

Health Care Cost Spotlight:

Aging Populations

As the global workforce ages, employers are encountering a complex and growing challenge of managing the escalating health care costs tied to an older employee base. This demographic shift is one of the main contributors to rising health care costs, but it is also reshaping how organizations approach benefits, workforce planning and long-term financial forecasting.

This Health Care Cost Spotlight article focuses on America's aging population and how it's impacting health care costs this year and beyond.

America's Aging Population

The average age of the U.S. population has steadily increased over the past several decades. This demographic shift is a result of the following:

- **Longer life expectancy**—Americans are living longer than ever before. Advances in health care, nutrition and public health have significantly improved the lifespan and quality of life for older adults. Although life expectancy dipped during the COVID-19 pandemic, the long-term trend has trended up over the last 50 years and continues to remain upward. This means more people are living into their 70s, 80s and later, contributing to an older overall population.
- **Advanced medical treatments**—Over the past few decades, advanced medical treatments have continued to extend life expectancy. Recent innovations have focused more on improving health span, the number of years lived in good health, rather than simply prolonging life. Breakthroughs in longevity medicine, such as organ-specific aging diagnostics and targeted therapies for age-related diseases, are helping people live healthier lives into older age. Specialty medications that were previously unavailable continue to be approved, such as cell and gene therapies, biologics, biosimilars and other treatments, which continue to transform health care.

- **Declining birth rates**—At the same time, birth rates in the United States have been consistently declining. Fewer young people entering the population means that older age groups make up a larger proportion of the total. This demographic imbalance accelerates the aging of the population as a whole.

The Aging Workforce

The number of older workers has surged in recent decades. In the United States alone, the older workforce, defined as those aged 65 and older, has nearly quadrupled since the mid-1980s, now numbering around 11 million, according to the Pew Research Center.

The following factors have driven this increase:

- **Shifting retirement norms**—Retirement is no longer a fixed milestone at age 65. Policy changes, such as the U.S. Social Security reform that raised the full retirement age to 67, have incentivized delayed retirement. Defined contribution plans (like 401(k) plans) have replaced traditional pensions, placing more responsibility on individuals to manage their retirement savings.
- **Economic necessity**—Inflation and housing costs have outpaced wage growth, making it harder for retirees to maintain their standard of living without supplemental income. As a result, many older Americans remain in the workforce to bridge financial gaps, pay off debt or support family members, especially in multigenerational households.
- **Social and psychological benefits**—Employment can provide structure, purpose and a sense of identity, elements that can diminish after retirement. Staying engaged in meaningful work can help combat feelings of isolation and depression, which are common among retirees who lose daily social interactions and a sense of contribution. Work environments offer opportunities for collaboration, mentorship and learning, all of which support cognitive health and emotional well-being.

The Cost of Aging

As the workforce ages, employers are facing a significant shift in health care dynamics. Older employees bring valuable experience and institutional knowledge, but they also present unique challenges in terms of health care utilization and associated costs. The following factors contribute to the rising financial burden on employers:

- **Higher rates of chronic conditions**—Adults may be living longer, healthier lives; however, they may also be more likely to suffer from chronic health conditions such as diabetes, high blood pressure, arthritis and cardiovascular disease. According to the Centers for Disease Control and Prevention, nearly 80% of adults aged 55 and older have at least one chronic condition, and over half have two or more. These conditions typically require ongoing medical attention, frequent doctor visits and long-term medication use, all of which can drive up health care costs for employer-sponsored insurance plans.
- **Technological advancements**—Advancements in medical technology have improved the quality of care and extended life expectancy, but they also come with a price. Older employees are more likely to require advanced diagnostics, surgical procedures and specialized treatments that utilize cutting-edge technology. While these innovations can improve outcomes, they often lead to higher per-capita health care spending.

- **Prescription increases and price inflation**—Prescription drug use commonly increases significantly with age. Older employees typically take multiple medications to manage chronic conditions, and the cost of these drugs continues to rise. Specialty drugs, in particular, have seen dramatic price increases and now account for a growing share of employer health care spending. Even with pharmacy benefit management strategies in place, employers are struggling to contain the escalating costs of prescriptions, especially as new, high-cost therapies enter the market.
- **Increased health risks**—Aging is often associated with a higher risk of complications from illnesses, longer recovery times and greater susceptibility to injuries. These risks can translate into more frequent medical claims, longer disability leaves and higher absenteeism. Employers may also face increased workers' compensation claims and the need for workplace accommodations, such as ergonomic adjustments or flexible schedules. All of these factors can contribute to a more complex and costly health care landscape.

