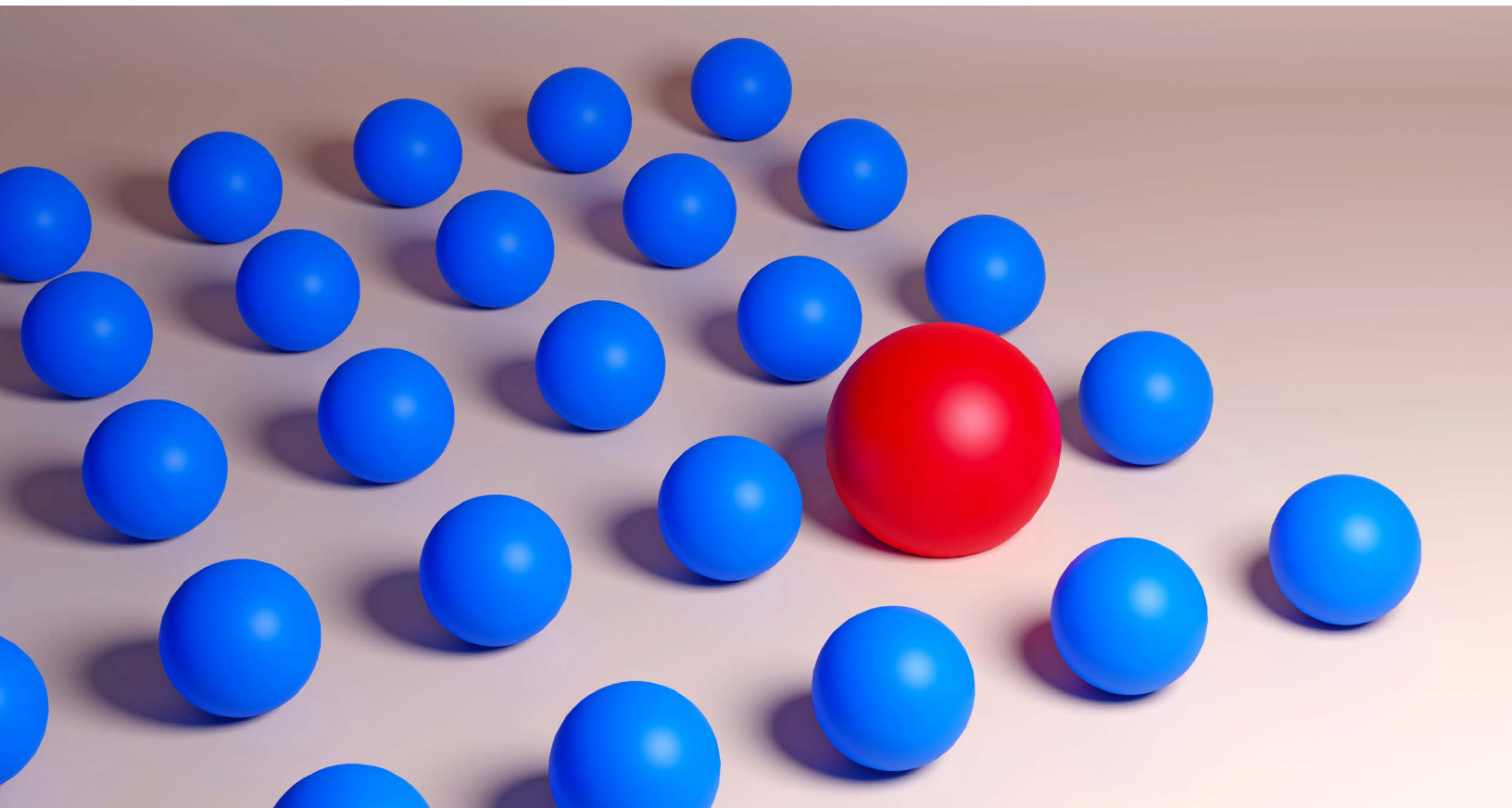


Healthcare Practice

Transforming employer health benefits: Large employers' activist role

Amid unprecedented rate hikes and financial pressures, large employers, which account for more than \$800 billion in healthcare expenditures, are driving the future of the health benefits market.

This article is a collaborative effort by Aditya Gupta and David Knott, with Aarti Yelne, Nikhil Mahajan, Priya Patel, and Xuan Chai, representing views from McKinsey's Healthcare Practice.



