

Benefits Insights

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Key Drivers of 2025 Health Care Cost Increases

Health care costs are projected to increase substantially in 2025. Estimates show a similar growth in spending to 2024, marking multiple years of compounding costs.

Specifically, health care costs in the United States are likely to increase by 7%-8% in 2025, according to the following data from multiple surveys:

- Large employers predicted their health care costs would rise about 7.8% in 2025 before plan design changes.ⁱ
- Employers estimate a median 8% increase in health care costs in 2025.ⁱⁱ

As 2025 approaches, many employers remain curious about what is driving these increases. Here are key factors that will impact rising health care costs in 2025.

GLP-1s

Growing demand for glucagon-like peptide-1 (GLP-1) drugs is a major factor in why health care costs are projected to increase.

A survey found that more than half (57%) of the respondents said that GLP-1 spending was “driving health care costs to a great or very great extent.” GLP-1s typically cost around \$1,000 per month. These medications are intended to be taken in perpetuity to achieve their benefits. This means that users of GLP-1s may experience health benefits but will be required to use these high-cost treatments on an ongoing basis.

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 the treatment of 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 use is already widespread but is expected to increase in popularity. Around 1 in 8 Americans have already used a GLP-1 drugⁱⁱⁱ, while 6% are currently taking one. However, this number is projected to rise in the coming years. An estimated 9% of the U.S. population could be on GLP-1s by 2030.^{iv}

General Pharmacy Spend

GLP-1s are not the only high-price-tag drugs driving up health care costs. Core factors of health care inflation in 2025 are attributed to general price increases and specialty medications. The following are factors that are expected to drive up pharmacy spending.

Existing Drug Cost Increases

A number of commonly used drugs are expected to have price increases this year. Drugs such as demosumab,



pembrolizumab, dupilumab, empagliflozin and dapagliflozin could rise anywhere from 4% to 10% or more^v. In addition, increased utilization of these drugs could drive spending even higher.

Cell and Gene Therapies

Advanced treatments, such as cell and gene therapies (CGT), are designed to treat conditions like blood and lung cancer, sickle cell anemia and spinal muscular atrophy. These therapies demonstrate significant medical advancement, but they come with a high price tag. Some of these treatments may cost thousands of dollars per week; others can cost between \$250,000 and \$4.25 million for a single dose. Given the massive price tag, if only a small number of plan participants use these expensive prescriptions, it can significantly raise health care spending.

Many of these treatments have recently been approved, and hundreds more are currently in clinical trials and could be available in the coming years. By 2025, it's estimated that nearly 100,000 patients in the United States will be eligible for CGT, which could cost \$25 billion.

Biologics and Biosimilars

Specialty drugs, including biological drugs, are one the fastest-growing categories of pharmacy spending. Biologics are medications that come from living organisms, such as sugars, proteins and DNA. Biologics treat a range of conditions, such as cancer, psoriasis, rheumatoid arthritis and inflammatory bowel diseases. Even though these drugs are effective at treating complex health conditions, they carry a high cost. According to a report^{vi} published in medical journal JAMA, biologics make up only 2% of prescriptions but account for 37% of net drug spending.

Biosimilars are an emerging category of biologic medications. These treatments are similar to a reference drug, which is an existing biologic that was previously approved by the Food and Drug Administration (FDA). For a biosimilar to be approved, there must be no meaningful differences in safety and effectiveness from the original biologic. Compared with original biologics, biosimilars are lower-cost drugs that allow for greater access to more patients. New biosimilars are gaining FDA approval and entering the market each year. As of October 2024, 62 of these medications are currently

approved and have been frequently entering the market since the first biosimilar was approved in 2015.

A 2023 report^{vii} found that in the past 10 years, \$36 billion of biosimilar spending has saved \$56 billion on original biologics. These savings could total over \$180 billion in the next five years, although the integration of biosimilars into the drug market has faced challenges with reaching widespread adoption, such as drug exclusivity rights, active patents, approval processes and success rates for developing biosimilars.

