



PEOPLE
SOLUTIONS

LOCKTON PEOPLE SOLUTIONS MARKET UPDATE

Cost pains take hold across
the healthcare market

Q4 2025



INTRODUCTION

Lockton’s People Solutions Market Update offers comprehensive quarterly insights on the U.S. market dynamics impacting cost management, employee wellbeing, and benefits strategies. In this Q4 2025 edition, we explore the broader industry forces behind system-wide strain and connect high-cost claims analysis with a full picture of how widespread market pressures are shaping employer plan costs.

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Q3 2025 MARKET UPDATE RECAP

As employers respond to a pressured environment, seen in our Q2 2025 Market Update, costs continue to rise. In the Q3 2025 edition, we explored the higher-than-expected medical and pharmacy cost projections emerging from Lockton's 2025 Trend Study.



Watch now:
Candid roundtable
discussion



Inside today's U.S. Healthcare landscape

HEAR FROM LOCKTON EXPERTS as they break down the U.S. market forces driving today's rising healthcare costs for employers. In this roundtable discussion, we explore the surge in high-cost claims and medical inflation, the growing burden of chronic disease, the pressures facing providers, how both fully insured and self-funded employers are navigating the cost pains and evaluating innovative approaches, and what's on the horizon for stop loss.

Q4 2025 snapshot

Navigating market pressure & higher claims

Employers are heading into 2026 in an environment shaped by system-wide financial strain, rising renewals, growing risk, and accelerating costs.

The market is strained: Inflation, volatility, and provider pressure are reshaping pricing and access.

Plans are under pressure: Fully insured and self-funded groups face higher renewals and financial risk.

High-cost claims are escalating: Claims from members with \$100K+ in combined medical and pharmacy spend are rising sharply, driven by acute and specialty care costs.

Health systems, carriers, and employer plans are all under pressure, and as both cost and complexity increase, employers will need clear priorities, strong clinical and data-driven insights, and a holistic strategy that addresses both health and cost outcomes.

MARKET BACKDROP

How market pressures cascade through health systems & employer plans



Organizations are operating in a pressured, uncertain environment filled with market noise. High economic and consumer inflation coupled with financial volatility across industries strains organizations’ ability to plan and project. Tariff uncertainty and ongoing legislative reform introduce additional layers of unpredictability.

Employers, insurance carriers, and providers are feeling the combined effect of rising costs and diminishing flexibility to absorb them. As cost pressures intensify, traditional levers lose effectiveness and the capacity of networks and pricing structures to maintain stability reaches its limit.

FROM SYSTEM & PROVIDER STRAIN TO PLAN COSTS

For health systems, post-COVID margin recovery has slowed, labor shortages persist, and demand for care continues to rise amid growing consumer expectations:

- Margin pressures are at an all-time high
- Policy changes are threatening reimbursement levels
- The cost of supplies and labor is increasing
- Providers are caring for a sicker population

To help address this, many organizations turn to contract strategy or pursue consolidation to help protect their bottom line.

The ripple effects of broader market cost pressures extend across the entire healthcare ecosystem and drive additional pricing pressure and disruption. Health systems balance recovery against rising demand, carriers adjust, and employers navigate higher trend downstream.



Healthcare provider insights

Rising costs, staffing challenges, and financial strain are driving uncertainty across the healthcare landscape. Watch a breakdown of how these shifts are affecting healthcare providers and showing up for employers and members.

WATCH NOW





PROVIDER CONTRACTS, DISRUPTION, & PLAN STRATEGIES

Contentious provider negotiations and ongoing consolidation are key drivers of rising reimbursement rates and network instability. When providers and carriers can't reach agreement, it can lead to hospitals or physician groups leaving the network, directly affecting employee access.

These pressures don't happen in isolation. Inflation, rising labor costs, and financial strain across health systems all feed into negotiations, influencing the pace and direction of pricing changes. For employers, it reinforces the need to develop strategies that plan for transitions, help maintain access, and support employees through periods of disruption.

