The State of the Industry Heading into 2026

Navigating uncertainty as industry assumptions unravel

Prepared for HFMA Greater Heartland Chapter
October 16, 2025

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2026 State of the Industry

Navigating uncertainty as industry assumptions unravel

PRESENTATION AT A GLANCE

I **Safety net access** hurtles toward a tipping point, where community care is a patchwork hinging on private support

- Coverage reductions and scrutiny
- Rural provider vulnerability
- Local pharmacy instability
- AMC business model shift

II **Purchaser spend management** strategies reach the limits of generic scale, and delegation to niche experts prevails

- Utilization and spending trends
- GLP-1 navigation programs
- Behavioral health platforms
- Variable copay plans

III **Care decision makers** span new power brokers who exert influence over treatment choices, overlapping with clinicians

- Patient trust and experience
- Direct-to-consumer sources
- Medical group ownership
- AI and automation vendors

Advisory Board's annual State of the Industry research

WHAT IT IS

Not just a landscape scan — our stance on the trajectory of healthcare.

Advisory Board's "State of the Industry" presentation equips all healthcare executives with the knowledge and insights to capitalize on today's business opportunities and mitigate tomorrow's market risks.

We cut through the noise to highlight the pivotal shifts happening in healthcare, how stakeholders are responding, and what leaders must consider to stay ahead.

These materials capture and distill the key insights from across all Advisory Board research projects to articulate **our stance on the trajectory of healthcare**.

ABOUT

Natalie Trebes

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Natalie leads Advisory Board's executive strategy research team, which incorporates the best of Advisory Board teams' latest research to provide insights on the future of healthcare strategy. She is a frequent speaker at executive meetings, board retreats, and innovation workshops.

She oversees the development of the Advisory Board's flagship annual "State of the Industry" presentation and the corresponding annual "Things CEOs Need to Know" report. She also directs strategic policy research initiatives, advises on the firm's overall annual research agenda, and develops structures for executive collaboration across sectors.

Natalie previously led the firm's research initiatives for health plans and worked at the Center for Medicare and Medicaid Innovation prior to joining the Advisory Board. She holds a Master of Public Policy from Duke University.

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What Greater Heartland leaders should know today

Let us know how we did:

1. Patients and purchasers are exasperated by incumbents' failure to address industry misalignment. Social and political support is crumbling.
2. As a result, control over care delivery will diffuse across partners and partial competitors, challenging legacy assumptions about the healthcare business model.
3. The safety net will no longer guarantee baseline access. Instead, access will be a patchwork that hinges on business utility.
4. Purchasers can no longer rely on scale for spend management. Instead, payers will delegate to niche experts.
5. Clinicians won't be the sole care decision-makers. Instead, an array of advisors will influence which treatments are viable and appealing.
6. Ultimately, no organization exists in a vacuum, and leaders need to prepare for spillover effects within their regional ecosystem.

Who else at your organization should see this research? Tell us via the QR survey or contact ask@advisory.com

The healthcare business as we've ***known*** it:

Misaligned

+

Incremental

=

Agency

The fundamental ecosystem structure is hindering our ability to meet population needs

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Transformation to the structure requires a careful balance of current and future incentives

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Industry incumbents have a strong voice in shaping the speed, scope, and direction of change

The long-standing assumptions we're already letting go

Demographic balance

Population asymmetry

An aging and sicker population threatens the industry's ability to pool risk and subsidize lower public payment rates

30%

Increase in median age in the US, 1980-2024

Inpatient care default

Ambulatory expansion

More outpatient capabilities and site-of-care shift incentives push more care to lower-cost ambulatory settings

42%

Increase in outpatient procedure volumes at community hospitals, 1995-2018

Procedure-centric care

Drug proliferation

Drugs are increasingly the frontier of treatment innovation, shifting care delivery to a more pharmaceutical-centric model

51%

Increase in overall pharmaceutical expenditures in the US, 2020-2024

Fee-for-service payments

Hybrid payment model

The (slow) adoption of value-based care continues to transform how healthcare services are delivered and paid

11.6 pt

Increase in share of partial or full value-based payments[1] away from FFS payments, 2018-2023

1. Category 3 and 4 payments from HCP-LAN framework.

Source: TrendWatch Chartbook 2020, Supplementary Data Tables. American Hospital Association. 2021; Tichy E, et al. National trends in prescription drug expenditures and projections for 2021. American Journal of Health-System Pharmacy. July 9, 2021; Tichy E, et al. National trends in prescription drug expenditures and projections for 2025. American Journal of Health-System Pharmacy. July 12, 2025; APM Measurement Effort. HCP LAN. 2024 & 2019; "Vintage 2024 Population Estimates by Age, Sex, Race, Hispanic Origin". U.S. Census Bureau. June 2025; "1980 Census of Population, Volume 1, Characteristics of the Population", U.S. Census Bureau. 1980.

The healthcare business as we ***now face*** it:

Exasperation

+

Inertia

=

Diffusion

Time is up for the industry to mitigate its challenges as social and political support crumbles

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Industry incumbents believe they can lead to sustainability, but they have poor results to show

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Control over care delivery will disperse across newly essential partners (and partial competitors)

Unraveling assumptions about care delivery

	Foundational assumption		Emerging dynamic
SAFETY NET ACCESS *The care ecosystem tipping point*	**Baseline subsidy** Public funding enables a viable community access baseline		**Utilitarian patchwork** Access hinges on private support driven by business relevance
PURCHASER SPEND MANAGEMENT *The limits of generic scale*	**Generalist gatekeeping** Uniform cost and quality standards drive network performance		**Niche delegation** Specific treatments and conditions require unique expert stewards
CARE DECISION MAKERS *The new power brokers*	**Clinician centrality** Treatment decisions orient on the patient-clinician interaction		**Sprawling advisors** External voices reshape options for patients and clinicians

The diffusing control of care delivery heading into 2026

SAFETY NET ACCESS

The care ecosystem tipping point

Utilitarian patchwork

Diffusing responsibility

Reduced incumbent control over preferred revenue segments and service capacity

PURCHASER SPEND MANAGEMENT

The limits of generic scale

Niche delegation

Diffusing ownership

Reduced incumbent control over disease management programs and referral patterns

CARE DECISION MAKERS

The new power brokers

Sprawling advisors

Diffusing influence

Reduced incumbent control over selected treatment options and care adherence

01 Safety net access

FOUNDATIONAL ASSUMPTION

Baseline subsidy

Public funding enables a viable community access baseline

The government subsidizes enough healthcare funding to make it **financially viable for private players to support a collective safety net**, preserving a minimum baseline level of access to care for the population.