Employers are the largest purchasers of health insurance in the United States, representing approximately 165 million lives¹ and more than \$800 billion in healthcare expenditures.² Large employers—those with more than 10,000 employees—are often innovators when it comes to benefit offerings, shaping the trends that are later adopted by small and medium-size employers. Every year, large employers submit about 300 requests for proposal (RFPs) to health insurance carriers, according to our research. They also account for \$16 billion to \$24 billion in potential revenue for healthcare partners, including health insurance plans, healthcare professionals, and other healthcare companies.

Today's market forces are creating a paradigm shift in how employers deliver health benefits. Companies want to provide best-in-class benefits offerings for their employees to attract, care for, and retain top talent. New research also illuminates the connection between employee health and economic productivity—and the value at stake if employee health is poor.³ McKinsey's 2024 National Employer Health Benefits Survey surveyed 1,659 employer benefits decision-makers, including C-level executives and HR or benefits leaders, on their priorities and view of the market. Our survey suggests that in the coming years, employers will seek to create best-in-class benefits programs by choosing healthcare partners that seek opportunities to improve offerings year-round, have a detailed understanding of customers and their business goals, and take an innovative approach to value-driven pricing models. It's important for employers to know their options and for healthcare partners to stand out as the most viable partners. This article will address relevant considerations for both parties.

Unprecedented external pressures are affecting how employers approach benefit offerings

Three factors have increased the complexity of navigating employer health benefits:

Changing dynamics. Commercial healthcare costs are expected to rise by 9 to 10 percent annually from 2024 to 2026,⁴ and tariffs are expected to affect this cost further.⁵ As a result, employers are facing significant cost pressures as they design health benefits for next year. Some group segments and geographies could see rates increase by more than 10 percent per employee (Exhibit 1).

As a result, employers—especially large ones—are pivoting from their traditional place in the back seat to take an activist role in health benefits. They are working with their partners (brokers, health plans, and other healthcare system stakeholders) to redefine their offerings.

An appetite for disruptive solutions. Large employers are more interested in and willing to adopt alternative health plan options such as virtual-first health plans and dynamic co-payment models, as reflected in McKinsey's 2024 Employer Health Benefits Survey. Our 2024 analysis showed that nearly 12 million members covered by health plans could move to an innovative product design by 2030.⁶

A more complicated ecosystem. Ten years ago, large employers may have worked with a few organizations, anchored by a core administration partner—typically a health insurer or third-party administrator. Administrators and service companies could compete based on brand, discount position, and level of service. Today, options for employers have

¹ Gary Claxton, Matthew Rae, and Aubrey Winger, "Employer-sponsored health insurance 101," KFF, May 28, 2024.

² Anne B. Martin et al., "National health expenditures in 2023: Faster growth as insurance coverage and utilization increased," *Health Affairs*, December 2024, Volume 44, Number 1.

³ "The surprising state of employee health," McKinsey, March 26, 2025.

⁴ Aditya Gupta, Akshay Kapur, Monisha Machado-Pereira, and Shubham Singhal, "The gathering storm: The threat to employee healthcare benefits," McKinsey, October 20, 2022.

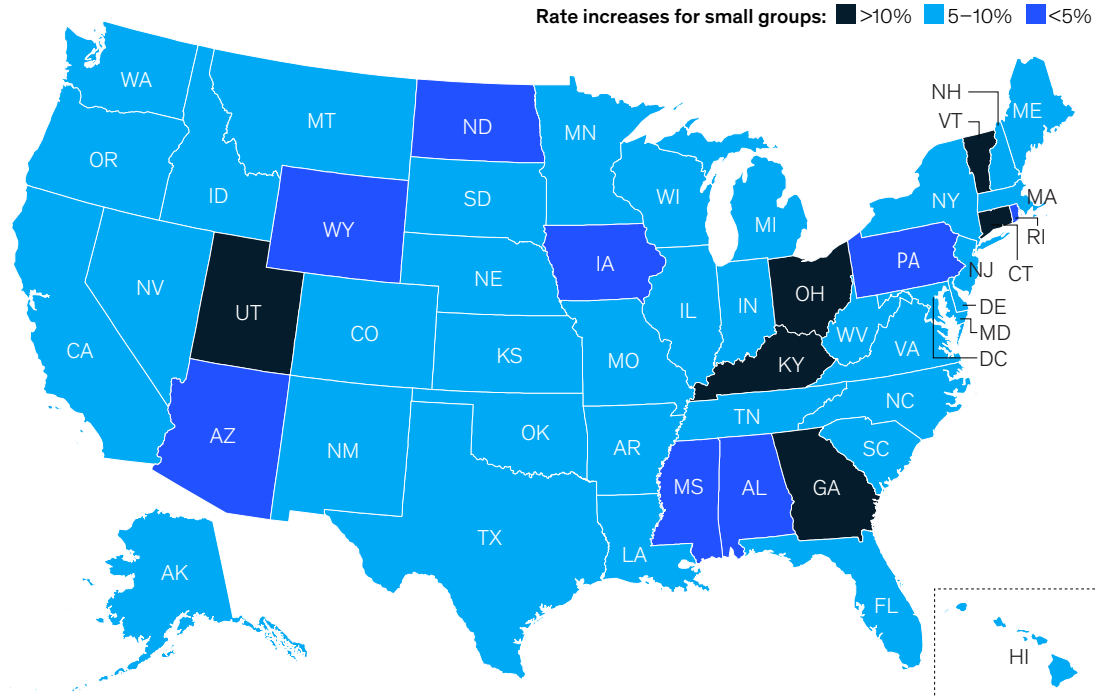
⁵ *Distribution blog*, "Navigating an ever-evolving trade environment," blog entry by McKinsey, March 19, 2025.

