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MOMENTUM

An M3 Employee Benefits Trend Report

CONTENTS

INTRODUCTION.

M3 has produced an annual employee benefits trend report for over 20 years — **this year's Trend Report is different.** In the past, our report has focused on plan design, highlighting premium changes and how high-deductible plan adoption has differed among employers of varying sizes, within the public and private sector, and geographically throughout Wisconsin.

Employee benefits have changed and so has M3's Trend Report. Today, as an employer, you're inundated with not only plan design choices, but innovative point solutions that promise immediate savings and a better employee experience. At the same time, you're grasping for control of your health care costs in an environment where premiums continue to increase year-over-year (more on that later).

In a market like this, every solution can seem like a good solution. **M3's employee benefits team helps our clients think differently. We see the bigger picture, identifying and vetting new opportunities for our clients to make sense of the madness and create customized strategies that fit their unique employee populations, business goals, and talent attraction and retention efforts.**

Our aim with this year's Trend Report? To give you a sense of that M3 experience. In this report, we will help you understand today's health care landscape and untangle the factors at play in rising costs, while sharing what we're seeing innovative employers do to prepare for the years ahead.

Looking for more data on plan design or want to know how your benefits stack up against your peers?

Reach out to your M3 client executive to request your custom benchmarking report.

THE STATE OF EMPLOYER HEALTH CARE SPEND.

Health care costs continue to rise year over year, creating growing pressure for employers and their workforce. While the drivers of this trend are complex, the financial impact is clear.

When looking at healthcare costs based on employer size, increases were largely similar, with one outlier — **employers with 100-249 employees received a 9.52% increase** on average compared to the other categories:

- 0-99 employees: **8.42%**
- 100-249 employees: **9.52%**
- 250-499 employees: **8.36%**
- 500+ employees: **8.91%**

In response, many employers are seeking ways to play a more active role in shaping their health care strategies. Rather than passively absorbing cost increases, these organizations are exploring new options to manage spend, support employee well-being, and gain greater visibility into what drives their claims experience.

For those looking to take a more proactive approach, a growing number of tools and models are available, from alternative funding arrangements and direct primary care relationships to advanced analytics, pharmacy optimization, and value-based care arrangements. In the pages ahead, we'll explore how innovative employers are adopting these and other emerging strategies to better control costs, improve employee well-being, and gain deeper visibility into the factors driving their claims experience. Understanding these evolving approaches will be essential as organizations prepare for the challenges and opportunities that lie ahead in 2026 and beyond.

UNDERSTANDING TODAY'S COST PRESSURES.

Employers are preparing for continued cost acceleration in 2026 and beyond. But what's driving these increases?

Key cost drivers include:

- **Healthcare inflation,** which is outpacing general inflation trends
- An **aging population** with growing care needs
- A **rise in chronic conditions** and **behavioral health claims**
- **Specialty** and **brand name drugs** driving pharmacy spend — particularly categories like GLP-1s

The downstream effects of these pressures show up in the data:

- **Chronic condition claims** (such as diabetes, hypertension, and coronary artery disease) are becoming more frequent and expensive
- **Cancer treatment costs** continue to climb due to new therapies and earlier detection
- **Musculoskeletal surgeries**, especially orthopedic procedures, are a growing cost category
- **Behavioral health utilization** remains elevated, with increased access demands and associated claims spending

HOW EMPLOYERS ARE RESPONDING IN 2025 AND PREPARING FOR 2026.

Rather than waiting for cost pressure to ease, employers are actively reevaluating their benefits strategies, testing new models, fine-tuning existing ones, and stepping away from approaches that no longer deliver value. While no one strategy fits all, several emerging trends are gaining **momentum,** some approaches are holding steady, and others are declining in relevance. The following pages outline what we're seeing in the marketplace — and where it's heading.

