LOCKTON | PEOPLE SOLUTIONS

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Tariffs' potential impact on benefits costs

Recent tariff developments are introducing additional uncertainty and concern around costs in an already high-cost environment for employer-sponsored health benefits, due to U.S. reliance on imports for medical products and pharmaceuticals.

While the long-term implications of tariffs remain unclear, they represent just one of several factors, including healthcare inflation, regulatory changes, and fiduciary responsibility, that are driving the need for employers to approach benefits with a strong focus on cost containment.

Lockton is closely evaluating the potential impacts of tariffs on benefits costs and helping organizations look beyond tariffs alone to make informed, long-term decisions that support resilience in a shifting and volatile economic environment.

TARIFF ACTIVITY IS MOVING QUICKLY

Weeks after his second term began, President Trump imposed broad tariffs on imports from Mexico, Canada, and China. Then, in early April, Trump announced reciprocal tariffs (country-by-country tariffs calculated based on several factors, including the amount of tariffs the country charges on U.S. goods) on imports from across the globe and more significant tariffs on goods from China. A subsequent 90-day pause ending July 10, 2025, has blunted the effect of reciprocal tariffs as the administration engages in country-by-country negotiations.

Potential impacts

The impact of tariffs on employee benefits is uncertain, and carriers indicate there are too many unknowns to adjust their trend projections at this point. Lockton does not recommend adjusting 2025 budgeted rates at this time and is closely watching for the impact on 2026 renewals. Potential impacts we're watching closely include:

PROVIDER COSTS

- 82% of healthcare executives expect costs for hospitals and health systems to increase by at least 15% over the next six months due to higher import costs.[1]
- Given that most hospital spend is labor costs, increased costs in the general economy that could drive demand for higher wages may have more impact on contracts and unit costs than tariffs directly.
- The impact will be delayed until provider contracts with networks are renewed. These can be multi-year contracts, so the delay could be up to 3 years.
- 90% of healthcare supply chain professionals said there will likely be major disruptions to procurement processes and contract negotiations due to higher costs and pricing volatility.[1]

MEDICAL SUPPLIES

- Medical devices and supplies are estimated to represent around 5% of an employer's overall claims spend. Many medical devices are imported from Mexico, which is exempt from tariffs under USMCA, while a growing number are sourced from countries like Vietnam, which has a more uncertain future tariff policy. Due to the small baseline portion of spend associated with these devices and supplies and potential low mix of them subject to new tariffs, impact is expected to be low.

[1]How could Trump's new tariffs impact healthcare? (2025, March 6). https://www.advisory.com/daily-briefing/2025/03/06/tariffs-ec

PHARMACY COST

- As of now, the administration has exempted pharmaceuticals, but not their raw materials, from tariffs. However, officials have indicated they are currently evaluating whether to impose tariffs on pharmaceuticals and, if so, at what rate. On April 14, 2025, the administration requested feedback from interested parties, and whether pharmaceuticals become subject to tariffs will be decided after the comment period closes the first week of May.
- If pharmaceuticals remain exempt, the impact to cost will be through the impact to the raw materials used in the manufacturing and delivery of prescription drugs.
- If tariffs are applied to pharmaceuticals based on the value of the product, the impact to generics would be small since they are much lower cost. If tariffs are applied per unit, the impact would be greater on generics, as 85%-90% of prescriptions are filled with a generic medication.
- Pharmaceutical industry experts have indicated tariffs would be passed on through the cost of the medications.

DRUG SHORTAGES

- The potential for shortages is greater in generic medications because the margin is so low that manufacturers may exit the market.
- A significant portion of U.S. generic pharmaceutical manufacturing sites are running well below capacity, which could be leveraged to help mitigate tariff related cost pressures,[2] and many pharmaceutical manufacturers are increasing investment in U.S.-based production to minimize long-term financial impact.[3]
- However, the financial and environmental costs of shifting to domestic manufacturing of pharmaceutical materials are likely deterrents to establishing a completely U.S.-based pharmaceutical supply chain, and the time to provide additional manufacturing capacity in the U.S. may create shortages.

IMPACT TO CARE

- The price elasticity of medications is different from consumer goods but depends heavily on individual income. If patients stop taking essential medications, this could impact long-term health outcomes.
- Carriers have indicated that we could see a drop in non-emergent care, either due to lack of supplies or patients delaying getting care due to higher costs.
- Behavioral health utilization could potentially increase, as many adjust to the uncertain economy.
- 81% of medical equipment manufacturers said there will likely be longer lead times and supply shortages due to higher production costs and import restrictions.[1]

COSTS OUTSIDE THE U.S.

- Retaliatory tariffs could increase the costs of health plans outside of the U.S. The U.S. is a significant exporter of pharmaceuticals and scientific and medical equipment ($108b and $60b, respectively, in 2024).[4]
- The cost of pharmaceuticals imported from the U.S. is already a significant component of medical plan costs in Latin America, Europe and the Middle East, so retaliatory tariffs from those regions would increase cost pressures on private health plans and potentially cause countries to look to non-U.S. suppliers.
- Increased costs for active pharmaceutical ingredients imported from India, Europe and China used to manufacture drugs in the U.S. could result in additional inflationary pressures on foreign plans. See also, 2025 Global Medical Trend Report.

[2]A Bold Goal: Reshoring 25% of Small Molecule API to the U.S. In 5 Years. 2024.
[3]IPD Analytics. Insights and Uncertainties Regarding the Impact of Tariffs on the U.S. Pharmaceutical Industry. Rx Brief: Drug Management, Mar. 2025.
[4]U.S. Bureau of Economic Analysis, "Table 2.1. U.S. International Trade in Goods" (accessed April 16, 2025)

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