EMERGING DYNAMIC

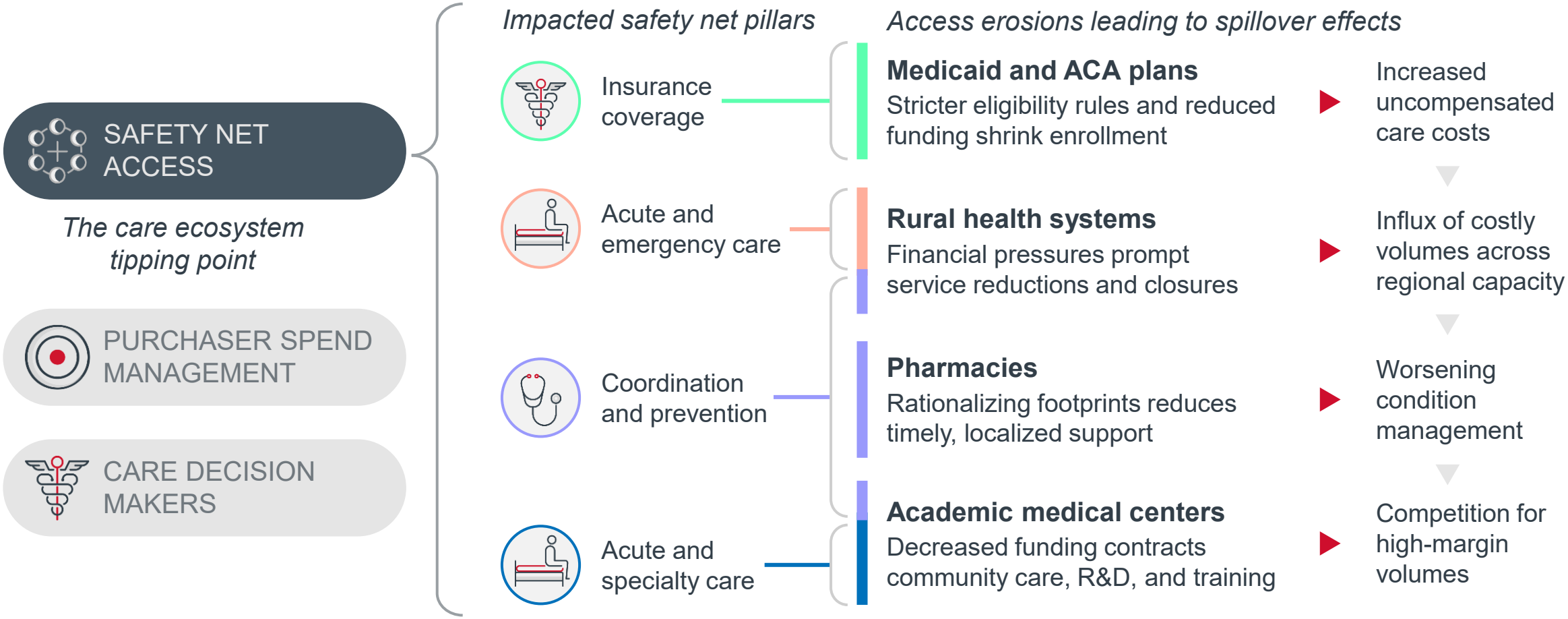
Utilitarian patchwork

Access hinges on private support driven by business relevance

Community access will hinge on its relevance to key business drivers (such as population risk management or referral steerage), widening the holes of the safety net and leading to **more exclusive and selective access**.

A diffusion of responsibility for safety net access

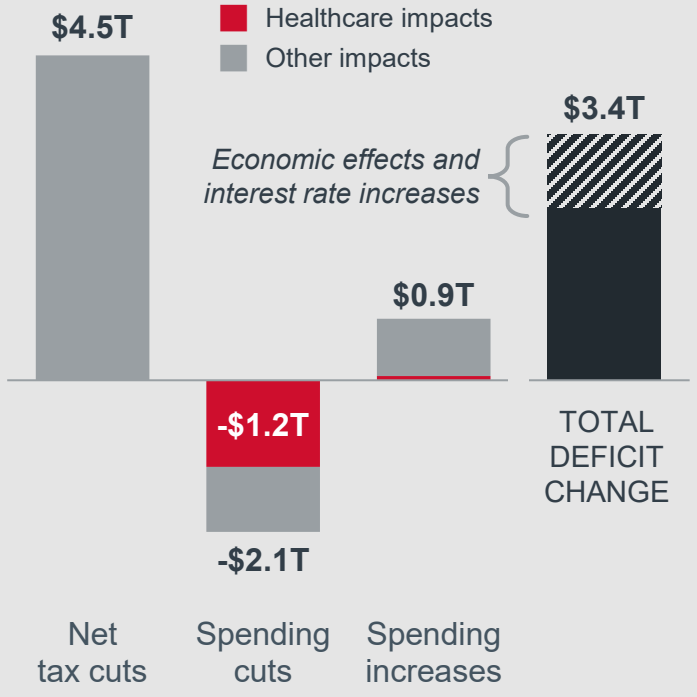
Shrinking safety net makes the consequences of access reductions into a problem for everyone



OBBBA rolls back the safety net

OBBBA[1] deficit impacts[2]

July 21 CBO estimates



Major healthcare policies

- Marketplace tax credit restrictions and Medicaid cost sharing
  → *reduce affordability*
- Medicaid work requirements
  → *increase admin burden*
- Medicaid and Marketplace enrollment restrictions and eligibility verification barriers
  → *increase admin burden*
- State Medicaid financing restrictions
  → *reduce federal funding to states*
- Medicare sequestration trigger
  → *reduces federal spending*

Potential healthcare impacts[2]

14.2M *July 21 estimate*

Projected increase in uninsured people (includes sunset subsidies)

Potential consequences:

- ▲ Uncompensated care
- ▲ Exacerbated health conditions
- ▼ Elective volumes
- ▼ Health plan enrollment

$910B *July 21 estimate*

Estimated direct reimbursement reduction (includes sequestration cuts)[3]

1. One Big Beautiful Bill Act.
2. Projected 10-year (2025-2034) impacts.
3. Summation of estimated Medicare sequestration impacts and major Medicaid state financing restrictions provisions (state-directed payments, MCO taxes, and provider taxes).

Source: H.R.1. 119th Congress. July 3, 2025; CBO. Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline. July 21, 2025; CBO. Estimated Effects on the Number of Uninsured People in 2034 Resulting From Policies Incorporated Within CBO's Baseline Projections and H.R. 1, the One Big Beautiful Bill Act. June 4, 2025; CBO. E&C Reconciliation Recommendations. May 11, 2025; CBO. Dynamic Estimate: H.R. 1, One Big Beautiful Bill Act. June 18, 2025.

Medicaid cuts will drop coverage and strain providers

Major Medicaid provisions in OBBBA[1]

ELIGIBILITY

Work requirements

- States **must require** Medicaid enrollees ages 19–64 to work 80+ hours monthly
  Effective December 31, 2026

Eligibility Determinations

- States must conduct redeterminations at least **every 6 months** for expansion adults
  Effective January 1, 2027

Retroactive coverage

- **Limits retroactive Medicaid coverage** to 1 month for expansion enrollees, 2 months for traditional enrollees
  Effective January 1, 2027

FINANCING

Provider taxes

- **Prohibits establishment** of new provider taxes or increasing rates of existing taxes
- **Reduces safe harbor limit** for expansion states by 0.5% yearly until reaching 3.5%
  Effective October 1, 2028

State-directed payments

- **Caps state-directed** provider payments
- Grandfathered **payments drop 10% yearly** until reaching 100% of Medicare rates[2]
  Effective January 1, 2028

1. One Big Beautiful Bill Act.
2. 110% for non-expansion states.

Potential impact of policy changes

Reduced enrollment

7.5M

Projected Medicaid disenrollment by 2034 with new policies

Uncompensated care

$84B

Projected increase in hospital uncompensated care by 2034

Less preventive care

7.2

Fewer prescription fills per individual associated with losing Medicaid coverage for a year

Provider exits

Lower reimbursement and increased financial strain may prompt providers to leave Medicaid networks

Source: Distributional Effects of Public Law 119-21. CBO. August 11, 2025; Tracking the Medicaid Provisions in the 2025 Reconciliation Bill. KFF. July 8, 2025; Nelb R. Additional hospital uncompensated care costs projected under proposed senate revisions to h.R. 1. America's Essential Hospitals. June 2025; Schwartz A, et al. Medicaid Disenrollment, Subsidized Drugs, & Mortality. Penn LDI. May 23, 2025. Under GOP's Medicaid Plan, 10 Million People Would Lose Coverage By 2034. KFF Health News. May 2025.

A looming reversal in the Marketplace momentum

Federal policies target ACA enrollment…

End of enhanced subsidies

- Enhanced subsidies to expire end of 2025
- Marketplace enrollment doubled from **11.4M** to **24.3M** with enhanced subsidies

OBBBA[1] and Marketplace integrity final rule[2]

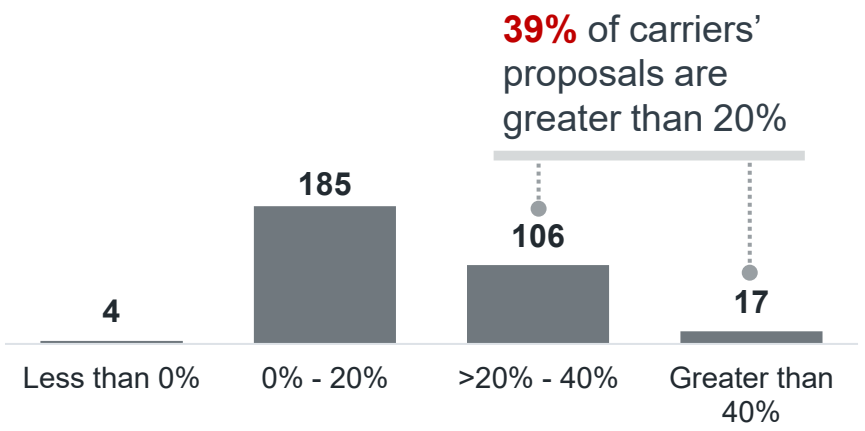
- Pauses SEP[3] for low-income individuals
- DACA recipients lose eligibility
- Stricter income verification
- Pre-enrollment SEP verification

Navigator cuts

- Navigator funding reduced by 90%
- Impact will most affect rural, Latino, and non-English speaking populations

…and will lead to increased premiums

Number of carriers by size of proposed 2026 individual premium increases



"The expiration of these federal benefits … will **shrink the population with coverage and worsen the risk pool requiring higher premiums** for the remaining members."

