2026

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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 — and each year, **the story gets more complex.** Last year, we reframed this report around a simple truth: the old playbook isn't enough anymore. This year, that truth has only deepened.

In 2026, employers aren't just watching costs rise, they're fighting back. The data shows it. The strategies show it. The results, while still challenging, show early signs that active, informed employers are beginning to bend the curve.

But "beginning to bend" is not the same as "under control." **Health care costs remain at elevated levels of increase,** and the forces driving them — cancer, behavioral health, specialty drugs, musculoskeletal conditions, and chronic disease — are not retreating. They are evolving. And so must your strategy.

In this year's Momentum Report, we'll show you exactly what's driving costs in 2026, what innovative employers are doing about it, and where the market is heading as we prepare for 2027 and beyond.

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 today.

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.

Using M3's clientele as a benchmark, we can see that, on average, employers are spending $17,042 per employee annually on healthcare — with year-over-year increases averaging 7.46%.

That number deserves context. On one hand, 7.46% represents a meaningful moderation from last year's 8.64% average increase. On the other hand, it remains well above general inflation — and it comes on top of already elevated cost levels from prior years. The compounding effect matters: **a 7.46% increase on a $17,042 base is a very different problem than a 7.46% increase would have been five years ago.**

Here's the more important story behind that moderation: it didn't happen by accident.

Employers are increasingly willing to make real plan changes — adjusting designs, shifting funding models, deploying point solutions, and renegotiating pharmacy arrangements. The 2026 data reflects the early returns on that activity. Employers who leaned in are seeing results. Those who waited are still absorbing the full impact.

When looking at health care costs by employer size, the picture is nuanced:

Employer Size	2025 Avg. Increase	2026Avg. Increase	Direction
0–99 Enrolled	8.42%	7.35%	▼
100–249 Enrolled	9.52%	7.76%	▼
250–499 Enrolled	8.36%	6.24%	▼
500+ Enrolled	8.91%	8.97%	▲

Three of the four size bands improved year over year — a meaningful signal that employer action is having an effect. But one band stands out: **employers with 500 or more enrolled employees saw their average increase climb to 8.97%.** While not a dramatic reversal, it stands in contrast to the meaningful improvement seen across every other segment.

This is worth watching closely. Large employers often have greater self-funded exposure, more complex plan designs, and higher concentrations of high-cost claimants. The catastrophic claims story — particularly around cancer and specialty drugs — may be showing up most acutely in this segment. If you're in this size band, the data is a signal to act with urgency, not wait for the market to stabilize.

▼ = Improved ▲ = Worsened

UNDERSTANDING TODAY'S COST PRESSURES.

Employers are navigating continued cost acceleration heading into 2027. But what's actually driving these increases?

The 2026 data points to **five** primary cost pressures — and importantly, they are not independent of one another. They interact, compound, and in many cases, share common solutions.

CANCER CLAIMS

The single biggest driver of catastrophic claims in 2026.

For catastrophic claims exceeding $100,000, cancer is the #1 condition among M3 clients — **representing 25.9% of all high-cost claim spend.** To put that in perspective, cancer spend is more than 3x that of the second highest catastrophic condition. No other diagnosis comes close.

Cancer has moved to the top of the cost driver list — not because it's new, but because three forces are converging simultaneously: more frequent diagnoses, higher treatment costs (driven heavily by specialty medications), and longer treatment durations as survival rates improve. That last point is often overlooked. Better outcomes are genuinely good news — but they also mean more months of high-cost treatment per patient. Employers should expect cancer to remain the dominant catastrophic claims driver for the foreseeable future.

BEHAVIORAL HEALTH & MENTAL HEALTH

Behavioral and mental health spend increased an average of +9.1% year over year across M3's book of business.

Utilization of mental health services continues to climb across all demographics, and the cost of those services is climbing even faster, driven by sharp increases in facility costs. The gap between demand and available providers remains wide, creating access challenges that delay care and, in many cases, allow conditions to worsen before treatment begins. When access is delayed, costs go up — deferred outpatient mental health care too often becomes inpatient psychiatric care, crisis intervention, or lost productivity that never shows up on a claims report but is felt throughout the organization.

A notable and growing sub-trend: dependent utilization. Mental health claims among employees' dependents — particularly adolescents and young adults — are increasing at a rate that warrants its own strategic attention. Employers who are only thinking about employee mental health are missing a significant and growing portion of the spend.

MUSCULOSKELETAL (MSK) SPEND

Outpatient volume is up. Costs per procedure are up. Both at the same time.

Musculoskeletal conditions — particularly knee, joint, and back surgeries — are driving spend through a combination of increased outpatient surgical volume and elevated per-procedure costs. The shift to outpatient settings was supposed to reduce costs; in many cases, the savings have been offset by volume growth and facility fee inflation.

