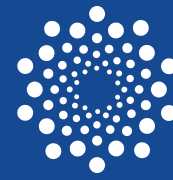


# Top Cost Drivers of 2025 Health Plan Premiums



California Association of  
**Health Plans**

California's health plan premium costs in 2025 will be driven by several factors across the individual and small group marketplaces, particularly: continued inflation driving increased provider reimbursement rates, high hospital costs, the resumption of Medi-Cal redeterminations, and the continued rise in drug prices especially from weight loss drugs and other specialty drugs.

Covered California's preliminary rate change for 2025 of 7.9 percent—down from a 9.6 percent increase last year—was influenced most significantly by inflation, increases in prescription drug prices, hospital costs, among other factors. But the average annual rate increase over the last five years has been held to just 5 percent, with Californians in the individual market continuing to benefit from among the lowest average rate increases in the nation.

**Here are the top factors expected to contribute to 2025 premium changes in the individual and small group markets:**

- 1 Inflation Driving Increased Provider Rates:** As in 2024, continued inflation will result in higher negotiated provider payment rates and is expected to increase premiums for 2025. Health care costs for providers are rising faster than inflation and as a result, premiums will rise.
- 2 Rising Medical and Hospital Costs:** A continued rise in the cost of medical care, including hospital costs, which account for 37% of overall healthcare spending in California. Hospital-negotiated prices have spiked in recent years, with commercial insurer and health plan payments to hospitals amounting to 254% of Medicare rates on average, according to a recent study.
- 3 Coverage of Expensive Weight-Loss Drugs and Specialty Drugs:** The growing popularity of high-priced weight loss drugs and approvals of new, expensive cell and gene therapy drugs are adding to already sky-high prescription drug costs. In California, health plans paid about \$12.1 billion for prescription drugs in 2022, an increase of almost \$1.3 billion or 12.3% from 2021.
- 4 Resumption of Medi-Cal Redetermination:** Loss of Medi-Cal coverage due to Medicaid eligibility determinations is driving some shifts in individual and small group enrollment, which could contribute to changes in premiums.
- 5 Shift of small groups from fully insured plans to other funding arrangements:** A continued shift of small groups from fully insured plans to other funding arrangements such as self-funded or level-funded plans could impact small group premiums.

**California's Health Plans remain committed to providing affordable, high-quality health care coverage while continuing to advocate for policies that make health care more affordable and accessible for all Californians.**



Sources: American Academy of Actuaries

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