Blue Cross Blue Shield of Vermont

6.7M Projected additional uninsured individuals due to Marketplace subsidy expiration and Marketplace changes from OBBBA, by 2035[4]

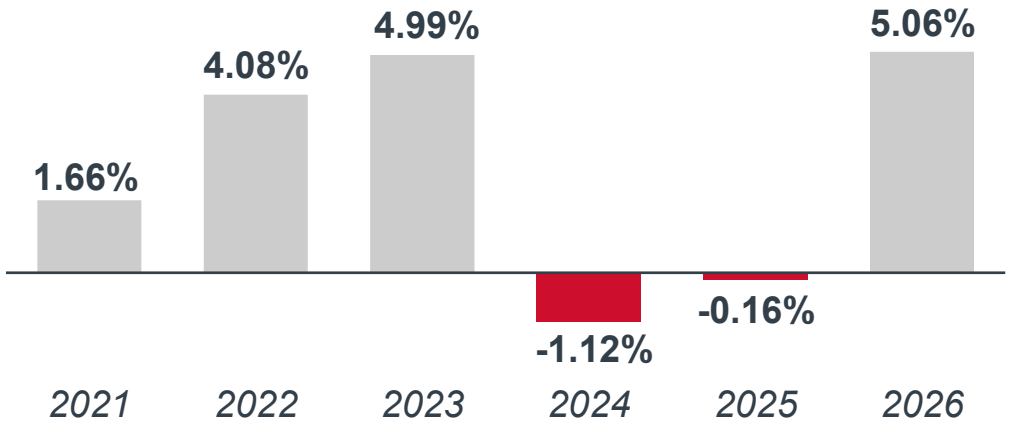
1. One Big Beautiful Bill Act.
2. Legal action pending.
3. Special enrollment period.
4. Excludes final rule changes under litigation.

Sources: The Estimated Effects of Enacting Selected Health Coverage Policies on the Federal Budget and on the Number of People With Health Insurance . CBO. September 18, 2025. Distributional Effects of Public Law 119-21. CBO. August 11, 2025; Letter to Chairman Arrington and Chairman Smith Concerning Premium Tax Credits. CBO. December 5, 2024; Ortaliza J, et al. How will the One Big Beautiful Bill Act affect the ACA, Medicaid, and the uninsured rate? KFF. June 18, 2025; Myerson R, Honglin L. Information gaps and health insurance enrollment. *American Journal of Health Economics*. Vol 8. No. 4; Pestaina K. A 90% cut to the ACA Navigator program. KFF. February 14, 2025; Ortaliza J, et al. How much and why ACA Marketplace premiums are going up in 2026. Peterson-KFF Health System Tracker. August 6, 2025; McGough M, et al. Early indications of the impact of the enhanced premium tax credit expiration on 2026 Marketplace premiums. Peterson-KFF Health System Tracker. June 3, 2025.

MA policy headwinds persist, with some relief in 2026

Annual Medicare Advantage overall payment rates

Expected average change in plan revenue in annual CMS rate announcement (after accounting for risk coding trend)



> "This gives everyone in the Medicare Advantage industry some additional breathing room."
>
> *Medicare Advantage plan CEO*

Major recent policy changes

Risk adjustment

- Complete phase-in of new V28 risk adjustment model
- Retroactive RADV[1] audits for payment years 2018–2024 began in June 2025, and annual RADV audits began in Q3

RADV extrapolation means that error rates identified in the audited sample are now applied to the entire MA contract's population for that year. Instead of just members in the audited sample.

Part D changes

- Out-of-pocket maximum for members now set to $2,000, down from $8,000 in 2024
- MA-PD payers now cover 60% of branded drug costs after out-of-pocket maximum, up from 15% in 2024

Star ratings

- Increased emphasis on HEDIS[2] and HOS[3] with decreased emphasis on CAHPS[4]

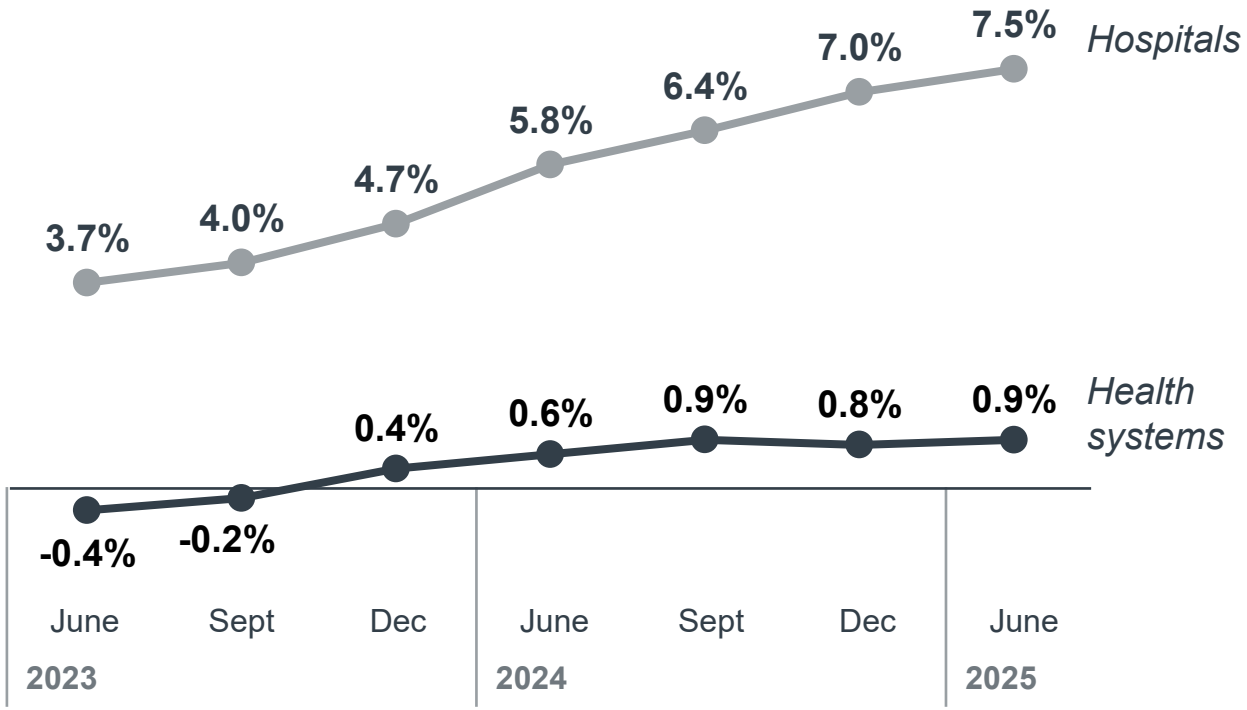
1. Risk Adjustment Data Validation.
2. Healthcare Effectiveness Data and Information Set.
3. Health Outcomes Survey.
4. Consumer Assessment of Healthcare Providers and Systems.

Source: 2021 Medicare Advantage and Part D Rate Announcement Fact Sheet. CMS Fact Sheets. April 2020; 2022 Medicare Advantage and Part D Rate Announcement Fact Sheet. CMS Fact Sheets. January 2021; 2023 Medicare Advantage and Part D Rate Announcement. CMS Fact Sheets. April 2022; Fact Sheet: 2024 Medicare Advantage and Part D Rate Announcement, CMS Fact Sheets. March 2023; 2025 Medicare Advantage and Part D Rate Announcement. CMS Fact Sheets. April 2024; 2026 Medicare Advantage and Part D Rate Announcement. CMS Fact Sheets. April 2025; Why RADV extrapolation is reshaping Medicare Advantage economics. reveleer. August 2025.

Funding cuts hit as health systems face tepid recovery

Health system margin still shy of sustainable, despite operating margin recovery

Median health system and hospital margin, rolling 12-month average, June 2023-June 2025



14% **Year-over-year median growth** in median health system margin
JUNE 2025

40% Of health systems are **operating in the red**
JUNE 2025

4.5:1 Ratio of **S&P credit downgrades** to upgrades, not-for-profit hospitals
JANUARY 2025

Source: Syntellis Performance Solutions. Accessed July 2025. Goldstein L. Pace of Downgrades Slowed in 2024: Five Key Takeaways. Kaufman Hall. January 22, 2025.