Contact a
Lockton
expert to
learn more
about building
a proactive
strategy.

GET STARTED



In this environment, the traditional levers for managing cost lose traction, and employers, providers, and carriers must rethink cost management and operational efficiency on a broader scale. From hospital consolidation to rising reimbursement rates, each factor reinforces the next, driving the need for innovative thinking.



HOW CAN EMPLOYERS ADDRESS HIGH COSTS?

For employers, understanding which parts of the healthcare cost ecosystem are within control and which aren't allows them to target the areas and key solutions that can help move the needle. While macro-level issues rooted in how the system operates can be influenced in some ways but are largely outside of an employer's control, plan sponsors can be intentional in pulling the right levers in key areas of higher impact. Below are some examples of areas both in and out of an employer's purview.

WHERE CAN EMPLOYERS MAKE AN IMPACT?

Outside employers' control

- General inflation
- Regulatory changes
- Medicare and Medicaid changes
- Contracting and billing practices
- Medical advancements
- Hospital consolidation

Within employers' control

- Purchasing efficiently
 - Ensure carriers, administrators, and PBMs are effectively managing your plan; ask questions to have confidence that they are incorporating evolving market practices such as AI upcoding; consider a payment integrity audit
 - Ensure they have competitive network pricing and fees; evaluate all fees beyond the direct administrative fee
 - Review funding strategy
 - Assess non-traditional plan strategies (e.g., ICHRA, RBP, variable copay plans)
- Managing the health of your population
 - Promote preventive care
 - Drive access to quality care through network and navigation
 - Drive engagement in care management programs to encourage positive behavior change
- Determining eligibility and cost-share philosophies
 - Decide whom your plan should cover and with what subsidy
 - Evaluate cost-share parameters through the lens of competitiveness and affordability



PLAN FOCUS

Impact on fully insured & self-funded employer health plans

HIGH RENEWAL INCREASES FOR FULLY INSURED PLANS

Carriers are navigating market volatility, shifting state and federal regulations, the specialty medication pipeline, biosimilars, and a continued focus on GLP-1s and future approvals. These pressures are driving high renewal rates for fully insured groups, and carriers are building in extra margin for risk loads and profit while adjusting their manual rating.

While healthcare trend continues to rise, smaller groups can see even higher increases that aren't tied to their own claims experience. These renewals also reflect broader carrier adjustments driven by market-wide patterns and cost pressures, often tied to industry or region.

SELF-FUNDING & STOP LOSS ENVIRONMENT

Self-funded plan sponsors should take advantage of bold moves
The impact of high-cost claimants and cost pains is also reshaping the self-funded market. And these claims don't just affect the current plan year; they hit the stop loss policy and can influence premiums and terms in future years.

As a result, cost containment strategies are no longer optional; they're essential, and more self-funded employers are interested in evaluating ways to cut costs. Employers should carefully review alternative approaches and risk strategies, including narrow or high-performance networks, products that use plan design to steer members, and more disruptive options, such as ICHRAs and reference-based pricing.

Stop loss market pressure
On the stop loss side, carriers are also navigating broader market pressure and large claims. Stop loss premium loss ratios continue to trend upward year over year, and many carriers are projecting additional rate increases and tighter terms continuing through 2026 and beyond.



Fully insured, self-funded, & stop loss insights

With loss ratios under strain and renewals increasing, long-term and innovative strategies are essential. Watch Lockton experts break down the changing fully insured risk pool and high renewals, where self-funded employers are looking for savings and cost control, and how stop loss carriers are adjusting for employers and members.

WATCH NOW



IS A MOVE TO SELF-FUNDING RIGHT FOR YOUR PLAN?

Lockton actuaries estimate the cost savings for switching from fully insured to self-funded can be up to 3%-5%.

In this environment, fully insured groups will explore self-funding to gain greater flexibility in plan design, leverage good claims experience, and find savings due to not having to pay insurance premiums, taxes, and other claims costs. Many employers purchase stop loss coverage to smooth volatility, either through a carrier or a stop loss captive. For employers considering a self-funded arrangement, an in-depth evaluation is important to ensure an understanding of cash flow, administrative considerations, stop loss coverage, etc.