MOMENTUM WATCH: Trends to Track

↑	Direct Contracting Models
↑	High Performance Networks
↑	Variable Copay Plans
↑	Data-Driven Point Solutions
↑	Pharmacy Optimization
↑	Advanced Care Navigation & Advocacy
↑	Social Determinants of Health Strategies
→	Onsite & Nearsite Clinics
→	Funding Arrangements
↓	"Check the Box" Wellness Programs
↓	Standalone High-Deductible Health Plans
↓	Base Package Telehealth

↑ = Gaining Steam

→ = Holding Steady

↓ = Fading Out

WHERE TO START:
A Framework for Prioritizing Benefits Strategies

Not every trend will be the right fit for your organization — and that's the point. The most effective benefits strategies are those aligned with your population, goals, and risk tolerance. As you evaluate the options in this report, consider how these factors might **shape your next move:**

Group Size & Structure

What to ask yourself: Do I have the scale or concentration to support certain models (e.g., onsite care, direct contracts)?

Claims Volatility

What to ask yourself: Are high-cost claims or chronic conditions driving our spend? Or, is trend more consistent and manageable?

Administrative Capacity

What to ask yourself: Do I have internal bandwidth or vendor support to implement and monitor new programs effectively?

Workforce Demographics

What to ask yourself: What do my employees value most: access, affordability, virtual care, cultural alignment?

Innovative Appetite

What to ask yourself: Are we ready to test new models, or is leadership looking for proven, lower-risk solutions?

Data Maturity

What to ask yourself: Am I using data to inform decisions, and do I have visibility into what's driving costs today?

GAINING STEAM

Direct Contracting Models

Employers are beginning to move beyond traditional fee-for-service structures in pursuit of solutions that better align payment with outcomes.

One model seeing increased adoption is **Direct Primary Care (DPC)**. This model offers a flat, per-member-per-month payment directly to providers, which can improve access, continuity, and affordability of care. Employers are drawn to its simplicity and focus on primary care engagement.

High-Performance Networks

To address cost and quality variation, some employers are implementing **narrow** or **tiered networks.**

- **Narrow networks** limit provider choice to high-value options
- **Tiered networks** steer members toward preferred providers using financial incentives

When paired with effective communication and employee engagement, these networks may promote better consumer choices and reduce unnecessary spending.

Variable Copay Plans

These benefit designs are structured to **remove deductibles and coinsurance,** replacing them with fixed copays that vary by provider or facility.

By rewarding employees who choose high-quality, lower-cost care, variable copay plans:

- Improve transparency around out-of-pocket costs
- Promote affordability for routine and high-value services
- Align financial incentives with better health outcomes

Point Solutions Informed by Data

Point solutions are everywhere, but only some are actually solving the problems that matter. The most successful implementations are grounded in **employer-specific data** and paired with ongoing measurement to ensure ROI.

In 2025, popular point solutions are focused on:

- **Digital musculoskeletal care**
- **Cancer and complex condition management**
- **Mental health support**
- **Diabetes and GLP-1 oversight**

With the right analytic tools, employers can pinpoint gaps and align investments accordingly.

SPECIAL FEATURE:

Pharmacy Optimization

Pharmacy trend continues to be one of the fastest-growing components of health plan spend, and it's expected to remain a significant pressure point heading into 2026. In response, employers are seeking greater visibility, control, and clinical integrity in their pharmacy programs.

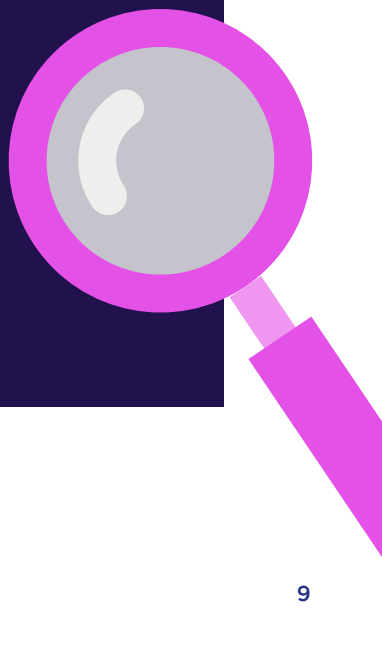
KEY AREAS OF FOCUS INCLUDE:

1. **Plan oversight and audits** to validate pricing, discounts, and rebate performance
2. **PBM transparency** through better contract terms and clearer revenue arrangements
3. **Clinical formulary management** to ensure the right drugs are covered at the right cost
4. **Specialty drug oversight** that expands access beyond PBM-preferred channels when clinically appropriate

590 DIFFERENT DRUGS witnessed price hikes in January of 2025

25% OF ADULTS taking prescription drugs report difficulty affording their medications

$84K = AVERAGE annual cost of a Specialty medication



Ethica Pharmacy Advisors is an M3 Connect Company — a separate, yet connected company delivering distinctive solutions that complement and enhance M3's offerings.

For more information on Ethica Pharmacy Advisors, visit ethicapharmacyadvisors.com.

SPECIAL FEATURE:

Pharmacy Optimization

ethica PHARMACY ADVISORS

Looking ahead to 2026, employers are also preparing for a new wave of pharmacy cost drivers:

- **GLP-1 medications (e.g., Ozempic®, Wegovy®)** continue to gain popularity for both diabetes and weight-loss indications, contributing to rising branded drug spend and raising questions about long-term coverage strategy.

5% OF DRUG SPEND BUDGETS
are expected for GLP-1 class coverage or approximately $14.50 PM

- **Gene therapies** are entering the market with curative potential for rare conditions, but their multimillion-dollar price tags demand careful financial modeling, stop-loss evaluation, and risk-sharing considerations.

$4.3M DOLLARS
for Lenmeldy, the most expensive gene therapy on the market today

- **Biosimilars** are emerging as a cost-saving alternative to high-cost biologics, but successful adoption hinges on education, formulary alignment, and provider engagement and network access.

$181B DOLLARS
projected to be saved through 2027 from the use of Biosimilars

To stay ahead of these shifts, employers are increasingly partnering with independent pharmacy advisors who can benchmark spend, monitor emerging therapies, and offer guidance rooted in clinical and financial data. These strategies help ensure pharmacy programs remain both sustainable and responsive to employee health needs.