SPECIALTY DRUG SPEND

A two-channel cost problem that most employers are only solving for within one channel.

M3 benchmark data shows specialty drugs now account for 51.5% of total spend, aligning closely with the 50–60% industry range. For the first time, the majority of what employers are spending on pharmacy is being driven by a relatively small number of high-cost medications.

That is even *before* accounting for GLP-1 medications which, importantly, are not classified as specialty drugs. They fall under the traditional drug bucket, meaning the 51.5% figure and the GLP-1 cost pressure are two separate and compounding challenges employers are managing simultaneously.

Specialty drug spend is driving trend in two distinct ways: through the pharmacy channel (high-cost oral and self-administered specialty medications) and through the medical channel (infusion drugs administered in clinical settings, often for cancer treatment). Many employers have focused their pharmacy optimization efforts on the pharmacy channel — but medical channel specialty drugs, particularly oncology infusions, represent a significant and often undermanaged cost center. Addressing both channels is essential.

CHRONIC CONDITIONS

More people. Higher costs. And a new medication category changing the math.

The prevalence of chronic conditions — *diabetes, hypertension, coronary artery disease, obesity* — continues to grow, and the cost of managing them is rising alongside it. GLP-1 medications (Ozempic®, Wegovy®, and their successors) have added a new dimension to this challenge: they offer genuine clinical benefit for diabetes and weight management, but at a cost that can represent **3-5% of total healthcare spend (Med/Rx) OR between 10-20% of the Rx Spend.** Employers are wrestling with how to cover these medications thoughtfully, balancing clinical value, member access, and long-term financial sustainability.

HOW EMPLOYERS ARE RESPONDING IN 2026 AND PREPARING FOR 2027.

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 trends are gaining momentum, some are holding steady, and others are declining in relevance.

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, culture 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?
Innovation 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?

MOMENTUM WATCH: Trends to Track

	Data-Driven Point Solutions
	High Performance Networks
	Direct Contracting Models
	Variable Copay Plans
	Pharmacy Optimization
	Advanced Care Navigation & Advocacy
	Funding Arrangements (Captives) *elevated from 2025*
	Social Determinants of Health Strategies
	Onsite & Nearsite Clinics
	"Check the Box" Wellness Programs
	Standalone High-Deductible Health Plans

= Gaining Steam

= Holding Steady

= Fading Out

GAINING STEAM

Data-Driven Point Solutions

Point solutions are everywhere — but only some are actually solving the problems that matter. What's changed in 2026 is the sophistication of how employers are selecting and deploying them.

The most successful implementations are no longer just grounded in current employer-specific data — they're using predictive modeling to identify *future* cost drivers before they become catastrophic. This forward-looking approach allows employers to intervene earlier, improve outcomes, and deliver measurable ROI rather than simply reacting to last year's claims.

Key point solution categories gaining traction in 2026:

- **Digital MSK care** — addressing the growing outpatient surgery volume before it reaches the OR
- **Mental health support** — with specific attention to dependent access, not just employee access
- **Kidney disease management** — an emerging area as chronic condition prevalence grows
- **Complex care & cancer care management** — navigating the most expensive and complex claims
- **Diabetes & GLP-1 oversight** — managing both clinical appropriateness and financial exposure
- **Site-of-service pharmacy infusion** — redirecting medical channel specialty drug administration to lower-cost settings, directly addressing the two-channel specialty drug problem

With the right analytic tools, employers can pinpoint gaps, align investments accordingly, and measure what's working.

High-Performance Networks

To address cost and quality variation, employers are increasingly implementing **narrow** or **tiered networks** — and the approach is maturing.

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

When paired with effective communication and employee engagement, these networks promote better consumer choices and reduce unnecessary spending. The key word is *paired* — network design without member education rarely delivers its full potential.

Direct Contracting Models

Employers are moving beyond traditional fee-for-service structures in pursuit of solutions that better align payment with outcomes — and in 2026, this movement has expanded in **two meaningful directions.**

Direct Primary Care (DPC) continues to grow in both geographic reach and flexibility of offerings. More employers can access DPC arrangements today than even a year ago, as providers expand into new markets and adapt their models to fit a wider range of employer sizes and structures.

The core value proposition remains: a flat per-member-per-month payment that improves access, continuity, and affordability of primary care — while reducing downstream specialty and emergency utilization.

Targeted direct contracts for specific conditions are gaining traction as a complementary strategy. Rather than broad network arrangements, these contracts address the entire care bundle for high-cost conditions — establishing direct, upfront, negotiated costs for episodes of care. They are particularly effective in markets where provider concentration creates meaningful cost variation, and where a specific condition (such as orthopedic surgery or cardiac care) represents a disproportionate share of spend.

Variable Copay Plans

These benefit designs **remove deductibles and coinsurance,** replacing them with fixed copays that vary by provider or facility — rewarding employees who choose high-quality, lower-cost care.

