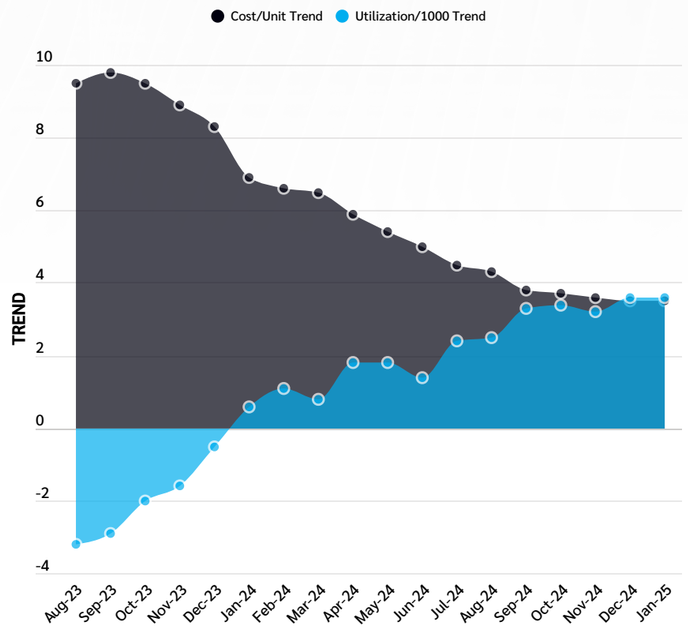


Trends were previously very volatile and have stabilized at a high level, driven by increases in both the price and utilization of medical services, prescription drug costs, and increased utilization of specialty medication.

For the first time in four years, medical trend is being equally driven by price and utilization, without an external "shock" event shaping costs like we saw with the return of care after the pandemic prior to 2022 and broad inflation across the economy in 2022 and 2023.

Meanwhile, the number and cost of newborn deliveries is driving higher inpatient hospital costs, while many conditions, including cancers, diseases of the circulatory system, and mental and behavioral health treatments, continue to impact medical trend.

MEDICAL ALLOWED COST PER UNIT & UTILIZATION



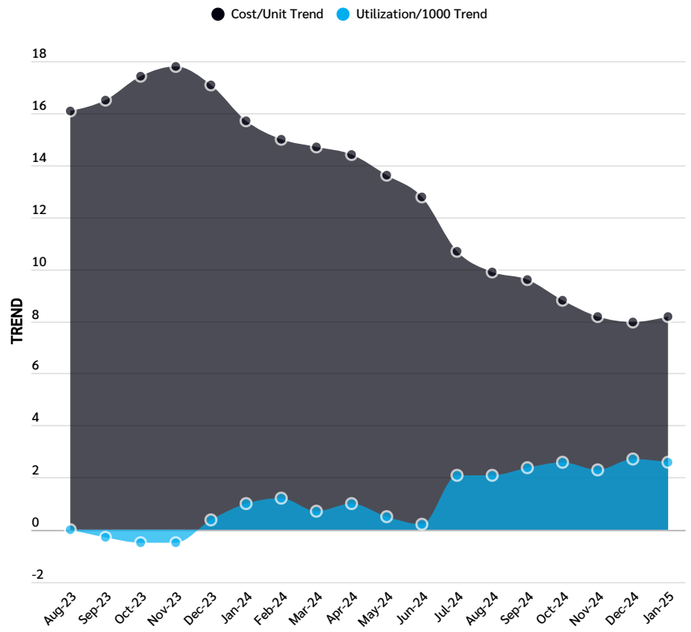
Source: 2025 Trend Study; Lockton's book of business



Pharmacy costs have been consistently elevated, driven by specialty medications, significant unit cost increases for brand medications year over year, and GLP-1s for weight management and diabetes. Although less than a third of employers cover GLP-1s for weight management, they drive 1.6% of total pharmacy trend across Lockton's entire book of business.

While drug unit costs have been causing trend increases for years, an increase in pharmacy utilization is now emerging as well.