⁶ "Reimagining US employer health benefits with innovative plan designs," McKinsey, October 15, 2024.

Exhibit 1

Rate pressures are creating a growing disconnect between actual healthcare costs and employer expectations.

Rate increases for small groups¹ by state,² 2024



¹Cumulative rate change percentage (over the previous 12 months).

²Rate increases for small groups¹ is a proxy for understanding relative cost increases by state.

Source: Shameek Rakshit et al., "How does medical inflation compare to inflation in the rest of the economy?," Peterson-KFF Health System Tracker, Aug 2, 2024

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proliferated, with blurred value propositions. Large employers can work with ten or more organizations within a health ecosystem and may have an anchor vendor partner, while the administrator's role is limited. To compete, administrators and service companies have to demonstrate value across 20 different categories; in the past, employers typically evaluated healthcare companies across only four common criteria (Exhibit 2).

Employers are adopting an activist role—and a growing appetite for disruptive solutions

As healthcare companies adjust to these external factors and strive to preserve employee well-being, several relevant trends have emerged among large employers.

Employers are budgeting for only a fraction of the expected cost increases. According to the 2024 McKinsey Employer Benefits Survey, large employers cited costs as their number-one concern when designing a benefits package, and costs accounted for 66 percent of an employer's purchasing decision in 2024, a small increase from 64 percent in 2021. But many employers are making conservative projections for the increase in medical costs per employee. Most respondents expect costs per employee to increase by 5 to 10 percent annually over the next three years, yet most typically budget for a 4 percent increase, according to the 2022 McKinsey Healthcare Stakeholder Survey (Exhibit 3).

Employers are interested in alternative insurance design solutions. According to our survey, among jumbo employers (companies with more than

Exhibit 2

Employers have increased their evaluation criteria for healthcare partners from four factors to 20.

Request-for-proposal dimensions

- Original four factors**
(10 years ago)
- ① **Brand** (in local market)¹
 - ② **Network discounts**
 - ③ **Network breadth** (eg, coverage in rural areas)
 - ④ **Administrative-services-only fees** (eg, discounted admin fees)

+

- Additional factors** *(today)*
- ⑤ **Guarantees** (eg, trend guarantees)
 - ⑥ **Medical cost management** (eg, payment integrity, utilization management)
 - ⑦ **Innovative population health** (eg, diabetes management)
 - ⑧ **Customizations in product and network design**
 - ⑨ **Alternative payment models** (eg, capitated model)
 - ⑩ **Account management**
 - ⑪ **Core admin capabilities** (eg, claims processing, eligibility, enrollment)
 - ⑫ **Reporting and analytics** (eg, reporting customization)
 - ⑬ **Member experience** (eg, value proposition, relevant experience)
 - ⑭ **Digital tools and technology** (eg, online portals, mobile apps)
 - ⑮ **Local impact** (eg, involvement in the community)
 - ⑯ **Rx programs and integration**
 - ⑰ **Ancillary products** (eg, dental, vision)
 - ⑱ **Wellness programs** (eg, healthy-lifestyle discounts)
 - ⑲ **Health reimbursement arrangement accounts and health savings accounts**
 - ⑳ **Navigation and advocacy** (eg, provider navigation, supported scheduling)

¹A national brand may be more important for accounts bidding at national scale.

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25,000 employees) that have considered value-based insurance design models, more than 85 percent indicated a strong interest in innovative models such as flexible co-payment design and first-dollar deductible plans.