Looking forward, the total biologics industry is projected to expand. Industry projections show that the market size is expected to grow from a current spend of around \$450 billion to almost \$850 billion over the next decade.

Health Care Labor Costs

Rising total health care employment, salary demands and general inflation directly impact health care costs. 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.

A recent report^{viii} from Mercer shows that the current supply of health care workers does not meet the growing demand for utilization, largely driven by an aging population that requires more health care services. The firm specifies that these market dynamics are one of the key reasons health care costs are projected to increase in 2025. This shortage is likely due to factors such as rising health care demands, an aging workforce and high rates of burnout.

Chronic Health Conditions

Around 90% of U.S. health care spend is for people with chronic and mental health conditions, according to the Centers for Disease Control and Prevention (CDC).^{ix} 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. Heart disease and stroke could affect over 60% of adults in the United States by 2050 and reach \$1.8 trillion in related expenses.^x After adjustments

for inflation, this would reflect that costs related to cardiovascular diseases 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 U.S. 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^{xi} that found that in 2019, annual obesity-related medical care costs in the United States were estimated to be nearly \$173 billion.

Over the past few decades, obesity rates in the United States have gone up dramatically. The CDC found that during August 2021-23,^{xii} the prevalence of obesity in adults was 40.3%. According to the agency, this is an increase of over 10% from a 1999-2000 study. In general, chronic disease is increasing in prevalence in the United States and is projected to continue to do so in 2025 and the upcoming decades.

Aging Populations

Despite a decrease^{xiii} during the COVID-19 pandemic, life expectancy in the United States has increased^{xiv} significantly over the past 50 years; meanwhile, birth rates^{xv} have trended down consistently. These factors contribute to a U.S. population with an average age that is slowly rising. The percentage of the U.S. population that is 65 or older continues to trend up, with over 55 million Americans over the age of 55.^{xvi} Estimates show that there will be almost 80 million people aged 65 and older in the United States by 2040.^{xvii}

In general, health care costs increase as people age. Adults over 65 use health care more frequently and are more likely to incur costs. 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.^{xviii} 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.

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 resources on health care costs.

ⁱ <https://www.businessgrouphealth.org/resources/2025-employer-health-care-strategy-survey-intro>

ⁱⁱ <https://www.kff.org/health-costs/poll-finding/kff-health-tracking-poll-may-2024-the-publics-use-and-views-of-glp-1-drugs/>

ⁱⁱⁱ <https://www.kff.org/health-costs/poll-finding/kff-health-tracking-poll-may-2024-the-publics-use-and-views-of-glp-1-drugs/>

^{iv} <https://www.jpmmorgan.com/insights/global-research/current-events/obesity-drugs>

^v <https://info.vizientinc.com/pharmacy-market-outlook>

^{vi} <https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2764808>

^{vii} <https://www.iqvia.com/insights/the-iqvia-institute/reports-and-publications/reports/biosimilars-in-the-united-states-2023-2027>

^{viii} <https://www.mercer.com/en-us/about/newsroom/employers-expect-third-consecutive-year-of-health-benefit-cost-increases-above-5-percent-in-2025/>

^{ix} <https://www.cdc.gov/chronic-disease/data-research/facts-stats/index.html>

^x <https://www.heart.org/en/news/2024/06/04/heart-disease-and-stroke-could-affect-at-least-60-percent-of-adults-in-us-by-2050>

^{xi}

<https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0247307>

^{xii} <https://www.cdc.gov/nchs/products/databriefs/db508.htm>

^{xiii} <https://www.cdc.gov/nchs/data/vsrr/vsrr031.pdf>

^{xiv}

<https://www.census.gov/content/dam/Census/library/publications/2020/demo/p25-1145.pdf>

^{xv}

https://www.cdc.gov/nchs/pressroom/nchs_press_releases/2024/20240525.htm

^{xvi} <https://www.cbo.gov/publication/59899>

^{xvii}

https://acli.gov/sites/default/files/aging%20and%20Disability%20In%20America/2020Profileolderamericans.final_.pdf

^{xviii} <https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/nhe-fact-sheet>