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TRENDS REPORT 2026

New margin math

The trends resetting healthcare's financial foundation

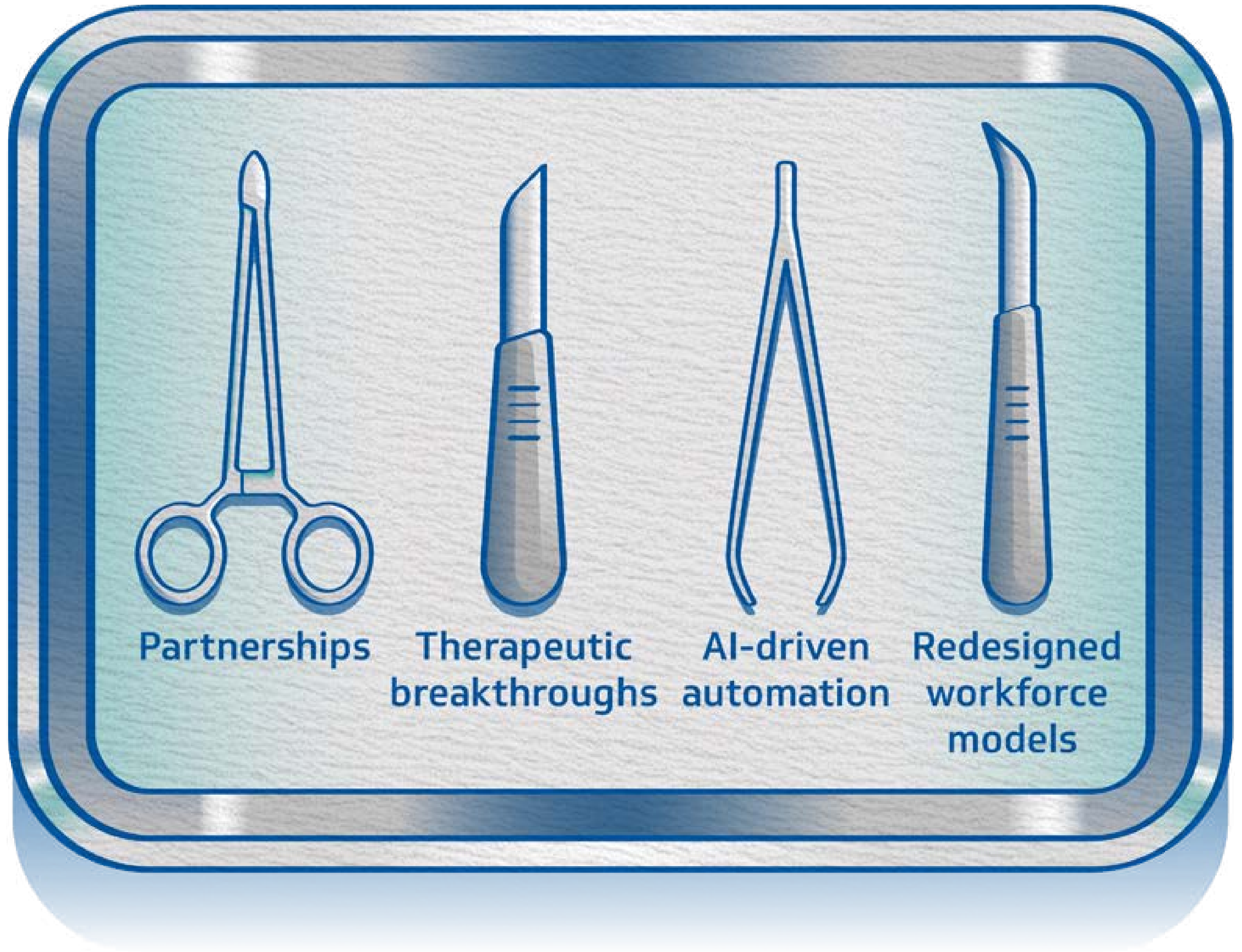
State of the healthcare industry 2026

Healthcare enters 2026 at a decisive moment. Rising costs, shifting demographics and accelerating innovation are swiftly reshaping the environment in which hospitals, health systems and other healthcare organizations operate. These forces are exposing vulnerabilities that can no longer be addressed through incremental change. Yet the story of U.S. healthcare is not solely about constraint. Even amid pressure, organizations are demonstrating resilience, improving quality and laying the groundwork for new models of care and growth.

Hospital and health system financial performance has generally stabilized since 2023. Quality outcomes have improved despite rising acuity, and innovation is expanding the tools available to support clinicians and patients. Partnerships, new therapeutic breakthroughs, AI-driven automation and redesigned workforce models are creating pathways for organizations to enhance productivity, strengthen reliability and improve access. The ability of health systems to deliver better outcomes for more complex patients underscores the potential for continued advancement in a challenging operating environment.

Against this backdrop, the industry's foundational pressures — affordability concerns, workforce shortages, capacity constraints and shifting payer dynamics — continue to intensify. Policy and macroeconomic factors are reshaping the financial and competitive landscape, and long-term demographic trends will influence demand patterns for years to come. Leaders must balance near-term pressures with longer-term opportunities, ensuring that operational stability, strategic investment and innovation move in concert to navigate the next era of healthcare.

This report analyzes the market forces redefining healthcare and explores how these forces are resetting the industry's foundation. It presents Vizient's perspective on the current state of the healthcare industry and where it is headed. Together with Get ready for a reset: A playbook for running resilient health systems, this report offers an integrated view of the challenges ahead and the meaningful opportunities to build a more resilient, effective and efficient healthcare system.



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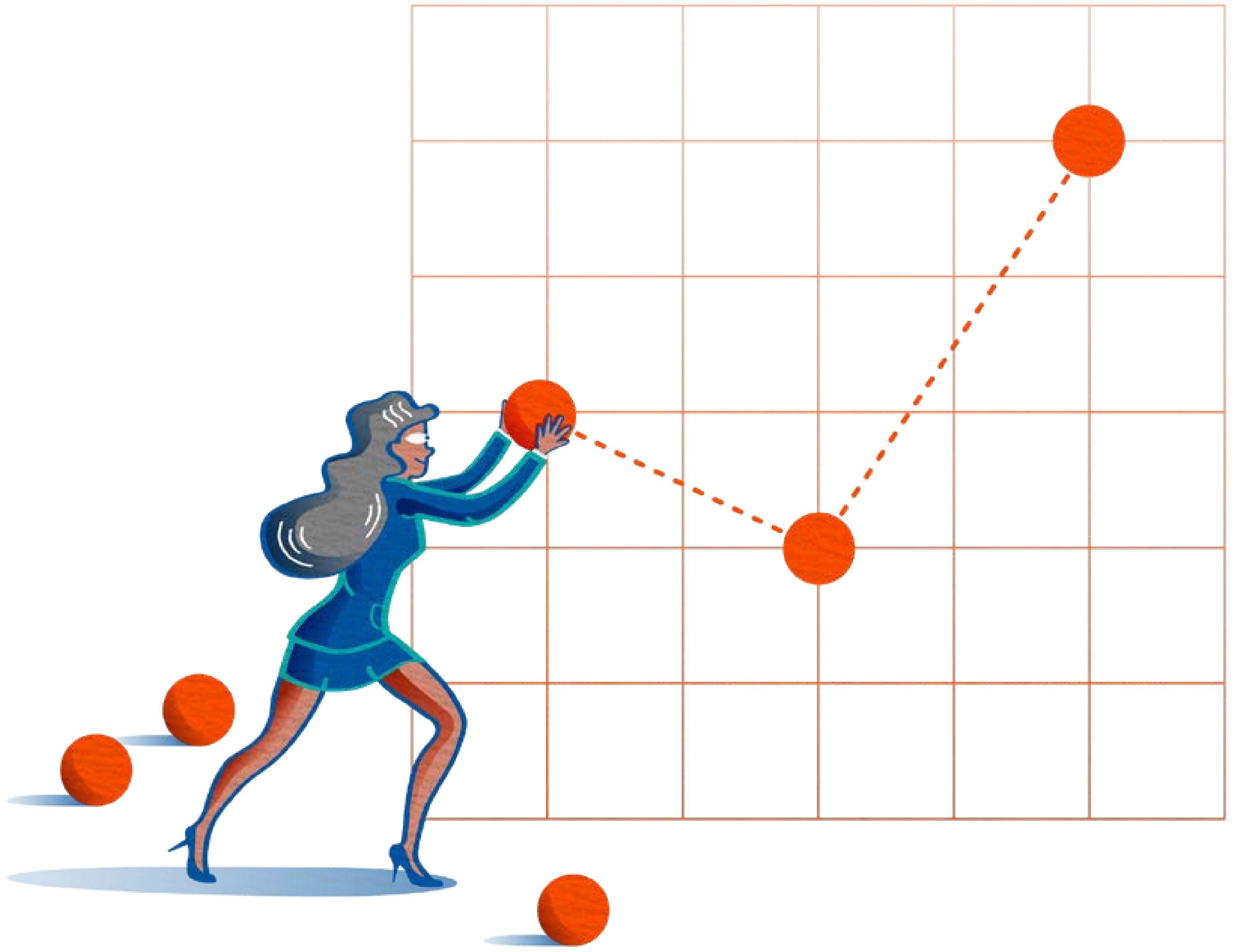
Vizient's perspective on the state of the healthcare industry in 2026 can be summarized by five key findings:

1. The U.S. healthcare system is under structural pressure: higher costs, rising complexity and persistent quality challenges.
2. Financial sustainability is likely to be challenged as demographic, policy and innovation headwinds accelerate.
3. Cost pressures are evolving, not easing. Workforce shortages persist as drug, device and supply costs surge.
4. Market behavior is evolving from large-scale M&A to include strategic, vertical and ecosystem partnerships.
5. AI offers real potential to reduce waste and transform operations.



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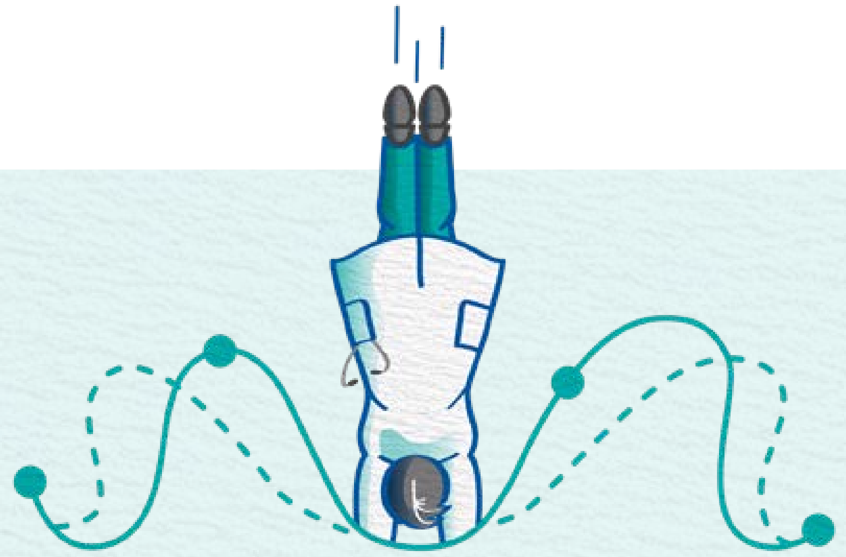
Executive summary

Finding 1

The U.S. healthcare system is under structural pressure: higher costs, rising complexity and persistent quality challenges. The system is absorbing more, delivering marginally more and paying far more.

