Benefits Insights

Key Drivers of 2027 Healthcare Cost Increases

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Healthcare costs have been growing at an alarming rate in recent years, and they're not slowing down. Surveys indicate that healthcare costs in the United States are likely to increase by 8% to 10% or more in 2027. Here's a breakdown of cost predictions:

- Mercer predicts that the total health benefit cost per employee will rise **8.2%** on average in 2027, which is the highest increase since 2003, even after planned cost-reduction measures.
- The Business Group on Health (BGH) expects a **9.2%** healthcare median increase in healthcare costs for 2027, which employers hope to reduce to about 8% through plan design changes.
- PwC projects a group medical cost trend of **9%** in 2027, the highest in 17 years.
- The International Foundation of Employee Benefit Plans anticipates a median **10%** increase in healthcare costs in 2027.
- A KFF analysis revealed the median proposed premium increase among 295 small group insurers is **14%** for 2027.

Individual Marketplace plans are also facing a median proposed premium increase of about 15% for 2027. Regardless of the exact figure, employers can expect their healthcare costs to continue to skyrocket throughout 2027. The following sections explore key factors that will impact rising healthcare costs in 2027.

Cancer Care

According to the BGH, cancer care has been the top driver of employer cost increases for five consecutive years. 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 cell and gene therapies (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.

With cancer cases and costs on the rise, employers may try to focus on healthy lifestyle promotion, cancer prevention and screenings, or centers of excellence partnerships.

GLP-1s

Glucagon-like peptide-1 (GLP-1) drug use for weight loss is already widespread, and adoption continues to climb. According to Gallup's 2026 National Health and Well-Being Index, 11% of U.S. adults currently take a GLP-1 medication for weight loss, up from just 3% in 2024, and 15% report having used one at some point. Awareness of these drugs has also surged, rising to 91% of U.S. adults in 2026 from 80% in 2024. These costly medications 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.

Additional GLP-1 options could further drive up employers' health plan costs. The first oral GLP-1 for weight loss became available in early 2026, and pipeline candidates such as retatrutide and CagriSema are reporting strong efficacy results. With pharmaceutical companies recognizing the success of semaglutide and tirzepatide, more than 100 drugs are in clinical development for obesity.

Historically, a drug excluded from a formulary was simply unavailable to most employees unless they paid full retail price, which for GLP-1 medications has commonly exceeded $1,000 per month. However, that reality is changing as manufacturers have introduced direct-to-consumer pharmacy programs, the federal government has launched a cash-price platform (TrumpRx.gov) and telehealth companies have built businesses around prescribing and fulfilling GLP-1 prescriptions outside insurance entirely.

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. Furthermore, as alternative payment options become available for these popular weight loss drugs, many plans cover GLP-1s only for diabetes or won't cover these prescriptions at all.

Specialty Medications

Concerns about pharmacy trends are nothing new, but they're intensifying. As such, GLP-1s are not the only high-priced drugs driving up healthcare costs. Specialty medications are also a core factor in 2027 healthcare inflation.

The specialty drug market continues to expand rapidly in 2026, 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 FDA approvals in 2025 were in the specialty category, with momentum continuing into 2026. These approvals reflect 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. The momentum continued in 2025, when the FDA approved 18 biosimilars, and it has carried into 2026, with additional approvals, including the first biosimilars to golimumab (Simponi) and new denosumab, pegfilgrastim and ranibizumab products. This trend is expected to continue, with predictions indicating that at least 10 new biosimilars will be approved annually over the next five years. As more biosimilars reach the market, the BGH reports that employers are increasingly using formulary design, coverage policies and clinical edits to encourage the use of lower-cost biosimilars when clinically appropriate.
- **CGTs**—These cutting-edge treatments continue to advance, with 54 therapies approved by the FDA as of September 2026 and more than 500 additional therapies in the pipeline, according to Trilliant Health. Whether it's cell therapies for blood cancers, such as chimeric antigen receptor T-cell (or CAR-T) therapy, or gene editing for rare genetic disorders, these innovations promise transformative outcomes but also come with significant cost and logistical challenges. Employers are responding with new approaches to coverage. According to the BGH, many are using centers of excellence and specialized contracting arrangements to manage CGT costs.

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 healthcare is delivered in the years ahead.

Chronic Health Conditions

Chronic conditions affect millions of Americans and require ongoing treatment, monitoring and medication, which adds up quickly for both individuals and employer-sponsored health plans. In fact, around 90% of the nation's $5.3 trillion in annual healthcare spending is on people with chronic and mental health conditions. 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 among the most significant contributors to healthcare costs. The American Heart Association estimates that heart disease and stroke could affect over 60% of 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. The U.S. Centers for Disease Control and Prevention (CDC) also reports that heart disease and stroke caused more than 850,000 deaths in 2024 and cost the healthcare system $223.2 billion per year.

Other conditions, such as obesity, also drive higher healthcare 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.

Diabetes is another significant contributor. The CDC reports that more than 40 million Americans have diabetes and that the total cost of diagnosed diabetes, including medical costs and lost productivity, was an estimated $413 billion in 2022. Keep in mind that these are just a few 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 2027 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 in 2025 to 82.3 years in 2055, and life expectancy at age 65 is forecast to increase from 19.7 years to 21.8 years.