PHARMACY ALLOWED COST PER UNIT & UTILIZATION



Source: 2025 Trend Study; Lockton's book of business



DILIGENT MANAGEMENT OF COSTS & EMPLOYEE EXPERIENCE IS MORE IMPORTANT THAN EVER

The combination of market pressures, new healthcare drugs, and increased utilization means plan sponsors should brace for sustained high costs. With persistent price pressures expected through 2027, disciplined cost management paired with a strategic focus on employee health experiences will be critical. In an environment where inflation, tariff developments, and fiduciary scrutiny continue to create uncertainty, a steady focus on emerging cost pressures will be key to controlling plan spend and staying ahead of potential risk.

2026-2027 EXPECTED TREND PROJECTIONS	
Medical	7%-9%
Pharmacy	10%-12%
Combined medical and pharmacy	8%-10%
Dental	3%-5%
Vision	2%-4%

2025 Trend outlook shows little healthcare cost relief in sight ⟶

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LOCKTON'S POV

Pharmacy challenges grow in a complex environment

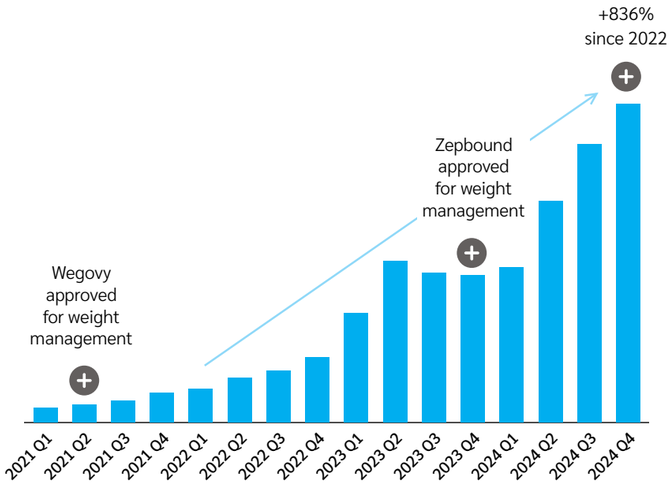
Pharmacy dynamics continue to intensify, driven by rising specialty medication unit costs and utilization, escalating brand drug costs, and expanding GLP-1 indications. These factors are shaping a complex, high-cost environment where plan sponsors must carefully balance access, outcomes, and affordability.



Expected GLP-1 indications through 2026 ⟶

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GLP-1s FOR WEIGHT MANAGEMENT: PMPM QUARTERLY GROWTH



nearly an
↑ 840%
increase since 2022

Source: 2025 Trend Study; Lockton's book of business

GLP-1s DEMAND ATTENTION & THEIR COST IMPACT WON'T FADE

Since knowledge of GLP-1s for weight management became more prevalent in the marketplace in 2022, they've spurred intense cost growth, reaching almost an 840% per member per month (PMPM) increase in 2024 for employers covering GLP-1s for weight management.

Now GLP-1s are being approved for additional indications across a range of clinical applications, including some beyond diabetes and weight management, which will have significant implications for employers in terms of cost, coverage, and employee access.

Following other recent expanded indications, including sleep apnea in adults with obesity, major adverse cardiovascular events (MACE) in adults with obesity, and chronic kidney disease in adults with type 2 diabetes, a broad range of upcoming approvals are expected over the next couple of years. Some indications, like the recent FDA approval of Wegovy for the treatment of metabolic dysfunction-associated steatohepatitis (MASH), won't specify an associated clinical status of obesity or diabetes.

As the market evolves rapidly, thoughtful program design will be key, and plan sponsors will need to take compliance, member experience, and cost planning into consideration as coverage decisions become more complex to navigate.



PHARMACY COMPLEXITY IS GROWING BEYOND GLP-1s

Pharmacy cost growth will persist apart from the impact of GLP-1s, with pharmacy trend still at 9.3% in 2024 excluding the impact of GLP-1s for weight management. At a broader level, widespread retail pharmacy closures, shifting revenue models, and ongoing transparency concerns in the pharmacy space are reshaping opportunities in how pharmacy benefits are managed.