Contact a Lockton expert to learn more —>

GET STARTED





High-cost claimants increase financial risk

JUST 1% OF MEMBERS ACCOUNT FOR 33% OF TOTAL PLAN COSTS

As healthcare costs continue to climb, more members are reaching high-cost claim levels, and the severity of these claims is rising. Leveraging InfoLock®, the High-Cost Claimant 2025 Report found that just 1% of members (those with annual claims over \$100K) account for 33% of total plan paid. These members face complex health challenges — such as cancer, autoimmune diseases, cardiovascular conditions, and rare disorders — while also balancing workplace and family responsibilities.



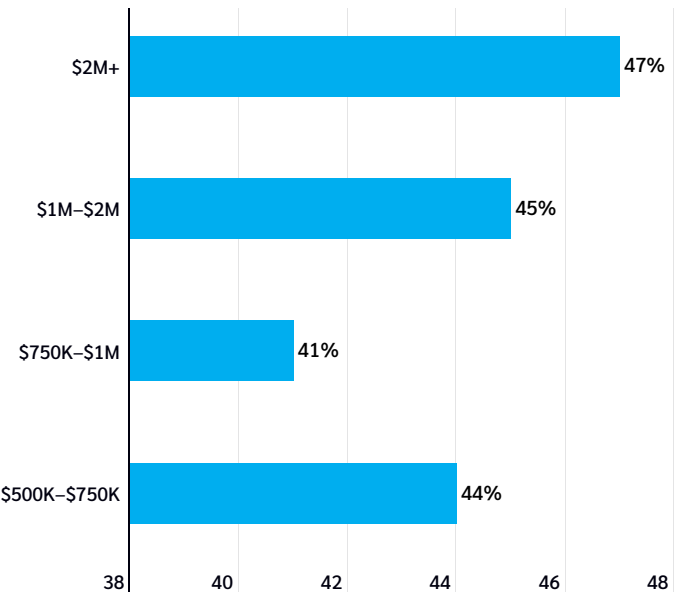
2025 HIGH-COST CLAIMANT REPORT

Employer health plans are facing a new level of cost intensity and unpredictability as care becomes more complex and high-severity claims rise. Dive deeper into where health claims are accelerating for employer plans.



[READ FULL REPORT](#)

HIGH-COST CLAIMANT INCREASES



Source: Lockton High-Cost Claimant 2025 report, 2022-2024 data.

WHERE RISK LIVES: CONSISTENT HIGH-COST CLAIM PATTERNS

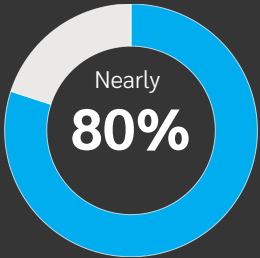
The top five paid claims categories remain consistent across all thresholds:

1. Cancer
2. Circulatory system
3. Musculoskeletal system and connective tissue
4. Dermatologicals
5. Analgesics — anti-inflammatory

These patterns highlight growing financial risk exposure for employers, reinforcing the need for earlier detection, targeted navigation, and strategic clinical intervention.

KEY INSIGHTS: 2025 HIGH-COST CLAIMANT REPORT

\$221K
average annual spend per HCC.



of HCCs have a specialty drug claim, and many receive infusions in high-cost hospital outpatient settings.

Members with HCCs have **significantly higher** instances of comorbidity burdens.

↑ 40%

Near-million (\$500K+) and million-plus (\$1M+) claims have grown more than 40% since 2022. This trend reflects a structural shift in risk exposure for employer plans, driven by specialty drugs, complex conditions, and site-of-care patterns.

The top 10 claimants in 2024 exceeded \$4M each, with the highest reaching

\$9.15M.



