

The next cost crunch coming for workers

By **AMANDA CHU** and **VICTORIA GUIDA** - Politico

09/11/2026 08:00 AM EDT

Editor's note: Morning Money is a free version of POLITICO Pro Financial Services morning newsletter, which is delivered to our subscribers each morning at 5:15 a.m. The POLITICO Pro platform combines the news you need with tools you can use to take action on the day's biggest stories. Act on the news with POLITICO Pro.

U.S. business costs are rising on a host of fronts: global tariffs, oil prices above \$100 a barrel, higher interest rates and the gargantuan expense of adapting to the artificial intelligence era.

Add another to the list: Health benefits are projected to jump by 8.2 percent next year, the biggest increase in nearly a quarter century. First, those costs will hit bottom lines. Then they'll be passed down to workers, according to a new report from Mercer.

"That is not sustainable," said Melissa Bartlett, senior vice president of the ERISA Industry Committee, which represents the employee benefit interests of large employers.

"Somebody at the end of the day has to pay for that increase."

Employees could bear the cost in multiple ways: higher premiums, worse coverage or — more indirectly — lower wages. All of those factors leave less money for other purchases, putting more weight on consumers, who were already gloomy about the cost of living.

In growing sectors where workers are in particularly high demand, companies won't have as much ability to offer less attractive compensation packages, which could make it harder for them to recruit people. Labor supply is already under pressure from an aging population and lower immigration.

"If companies are in a space where labor costs are a big part of their cost base, and the labor market is very competitive, it's gonna squeeze some of these businesses," said Guy Berger, senior fellow at the Burning Glass Institute.

The major factor behind higher insurance costs is growing medical bills. U.S. health care spending is expected to surpass \$6 trillion this year, a 6 percent increase from last year, as hospital consolidation and robust demand for specialty drugs, particularly expensive GLP-1

weight loss medications, drive up expenditures. The integration of artificial intelligence in filing claims has also played a role.

“When health care spending goes up, it makes workers more expensive to employ ... Jobs outside the health care sector go down,” said Zack Cooper, director of Yale University’s Health Care Affordability Lab. Cooper co-authored a report released last week in JAMA Health Forum that found higher health care spending accounted for 91 percent of the growth in average premiums between 2011 and 2024.

Premiums for employer-sponsored family coverage now average nearly \$27,000 a year, according to KFF, a health care research firm.

Another factor is policy. The No Surprises Act, which Congress passed in 2020 to protect patients from unexpected bills, has led to outsized judgments and millions more claims than Congress anticipated.

Last year, Republicans passed the One Big Beautiful Bill Act, cutting nearly \$1 trillion in Medicaid funding, and rejected proposals to renew Covid-era Affordable Care Act subsidies. Industry executives and analysts have warned that coverage losses in Medicaid and the ACA marketplace in the coming years will raise prices for private plans as hospitals offset the burden of uncompensated care and insurers increase premiums to cover a sicker marketplace pool as healthier individuals forgo coverage.

“OBBA took about a trillion dollars out of Medicaid and the exchanges, and whenever that happens, you’re going to see a collateral effect...Employers today subsidize the public programs,” said Dan Mendelson, chief executive of Morgan Health, a subsidiary of JPMorgan Chase that invests in companies looking to improve employer-sponsored health care.

Mendelson sees “no end in sight” for cost increases.

Expect political and policy fallout. Lawmakers on both sides of the aisle have scrutinized players across the health care sector for their role in the high cost of care in the past year, grilling pharmaceutical, hospital and insurance executives in hearings and introducing bills to require more price transparency.

While health insurance premiums have outpaced inflation for the past decade, converging market and policy factors are making next year’s increase larger and more troubling for the 165.6 million Americans who receive coverage through an employer.

Chris Bond, a spokesperson for AHIP, the trade group for insurers, attributed higher costs to other segments of the health care industry and called for policies to “curb the market power of hospital monopolies, brand drugmakers, and private equity-backed providers.”

Republican and Democratic lawmakers have expressed enthusiasm for another end-of-year health care package to address the high cost of care, including measures that require more price transparency from hospitals. Conversations are also building on Capitol Hill on how to course correct the No Surprises Act. Nevertheless, analysts say they haven't seen a proposal that will meaningfully bend the cost curve.

"I'm not anticipating that this Congress is going to be able to do anything on a big picture basis to address some of the issues," said Spencer Perlman, director of health care research at Veda Partners, an investment advisory firm, calling such packages "low-hanging fruit."