Employers are open to alternative network arrangements in pursuit of cost control. Employers have become more willing to explore alternative network arrangements—including reference-based pricing, dynamic co-payment plans, virtual-first plans, and narrow networks. For example, the

number of jumbo employers interested in open networks with reference-based pricing increased by 33 percent from 2022 to 2024, according to the respective McKinsey Employer Benefits Surveys. These options can result in savings of up to 30 percent, decreased balanced-billing rates, and improved member experience compared with older models of reference-based pricing.⁷

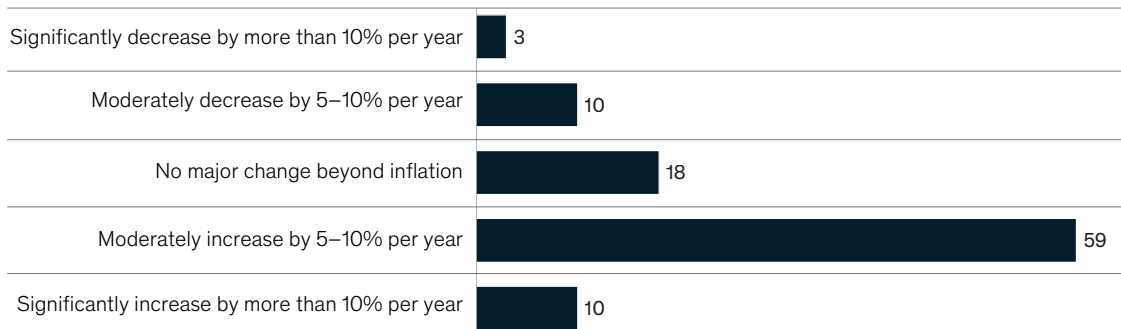
Novel therapeutics are the biggest challenges when building a benefits package. According to our survey, jumbo employers cited their top challenge as

⁷ Aditya Gupta, Akshay Kapur, Monisha Machado-Pereira, and Shubham Singhal, "The gathering storm: The threat to employee healthcare benefits," McKinsey, October 20, 2022.

Exhibit 3

In the next three years, large employers expect healthcare costs per employee to increase between 5 and 10 percent.

Expected change in healthcare costs per employee over the next 3 years, % of respondents (n = 419)¹



Question: How does your company expect your healthcare costs per employee to change over the next 3 years?
¹Sample represents US-based large employers with at least 10,000 employees. Excludes data with uncertain responses such as "I don't know," "not sure," and "not applicable."
 Source: McKinsey's 2024 National Employer Health Benefits Survey

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managing increased employee interest in and use of novel therapies, such as GLP-1 medications and cell therapies (Exhibit 4).

Jumbo employers are more interested in adopting methods to manage prescription drug costs, with roughly 79 percent using or planning to use these methods in 2024, up by nearly 50 percent from 2021, according to the respective McKinsey Employer Benefits Surveys. They are also often leaders in pharmacy cost management: Jumbo employers are 20 to 30 percent more likely than smaller employers to use methods (such as tiered formularies, variable cost sharing, and specialty-pharmacy management) to manage pharmacy costs.

Employers are prepared to scale back solutions that cannot demonstrate a hard ROI or high value to employees. In addition to vetting benefits offerings based on the value they provide employees, most large employers in the 2024 McKinsey Employer Benefits Survey noted that they require a minimum ROI of 2:1 or 3:1 for each health management program offering. To that end, more employers are scrutinizing benefits that are breaking even,

are not providing a significant ROI, or are not demonstrating significant value to employees. For example, of the large employers that reported using a diabetes management solution, more than half planned to reduce or eliminate the offering because they expected it to produce an ROI of 1:1 or less or because they can provide a similar high-quality solution that could benefit more employees.

Three strategies help healthcare companies take employer partnerships to the next level

Large employers are changing how they purchase benefits and, therefore, how they evaluate their partners. Cost pressures are spurring employers to reevaluate existing partnerships, and more employers are seeking partners that are willing to commit to financial and performance guarantees on discounts, trends, ROI, or other performance metrics.

Healthcare companies can gain and improve employer partnerships by adopting a year-round sales mindset, taking a granular view to understand employer needs, and substantiating their value

Exhibit 4

Managing consumer interest in novel therapeutics is nearly twice as challenging for jumbo employers than for all employers.