In general, healthcare costs increase as people age. Adults over 65 use healthcare more frequently and are more likely to incur costs. The Centers for Medicare & Medicaid Services reported that per-person personal healthcare 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 age group accounts for a sizable proportion of healthcare spending, largely driven by their likelihood of having one or even multiple chronic conditions. Every year, more Americans enter the 65-and-over age group. With more Americans entering retirement age, the impact of an aging population is likely to continue increasing overall healthcare spend.

AI-driven Billing and Documentation

A newer factor is reshaping how much employers pay for care. According to PwC, documentation and coding tools powered by artificial intelligence (AI) are helping providers capture more billable detail without necessarily increasing the intensity of care delivered. Nearly 70% of health plans surveyed named this among their top three drivers of rising healthcare costs in 2027. As these tools become more widespread across provider networks, employers may see claims reflect higher billed severity even when patient treatment itself hasn't changed.

Catastrophic Claims

Catastrophic claims, which are extremely high-cost medical events, are significant contributors to recent healthcare costs. These claims typically involve severe illnesses, complex treatments or long-term care needs and occur across all employee age groups.

Catastrophic claims are often associated with cancer treatments, neonatal intensive care unit (or NICU) stays, organ transplants, mental health crises, severe trauma or accidents, genetic disorders and advanced therapies (e.g., cell and gene therapy). General inflation and the consolidation of health systems are driving up prices for services, making catastrophic claims even more expensive.

Healthcare Talent Shortages

Demand for healthcare workers is significantly outpacing supply. According to The Conference Board, the healthcare industry posts more than 700,000 job openings each month, while only about 306,000 unemployed workers are available to fill them nationwide. This gap is projected to widen in the years ahead. The U.S. Health Resources and Services Administration (HRSA) projects a shortage of over 141,000 physicians and more than 108,000 registered nurses by 2038, along with shortages across nearly every allied health and behavioral health occupation it tracks. Primary care access is expected to be hit particularly hard, with the National Institute for Health Care Management projecting that 47 states will face a shortage of primary care physicians by 2037.

Several factors are straining the healthcare workforce even as patient demand for care continues to grow. Key drivers include:

- **The aging population**—Americans age 55 and older make up about 30% of the population but account for 57% of total healthcare spending. As this population grows, so does demand for physicians, nurses and specialists, particularly in primary care and chronic disease management.
- **Workforce approaching retirement**—The clinicians needed to meet this rising demand are themselves aging out of the workforce. Nearly 47% of practicing physicians are age 55 or older, and physicians age 65 and older now make up about 20% of the active clinical workforce, with another 22% between ages 55 and 64. More than 4 in 10 physicians are within a decade of traditional retirement age.
- **Demand for behavioral health services**—HRSA projects shortages of nearly 100,000 mental health counselors, nearly 100,000 psychologists and more than 43,000 psychiatrists by 2038, even before accounting for the currently unmet need. Utilization of behavioral health services has risen 62.6% since 2018 and continues to grow faster than overall medical utilization.
- **A shrinking talent pipeline**—Internationally trained physicians and nurses have historically helped fill U.S. workforce gaps, particularly in rural and underserved areas. However, a new $100,000 federal fee on H-1B visa petitions is expected to reduce this pipeline going forward, with rural communities, low-income areas and smaller employers likely to be affected the most, since many operate on thin margins and cannot absorb a flat per-hire fee the way larger health systems can.
- **Residency bottlenecks**—Medical school enrollment has expanded significantly over the past two decades, but the number of federally funded residency positions has not kept pace, creating a bottleneck that limits how many graduates can enter practice each year. At the same time, rising medical school costs and student debt are leading some high-performing students to choose other, less debt-intensive professions instead of medicine.

Labor shortages also affect access to care and, in turn, costs. When patients face longer wait times or reduced access to primary care, they may delay treatment until conditions become more advanced, or turn to costlier emergency care instead. Over time, these dynamics compound when left unaddressed.

Healthcare and Provider Consolidation

Consolidation among hospitals, health systems and physician practices continues to give larger provider organizations greater leverage in price negotiations with insurers, which can lead to higher prices for employers and employees. According to the U.S. Government Accountability Office (GAO), at least 47% of physicians were employed by or affiliated with hospital systems in 2024, up from less than 30% in 2012.

GAO also found that private equity ownership of or investment in physician practices represented about 6.5% of physicians nationally in 2024, a small but growing share. Studies GAO reviewed indicate that physician consolidation with hospital systems can increase spending and the prices that commercial insurers pay, while generally producing no change in the quality of care. Mercer similarly identifies provider consolidation as a factor in its 2027 projection, noting that larger health systems and provider groups have considerable bargaining power when negotiating prices with insurers.

Employer Takeaway

Offering quality healthcare to employees carries a significant financial cost for organizations, accounting for a substantial share of the overall budget. It’s not just organizations that pay the price for rising healthcare costs; these expenses are often shared between employers and employees.

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

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