The U.S. healthcare system is confronting structural pressures that are reshaping demand, cost trajectories and care delivery models. Utilization has surged, driven by aging populations, rising chronic disease and increasing acuity, moving expenditure growth above GDP without proportional improvements in outcomes. Inflation, high capital costs, workforce participation constraints and widespread clinical shortages continue to limit system capacity and erode operating margins. Innovation in therapeutics and diagnostics adds value but introduces new cost and workflow complexity, while care delivery transformation remains uneven due to staffing and infrastructure challenges. These dynamics unfold amid declining consumer trust, growing affordability concerns and heightened expectations for convenience and experience. Despite myriad challenges, though, U.S. healthcare continues to demonstrate capacity for improvement.

Together, these forces underscore the need for sustained transformation and more scalable, resilient, consumer-centered operating models.



Data dive

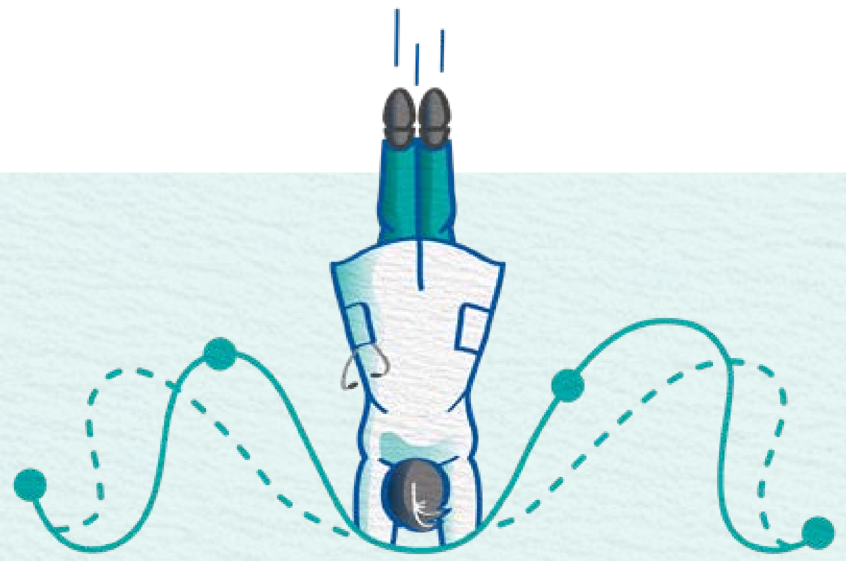
Between 2019 and 2025, acuity rose approximately **5%**, yet mortality declined by one-third and hospital-acquired infections decreased by more than **20%** according to a Vizient analysis of the Clinical Data Base (CDB).

Finding 2

Financial sustainability is likely to be challenged as demographic, policy and innovation headwinds accelerate. Across the board, this means more volume, less favorable reimbursement and higher risk.

Healthcare financial sustainability is entering a period of heightened strain. Demographic shifts, policy transitions and innovation-driven cost growth are converging. Hospital performance has stabilized but remains fragile, with widening margin variation, increased dependence on commercial reimbursement and growing exposure to Medicare as populations age.

Payers are experiencing significant profitability erosion as utilization spikes and regulatory changes reshape plan economics. Employers face rising premiums and limited levers to contain escalating health benefit costs. Pharmaceutical and MedTech innovation continues to accelerate, improving outcomes for targeted populations but introducing affordability challenges, new utilization patterns and infrastructure demands. Policy developments such as the One Big Beautiful Bill Act (OBBB), site-neutral payment expansion and the expiration of enhanced premium tax credits are poised to increase the uninsured rate, reduce reimbursement and shift payer mix unfavorably. Together, these pressures signal a more volatile and uneven financial environment. Long-term sustainability will require new capabilities, more diversified revenue strategies and innovative partnerships across the healthcare ecosystem.



Data dive

According to a Vizient and Sg2 analysis, the 65+ cohort is expected to represent a substantial portion of utilization by 2035. Overall growth for hospital-based services will be driven primarily by the 65+ age cohort. Specific estimates for this cohort include inpatient discharge growth of **20%**, ED visit growth of **27%** and observation stay growth of **34%**.

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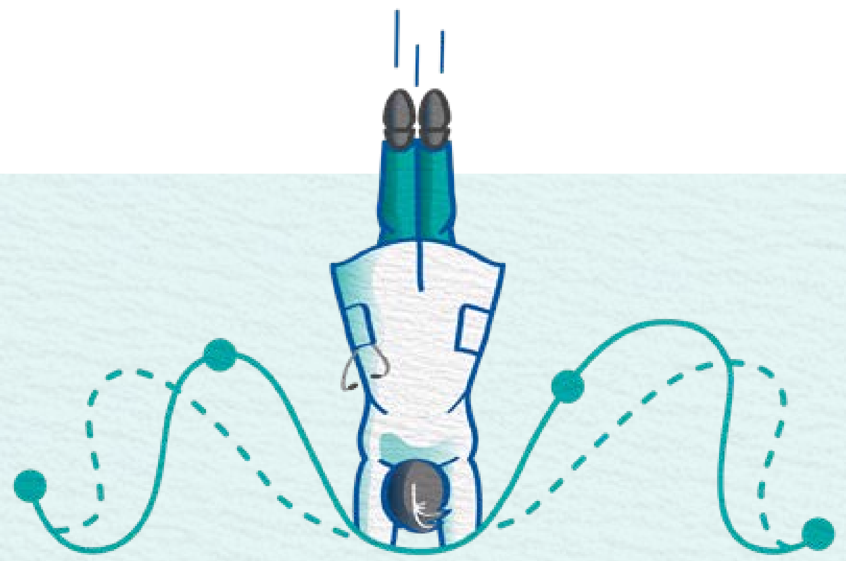
Finding 3

Cost pressures are evolving, not easing. Workforce shortages persist as drug, device and supply costs surge. A higher labor cost floor, accelerating workforce shortages and rising expenses are redefining margin resilience.

Health system cost pressures are being shaped by a new structural reality. Labor costs have stabilized, but at a permanently higher floor. Key workforce shortages across primary care, critical specialties, nursing and other essential roles are projected to accelerate, limiting capacity and pushing organizations toward redesigned care models and top-of-license staffing. Costs including specialty drugs, supplies and purchased services continue to rise faster than reimbursement and beyond what traditional mitigation levers can offset. To preserve margins in this environment, systems will need advanced analytics, scale-enabled efficiencies and disciplined, systemwide spend management to navigate sustained cost growth and build a more resilient operating model.



Data dive

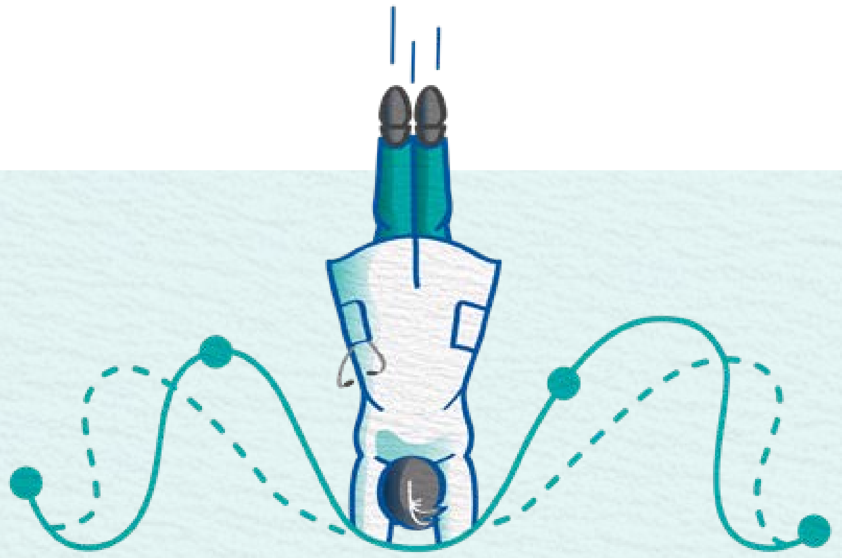
According to Kaufman Hall's Physician Flash Report, total direct expense per provider FTE rose **6%** between Q3 2023 and Q3 2025 for physician practices, illustrating the tension between maintaining essential clinical access and ensuring economic viability.[1] Organizations are adopting more sophisticated physician enterprise strategies, including accelerating growth in the proportion of advanced practice providers — who now comprise more than **40%** of employed providers, according to the report.

Finding 4

Market behavior is evolving from large-scale M&A to include strategic, vertical and ecosystem partnerships. The new market advantage is ecosystem orchestration built around owned assets.

Market behavior is undergoing a significant transition as traditional large-scale M&A moves to a broader set of partnership and integration strategies. Economic uncertainty, capital scarcity, regulatory scrutiny and political headwinds have slowed hospital megadeals and contributed to a rise in distressed transactions. Providers, payers, retail entrants and life sciences organizations are increasingly pursuing partnerships to expand sites of care, improve access and strengthen capabilities.

Vertical integration is reshaping competitive dynamics as wholesalers and distributors move upstream, MedTech and pharma deepen clinical collaboration, and private equity targets high-margin outpatient specialties. Integrated delivery strategies vary: some disruptors and payviders are retrenching while new transformation platforms such as HATCo and Risant scale value-based models through federated or tech-enabled approaches. Together, these shifts signal a move toward more agile, capability-driven structures in which partnerships, rather than consolidation alone, define growth, market positioning and competitive advantage.



Data dive

While overall healthcare M&A activity increased in 2025, hospital M&A declined, reflecting economic uncertainty, evolving policy expectations and the high cost of capital.[3] According to a Kaufman Hall analysis, transactions that did occur often involved distressed assets, with deal revenue falling nearly half year-over-year and megadeals over **$1 billion** declining more than **60%**.[2]

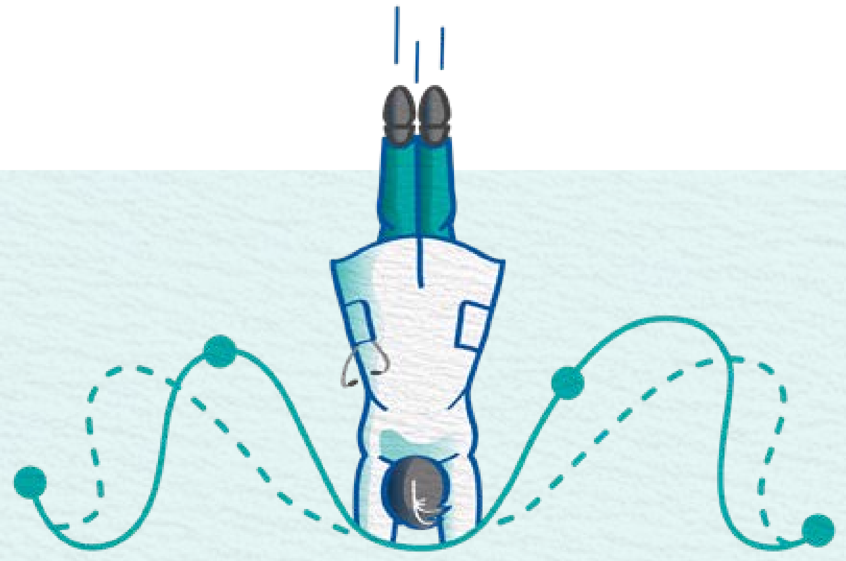
Finding 5

AI offers real potential to reduce waste and transform operations. Turning AI's promise into performance depends on redesigning workflows, not just deploying tools.