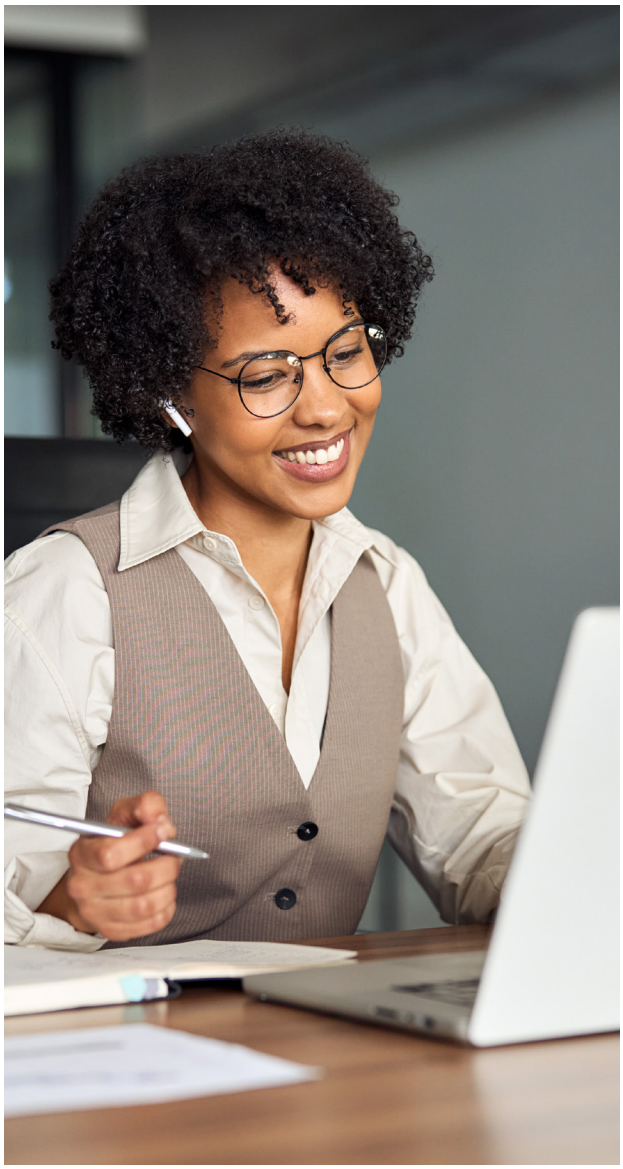
Advanced Care Navigation & Advocacy

As benefits ecosystems become more complex, employers are turning to advocacy and navigation solutions to guide employees through care decisions, claims issues, and provider selection.

These tools help employees:

- Find high-value providers
- Manage chronic or complex conditions
- Understand benefits and costs in real time

When paired with strong communication and clinical integration, care navigation can improve the member experience while reducing unnecessary spend.



Social Determinants of Health (SDOH) Strategy

Employers are increasingly acknowledging that factors outside the traditional health plan, such as transportation, housing, food access, and language barriers, can significantly influence employee health outcomes and healthcare costs.

While still an emerging area, some employers are beginning to incorporate SDOH considerations into their benefits strategy through:

- Transportation support for medical appointments
- Culturally competent and bilingual care access
- Community-based partnerships or wraparound services
- Data integration to identify and address population-specific gaps

These efforts are early-stage for many organizations, but they reflect a broader shift toward addressing whole-person health and reducing barriers that impact both engagement and outcomes.

SPECIAL FEATURE:

Not All Captives Are Created Equal

In a market defined by rising health care costs and persistent workforce challenges, many employers are looking to health captives as a potential competitive edge. But here's the truth: not every captive is built the same — and not every model will work for every business.

Joining a health captive can be a smart move. It can offer greater control, more stability, and opportunities for long-term savings. But success depends on fit and on asking the right questions upfront.

That's where M3's approach stands apart. We help employers evaluate their captive options, or the one they're already in, by digging into structure, philosophy, governance, and performance.

Ultimately, it comes down to this: Are you experiencing what you bought into?

At M3, we believe health captives should deliver on their promise — and that starts with full transparency and strategic alignment. If you're not asking these questions, it might be time to start.

Are You in the Right Captive?

If you're considering a health captive, or are already in one, there are key questions your broker should be helping you answer:

Performance & Value

- What have your renewals looked like, and how are they determined?
- Have you received timely and transparent reporting?
- Are you getting the distributions you expected? How are they calculated?
- Are you rewarded for strong performance, and how is that tracked?

Transparency & Governance

- How are decisions made, and who's making them?
- Do you know how you're performing relative to your peers?
- Do you have meaningful input, or more ownership, compared to your previous model?

Structure & Accountability

- How is your captive manager compensated?
- What happens if your broker relationship changes?
- Are you required to use certain programs, and are there penalties if you don't?

HOLDING STEADY

Alternative Funding Arrangements

As cost and complexity rise, more employers are reconsidering how they pay for health care.

Interest is growing in models like:

- **Level-funded plans**
- **Captive arrangements**
- **Traditional self-funding**

Each offers different degrees of risk, flexibility, and data access. For employers equipped to manage the tradeoffs, alternative funding can open doors to customized plan design, targeted vendor partnerships, and better control over long-term trends.

Onsite & Nearsite Clinics

Interest in onsite and nearsite care models remains steady, especially in industries with concentrated employee populations or limited provider access.

These clinics can deliver:

- Lower-cost, employer-controlled primary care
- Integrated wellness and preventive services
- Improved engagement for chronic condition support

However, adoption has leveled off for some employers due to startup costs and challenges in driving sustained utilization.

FADING OUT

"Check the Box" Wellness Programs

Programs built around step challenges, wellness portals, or health risk assessments continue to have a place in many organizations, particularly as entry points into broader wellness strategies. However, these tools alone are no longer seen as innovative or leading-edge, especially when they lack clinical integration or measurable outcomes tied to individual progress.