Since pharmacies often hope to break even on brand drugs while driving the bulk of their profitability through generics, even a slight shift in the proportion of brand vs. generic prescriptions can have significant consequences. This shift is contributing to pharmacy closures that are impacting access to care. We continue to see larger cost increases for brand medications each year, rising 24% in 2023 and 14% in 2024. Utilization continues to increase for specialty medications, which have accounted for over half of total pharmacy PMPM since 2022.

No generic GLP-1 alternatives for weight management GLP- 1s Zepbound or Wegovy will be available until the late 2030s at the earliest. However, biosimilars and generic launches are emerging in other categories that offer some favorable potential relief. Humira and Stelara, previously a plan's most expensive drugs, now face biosimilar competition, reducing rebates but also reducing net costs overall.

Lower-cost generic forms of over a dozen high-cost oncology drugs are also expected over the next two years, with the largest financial impact expected in 2027.

> Read how pharmacy closures could impact employee health and benefit costs.

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As complexity grows and new drugs enter the market, finding ways to strengthen plan value and paying attention to opportunities for smart design will be key for plan sponsors. For example:

PAYING ATTENTION TO REFILL TIMING

An often-overlooked feature of pharmacy plan design is the refill-too-soon edit. The threshold plans typically set for how much of a prescription is used before it can be refilled vary by pharmacy channel and can be as low as 60%. When PBMs combine automatic refills with low refill-too-soon percentages, members could consistently receive excess medications during the plan year. To forestall the potential for waste that could have both clinical and financial impacts, employers should strive to balance the avoidance of possible waste with member convenience.

SPOTLIGHT ON LIFESTYLE MEDICINE

While 11% of employers plan to add medication-assisted weight management support (e.g. GLP-1s) in 2026, according to Business Group on Health, overall trends remain mixed. Some are expanding access, while others are scaling back due to rising costs. Currently, less than a third of Lockton clients cover GLP-1s for weight loss. But employers who want to address high discontinuation rates and ensure positive long-term employee health outcomes should understand how effective lifestyle intervention interplays with GLP-1 usage. Although these drugs are the most costly compared with their two counterparts, diet and exercise, in a holistic weight health strategy, these lifestyle choices are equally important to long-term weight health outcomes.

INSURANCE INSIGHT

Medical stop loss sees a volatile, tightening market



HIGH-COST CLAIMS ARE EXCEEDING DEDUCTIBLES AT A GROWING RATE

Increasing occurrences of million-dollar-plus claims are causing stop loss carriers to price future risk above historical trends and creating a more challenging environment for renewals.

The frequency of claims for cancer, cardiovascular, and musculoskeletal conditions remains consistently high, and perinatal, transplant, and specialty pharmacy continue to be large contributors to claim severity. While the prevalence of cell and gene therapy treatments remains low, emerging high-cost treatments are key to watch in the year ahead.

Increasing deductibles to lower premiums and absorb manageable risk is a growing trend: Lockton clients increased deductibles at nearly twice the rate of 2024, a trend expected to continue amid rising enrollments and renewal pressures.

ANTICIPATING THE IMPACT OF EMERGING RARE DISEASE TREATMENTS

Many high-cost claims in the coming years will be driven by emerging treatments for conditions that were previously untreatable. Orphan drugs and gene therapies that are developed for rare diseases often affect small patient populations but still carry development costs just as high as drugs for large populations. With a limited number of eligible patients, manufacturers must recoup costs over a much smaller base, driving higher prices.

These therapies often enter the market quickly and don't appear in historical claims data until after adoption, meaning past claims experience doesn't reflect the potential impact of future catastrophic cases. For stop loss underwriting, this reinforces the need for forward-looking assumptions and pricing models that account for emerging high-cost drugs and early-stage chronic conditions.

SPOTLIGHT ON ALTERNATIVE RISK STRATEGIES

To help mitigate the impact of continued high-cost trends, Lockton is seeing increased usage of alternative risk strategies, including captives, aggregating specific deductibles, that help provide additional protection against unexpected costs.

Captives: A risk transfer or risk segmentation mechanism that redirects some of the premium or underwriting surplus from the commercial insurance market back in-house.