AI is emerging as a powerful lever for reducing waste and strengthening performance across the healthcare system, but its real impact depends on thoughtful integration, governance and workflow redesign. While administrative automation offers immediate return on investment, clinical applications remain early-stage and require more rigorous validation and alignment with care delivery workflows.

Leveraging AI for clinical innovation is the real future value. Meanwhile, payers and life sciences organizations are rapidly adopting AI to improve utilization management, accelerate drug development and optimize commercial operations, raising expectations for data quality and collaboration across the ecosystem.

A widening divide is forming between organizations investing in the infrastructure, talent and governance required for system-level AI operating models and those implementing isolated pilots that struggle to scale. The next phase of AI will reward health systems that treat it not as a point solution, but as a foundational capability embedded across operations, workforce models and care delivery.



Data dive

A Vizient analysis projects that U.S. healthcare AI investments will grow from **$20 billion** in 2025 to approximately **$100 billion** by 2030 — with a **37%** yearly growth rate over that time frame.

Finding 1

The U.S. healthcare system is under structural pressure: higher costs, rising complexity and persistent quality challenges.

The healthcare industry enters 2026 navigating rising demand, greater clinical complexity, substantial policy changes and persistent affordability challenges. These pressures are not new, but their convergence has reshaped the environment in ways that feel fundamentally different. Recent increases in utilization helped stabilize provider financial performance after several volatile years, even as it accelerated spending and exposed vulnerabilities in payer performance. Although spending growth is expected to moderate in coming years, underlying demand will continue to rise as demographic aging, chronic disease prevalence and shifting disease burden increase care needs. The healthcare system is being asked to do more for more clinically complex patients, often under constrained economic conditions, yet many organizations have shown an ability to adjust operations quickly when circumstances change, reinforcing that the system still retains meaningful resilience.

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Macroeconomic conditions add weight to these pressures. Medical services inflation continues to exceed the Consumer Price Index (CPI), influencing consumer perceptions of affordability. In addition, hospital and health services employment softened in 2025 as organizations prepared for financial headwinds.[3,4] High capital costs — despite signs of easing — have slowed investment in new capacity, technology and workforce models. Policy uncertainty, primarily driven by the debate and passage of the OBBB, prompted more conservative strategic decision-making, including a slowdown of hospital M&A.[2] At the same time, the U.S. remains the highest-spending health system globally, with per-capita costs more than double those of other high-income nations and outcomes that lag in life expectancy, preventable mortality and chronic disease burden.[5,6] Nearly a quarter of U.S. healthcare spending is estimated to be wasteful.[7] Still, where organizations have prioritized high reliability, data-driven decision-making and targeted operational improvement, performance has moved quickly, indicating that the system's underlying capability to improve remains strong.

Figure 1. U.S. rank in health outcomes out of 14 wealthy countries

Life expectancy	Worst	Infant mortaity	Worst
Safety during childbirth	Worst	Unmanaged diabetes	Worst
Heart attack mortality	#11	Unmanaged asthma	#8

Sources: Peter G. Peterson Foundation, U.S. healthcare system global rankings and fiscal sustainability; OECD, Health at a Glance 2025

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Demographic, policy and acuity trends will continue to intensify. The population is aging, multimorbidity is now common among older adults, and higher-acuity inpatient and emergency visits are increasingly prevalent across adult and pediatric populations.[8] Although utilization growth is expected to soften as post-pandemic backlogs dissipate, demand for more complex care is rising.[9]

These pressures are not uniform: some markets are poised for double-digit inpatient growth over the next decade, while others expect contraction.[8] This variation not only challenges traditional planning assumptions but also creates opportunities for organizations that can align their capabilities, service mix and investment strategies with local population needs.

2.5X

higher health spending per 65+ person compared with per working-age person

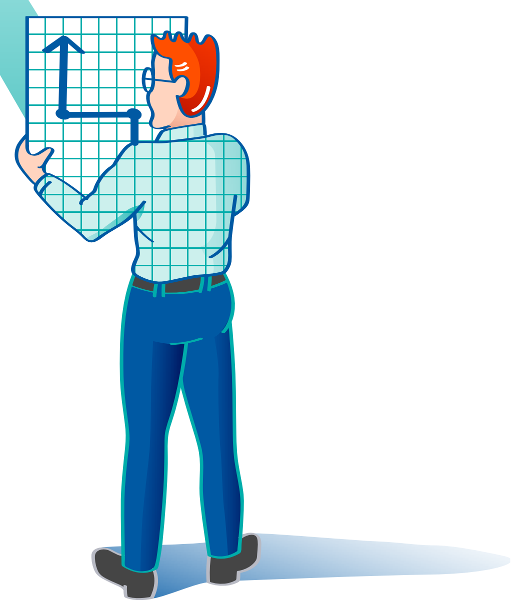
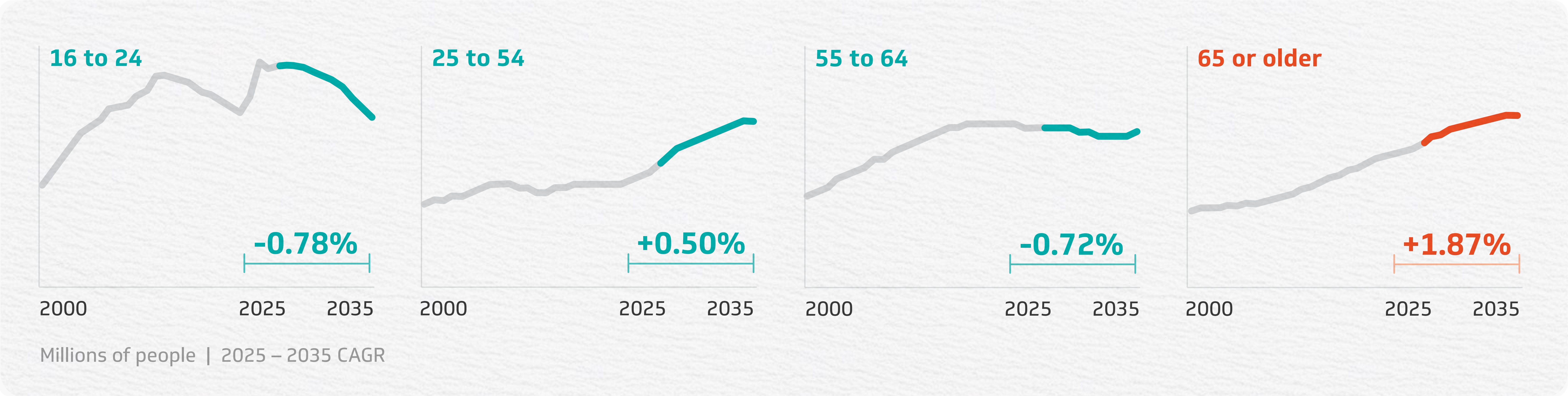


Figure 2. Population projection by age group

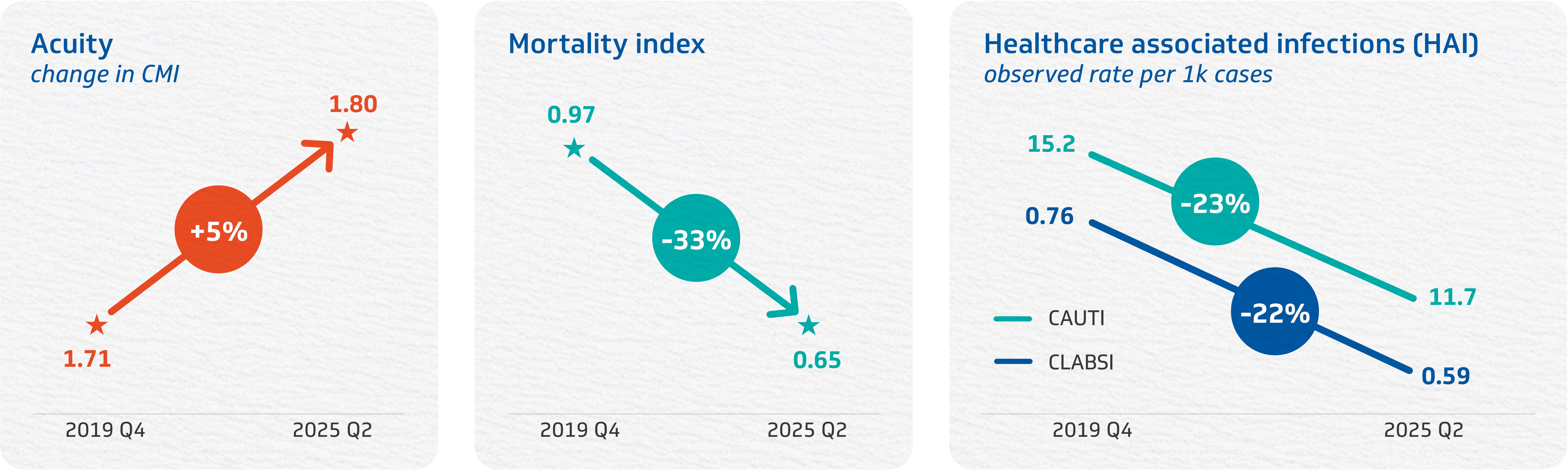


Sources: Congressional Budget Office health spending projections, Bureau of Labor Statistics; Centers for Medicare & Medicaid Services National Health Expenditure fact sheet

Despite myriad challenges, U.S. healthcare continues to demonstrate capacity for improvement. Between 2019 and 2025, acuity rose approximately 5%, yet mortality declined by one-third and hospital-acquired infections decreased by more than 20% according to Vizient analysis of the Clinical Data Base (CDB). Patients were 33% more likely to survive relative to expected severity, reflecting consistent gains in clinical reliability, care processes and operational discipline.[10]

These improvements occurred during a period marked by workforce shortages, supply chain instability and rising case complexity, signaling that the system's quality infrastructure is stronger, more adaptive and more scalable than often recognized.