Today, more employers are expanding their approach to focus on building a culture of health and supporting healthcare consumerism — emphasizing preventive care like age-appropriate screenings and primary care utilization. While ROI is difficult to quantify for general wellness efforts, value on investment (VOI) remains strong when programs are aligned with workforce needs, foster sustained engagement, and contribute to long-term risk mitigation. For chronic condition management programs, measurable ROI becomes more achievable through targeted, data-driven interventions.

HDHPs as the Only Plan Option

While high-deductible health plans (HDHPs) remain a popular component of many benefit strategies, fewer employers are offering them as a standalone option.

Rising out-of-pocket costs have prompted renewed focus on affordability, leading to increased interest in **copay-based, variable copay, or value-based designs** that offer better upfront cost transparency and improved employee experience.

One-Size-Fits-All Telehealth

Basic, stand-alone telehealth platforms that offer episodic, generalist care are seeing reduced employer investment. Instead, employers are prioritizing virtual care models that are **integrated, condition-specific, or tied to navigation and primary care.** The shift reflects growing expectations that virtual care should drive long-term value, not just convenience.

SNAPSHOT:

Population Health & Condition Management Scorecard

From step challenges to sustained outcomes M3's population health & condition management scorecard captures how population health strategies are becoming more focused and impactful.

Wellbeing Program Offering

42.11%

42.11% of organizations offer a wellbeing program **(20% with a vendor, 22.11% self-administered)**

Program Duration

2-5 YEARS

Most programs (49.12%) have been in place for 2-5 years

11+ YEARS

23.68% have had programs for 11+ years

Campaign/Challenge Frequency

43.34%

Quarterly campaigns/ challenges are most common (43.34% of respondents report using this cadence)

Program Primary Goals

54.39%

Top goals include **improving employee health** (54.39%), building a culture **of wellbeing** (51.75%), and **reducing healthcare costs** (48.25%).

54.39% of respondents selected "All of the above," indicating **comprehensive goals.**

Company Policies and Programs:

- **Financial programs** (92.83%), **alcohol and drug-free worksite** (71.68%), and **flexible dress code** (66.31%) are the most common
- **On-site workout facilities** (29.39%) and **subsidization for healthy foods** (1.79%) are less common

Targeted Lifestyle Programs:

- **Physical activity** (63.30%), **mental health** (63.30%), and **financial wellbeing** (55.05%) are the most offered programs
- **Family planning** (1.83%) and **family caregiving** (2.75%) are the least offered

Incentivized Activities:

Preventive visits with primary care physicians (51.33%), **activity completion** (50.44%), and **biometric screenings** (42.48%) are most incentivized

Turn insight into action.
Reach out to your M3 team to view the full scorecard and translate this data into a strategy tailored to your population, goals, and risk profile.

FINAL THOUGHT: IS YOUR BROKER KEEPING PACE?

Rising health care costs aren't a new story — but the strategies employers are using to manage them are evolving rapidly. The path forward doesn't lie in doing more of the same. It lies in understanding the market's direction, knowing what levers are available, and having the right partners at the table to help you make informed, strategic choices.

As you evaluate your benefits strategy for 2026 and beyond, ask yourself:

- Is my broker bringing forward-looking, data-backed insight? Are they not just reacting to trends, but anticipating them?
- Are they introducing me to a full spectrum of strategies, including those I may not be ready for today but need to understand for tomorrow?
- Do I have the visibility, tools, and guidance I need to make confident, future-oriented decisions for my workforce and business?

These aren't just questions for this year's renewal — they're the foundation of a benefits strategy built to adapt, compete, and thrive in a changing world.

At M3, these are the questions we ask ourselves every day — and the standard we hold ourselves to in service of our clients. We believe staying ahead starts with seeing the full picture and making it actionable. **Because in a market that won't stand still, neither should your strategy.** These questions aren't just relevant for this year's renewal cycle — they're central to whether your benefits program is positioned to adapt, compete, and thrive in a shifting healthcare landscape.