STRATEGIC LEVERS FOR EMPLOYERS

As severity and volatility rise, employers need to focus on strategic and targeted intervention in key, high-impact areas that address cost and clinical outcomes.

01 SITE OF CARE OPTIMIZATION

Hospital outpatient settings account for **55%** of infusions, the most expensive site of care. Shifting to home or office settings when medically appropriate can yield significant savings. Subcutaneous formulations (e.g., Darzalex Faspro) may offer alternatives to hospital-based administration.

02 COMPLEX CLAIMS INTERVENTION

Identifying and intervening in high-cost areas, such as infusion cost optimization, newborn benefits coordination, and pediatric therapy, can lead to savings for employers.

03 PRECISION DIAGNOSIS & SPECIALTY CARE ACCESS

Early intervention for members with complex, unresolved conditions improves both health and cost outcomes, with the Lockton and Mayo Clinic partnership resulting in \$98K-\$202K savings per patient while removing barriers to specialized care access.

04 MENTAL HEALTH & CHRONIC DISEASE MANAGEMENT

Mental health PMPM costs among high-cost claimants **rose 27% YoY**, with depression or anxiety prevalent in nearly 1 in 5 HCCs. Chronic conditions amplify costs and risk, especially when comorbid with acute events.

05 GENE THERAPY MONITORING

While utilization of gene therapies remains low, employers should monitor the pipeline of these considerably high-cost medications while focusing on actionable cost containment strategies.

06 CANCER PREVENTION & EARLY DETECTION

Cancer is the leading cost driver among HCCs, yet nearly 50% of cancers are still detected at late stages.

07 PROACTIVE CLINICAL INTERVENTION BEFORE HIGH RISK BECOMES HIGH COST

Data-driven outreach and proactive clinical engagement help identify and support high-risk members before they become high-cost claimants.

08 FOCUS ON NUTRITION

Poor nutrition is a foundational driver of chronic disease and a major contributor to conditions that drive high-cost claims. Diet-related conditions such as type 2 diabetes, hypertension, cardiovascular disease, and obesity are increasingly prevalent among employer populations. Nutrition therapy, delivered by registered dietitians, is an evidence-based intervention that employers can integrate into their benefits strategy to help drive cost savings and improve employee health.



Clinical insights

Increasing healthcare utilization, medical inflation, and the chronic disease burden are pressuring employer health plans. Watch a breakdown of why these trends matter, what's driving volatility, and how prevention and long-term strategy can help.

WATCH NOW

INTERVENTION IN ACTION: LOCKTON NURSE ADVOCATE (LNA)

LNA uses Lockton's proprietary population health platform, Infolock, to identify members with chronic conditions, gaps in care, or emerging risk factors. Licensed nurses then engage these members through:

- One-on-one health coaching.
- Navigation support for care and benefits.
- Education on treatment options and wellness activities.
- Coordination with wellness vendors for incentive-based programs.

LEARN MORE



FUTURE FOCUS

Moving forward with intention



Employers are entering 2026 in an environment defined by higher trends, intense renewal pressure, and growing financial strain for both organizations and employees.

Rising specialty prescription costs; catastrophic high-cost claims; GLP-1 costs, utilization, and new indications; tariffs; gene therapies; economic uncertainty; and more are all shaping a strained landscape that isn't easing anytime soon.

Going forward, employers need sharp direction, clear priorities, and a willingness to use creativity, technology, and clinical insight to their advantage.

MORE ON KEY AREAS TO WATCH IN 2026:

01

GLP-1s

Expanding indications, rising demand, and new employer strategy solutions will become even more urgent next year.

02

PHARMACY SHIFTS

Potential cost and compliance impacts tied to federal pricing and transparency changes — including DTC and TrumpRx proposals, 340B adjustments, and most-favored nation pricing considerations — will be key to watch ahead.