Aggregating specific deductibles: Enables the plan to pay a reduced premium in return for assuming additional claims liability that is not specific to a single claimant but is satisfied through an accumulation from all covered claimants. The employer meets this additional deductible before the stop loss carrier begins paying specific deductible claims. This approach allows the employer to meet the aggregating specific deductible with one or a combination of several plan participants.

FORWARD-LOOKING UNDERWRITING GUIDANCE IS CRITICAL AS HIGH-COST CLAIMS ESCALATE

Lockton uses multiple internal and external resources for predictive modeling and historical large claimant analysis to provide an earlier opportunity to evaluate current and renewal ratings with premium benchmarking.

Speak to an expert to learn more and explore how our clinical team can help evaluate high-cost claimant liability and project future costs to support negotiations. ⟶

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LOCKTON'S POV

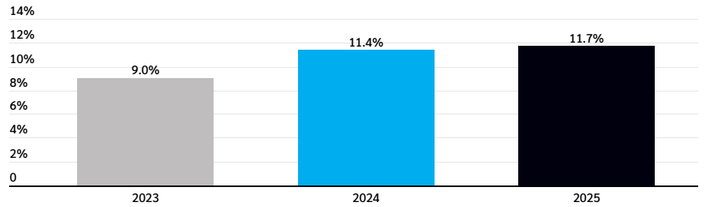
Global trends reflect continued high costs

Rising costs aren't isolated to the U.S., and an increasingly complex and expensive global benefits landscape (with high costs driven by medical inflation, regulatory change, workforce expectations, and innovation) is influencing U.S. and multinational employers at a broad scale.

HEALTHCARE INFLATION IS RISING ACROSS THE GLOBE

Global trends have now returned to double digits, with an average global increase approaching **12%** in 2025. In some regions, including the Middle East and South Asia, projections are even higher — **up to 16% to 18%.**

GLOBAL HEALTHCARE TREND 2023-2025



Projected Global Healthcare Cost Inflation (2023–2025), 2025 Global Medical Trend Report (Lockton, 2025).

Healthcare costs are rising faster than general inflation in nearly every major talent market, driven by the structural costs of healthcare delivery, advances in treatment, increasing disease burden, and growing health awareness. In addition to the impact of general inflation on provider expenses, costs are being driven internationally by higher utilization rates, poor plan use, and ineffective care management.

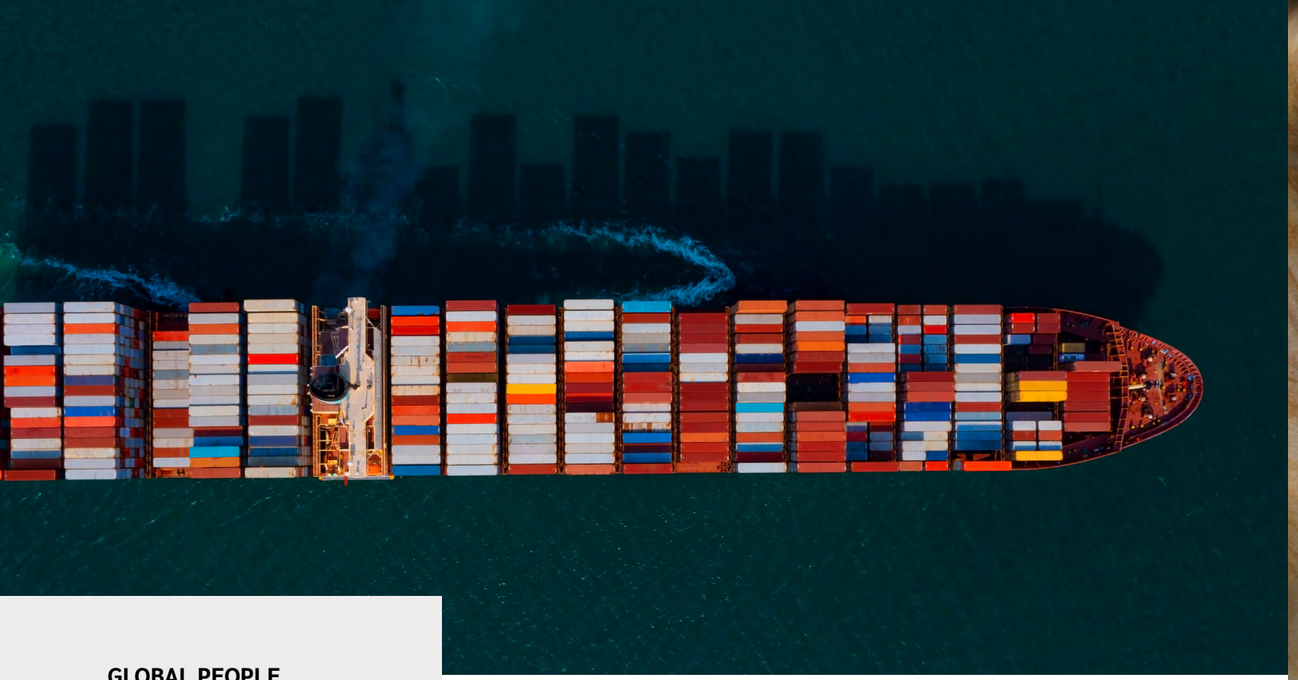
Global cost dynamics broadly mirror those experienced in the U.S., with chronic conditions as top cost drivers, the prevalence of long-term behavioral and mental health treatment, high-cost specialty drugs, and new advanced therapies, such as biologics and gene therapies. But while new and high-cost medications and advanced medical technology are the second and third highest contributors to global cost increases, respectively, the direct impact of prescription drugs on plans varies significantly by country based on the interplay of social and private coverage, as well as the collective purchasing of pharmaceuticals and regulation of their costs. In regions like the Middle East where plans pay the entire cost of prescription drugs, pharmacy costs have a much more significant impact on employer-sponsored plans than in Europe where social systems carry much of the cost.