The rising health care costs associated with aging populations have significant implications for employers, affecting everything from budgeting and benefits design to workforce planning and employee engagement. The following are some key impacts:

- **Increased financial burden**—Employees tend to require more frequent and complex medical care as they age. This can include treatment for chronic conditions, specialist visits and long-term medication use. These factors can drive up the cost of employer-sponsored health insurance. Employers often see higher premiums, increased claims and greater variability in health care spending. For companies with large aging workforces, these costs can strain budgets and reduce the funds available for other strategic investments.
- **Challenges in benefits structuring**—Employers may need to rethink their health benefits offerings to manage rising costs. This could involve shifting their health care plan offerings, increasing employee cost-sharing or limiting coverage for certain services. While these changes can help control expenses, they may also reduce employee satisfaction and retention, especially among older workers who rely more heavily on their health benefits.
- **Greater investment in health programs**—To mitigate long-term costs, many employers invest in wellness initiatives, chronic disease management programs and preventive care. These efforts aim to improve employee health outcomes and reduce the need for expensive interventions. However, such programs require upfront investment and ongoing engagement, and their financial returns may take years to materialize.
- **Rising prescription drug costs**—Older employees typically use more prescription medications, including costly specialty drugs. Employers face growing pharmacy expenses, which now represent a significant portion of total health care spending. Managing these costs often involves negotiating with pharmacy benefit managers (PBMs), implementing formulary controls and educating employees about generic alternatives.

Cost Mitigation Strategies for Employers

As health care costs continue to rise, employers are under increasing pressure to find sustainable ways to manage expenses without compromising employee well-being. A proactive, multipronged approach can help organizations control costs while maintaining competitive benefits. Employers may consider the following strategies:



Revisit plan design. One of the most effective strategies is to reassess and redesign health benefit plans. Employers should consult with their insurance broker about health care plans, new prescription drug models, chronic condition management and wellness programs. While rising costs are unavoidable, some employers may be able to mitigate some of the impact.



Improve health care literacy. Educating employees on how to navigate the health care system is a powerful cost-containment strategy, but for aging populations, this must include targeted support for health care literacy challenges they face. In general, older populations struggle with reading small text and are more likely to struggle with hearing, both of which are key channels employers use to pass along open enrollment and benefits information. In addition, compared to younger tech-savvy generations, aging people often struggle with eHealth literacy—the ability to find, understand and apply health information from electronic sources to make informed decisions. While many older adults may have adequate traditional health literacy, they often face unique barriers when it comes to digital platforms. These include difficulties with reading small text, hearing audio instructions, and using technology such as patient portals, telehealth apps or online benefit tools. Factors like limited access to devices, unreliable internet and unfamiliarity with digital interfaces can significantly hinder older adults' ability to engage with online health resources.



Implement wellness programs. Wellness initiatives are a long-term investment in employee health. Programs that promote physical activity, nutrition, mental health, smoking cessation and preventive screenings can reduce the incidence and severity of chronic conditions. Employers may also offer incentives for participation, such as premium discounts or wellness rewards. While results may take time, healthier employees typically lead to lower claims and improved productivity.



Encourage preventative care. Encouraging employees to use preventative care can help reduce high-cost claims by identifying health issues early and promoting overall wellness. This is especially important for older employees, who are more likely to have one or more chronic conditions. Since most health plans cover preventative services, it's critical that these employees complete annual physicals and routine screenings to catch potential problems before they escalate. To increase utilization, employers can implement targeted communication strategies and use benchmarking to highlight the value of preventative care.

Summary

The aging workforce reflects longer lifespans, shifting retirement norms, and a mix of personal choice and financial need. Many older adults are healthier and better educated, and they stay employed longer, often supported by policy changes like a higher retirement age and flexible work options. For employers, this trend offers experienced talent but also demands adjustments in health care and benefits. Navigating this reality will require thoughtful planning, inclusive policies and a proactive approach to workforce health and well-being.