Medicaid cuts compound rural hospital pressures

Rural hospitals have slim operating margins → **Medicaid funding cuts add to existing revenue challenges** → **Compounding pressures put hospitals at risk of closure**

1%

Median rural hospital **operating margin**, compared to 7.5% median operating margin across all hospitals[1]

Factors contributing to low margins

- ✕ Few economies of scale
- ✕ Minimal contracting leverage
- ✕ Small recruiting pools

Commercial

33%

Decline in working age (15-64) population in rural areas[2]

Medicare

4x

Growth in rural Medicare Advantage enrollment[2]

Medicaid

$137B

Reduction in federal Medicaid spending in rural areas, without $50B rural health fund

14%

Of rural hospitals are at **immediate risk of closure**

1. 12-month average May 2025.
2. 2010-2023.

Sources: The Importance of Rural Hospitals – Saving Rural Hospitals. CHQPR. Accessed Aug 2025; Topchik M, et al. 2025 rural health state of the state. Chartis. Feb 2025; Farrigan T, et al. Rural America at a Glance: 2024 Edition. USDA Economic Research Service. Nov 2024; Biniek JF, et al. Medicare Advantage Enrollment, Plan Availability and Premiums in Rural Areas. KFF. Sept 2023; Saunders H, et al. How Might Federal Medicaid Cuts in the Enacted Reconciliation Package Affect Rural Areas?. KFF. Jul 2025; Rural_Hospitals_at_Risk_of_Closing.pdf. CHQPR. July 2025.

Rural closures create regional problems

Rural hospital closures hurt access, strain capacity, and increase costs across an ecosystem

Reduced access to primary care

8.6% average decrease in local PCP supply post closure

Strained capacity at nearby facilities

10% average increase in ED visits within two years of nearby rural closure, compared to 3% average growth rate pre-closure

Increased cost of care, for providers and payers

5.2% increase in length of stay for emergency conditions at urban facilities related to rural closures

> “[Rural closures are] **impacting our daily capacity challenges and access needs**. We already had challenges; now even more demand is coming at us.” – COO, AMC in the Northeast

Source: Mills CA, et al. The impact of rural general hospital closures on communities—A systematic review of the literature. The Journal of Rural Health. November 2023; Ramedani S, et al. The bystander effect: Impact of rural hospital closures on the operations and financial well-being of surrounding healthcare institutions. Journal of Hospital Medicine. September 2022; Gujral K, Basu A. Impact of Rural and Urban Hospital Closures on Inpatient Mortality. National Bureau of Economic Research. June 2020.

Interdependencies spur innovative rural partnerships

Sample rural health partnership opportunities

EXAMPLE PARTNERSHIP	**CommonSpirit's Collaborative Care Model** transfers stabilized patients back to rural hospitals and rotates surgeons to perform procedures in rural hospitals	**Rough Rider Rural Clinically Integrated Network** negotiates value-based care contracts on behalf of 22 independent rural hospitals in North Dakota	**HERO program at the University of New Mexico** funds and deploys university-employed agents who support rural CBOs and address local health and social needs
KEY GOAL	 *Keep care localized*	 *Innovate payment models*	 *Address social drivers of health*
	• Improves rural hospital **margins** • Improves CommonSpirit hospitals' **capacity**	• Boosts commercial **reimbursement** for rural providers • Preserves **access** to quality care for rural members	• Develops **healthier**, more vibrant rural communities • Reduces **preventable utilization** at UNM
IMPLICATION FOR REGION	**Altered referral patterns, payment landscape, and patient affinities**		

Source: Burns A. Defining what it means to be a best-in-class rural health system. Advisory Board. Feb 2024; Kaufman et al. Health Extension in New Mexico: An Academic Health Center and the Social Determinants of Disease. Annals of Family Medicine. Jan 2010.

Pharmacy closures threaten shrinking frontline access

Retail pharmacy[1] pressures drive closures and consolidation, putting rural communities at greatest risk

Retail pharmacy pressures

Reimbursement

Low reimbursement from PBMs[2] and slow store traffic

Price

Low generic drug prices that strain profits

Low margins

Reduced margins to be listed as a preferred in-network provider

Major pharmacy closures

Rite Aid

- Filed 2nd bankruptcy, May 2025
- All locations officially closed

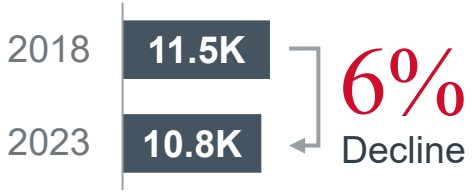
CVS

- 900 stores closed 2022-2024
- 270 stores to close in 2025

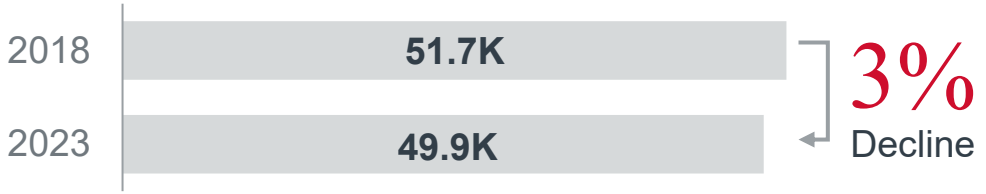
Walgreens

- Splitting into 5 companies
- Closed 15% of stores 2018-2024 and 1,200 more to close by 2027

*Net number of **rural** pharmacies*



*Net number of **non-rural** pharmacies*



58%

Of people in rural counties do not live within **5 miles** of a retail pharmacy

Essential pharmacy services

- Vaccines
- Contraceptives
- Urgent care
- Patient education

1. Retail pharmacies include chain and independent pharmacies.
2. Pharmacy benefit manager.

Source: Fein A. The 2025 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers. Drug Channels Institute. March 2025; Ulrich F, Keith M. RUPRI Center for Rural Health Policy Analysis. Rural Policy Research Institute. August 2024; Rite Aid intends to file second bankruptcy, announces job cuts. Reuters. May 5, 2025; Cameron H. CVS closing 270 stores nationwide: List of locations impacted. Newsweek. May 28, 2025; Lagatta E. Walgreens stores closing: Pharmacy chain shutting 1,200 locations. USA TODAY. October 16, 2024.

Pharmacy closures send shockwaves across the industry

Pharmacy closures drive ripple effects throughout the healthcare ecosystem

Pharmacy closure

Lower patient medication use

- Reduced access to preventive services
- Decreased medication adherence

24% of statin users did not refill their prescription in a 12-month period[2] after pharmacy closure

Greater pharmacist burden

Pharmacists absorb more prescriptions from closures which increase workload and burnout, and decreases time for care

CVS acquired prescription files of **625** Rite Aid pharmacies across 15 states after closures

Health system capacity pressure

Delays and unfilled prescriptions lead to increased usage of the ED[1] and readmissions

33% of medication-related ED visits related to underuse or noncompliance

Lower health plan cost and quality

Non-adherence and medication delays lead to increased medical costs and reduced quality scores

30% of a health plan's Part D Star Rating determined by medication adherence

Source: Park S, et al. Prevalence and predictors of medication-related emergency department visit in older adults: A multicenter study linking national claim database and hospital medical records. *Frontiers in Pharmacology*. October 13, 2022; Medicare 2025 Part C & D Star Ratings Technical Notes. Centers for Medicare & Medicaid Services. October 3, 2024; 2024 National Pharmacist Workforce Study: Final Report. American Association of Colleges of Pharmacy. May 27, 2025; Viswanathan M, et al. Interventions to improve adherence to self-administered medications for chronic diseases in the United States: A systematic review. *JAMA Network Open*. April 5, 2019.

