Health insurance premiums rose nearly 3x the rate of worker earnings over the past 25 years

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Published: December 8, 2025 11:02am EDT

Patients and employers are feeling the pain of increased health premiums.
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Health insurance premiums in the U.S. significantly increased between 1999 and 2024, outpacing the rate of worker earnings by three times, according to our newly published research in the journal JAMA Network Open.

Premiums can rise if the costs of the medical services they cover increase. Using consumer price indices for the main components of medical care – such as services provided in clinics and hospitals as well as administrative expenses – based on federal data and data from the Kaiser Family Foundation, we found that the cost of hospital services increased the most, while the cost of physician services and prescription drugs rose more slowly.

Some of the premium increases can be attributed to an increase in hospital outpatient visits and coverage of GLP-1 drugs. But research, including our own, suggests that premiums have rapidly escalated mostly because health system consolidation – when hospitals and other health care entities merge – has led hospitals to raise prices well above their costs.

Hospital CEOs prioritize profit

Hospitals are aggressively raising their prices because hospital CEOs have incentives to do so.

One study found that for nonprofit health systems, the greatest pay increases between 2012 and 2019 went to hospital CEOs who grew the profits and size of their organizations the most. However, the financial reward of delivering above-average quality of care declined. Increased charity care – free or discounted health services nonprofit hospitals must provide some of their patients who cannot afford medical care – was not significantly tied to CEO compensation.

Board members set performance criteria that determine the base salary and bonus payments for CEOs. Over half of board members at top U.S. hospitals have professional backgrounds in finance or business. As a result, researchers and advocates have raised concerns that financial success is the dominant priority at these institutions.

Health care is getting more expensive for everyone.

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One way to help ensure that nonprofit hospitals make the health of their local communities a top priority is to require their boards to disclose their executive compensation guidelines for salary and bonuses, similar to the information that for-profit health care companies disclose to their stockholders. The general public could pressure companies to put greater weight on affordability and quality of care when setting performance targets for nonprofit hospital executives.

Some economists suggest that hospital prices be regulated. This approach involves capping prices for health care services at the most expensive hospitals and restricting price growth for all hospitals. Regulators would also focus on flexible but service-specific oversight to quickly respond to unintended market disruptions.

What employers can do

Costs for health insurance coverage provided by employers are expected to surge by 9.5% in 2026.

Employers, who bear the bulk of premium increases when purchasing insurance for their workers, could include more price sensitivity when designing benefits for their employees to help keep insurance affordable for workers.

One study found that a health insurance plan that introduced three copayment levels corresponding to three hospital tiers of low, medium and high prices achieved savings of 8% per hospital stay after three years, with no evidence of a reduction in quality.

Roughly one-third of large employers are offering nontraditional health plans in 2026. For example, a variable copay plan has no or low deductibles and sets higher copayments for services at providers charging higher fees.

Holding hospitals to account

The mission statements of the largest nonprofit health care systems in the U.S. often express a desire to improve the health of the communities they serve, especially the most vulnerable.

Restraining price growth among nonprofit hospitals would introduce greater price competition to the health care market, likely forcing for-profit providers to lower their prices as well.

Vivian Ho has received grant funding from HCSC Affordability Cures Initiative and ArnoldVentures. She is a Fellow at Rice University's Baker Institute for Public Policy

Salpy Kanimian does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.