What's new in 2026: The number of administrators and plan sponsors offering variable copay designs has expanded, and so has their geographic footprint. This is no longer a strategy available only to large employers in major markets. More employers — across more geographies — can now access these designs than a year ago, making variable copay plans a more realistic option to evaluate than they've ever been.

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

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. In a year defined by complex cost drivers — cancer, behavioral health, specialty drugs — the value of a skilled navigator has never been higher.

SPECIAL FEATURE:

Pharmacy Optimization

(An Ethica Pharmacy Advisors Feature)

Pharmacy trend continues to be one of the fastest-growing components of health plan spend — and in 2026, the pressure is coming from multiple directions at once.

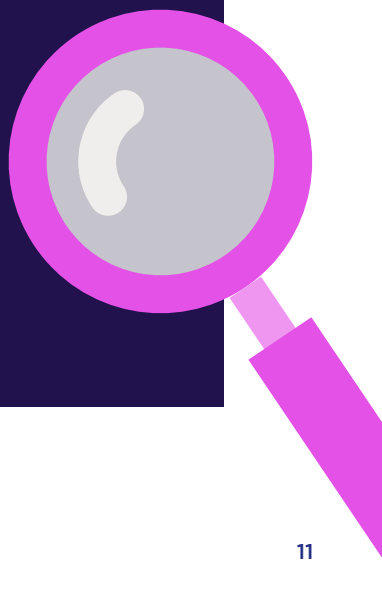
KEY AREAS OF FOCUS INCLUDE:

1. **Plan oversight and the importance of audits —** to validate pricing, discounts, and rebate performance
2. **Ensuring PBM transparency —** through better contract terms and clearer disclosure of 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

$84,000 = average annual cost of a specialty medication



SPECIAL FEATURE:

Pharmacy Optimization

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

- **GLP-1 medications *(e.g., Ozempic®, Wegovy®, and successors)*** continue to gain popularity for both diabetes and weight-loss indications, contributing to rising branded drug spend and raising complex questions about long-term coverage strategy. Employers should expect GLP-1 coverage to represent approximately 10% to 20% of drug spend budgets — a line item that demands a deliberate, clinically grounded coverage policy rather than a reactive one.

- **Gene therapies** continue to enter the market with curative potential for rare conditions — but their price tags demand careful planning. Lenmeldy, currently the most expensive gene therapy on the market, carries a price tag of $4.3 million. Financial modeling, stop-loss evaluation, and risk-sharing arrangements are essential before these therapies appear on a claim.

- **Biosimilars** represent one of the most significant cost-saving opportunities available to employers today. $181 billion in savings is projected through 2027 from biosimilar adoption — but capturing those savings requires education, formulary alignment, and active provider and network engagement. The savings don't happen automatically.

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.

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, visit ethicapharmacyadvisors.com.

SPECIAL FEATURE:

Not All Captives Are Created Equal

In a market defined by rising health care costs — and now, a hardening stop-loss market — **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.

The stop-loss context matters in 2026. The stop-loss market has hardened meaningfully this year, with carriers rebalancing risk and premiums in response to elevated catastrophic claims — particularly in cancer and specialty drugs. Employers in the fully-insured and traditional self-funded markets are feeling this pressure directly. For employers who are well-suited to a captive structure, this market environment makes the stability and cost-control potential of a well-run captive more compelling than it was even a year ago. Captives have seen their largest growth and expansion in 2026, and that trajectory is expected to continue into 2027.

But "captive" is not a monolithic solution. Joining the wrong captive — or staying in one that isn't performing — can be worse than the alternative.

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.

Are You in the Right Captive?

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?

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.

HOLDING STEADY

Social Determinants of Health (SDOH) Strategy

Employers are increasingly acknowledging that factors outside the traditional health plan — transportation, housing, food access, language barriers — can significantly influence employee health outcomes and health care 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 reflect a broader shift toward addressing whole-person health — and as data tools improve, the ability to identify and act on SDOH factors at the population level is growing.

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

Adoption has leveled off for some employers due to startup costs and challenges in driving sustained utilization — but for the right employer profile, these models continue to deliver meaningful value.

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. But 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 health care 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.

Standalone High-Deductible Health Plans

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. The growth of variable copay plans — noted above — is in part a direct response to the limitations of HDHP-only strategies.

FINAL THOUGHT:

IS YOUR BROKER HELPING YOU SEE AROUND CORNERS?

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.

The 2026 data tells us something important: employers who act are getting different results than employers who wait. The moderation in trend we're seeing — imperfect and uneven as it is — is not a market gift. It's the early return on deliberate strategy.

As you evaluate your benefits strategy for 2027 and beyond, ask yourself:

- Is my broker bringing forward-looking, data-backed insight — 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 are 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. In a market that won't stand still, neither should your strategy.

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