1. Emergency department

Retail pharmacy decline reshapes the front door to care

Digital pharmacies and health systems target gaps in access as other retail pharmacies exit

E-commerce pharmacies

Online pharmacies that accept cash payment and insurance

BENEFITS

- Eliminates travel
- Guarantees availability before purchase
- Allows discounts and promotions

LIMITATIONS

- Subject to shipping delays
- Limited access to pharmacist counseling and acute care
- Privacy and data security risks

EXAMPLE

Amazon Pharmacy offers same-day delivery on non-specialty drugs → Offers a subscription service which led to **29%** increase in refills and **30%** decrease in out-of pocket costs

Health systems

Health systems with ownership of retail pharmacies

BENEFITS

- Potential revenue driver
- Increases patient access
- Enhances care integration

LIMITATIONS

- Staffing challenges
- Gaps in retail expertise
- Limited foot traffic

EXAMPLE

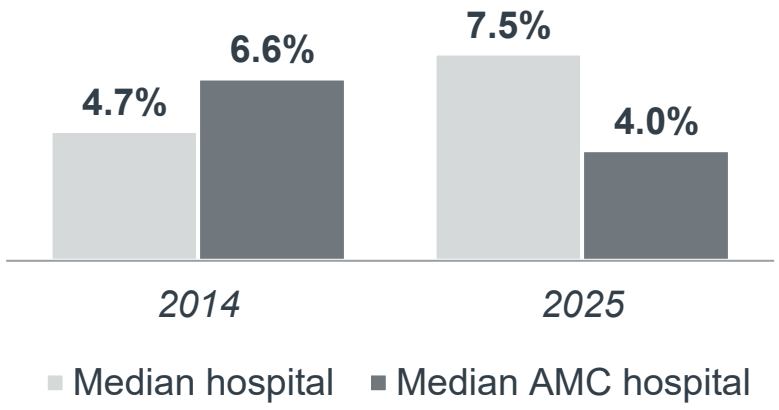
Advocate Health owns and operates more than 70 retail pharmacies in Wisconsin and Illinois → **80%** of patients with hypertension managed by pharmacists are meeting blood pressure goals

Source: Yeung K, et al. Pharmacy Subscription Program and Medication Refills, Days' Supply, and Out-of-Pocket Costs. *JAMA Network Open*. January 27, 2025; Traynor K. Health-system pharmacists tout value of operating community pharmacies. ASHP News Center. June 26, 2023.

AMC business model stands on shaky foundations

AMC margin erosion threatens stability of academic medicine

National and AMC hospital median margin



63%

Of US medical school **revenue comes from care delivery**

Federal actions accelerate erosion to core AMC business model

Inpatient-centric care	CMS 2026 OPPS[1] proposes phasing out IPO[2] list, adding to CPL,[3] and expanding site-neutral payments for off-campus drug administration, reducing inpatient revenue
Safety-net provider	Changes to the Medicaid program and expiration of ACA subsidies projected to increase number of uninsured, decrease Medicaid reimbursement
340B and supplementals reliance	Executive order initiating the hospital acquisition cost survey marks the start of the process to reduce funding for 340B
Research and education funding	NIH grant cancellations and uncertain future of indirect costs reduce AMC ability to hire, fund researchers

1. Outpatient Prospective Payment System.
2. Inpatient Only.
3. Covered Procedures List.

Source: Lee C, et al. Outlook for Academic Medical Centers. Advisory Board. March 2023; Syntellis Performance Solutions. Accessed July 2025. Advisory Board Analysis of IV. Revenue by Source, FY 1977 through FY 2024. AAMC. Accessed July 2025; Davis J, Godes D. Site neutrality is on the menu in the CY 2026 Medicare Outpatient Prospective Payment System proposed rule. McDermott+. July 24, 2025; Ortaliza J, et al. How will the One Big Beautiful Bill Act affect the ACA, Medicaid, and the uninsured rate? KFF. June 18, 2025; Bakst C and Paul L. 340B reimbursement cuts may be looming: What you need to know. Advisory Board. May 2025; The impact of federal actions on academic medicine and the U.S. health care system. AAMC. June 2025; Wosen J. Permanent injunction issued on Trump cuts to research overhead costs. Stat+. April 2025.

AMCs pushed to refocus mission and chase growth

Pressures force mission contraction…

Consolidate unprofitable services

Industry impact:
Reduced community access to essential care

Shrink medical school contribution

Industry impact:
Weaker workforce pipelines

Downsize research positions

Industry impact:
Reduced access to innovative treatments

…and spur growth activities

Invest in community footprint

- Maximize hub-and-spoke capacity
- Diversify into risk-based payments

Industry impact:
Greater AMC influence on where care is delivered

Grow outpatient specialty care sites

- Grow commercial volumes
- Capitalize on site-of-care shifts

Industry impact:
Fiercer competition for specialty care volumes

> Academic health systems **can absorb only so much** without significant harm to biomedical research, medical education, and patient care.”
>
> *Chief Policy Officer, AAMC*

Source: The impact of federal actions on academic medicine and the U.S. health care system. AAMC. June 2025; Advisory Board interview.

Implications for regional organizations

	Community health systems	SHARED TENSIONS AND CHALLENGES	Regional health plans
SAFETY NET ACCESS *The care ecosystem tipping point:* Utilitarian patchwork diffuses responsibility	**Hyper-compete for financially viable volumes** • Increased share of uncompensated care • Service cuts pressure vital regional capacity • Shifting referral patterns and partnerships	• Dependence on commercial purchasers • Higher acuity needs	**Balance affordability and network stability** • Enrollment reductions cut revenues and worsen risk pools • Overexposure in fully funded coverage • Bargaining power shifts
PURCHASER SPEND MANAGEMENT	Distinguish performance at treatment level		Orchestrate connectivity across curated vendors
CARE DECISION MAKERS	Connect clinician and patient experience		Advocate for local needs amid national standards

02 Purchaser spend management

FOUNDATIONAL ASSUMPTION

Generalist gatekeeping

Uniform cost and quality standards drive network performance

Managing health spend is fundamentally about **wielding sufficiently broad scale**. Large enough risk pools to distribute costs, market power to negotiate comprehensive network contracts, and general utilization management tactics help payers contain enough costs to provide access to a wide network and array of treatment options.

EMERGING DYNAMIC

Niche delegation

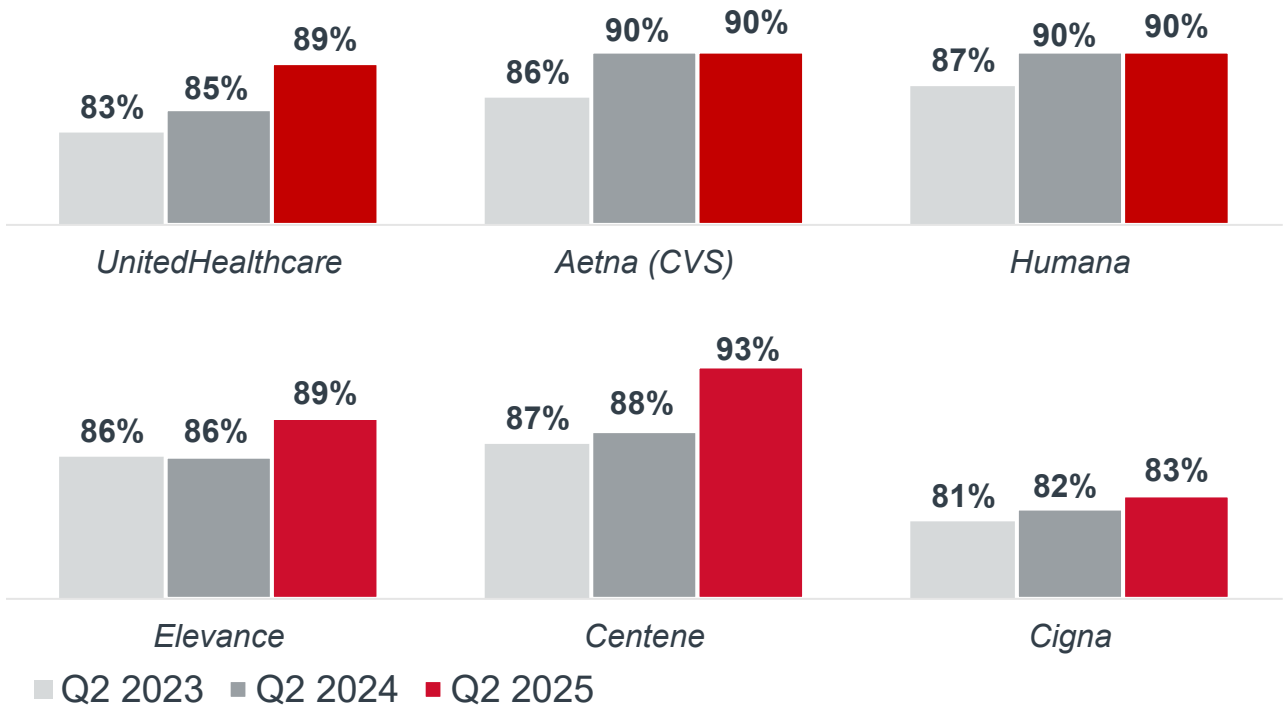
Specific treatments and conditions require unique expert stewards

Payers are layering on **targeted solutions for specific treatments and conditions** on top of traditional outcomes management tactics as emerging treatments often require specialized expertise, further fragmenting coverage and adding complexity to payer-provider relationships.