Figure 3. Improved clinical quality amid rising acuity



Source: Vizient Clinical Data Base, All rights reserved. Accessed November 2025

The sustainability of this progress, however, is uncertain. Physician shortages, especially in primary care, are projected to widen and shortages across nursing, behavioral health, imaging and post-acute care continue to lengthen wait times and delay diagnoses.[11] Patients increasingly report fragmented access and extended care delays, which can drive avoidable utilization. These access limitations also influence the pace at which organizations can adopt new care models, including virtual, hybrid and home-based offerings. Yet as new workforce models mature and advanced practice clinicians take on expanded roles — and as organizations deploy administrative and clinical technologies that reduce burden — new pathways are emerging to alleviate capacity constraints and broaden access.

Innovation adds both opportunity and complexity. GLP-1 therapies, targeted oncology treatments and emerging gene and cell therapies hold the potential to alter long-term disease trajectories and reduce future inpatient utilization.[8]

They introduce new affordability considerations and require evolving care pathways and infrastructure. But these clinical advances position the system for long-term gains in chronic disease outcomes, prevention and quality of life, areas where U.S. performance has historically lagged.

Consumer sentiment reflects the tension between progress and pressure. Perceptions of affordability and care accessibility have declined and many adults report delaying care due to cost, particularly those with chronic illness.[12]

At the same time, expectations for convenience, transparency and care close to home continue to rise. Increases in primary care switching, especially among younger generations, signal both dissatisfaction and a willingness to seek out providers that offer improved access and experience.[13] For organizations able to consistently deliver consumer-centered, reliable care, this presents an important opportunity to strengthen loyalty and differentiate in the market.

Together, these dynamics define the “new margin math” shaping healthcare in 2026 and beyond. Organizations face rising demand and complexity, constrained reimbursement, policy headwinds and elevated cost structures, while consumers expect more seamless and personalized experiences. Traditional operating levers are no longer sufficient on their own. Progress in quality performance during a period of heightened acuity demonstrates that the system is capable of meaningful improvement when supported by aligned strategies, data-driven management and operational discipline. The challenge ahead is sustaining this momentum while adapting to a healthcare economy that requires new capabilities, collaborative models and more integrated approaches to workforce and technology.

Finding 2

Financial sustainability is likely to be challenged as demographic, policy and innovation headwinds accelerate.

The healthcare financial picture in 2026 shows variable performance within stakeholder groups such as hospitals, health systems and across the ecosystem. Performance divergence is now a defining feature of the industry, as some organizations regain footing while others face persistent strain. This widening variability is highlighting not only the pressures facing the sector, but also the operational strengths and adaptability that many organizations have begun to build into their models.

Provider financial performance is at its strongest level since the pandemic, buoyed in part by utilization growth that is expected to moderate. Although hospitals and health systems have experienced financial stabilization, the recovery has been uneven. Hospitals in the 75th percentile of performance experienced 14.3% operating margins through November, compared with 2.0% margins at the median adjusted for corporate allocations, and -2.2% margins for hospitals at the 25th percentile, according to Kaufman Hall's National Hospital Flash Report.[14] As volume normalizes, the durability of recent gains becomes less certain and recovery remains highly sensitive to market dynamics, competitive structure and organizational scale. Many providers continue to navigate elevated input costs and workforce constraints that limit flexibility. Even so, the stabilization reflects more disciplined financial management, expanded use of analytics and the early impact of redesigned operating models — capabilities that will matter even more as conditions tighten.

Payers are facing their own inflection point. Utilization trends that strengthened provider performance contributed to rising medical loss ratios across commercial, Medicaid, ACA marketplace and Medicare Advantage lines of business.[15] Medicare Advantage margins were further pressured by regulatory tightening, risk-adjustment methodology changes and Star Ratings volatility. Plans have responded by exiting underperforming markets, narrowing networks and refining benefit designs. While these moves introduce near-term friction, they also reflect a shift toward more sustainable portfolios and clearer strategic differentiation, both of which create new opportunities for alignment where incentives converge.

Figure 4. Operating margins stabilize as payers struggle with utilization spikes

Hospital operating margins continue to stabilize

1.3% (2024) → 2.0% (2025)

Payers struggle as utilization spikes dampen financial performance

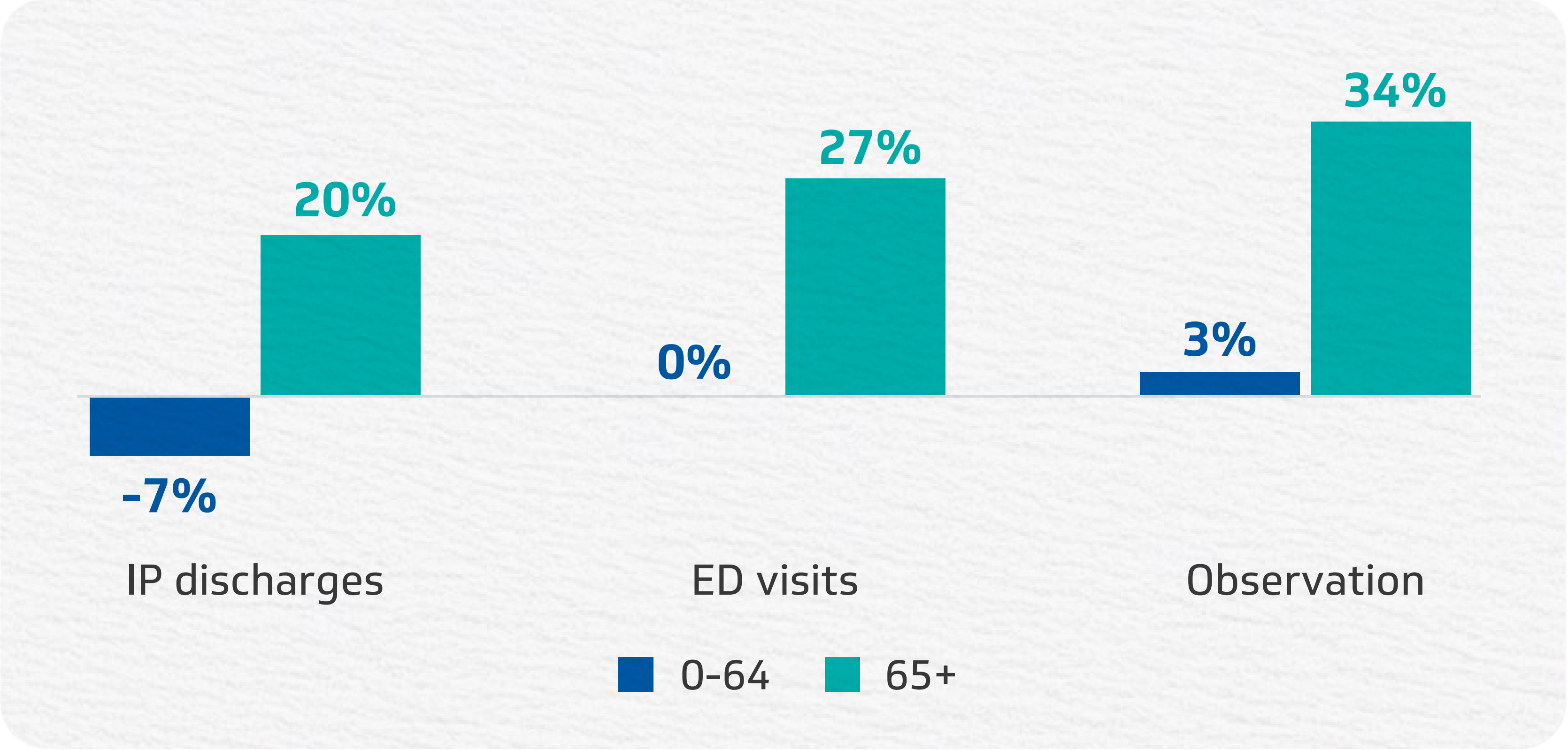
87.2% (2024 Q2 MLR) → 89.0% (2025 Q2 MLR)

Sources: Kaufman Hall Hospital Flash Report November 2025; Mark Farrah Associates health insurance segment profitability analyses 2025

Employers face a similar tension between pressure and adaptation. Job-based coverage premiums continue to rise faster than wages, and benefits costs in 2026 are projected to grow at the fastest rate in more than a decade.[16,17] Traditional cost-management approaches are delivering diminishing returns, and increased employee cost-sharing has contributed to deferred care and downstream utilization.[18] Yet the employer market continues to innovate, experimenting with virtual-first care, targeted chronic condition programs, navigation tools and alternative funding models such as individual coverage health reimbursement arrangements (ICHRA)s. These approaches remain nascent, but they illustrate employers' expanding role in shaping benefit design and influencing where and how care is delivered.

Demographic change magnifies these financial dynamics. The aging population remains the strongest predictor of future hospital and emergency department demand. According to a Vizient and Sg2 analysis, the 65+ cohort is expected to drive significant increases in utilization by 2035, including rising inpatient discharges (20%), ED visits (27%) and observation stays (34%). Rising demand will shift payer mix toward Medicare and Medicare Advantage, categories that reimburse below cost for many service lines.[19] But demographic trends also provide unusually clear forward visibility: organizations know which populations will grow, where needs will intensify and which service lines will see sustained demand. This predictability allows health systems to more deliberately plan capital, workforce, ambulatory strategies and care redesign efforts.

Figure 5. Hospital-based demand is driven by the 65+ population



Sources: Sg2 Impact of Change, 2025; HCUP National Inpatient Sample, 2021; Sg2 Proprietary All-Payer Claims Data Set, 2022-2024; CMS Limited Data Sets (Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility), 2023; Claritas Pop-Facts, 2025; Vizient Clinical Data Base; Sg2 analysis 2025.

Policy developments will influence the shape and distribution of financial pressure. The OBBB changes to Medicaid financing and eligibility will affect millions of enrollees, and the expiration of enhanced ACA premium tax credits could increase ACA marketplace premiums and raise the uninsured rate.[20] According to an Sg2 forecast, Medicaid enrollment is expected to decline to 23% of the overall payer mix between 2026-2031, while the proportion of uninsured patients is projected to rise to 12%. These shifts would heighten uncompensated care burden and stress safety-net systems.

Simultaneously, expanded site-neutral payment policies, removal of the inpatient-only list and an expanded ambulatory surgery center (ASC) procedure set will accelerate migration of services to ambulatory settings. While disruptive, these policies push the system toward lower cost sites of care and encourage redesigning clinical pathways that align cost, quality and consumer preference.

Innovation adds both opportunity and financial exposure. Specialty pharmaceuticals, including immunology, oncology and metabolic therapies, continue to reshape utilization and drive spending growth across stakeholders.[21] GLP-1 medications represent a clinical category with the potential to reduce long-term complications in obesity and diabetes and shift future demand patterns across surgical and inpatient services. An Sg2 forecast projects that while discharges for inpatient type 2 and unspecified diabetes will rise 11% between 2025 and 2030, related discharges will decline 3% from 2030-2035. Oncology pipelines and emerging gene and cell therapies offer profound clinical benefit but require infrastructure and care-management capabilities not yet fully reflected in reimbursement. These innovations introduce near-term cost pressure but also position the industry for long-term improvements in chronic disease burden, survivorship and precision care.