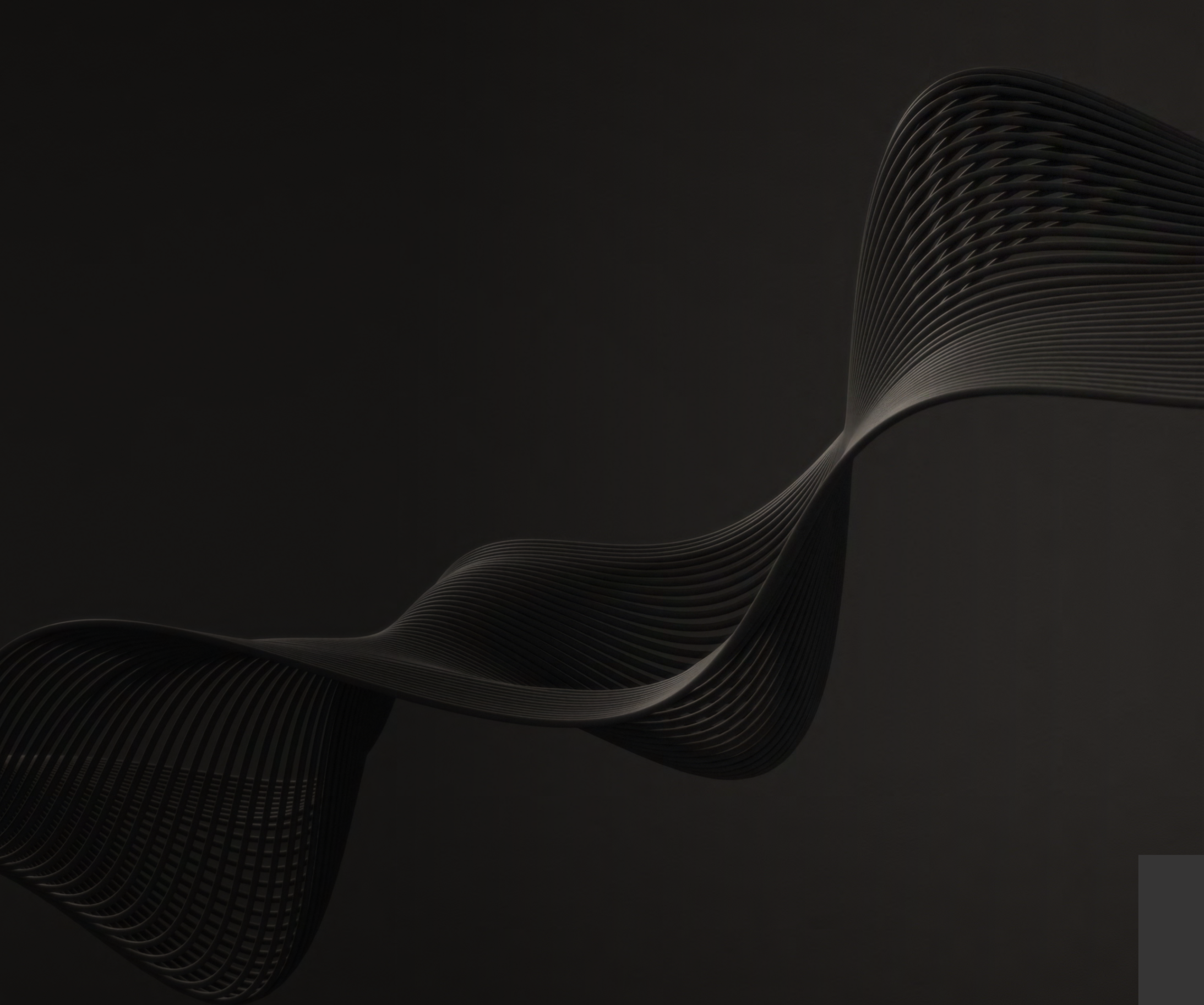
03

GLOBAL DYNAMICS

It's not just the U.S. — healthcare trend is rising on a global scale and is also shaped by international inflationary pressures and pricing dynamics. Read the 2026 Global Healthcare Cost Trend Report to learn more.

2026 REPORT





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 160 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](#).





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