Additionally, it is common practice in many countries for plans to cover both inpatient and outpatient care at 100%, often without deductibles, copayments or other cost-sharing mechanisms that could be used to influence member behavior or directly lower premiums.



PHARMACY DRIVERS VARY COUNTRY-BY-COUNTRY

Pharmacy plays a substantial role in shaping healthcare trends in the United States. However, its impact varies significantly across countries due to differences in national purchasing strategies and drug price regulations. In some regions, governments subsidize pharmacy costs through social insurance (payroll) taxes or general revenue, easing the financial burden on health plans. In others, health plans pay the full cost for drugs. These structural differences lead to diverse trend drivers globally.



GLOBAL PEOPLE SOLUTIONS INSIGHTS

Learn more and find upcoming insights on 2026 global healthcare trend drivers. ⟶

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TRADE POLICY UNCERTAINTY COULD DRIVE FURTHER COST INCREASES

Continued market pressures and tariff developments in the U.S. and at a global level are layering on top of an already high-cost environment.

Drug prices and availability are influenced by international pipelines and regulatory policies and approvals, while shifts in trade agreements affect import prices of both medical materials and pharmaceuticals. As these global trade dynamics continue to shift, employers could see additional cost pressures affecting their health plans.

Given the uncertain long-term implications surrounding trade policy, it is increasingly important for U.S. and multinational employers to monitor these developments closely and plan for continued inflationary pressure across the globe.

RISING HEALTHCARE COSTS ARE NOT JUST A U.S. CHALLENGE; they are a global reality not expected to ease. And as global forces increasingly show up locally, U.S. employers could face new high-cost dynamics.

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As healthcare costs remain higher than historical norms and market uncertainty continues, strategic focus on cost management and employee health experiences will be key for plan sponsors to stay ahead of emerging cost trends.

ABOUT LOCKTON

What makes Lockton stand apart is also what makes us better: independence. Lockton's private ownership empowers its 13,100+ Associates doing business in over 150 countries 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

Businesses can reach their full potential when their people do. That's why employers need solutions that help balance attracting and retaining talent, manage costs, and promote employee wellbeing. Lockton helps provide solutions that make organizations more successful and people's lives better. For more information on employee experiences and engagement, total rewards and benefits, and measurement and management, **visit Lockton People Solutions**.



UNCOMMONLY INDEPENDENT

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