Figure 6. Projected enrollment mix changes 2026-2031

Payer	2026	2031	Driver
↑ Medicare	21%	23%	The aging population will utilize more services, require more resources, strain access and negatively shift payer mix.
↓ Commercial	47%	46%	
↓ Medicaid	17%	14%	Implementation of the OBBB and the potential expiration of enhanced APTCs are likely to spike the uninsured and reduce overall funding for healthcare.
↓ HIX	6%	5%	
↑ Uninsured	10%	12%	

Source: Sg2 Insurance Coverage Estimates (ICE)

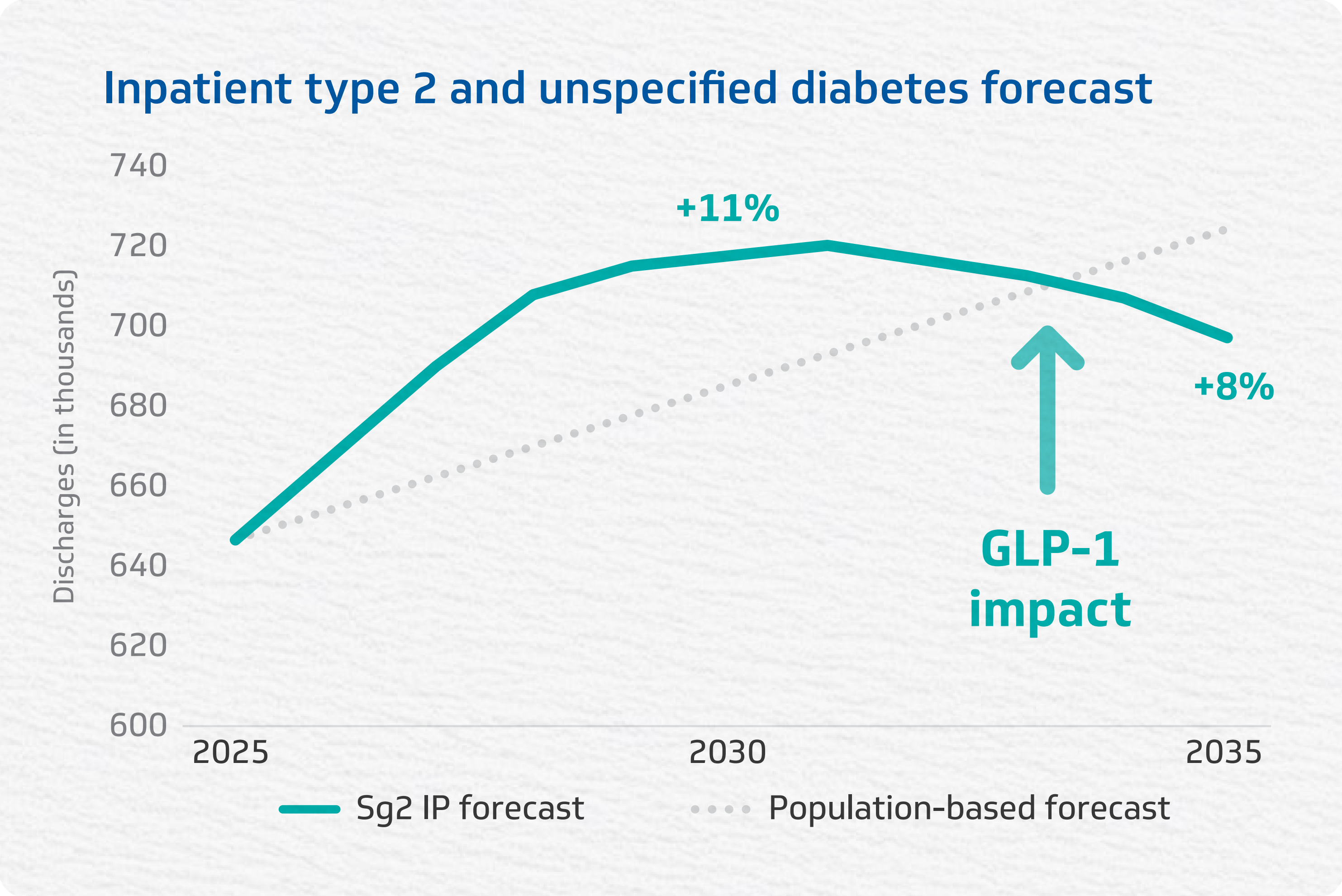
Collectively, these forces underscore a central reality: traditional financial levers are losing effectiveness. Provider, payer and other stakeholder economics are being reshaped by demographic transitions, policy shifts and innovation-driven changes in utilization and cost. Financial sustainability will depend on diversified revenue models, new partnership structures, expanded use of technology and more deliberate allocation of resources across the care continuum. The capabilities that have been strengthened in recent years — analytics, redesigned workflows, new care models and early adoption of transformational technologies — provide a starting point for navigating a more complex financial landscape.

Figure 7. Diabetes and obesity is the No. 8 leading cause of death in the U.S.

Diabetes and obesity

No. 8 leading cause of death in the U.S.

Therapeutic innovation changes to the demand trajectory will have downstream impact on inpatient capacity



Sources: Sg2 Impact of Change (IoC) Forecast, 2025; HCUP National Inpatient Sample, 2021; Sg2 Proprietary All-Payer Claims Data Set, 2023; CMS Limited Data Sets (Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility), 2023; Claritas Pop-Facts, 2025; Sg2 analysis 2025.

Finding 3

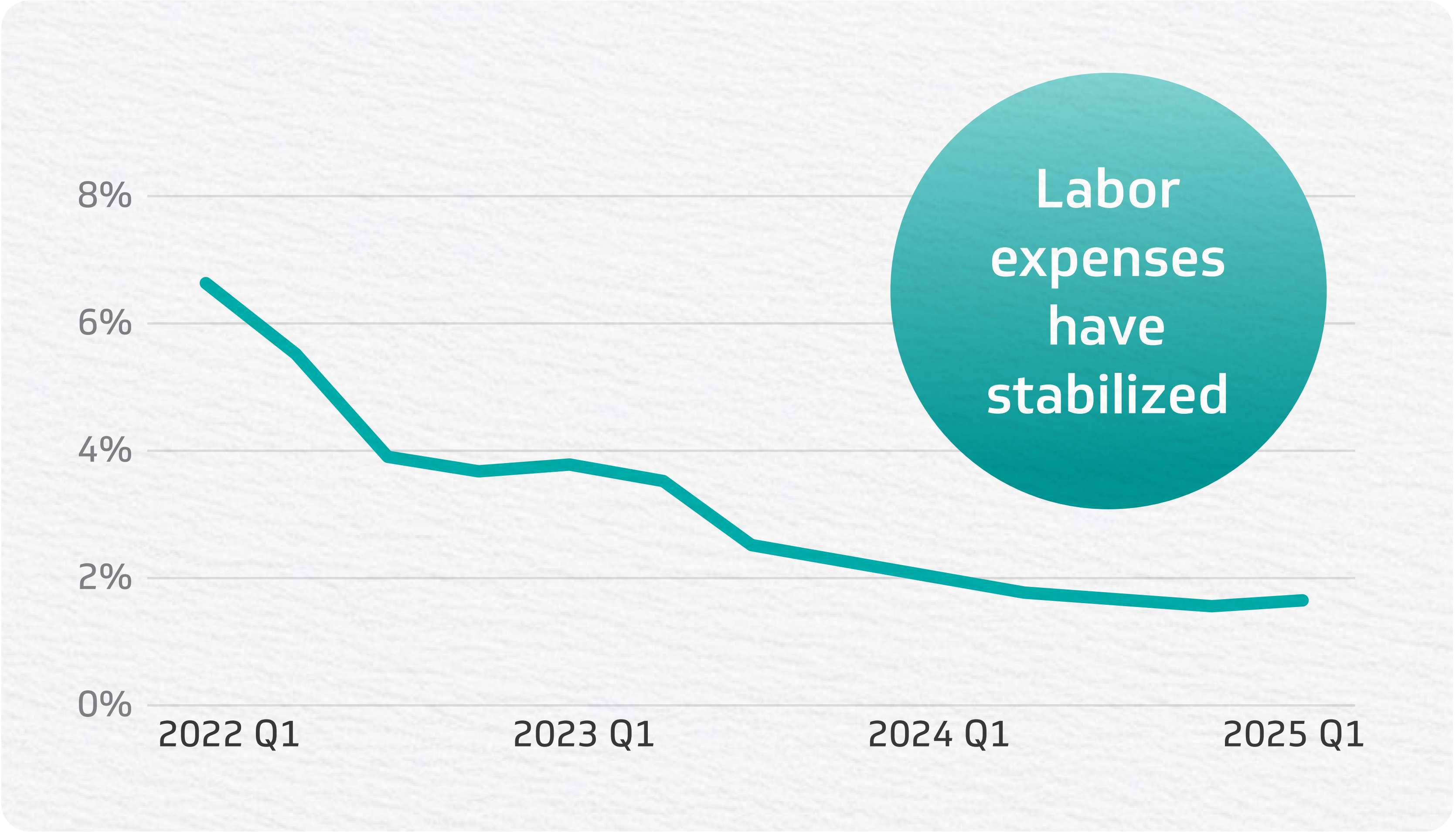
Cost pressures are evolving, not easing, and workforce shortages persist as drug, device and supply costs surge.

As organizations anticipate new financial headwinds, the internal cost structure of hospitals and health systems is becoming an increasingly decisive factor in overall performance. While labor costs have stabilized from their pandemic-era peak, they remain at a materially higher baseline.[22] Shortages across critical workforce segments, rising non-labor expenses and escalating pharmacy spending are creating cost dynamics that often move faster than reimbursement. These pressures make internal operations a central determinant of whether organizations can sustain access, quality and financial stability. Yet they also highlight areas where emerging capabilities and redesigned models show meaningful promise.

Workforce dynamics remain among the most significant contributors to rising internal costs despite stabilization of labor expenses. Healthcare continues to be the nation's largest and fastest-growing employer, with wage growth still outpacing employment gains as organizations compete for limited clinical talent.[23,24] Workforce patterns differ across the continuum: employment growth is strongest in ambulatory and home-based roles, while skilled nursing facilities remain below pre-pandemic employment levels.[23] Primary care physician supply is projected to grow only 3% over the next decade, compared with a 14% growth in demand.[24] By contrast, primary care nurse practitioner supply is expected to increase 93%, enabling new team-based models but also emphasizing the need for thoughtful top-of-license role alignment to fully realize this workforce capacity.[11] These dynamics illustrate both the pressure of constrained supply and the opportunity to redesign care delivery to better leverage clinicians.

Burnout further intensifies workforce challenges. More than half of physicians and nearly two-thirds of nurses report high levels of burnout, contributing to turnover, early retirements and reduced workforce participation.[25,26] Even as organizations reduce reliance on contract labor, persistent gaps in diagnostics, behavioral health and post-acute care continue to limit throughput and elevate staffing costs. As these pressures accumulate, the delivery system operates with limited elasticity: primary care bottlenecks delay access, specialty shortages slow diagnosis and treatment, post-acute constraints extend inpatient stays and administrative burden reduces clinical productivity. At the same time, maturation of virtual services, centralized clinical support models and AI-enabled documentation tools are beginning to restore time to clinicians and create avenues for more sustainable staffing.