Payers grapple with seemingly endless cost pressures

Largest insurers' quarterly medical loss ratio (MLR)

Graphs not to scale



Blues plans particularly challenged

Average operating margin for Blues health plans

+0.3% → -2.9%

2023 2024

Highest operating margin for a Blues plan: **+3.7%**

Lowest operating margin for a Blues plan: **-19.7%**

Source: Tepper N. How Blue Cross and Blue Shield company finances fared in 2024. Modern Healthcare. April 2025; Pifer R. Medicaid overtakes Medicare Advantage as health insurers' bogeyman in Q2. Healthcare Dive. August 2024; Minemyer P. Elevated Medicare Advantage, ACA marketplace costs sting insurers in mixed Q2. Fierce Healthcare. August 2025; Pifer R. The great Medicare Advantage contraction appears set to continue. Healthcare Dive. August 2025.

Perfect storm of headwinds continue spike in cost trend

Health plan leaders' assessment of key drivers for increased medical spending in 2025 Q1 and Q2

Specialty service utilization

- Specialty **drugs** (especially infusions and GLP-1s)
- **Downstream** specialty care and outpatient procedures in MA (especially orthopedics)
- **Behavioral** health services (especially ABA[1] for autism)

Elevated unit costs

- Procedure coding and **billing intensity**, aided by AI and automation
- Rate **negotiation** pressure from input cost growth (especially labor)
- **Out-of-network** payment increases through No Surprises Act settlements

Insurance constraints

- **Demographic** shifts challenging actuarial pricing
- High-cost claimants outpacing **stop loss** pricing
- **Public scrutiny** on utilization management tactics

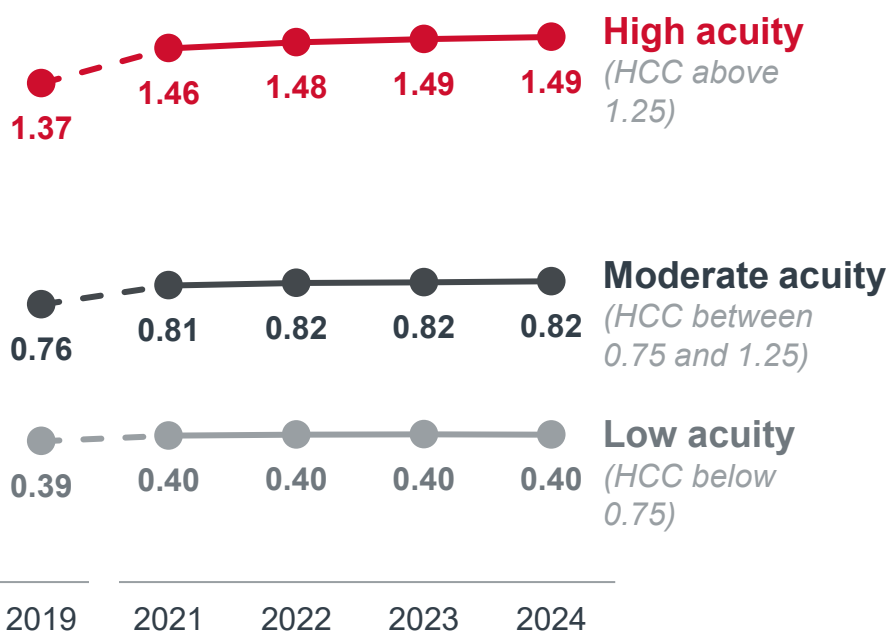
1. Applied behavior analysis.

Source: Advisory Board health plan executive interviews, 2025; Investor relations Q1 2025 and Q2 2025 earnings call transcripts for $CI, $CNC, $CVS, $ELV, $HUM, and $UNH; accessed through www.investing.com.

Medicare data reveals growing acuity

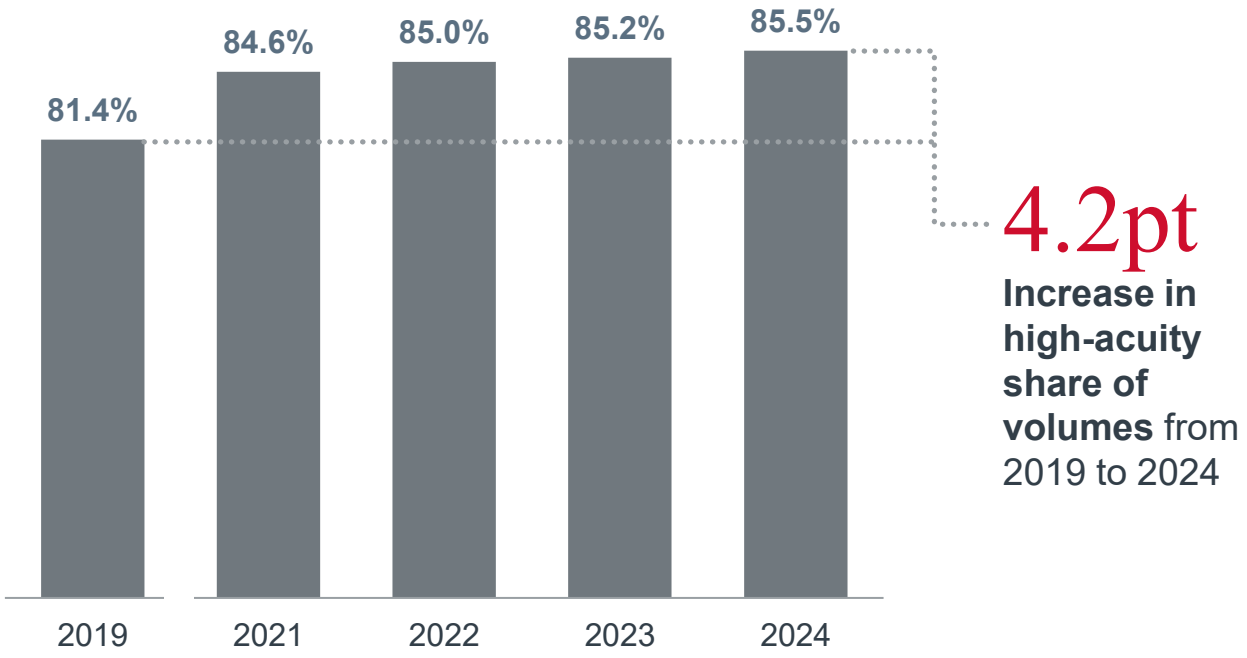
Overall beneficiary acuity

Average HCC[1] score for Traditional Medicare beneficiaries within acuity band



High-acuity share of inpatient volumes

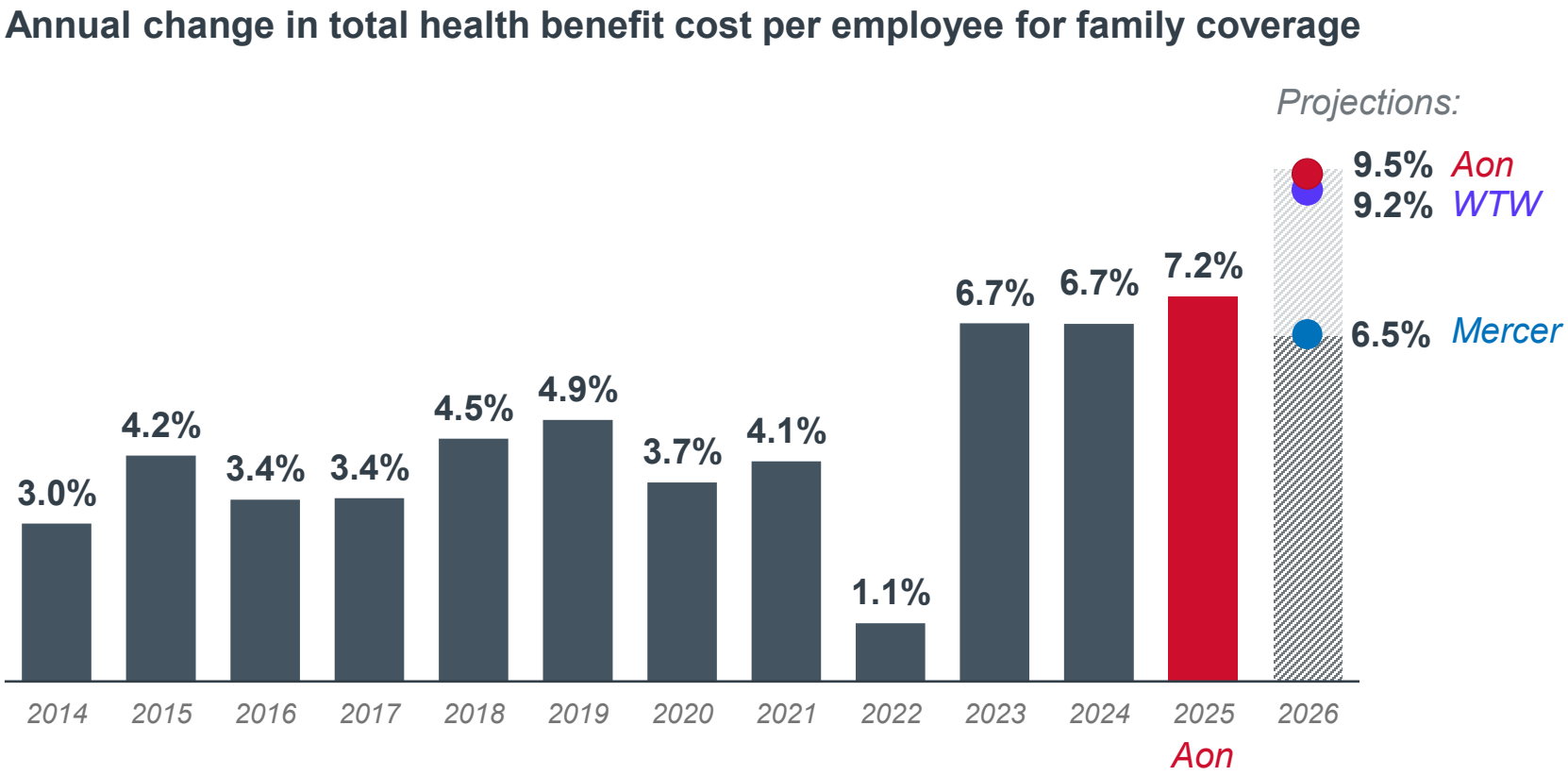
Share of Traditional Medicare inpatient volumes attributed to beneficiaries with HCC scores above 1.25