Top challenges when building benefits packages, by employer size,¹ % of respondents²

■ Most cited challenge

	All employers	Jumbo employers
Medical inflation increasing cost of care	27	17
Decreasing company budgets for benefits	7	6
Greater demand from employees for additional services	12	10
Increasing specialization of care needed	9	9
Increased interest in, use of, or demand for novel therapeutics or new drug classes (eg, GLP-1s, cell therapy)	11	20
Increasing number of vendor options to provide the services needed	9	12
Benefits package's ability to attract and retain talent	12	11
Ability to provide a more holistic health package (eg, physical and mental health)	12	14

Question: Over the next 3 years, what do you see as the top challenges to building your benefits package?

¹Total respondents (all employers) = 1,659. Jumbo employers (n = 230) are respondents with at least 25,000 employees. Excludes data with uncertain responses such as "I don't know," "not sure," and "not applicable."

²Sample weighted to match the national profile of employers.

Source: McKinsey's 2024 National Employer Health Benefits Survey

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propositions with value-aligned pricing. All of these approaches may require a meaningful departure from the status quo.

Redefining the sales playbook: Using data, AI, and demos to deliver value to employers

Many healthcare organizations focus on sales efforts during the run-up to RFP season, often in the second and third quarters of the year. Healthcare companies can demonstrate and reinforce their value proposition during off-cycle interactions with distribution partners and employers to more consistently communicate their value proposition year-round.

Bolster new business development with digital insight. Healthcare companies can use a systematic, data-backed process to build a more complete view of potential customers' goals, preferences, and relationships. Companies can develop this data and better understand broader business goals and priorities by collecting information from available employee satisfaction surveys on benefit offerings, social media posts and podcast interviews with decision-makers of large employers, and earnings and press releases.

Double RFP speed to market using AI. Healthcare companies can accelerate RFP responses by coupling RFP software with gen AI capabilities, allowing them to draft a response in minutes rather than days. This frees up capacity and allows potential partners to focus on distinctive and high-priority areas that matter most for the employer.

Measure impact in line with how the customer defines value. Healthcare companies measure impact based on performance metrics, often with significant nuance in the underlying methodology. At the same time, employers, consultants, and brokers may measure and benchmark value differently. Healthcare companies can demonstrate their value by aligning up front on a common definition of impact to better demonstrate value in the ways that matter most to the employer.

Demo what a partnership could be like for customers. Healthcare companies can adopt creative pathways to showcase their capabilities

to future customers. They can elevate their sales by providing live demos of their programs or interactive dashboards based on available data for potential accounts. They can also introduce potential customers to the on-site teams that would service their employees. These efforts would help prospective customers see what a partnership could look like.

Hypercustomize RFP responses

Decisions for employer benefits are often made by a group of individuals at an organization, each with particular preferences and goals. Healthcare companies can be successful by predicting and addressing the unstated challenges of employers.

Seek opportunities beyond the scope of the proposals. In addition to quoting for products and services outlined in the RFP, healthcare companies can use product-matching tools to offer high-value, relevant products to accounts based on specific employer characteristics, such as demographics, geographic location, and industry. For example, healthcare partners could offer a holistic portfolio of musculoskeletal programs for manufacturing companies or no-cost telehealth for employers with a presence in rural areas. This results in better product fit for employers and greater impact on employer health goals.

Create confidence with a shared vision. Healthcare companies should proactively share their vision for the future of their company and products. In five years, service to the account will look different than it does today, and if clients share their aspirations, healthcare companies could better align their product ambitions accordingly. This step will help foster a stronger, smoother partnership in the future.

Move from fixed to pay-for-performance pricing

Employers view cost as the greatest hurdle in offering a benefits package and seek partners that can align financial incentives.

Move to value-aligned pricing. Healthcare companies are moving away from traditional sources of revenue, such as flat administration charges or fees per engaged member, and toward

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shared-value revenue streams, such as shared savings and outcomes-based pricing that can be reinvested back to the customer in the form of zero-dollar fees, fee holidays, or allowances. Instead of focusing on market standards, companies can create pricing models based on their distinctive value proposition.

Put skin in the game. Healthcare companies may need to move to a model that puts meaningful fees at risk to guarantee a level of financial reward or performance, depending on employer characteristics and goals. This model can align performance objectives and strengthen a partner's value proposition to these employers.

The evolving employer market landscape, shifting employer priorities, and changing behavior for benefit purchasing could significantly change the status quo for stakeholders in the US healthcare system. Health plans, technology and service providers, and other healthcare companies can assess their readiness across sales effectiveness, product offerings, and capabilities to appeal to large employers and shape how the \$800 billion employer benefits market could look in the next decade.

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