Figure 9. Contract labor as a % of total operating expenses



Source: Vizient Operational Data Base. All rights reserved. Accessed November 2025

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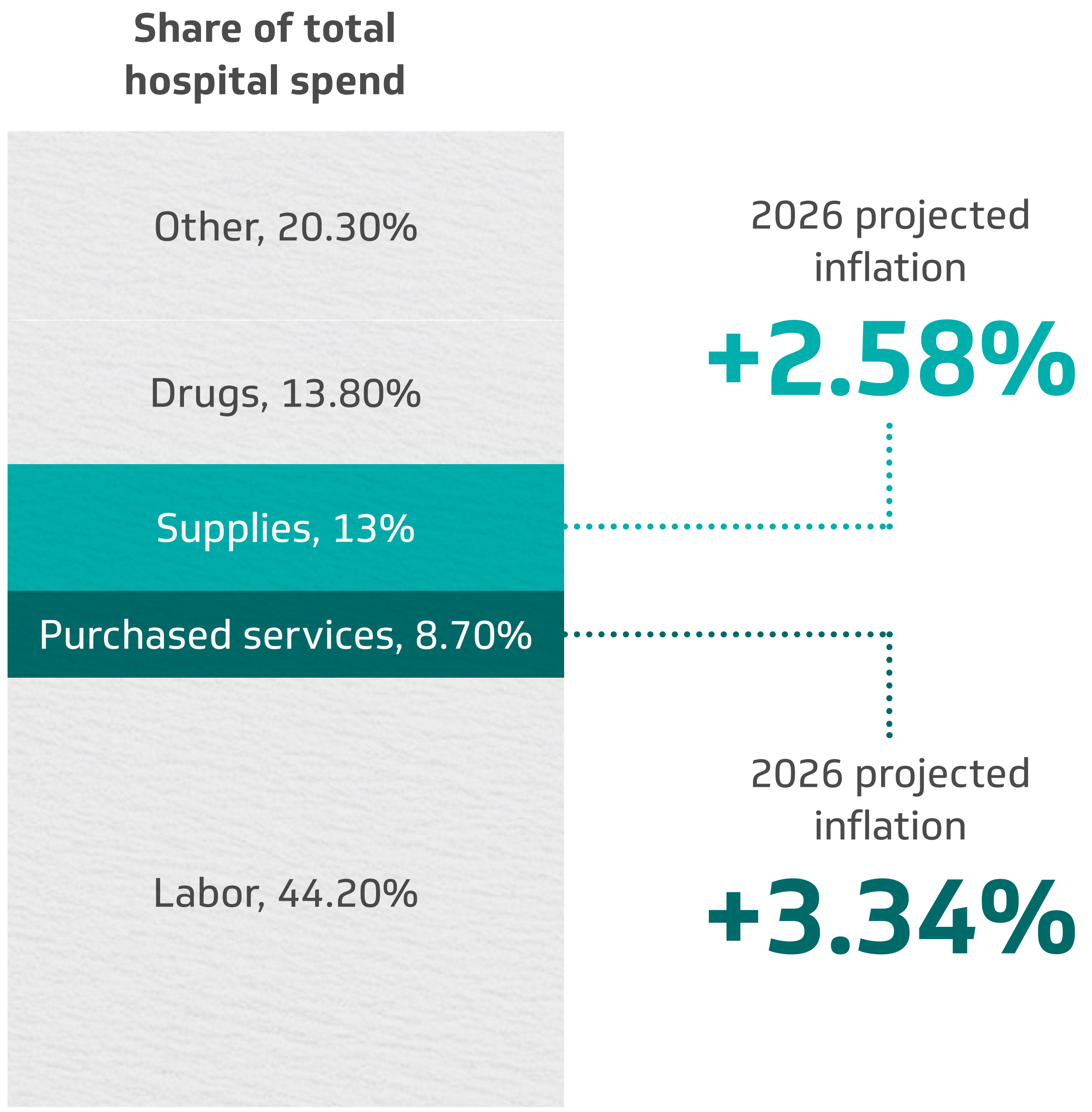
Physician subsidies add another layer of financial exposure. Rising compensation expectations, coupled with productivity trends that have not kept pace, continue to elevate subsidy requirements across key service lines. According to Kaufman Hall's Physician Flash Report, total direct expense per provider FTE rose 6% between Q3 2023 and Q3 2025 for physician practices, illustrating the tension between maintaining essential clinical access and ensuring economic viability.[1] As a result, organizations are adopting more sophisticated physician enterprise strategies, including accelerating growth in the proportion of advanced practice providers — who now comprise more than 40% of employed providers — targeted compensation redesign, partnerships, and clearer alignment of clinical and financial models.

Non-labor expenses — particularly supplies and purchased services — have become significant components of hospital cost structure that together account for nearly one-quarter of hospital spending, with costs concentrated in a limited number of product and service categories.[21] Medical and surgical supplies such as IV pumps, tubing and solutions represent the largest share and fastest-growing supply category, while purchased services — including finance, IT, clinical support and technology-enabled operations — continue to expand as administrative and digital requirements increase.[21,22] Inflation in device inputs, global manufacturing shifts and tariff exposure introduce further variability. In response, many organizations are deploying more sophisticated spend analytics, refining sourcing strategies and collaborating to achieve scale, indicating that internal cost discipline is becoming more advanced and coordinated.

Figure 10. Share of total hospital spend



Sources: Vizient Operational Data Base. All rights reserved. Accessed November 2025, Vizient Spend Management Outlook, Summer 2025, Vizient analysis 2025

Pharmacy spending is accelerating even more rapidly. Specialty drugs now make up nearly two-thirds of total pharmacy spending for many systems, rising more than eight percentage points in three years.[21] Growth reflects continued adoption of immunology and oncology therapies, increased use of self-administered specialty medications, rapid GLP-1 uptake and movement of infusion services into ambulatory and home-based settings. Clinic-administered medications have increased 16% since 2019, expanding both operational and financial exposure.[21,27] Policy and pricing uncertainty, including the Medicare Drug Pricing Negotiation Program, possible pharmaceutical tariffs and 340B Drug Pricing Program scrutiny creates additional unpredictability.[28,29] At the same time, high-cost therapies such as CAR-T and emerging gene and cell treatments offer profound clinical benefit and position health systems to lead in technologically advanced, high-value care if they can build the infrastructure and capabilities required to deliver them effectively.

Across these dynamics, a clearer pattern is emerging — cost pressures are becoming more complex, less predictable and more tightly linked to operational capacity. Labor has stabilized at structurally higher levels. Workforce shortages continue to erode resiliency. Non-labor inflation is accelerating across supplies, purchased services and specialty pharmacy. Innovation is shifting clinical demand in ways that reimbursement models have not yet fully accommodated.

These internal realities narrow the strategic options available to organizations. At the same time, they clarify where operational improvements, redesigned care models and focused investments can yield the greatest return, particularly in workforce productivity, supply chain optimization and pharmacy strategy.

As organizations look ahead, cost management will require more than incremental efficiency. Modernizing workforce models, expanding top-of-license practice structures, reducing administrative burden and leveraging data-driven sourcing strategies will be essential to improving productivity and sustaining access. Yet these efforts alone will not fully address rising costs. Organizations are increasingly recognizing that partnerships, shared capabilities and scaled platforms can provide advantages that individual systems cannot achieve independently. This shift in strategic thinking sets the stage for the next phase of market behavior where collaboration becomes a core lever for resilience, growth and long-term financial performance.

Finding 4

Market behavior evolves from large-scale M&A to include strategic, vertical and ecosystem partnerships.

As internal cost pressures rise and financial performance diverges across markets, the industry's approach to growth and capability-building is shifting. Rather than relying primarily on large-scale mergers, 2025 saw organizations increasingly pursue a mix of partnerships, vertical integrations and ecosystem collaborations to expand access, strengthen operations and position for long-term relevance. While overall healthcare M&A activity increased in 2025, hospital M&A declined, reflecting economic uncertainty, evolving policy expectations and the high cost of capital.[3] According to a Kaufman Hall analysis, transactions that did occur often involved distressed assets, with deal revenue falling nearly half year-over-year and megadeals over $1 billion in target revenue declining more than 60%.[2] Even so, the strategic pause is prompting organizations to pursue more targeted, capability-oriented models, setting the stage for M&A activity to resume in forms better aligned with today's financial and operational reality.

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Declining private equity investment in acute care further reinforces this pattern. Rising operational complexity and sustained margin pressure have weakened investor appetite for hospital ownership, elevating not-for-profit systems as central architects of new acute-care strategies. Against this backdrop, new platform-based models are emerging that illustrate how transformation may occur. General Catalyst's HATCo, the first venture-backed hospital operator, signals an approach anchored in technology-enabled redesign.[30] Risant Health's not-for-profit federation model, advanced through the continuing integration of Cone Health, emphasizes payer–provider alignment, value-based care and mission-centered integration.[31] Though distinct, these models share a common trajectory, moving from conceptual aspirations about redefining care delivery to more concrete execution strategies, supported by partners with complementary strengths.

ASC strategy has become increasingly essential as the ASC covered procedure list expands[32], the inpatient-only list sunsets over time and consumer expectations converge with continued private equity activity. Health systems are expanding ASC footprints through acquisitions, partnerships and joint ventures, such as Ascension's proposed acquisition of AMSURG, Tenet's expansion of USPI and Cleveland Clinic's partnership with Regent Surgical.[33,34,35] These moves reflect an understanding that procedural care is steadily migrating toward lower-cost ambulatory settings and maintaining relevance in these markets requires proactive collaboration. In many regions, ASCs are emerging not simply as cost-efficient alternatives but as core access points for consumer engagement and surgical growth.

Figure 11. Overall healthcare M&A rose, but hospital M&A fell sharply, with more distressed deals and fewer megadeals

+51%
U.S. overall M&A deal value (2024–2025 estimated)

+13%
U.S. healthcare deal value (2024–2025 estimated)

Hospital M&A activity has slowed in the face of political and financial uncertainty

53%
target revenue
2024 - 2025

Distressed assets reached new highs, up sharply from 2024.