1. Hierarchical Condition Category.

Source: Advisory Board analysis of CMS' Standard Analytical File.

Employers asked to absorb cost growth—but can they?



Source: Premiums and Worker Contributions Among Workers Covered by Employer-Sponsored Coverage, 1999-2024. *KFF*. 2024; Aon: U.S. employer health care costs expected to rise 9.5 percent in 2026. *Aon*. September 10, 2025; "Survey: Employers expect third year of high health cost growth in 2025." Mercer. September 12, 2024; Casolo E. The forces driving 2026 health insurance price hike forecasts. Becker's Payer Issues. September 11, 2025; Employers prepare for the highest health benefit cost increase in 15 years. Mercer. September 3, 2025.

A diffusion of ownership over spend management

Cost drivers create an opportunity for new players to carve out a member management niche

SAFETY NET ACCESS

PURCHASER SPEND MANAGEMENT

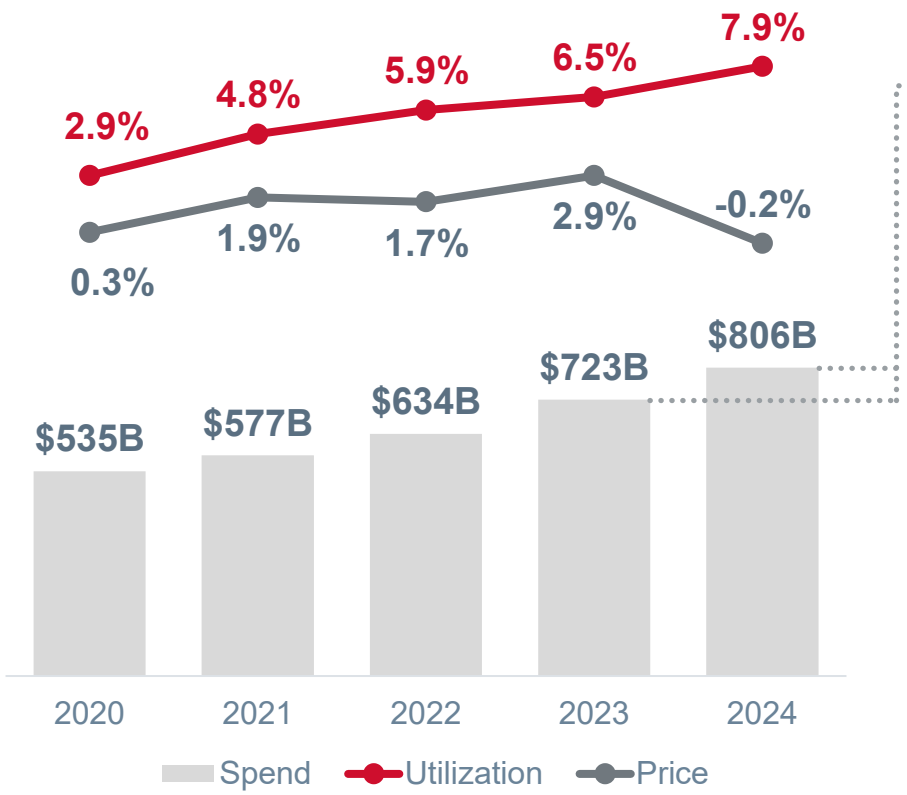
The limits of generic scale

CARE DECISION MAKERS

Sample niche third-party solution	*Revealed challenges with generalist approaches*
1 Dedicated GLP-1 coverage navigation programs	**Multidisciplinary delivery complexity** High-cost specialty therapies require unique, coordinated management
2 Behavioral health platform utilization standards	**Uncertain clinical impact** High-demand specialists need mediator to balance overuse guardrails and admin burden
3 Variable copay insurance product interfaces	**Provider performance variation** Organization-level contracting with consolidated providers masks inefficiencies

Drug spend still on the rise, driven by GLP-1 utilization

National drug spending and YOY growth in drug utilization and price



11%

Increase in national drug spend from 2023 to 2024

47%

Portion of increase in drug spend attributed to **weight management drugs**

Top drugs by spend in 2024	Spend	% Change from 2023
Semaglutide (GLP-1) *Weight management, diabetes*	$54B	39.4% ▲
Tirzepatide (GLP-1) *Weight management, diabetes*	$31B	140.4% ▲
Adalimumab *(Humira)* *Inflammatory conditions (e.g., joints, skin)*	$28B	-20.9% ▼
Apixaban *(Eliquis)* *Blood thinner – treats and prevents clots*	$26B	18.1% ▲
Empagliflozin *(Jardiance)* *Diabetes, chronic kidney disease, cardiovascular disease*	$21B	28.9% ▲

Sources: Tichy E, et al. National trends in prescription drug expenditures and projections for 2021. Am J Health Syst Pharm. July 9, 2021; Tichy E, et al. National trends in prescription drug expenditures and projections for 2022. Am J Health Syst Pharm. July 8, 2022; Tichy E, et al. National trends in prescription drug expenditures and projections for 2023. Am J Health Syst Pharm. July 7, 2023; Tichy E, et al. National trends in prescription drug expenditures and projections for 2024. Am J Health Syst Pharm. July 8, 2024; Tichy E, et al. National trends in prescription drug expenditures and projections for 2025. Am J Health Syst Pharm. July 12, 2025; Pharmacy in Focus. Evernorth Health Services. Accessed July 2025.

GLP-1s create a cost crisis without a clear cure

GLP-1s present triple-threat that minimizes the impact of traditional UM[1]

Cost

The list price is **$11,000-$16,000 PMPY,**[2] with a potentially large population of eligible members

▶ **40%** Of adults under 65 with private insurance could be **eligible for a GLP-1 drug**

Complexity of use

GLP-1s can warrant lifelong use, and **discontinuation can lead to reversal** of health improvements

▶ **50%** Of patients using GLP-1s for weight loss **discontinued use within 12 months**

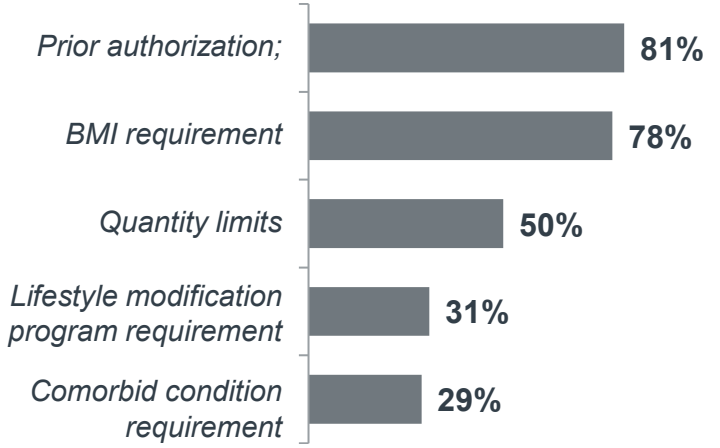
Expanding usage

Off-label prescribing for use beyond type 2 diabetes has driven **utilization and demand**

▶ **3+** **Expanded uses** expected by 2028: Alzheimer's disease, MASH,[3] and Chronic Kidney Disease

Health plan GLP-1 cost management strategies

Top health plan strategies[4] to control costs for GLP-1 drugs for obesity, 2025



Trend: BCBSMA, BCBSM, and IBX end coverage for weight loss drugs

1. Utilization management.
2. Per member per year.
3. Metabolic dysfunction-associated steatohepatitis.
4. n=30.

Source: How many adults with private health insurance could use GLP-1 drugs. Peterson-KFF Health System Tracker. Accessed August 1, 2025; Pharmacy in Focus: Navigating the GLP-1 conundrum. Evernorth Health Services, Accessed August 1, 2025; Trends in Drug benefit Design Report. PSG. Spring 2025; Truitt B. Blue Cross Blue Shield of Massachusetts will stop covering popular drugs for weight loss. CBS News Boston. April 18, 2025.