44%
Percentage of 2025 announced transactions involving a financially distressed party (+13 percentage points vs. 2024)

"Megadeals" over $1B in transacted revenue were much less frequent

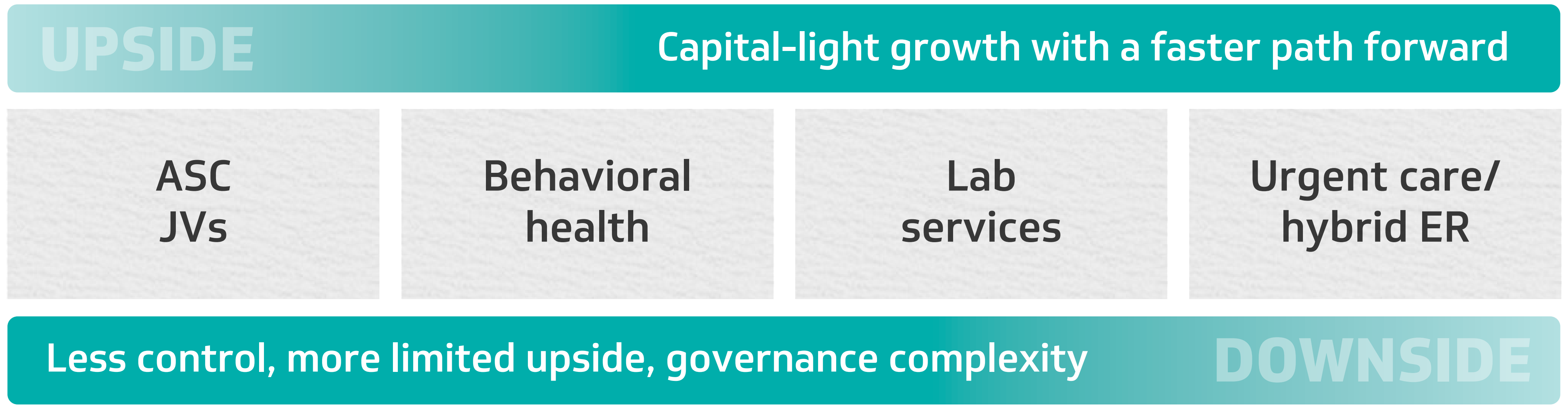
64%
YOY growth,
2024 - 2025

Sources: Kaufman Hall hospital M&A dataset, EY/Dealogic, Scope Research

Beyond ASCs, joint ventures and partnerships are becoming critical levers for capability expansion. Health systems are increasingly engaging in capital-light collaborations across imaging, behavioral health, laboratory services, urgent care and hybrid emergency-urgent care models. These partnerships extend reach, accelerate market entry and provide access to operational expertise that would be costly or time-intensive to build internally. At the same time, they introduce new complexities including shared governance, more nuanced decision rights, and IT and data integration requirements. This evolution reflects a broader transition from ownership-centric portfolios to orchestration-centric ecosystems, where organizations build networks of complementary capabilities that allow them to scale more efficiently and adapt more quickly to changing market needs.

Market structure continues to evolve alongside these strategic shifts. Provider and payer markets remain highly consolidated, though the balance varies significantly across geographies.[36] As payer profitability tightens, insurers are rethinking approaches to vertical integration. Payer M&A in 2025 focused on rebalancing portfolios, scaling government programs and building regional partnerships. Cigna's sale of its Medicare Advantage business to HCSC marked a notable pivot toward pharmacy and care coordination through Evernorth.[37] CVS/Aetna, Optum and others closed or divested clinic assets as they reassessed the economics of owning clinic-based delivery models.[38,39] Meanwhile, several provider-sponsored health plans exited markets, reflecting the challenge of operating both sides of the financing–delivery equation. Even so, these shifts are creating openings for systems to engage with payers in new ways through alignment on chronic condition solutions or targeted market collaborations.

Figure 12. Health systems are looking toward new JVs and partnerships in key growth areas



Sources: Vizient analysis, 2025

As payers recalibrate, non-payer disruptors continue to expand their footprint. Companies such as agilon health and Ivy Rehab are scaling in high-growth niches with focused, replicable models, though financial viability remains a concern especially for Medicare Advantage dependent disruptors.[40] Wholesalers and distributors, including McKesson, Cencora and Cardinal Health, displayed strong financial performance as they move upstream into clinic ownership, particularly in specialties tied to high-margin buy-and-bill drugs such as ophthalmology and oncology.[41,42,43,44] Private equity and retail entrants remain active in segments with clear consumer demand focused on ambulatory and virtual care. Amazon expanded its One Medical footprint through partnerships with Montefiore, Cleveland Clinic and Hackensack Meridian, while deepening pharmacy integration and extending virtual care to pediatrics.[45] These entrants introduce competition but also highlight new pathways for access, convenience and care model innovation.

Life sciences and MedTech firms are also reshaping ecosystem dynamics. Two megadeals exceeding $15 billion — the Abbott-Exact Sciences and BD-Waters diagnostics transactions — signal shifts in how capabilities across diagnostics and precision testing are being assembled.[46,47] Pharmaceutical companies such as Eli Lilly and Novo Nordisk are engaging employers directly to support obesity management, creating new channels that blend clinical innovation with benefit design.

MedTech firms are making sizable investments in AI, analytics and data integration to differentiate their platforms: examples include GE Healthcare's expansion of the Edison AI platform and Medtronic's development of the AiBLE surgical ecosystem with Siemens Healthineers.[48] These innovations will require deeper integration with provider workflows and create opportunities for co-developed pathways, new staffing models and shared technology investments.

Across these shifts, there is a clear strategic theme: market differentiation is increasingly derived from orchestrating the right portfolio of care delivery sites, shared capabilities and external partnerships designed around owned assets. As internal cost pressures rise and financial constraints tighten, organizations that clarify their partnership architectures, strengthen governance, define decision rights and build integration capabilities will be better positioned to expand access, improve efficiency, differentiate experience and manage risk. In a landscape where no organization can build every capability internally, collaboration has become not just a strategic option, but a strategic necessity.

Finding 5

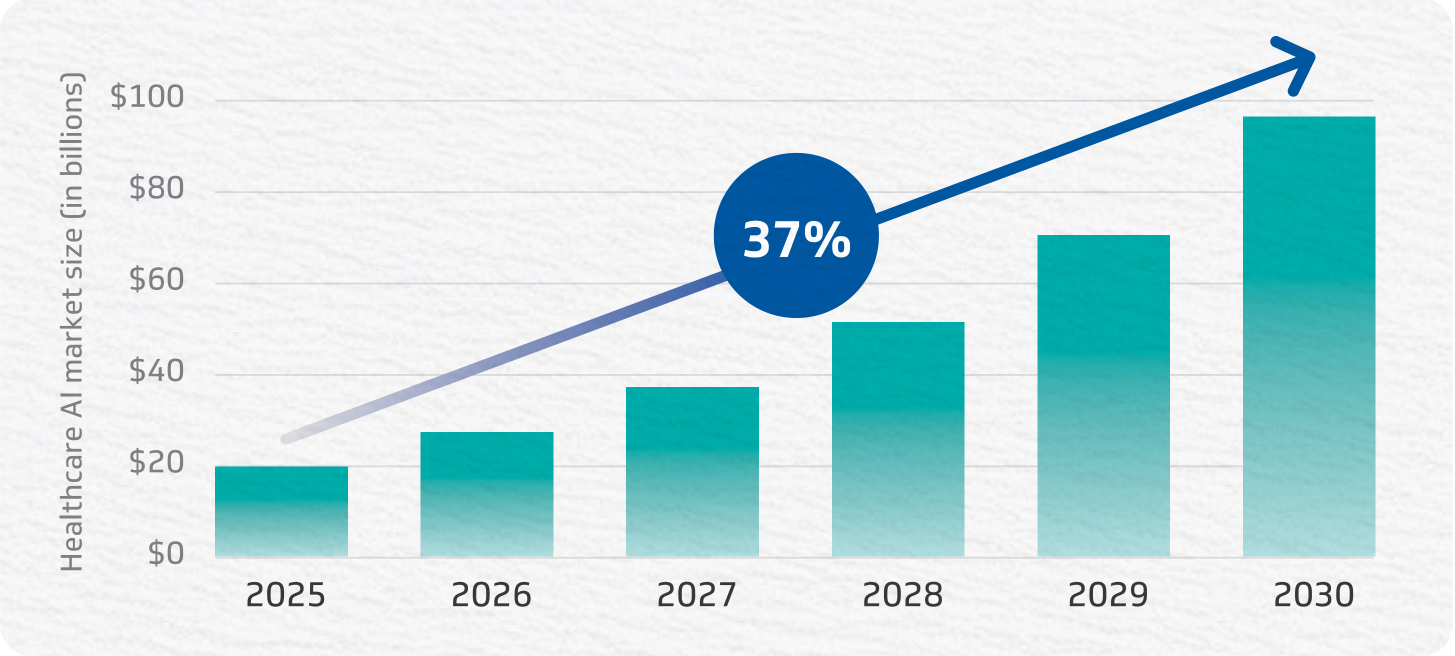
AI is the next major lever offering real potential to reduce waste and transform operations.

Artificial intelligence is one of the most promising levers to counteract the structural pressures shaping healthcare. No other capability offers comparable potential to reduce waste, redesign work, strengthen workforce capacity, and improve access and experience at scale. A Vizient analysis projects that U.S. healthcare AI investments will grow from $20 billion in 2025 to approximately $100 billion by 2030 — with a 37% yearly growth rate over that time frame. Adoption of AI in healthcare already outpaces most other industries, and its rapid expansion across administrative, clinical and operational domains signals the beginning of a new phase of system transformation.[49] When strategically deployed, AI enables organizations to reimagine how work is performed, how decisions are made and how value is created, providing a path forward that does not depend solely on incremental efficiency gains.

The clearest near-term opportunity lies in administrative automation. An estimated $300 billion in annual healthcare waste is tied to administrative complexity, much of which can be reduced through AI-enabled tools that streamline documentation, revenue cycle processes, prior authorization and patient access workflows.[50,51] Early adopters report meaningful gains, documentation time cut by more than 50%, fewer denials, improved throughput and measurable increases in clinician satisfaction.[52] These improvements illustrate how AI can restore capacity in an environment defined by workforce shortages and rising operational demands, enabling clinical teams to focus on higher-value work.

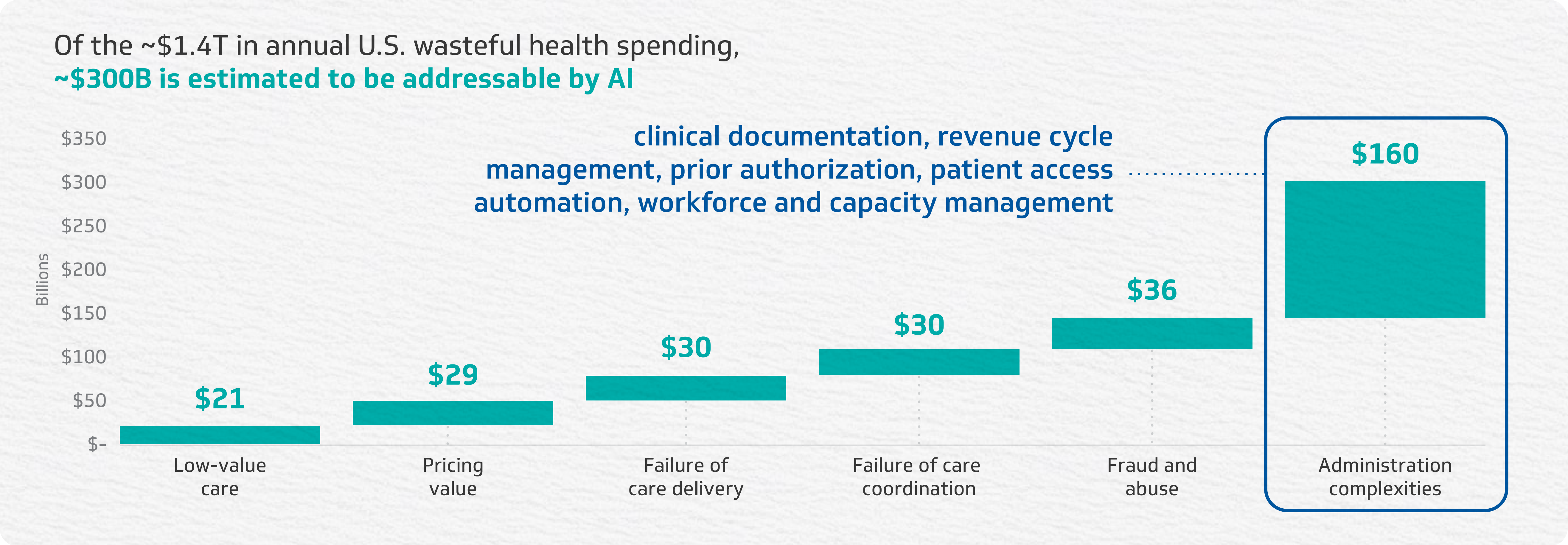
Clinical applications are maturing as well. Ambient clinical documentation is among the fastest-scaling use cases,[53] with health systems reporting improved note quality, reduced clinician burnout and more engaging patient interactions as administrative burden decreases. Diagnostic support tools in radiology and cardiology continue to improve accuracy and reliability, with the potential to shorten turnaround times and enhance clinical precision. These advancements illustrate how AI can augment clinical teams, reinforcing quality and consistency at a time when workforce variability remains a challenge.

Figure 13. U.S. healthcare AI projected market growth, 2025-2030



Source: Vizient Market Outlook (VMO)

Figure 14. AI could remove ~$300B in waste annually



Sources: Vizient Market Outlook (VMO); Peter G. Peterson Foundation analysis of wasteful healthcare spending; National Bureau of Economic Research, healthcare waste and inefficiency study; Vizient analysis 2025.

AI adoption is also reshaping payer and life sciences strategies. Payers are embedding AI into utilization management, disease management, prior authorization, fraud detection and digital engagement. These moves will elevate expectations for data completeness, speed and coordination across the ecosystem.[54] Life sciences companies increasingly rely on AI to accelerate drug discovery, enhance trial design, streamline patient recruitment and strengthen safety monitoring.[49] These investments will influence how evidence develops and how quickly new therapies can be matched to the patients who benefit most, supporting better clinical outcomes and more precise care models.

The next phase of AI extends beyond task automation toward more autonomous, agentic capabilities.[55] These systems can coordinate multi-step workflows such as preparing visit summaries, drafting appeal packets, identifying at-risk patients or managing care transitions. As AI shifts from generating content to delivering action, organizations will need to strengthen governance, clarify roles and build multidisciplinary oversight. Rather than serving as barriers, these requirements are essential to ensuring that AI-enabled models improve care reliability, safety and trust.

Regulation is evolving in parallel. National initiatives signal increasing federal commitment to using AI to promote workforce development, foster health research, improve population health outcomes and other efforts.[56] States are developing frameworks governing transparency, data use and algorithmic fairness.[57,58]

Collectively, these regulatory trends introduce new compliance considerations while also laying a clearer foundation for responsible innovation and adoption.

AI's potential is broad, but its benefits will not accrue evenly. Organizations that pair AI investment with mature data strategies, strong governance and redesigned workflows will realize gains more quickly and more reliably. Those without these foundations may struggle to scale early pilots or translate tools into measurable performance improvement. Technology alone will not differentiate high performers; competitive advantage will come from the ability to operationalize AI across the enterprise, from frontline workflows to strategic decision-making.

Healthcare's longstanding pressures — administrative burden, workforce shortages, access constraints, affordability challenges and rising patient complexity — cannot be solved through traditional approaches alone. AI offers a realistic and increasingly necessary pathway to redesign how work is done and how systems operate. Its promise lies not in isolated tools but in the operating models it enables; those that are more intelligent, more efficient, more resilient and better aligned with the needs of patients and clinicians.

Organizations that invest now in the infrastructure, governance and talent required to scale AI will help shape the next era of healthcare performance. Those that wait risk losing ground as early adopters advance more rapidly and as AI becomes increasingly embedded in the expectations of patients, payers, clinicians and partners.

A look ahead

Healthcare enters 2026 under pressure — but with possibility. The “new margin math” is real: demand is rising, the population is aging with higher acuity, cost structures are heavier and traditional performance levers no longer deliver the same returns. Yet health systems have shown they can improve even under strain, reducing mortality, preventing harm, stabilizing financial performance in many markets, and expanding new models of access and care.

The forces reshaping the industry will not recede. Demographic shifts will continue to drive utilization. Policy and coverage changes will shape who can access care and how it is financed. Innovation will keep redefining cost and capability. These trends challenge legacy assumptions about revenue, cost and growth, but they also clarify the strategic agenda. Organizations that confront internal cost structure, redesign workforce models, embed technology and align service mix with population needs will be better positioned to sustain performance as conditions evolve.

Market behavior is already moving this way. Health systems are complementing traditional M&A with targeted partnerships, joint ventures and ecosystem collaborations that expand reach and capability. Payers, employers, life sciences and MedTech firms are rebalancing portfolios and forming new alliances.

At the same time, AI and intelligent automation are beginning to offer a fundamentally different way to manage administrative burden, support clinicians and scale high-reliability performance. Together these shifts point to a more interconnected, data-enabled and collaborative health economy.

For leaders, the imperative is to move from episodic responses to a more deliberate and coordinated enterprise strategy. That means treating financial sustainability, workforce resilience, cost discipline, partnership architecture, growth and AI adoption as interdependent rather than separate workstreams. It means making clearer choices about where to compete, where to partner and where to build versus buy, grounded in a consistent commitment to quality, outcomes and the experience of patients and clinicians.

Vizient’s view is that the next era of healthcare will be shaped not only by the pressures outlined in this report but by how effectively organizations convert those pressures into catalysts for change. Health systems that act now by leveraging data, partnerships and technology to reset their operating models will not just withstand the new margin math.

They will help rewrite it.

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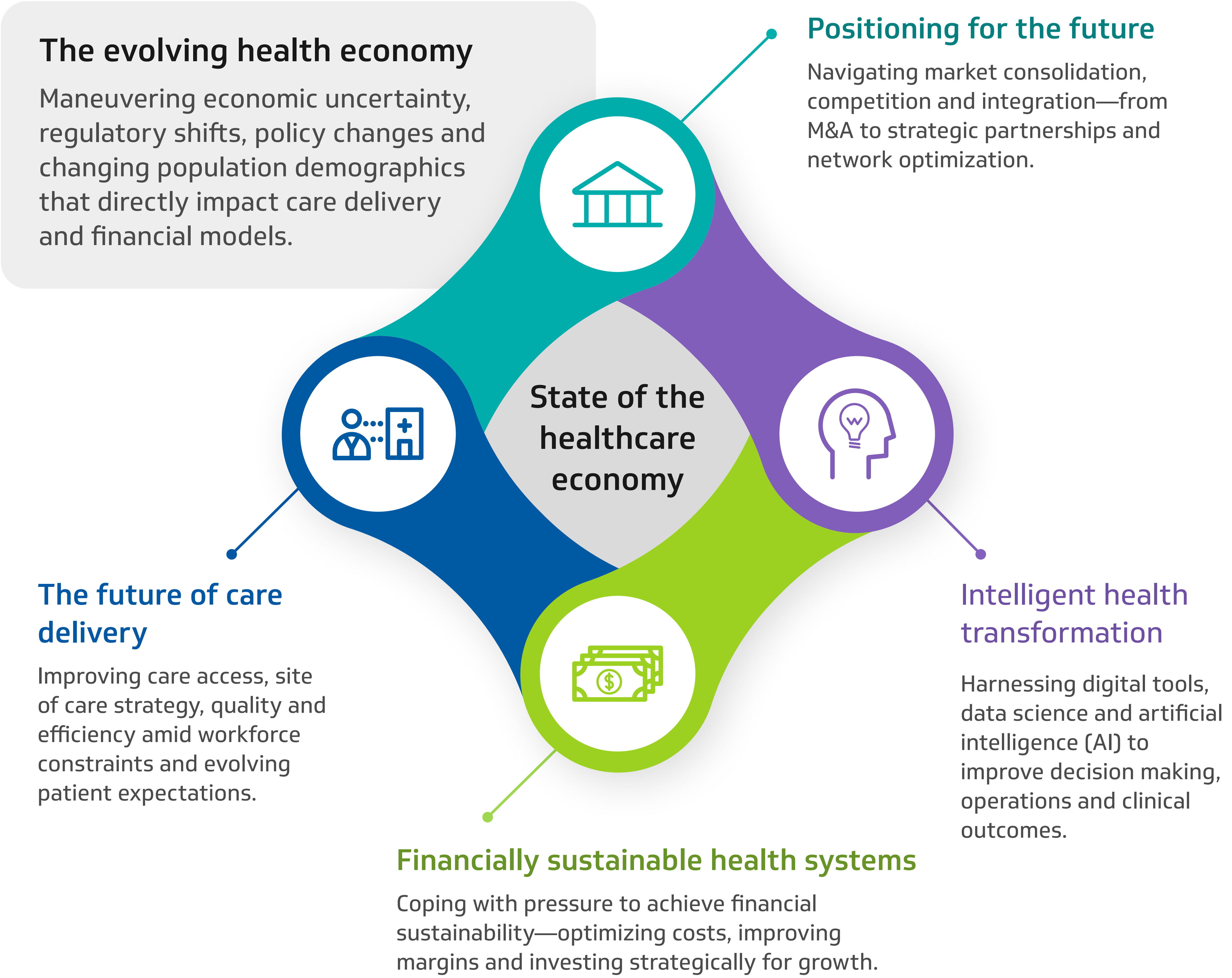
Methodology

The analysis synthesizes economic indicators, policy developments, demographic and utilization forecasts, clinical and operational performance insights, and trends across payer, provider, employer and supplier markets. It draws on Vizient analytics and subject matter expertise, internal Vizient and external data sources, peer-reviewed research and proprietary industry intelligence.

Our analysis considered five market forces that are shaping healthcare heading into 2026. Together, these trends form the research model that guided our assessment of the healthcare landscape and informed the insights presented throughout this report:

The evolving health economy	Maneuvering economic uncertainty, regulatory shifts, policy changes and changing population demographics that directly impact care delivery and financial models.
Financially sustainable health systems	Coping with pressure to achieve financial sustainability optimizing coasts, improving margins and investing strategically for growth.
Positioning for the future	Navigating market consolidation, competition and integration – from M&A to strategic partnerships and network optimization.
The future of care delivery	Improving care access, site of care strategy, quality and efficiency amid workforce constraints and evoliving patient expectations.
Intelligent health transformation	Harnessing digital tools, data science and artificial intelligence (AI) to improve decision making, operations and clinical outcomes.



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