PBMs weigh in on GLP-1 coverage strategies

Key vendor solutions

Behavior management

Lifestyle programs help to create behavioral change and manage comorbidities, reducing total cost

Telehealth support

Digital platforms provide clinical oversight and monitor adherence and usage

Financial modeling

Vendors offer cost predictions for payers and flexibility with varying financial models

1. Advisory Board is a subsidiary of UnitedHealth Group, the parent company of Optum Rx. All Advisory Board research, expert perspectives, and recommendations remain independent.

Notable features of PBMs' holistic offerings to control GLP-1 spend

CVS Caremark

CVS Weight Management

- Partners with **Ceclia Health** to provide nutrition therapy
- Partners with **Omada Health** for exercise and behavioral health support
- Offers an interactive app called **Weight Coach**, which connects to a scale and other devices

Evernorth

EncircleRx, EnReachRx, EnGuide

- Partners with **Omada** to offer one-on-one health coaching
- Coordinates patient support through **partner pharmacies**
- Offers **dose optimization** support and fraud, waste, and abuse detection
- **Free GLP-1 delivery** to home and extended payment plans

Optum Rx[1]

Weight Engage

- **Offers plans flexibility** to choose most-at-risk obesity populations
- **Two behavior change models** plans can elect
- **Enhanced adjudication system** to reduce off-label utilization and oversupply

REPORTED RESULTS

CVS Caremark clients who adopted the program **spent up to 26% less** on GLP-1 medications for weight loss

- Created industry's first **financial guarantee** for GLP-1 spend
- EncircleRx has saved clients **$200 million** since launch

Plans with Optum Rx strategies saw **GLP-1s contribute 50% less** toward overall growth rate

Sources: Lee M, et al. Trends in Drug Benefit Design Report. PSG. Spring 2025; CVS Weight Management program improves health outcomes while also lowering costs. CVS. March 14, 2025; New solution meets changing needs amid GLP-1 demand. Evernorth. Accessed July 31, 2025; Express Scripts expands Patient Assurance Program to drive affordability and access to GLP-1s. Evernorth. July 10, 2025; Einodshofer M, et al. Tipping the scales: A smart strategy for handling the new class of weight loss drugs. OptumRx. September 2023; Weight Engage: An Innovative Weight Management Solution. Optum. Accessed July 31, 2025.

Behavioral health use grows, as do concerns about value

Payers use telehealth to broaden BH[1] access

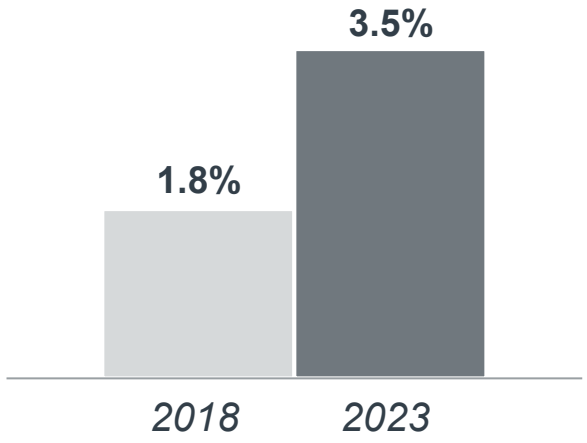
10x
Growth in mental health[2] telehealth visits, 2019-2022

48%
Growth in in-network behavioral health providers, 2019-2023

70K
Number of providers working for **Better Help, Talkspace**, and **Headway** telehealth platforms, 2024

Increased access spikes utilization

Behavioral health claims as a percentage of total commercial claims



39% Increase in **mental health[2] utilization** from 2019 to 2022

Utilization drives increased plan spend, questions about quality

$680 Increase in average PMPY[3] therapy spend on ESI[4] members, 2018-2022

"Today [behavioral health] access is less of a priority…now attention has turned towards all the types of care that are going on, **asking is it all good care?** Are people getting what they need?"

National medical director
BEHAVIORAL HEALTH SOLUTIONS FIRM

1. Behavioral Health.
2. Includes ICD diagnostic codes for anxiety disorders, major depressive disorder, bipolar disorder, schizophrenia, and posttraumatic stress disorder
3. Per member per year
4. Employer sponsored insurance.

Source: Cantor JH, et al. Telehealth and In-Person Mental Health Service Utilization and Spending, 2019 to 2022. JAMA. Aug 2023; Employer-Provided Coverage Provides Broad Access to Mental Health Support Networks. AHIP. August 2022; About Us - The Largest Online Therapy Provider. Betterhelp.com, Accessed Aug 2025; Medical cost trend: Behind the numbers: PwC. PWC. July 2025. Gordon BS, et al. HCCI Mental Health Brief_2/2025. Health Care Cost Institute. Feb 2025; Headway's 2023 Company Report. Headway. Dec 2023; Explore Online Counseling & Therapy Jobs. Talkspace. Accessed Aug 2025.

BH platforms leverage network to improve outcomes

Digital behavioral health (BH) platforms attract independent clinicians with a suite of enablement tools

Independent clinicians

Behavioral health platforms

Payers

- **Administrative support**, including billing, credentialing, note-taking
- **Algorithms** to find ideal match between therapists and patients
- **Proprietary EHR** customized for behavioral health data tracking
- **Clinical decision support tools** in the EHR
- **Contracting scale** with payers and employers

Behavioral health platforms leverage scale and tech to drive adoption of measurement-based care (MBC)

Measurement-based behavioral healthcare practice is made up of three components:

Collecting patient-reported outcomes

Engaging patients in evidence-based treatment plan

Tracking progress across time

Encourages **appropriate utilization**, improves **patient outcomes**, and **lowers cost**

1.9x **ROI in medical cost savings** for employers using Spring Health, an MBC behavioral health platform

Source: Measurement-based care. APA. Aug 2022; Hawrilenko M, et al. Return on Investment of Enhanced Behavioral Health Services. JAMA. Feb 2025

Variable copay plans gaining traction to steer members

Variable copay plans incentivize members to choose high-quality, low-cost providers

KEY FEATURES

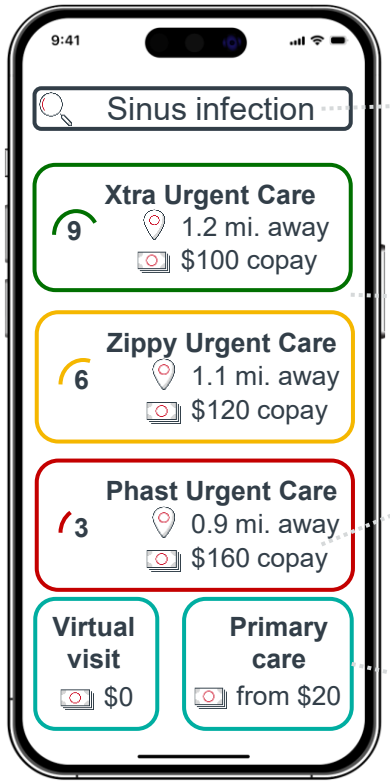
No or low deductibles

Provider scores based on quality and cost at the location and/or service level

NOTABLE PLAYERS

- **Surest (UHC):** "Smart copays" vary by provider, site, service, and condition
- **SimplePay (Aetna) / Coupe Health (BCBS):** Color tiering by facility; single monthly bill of copays

SAMPLE INTERFACE



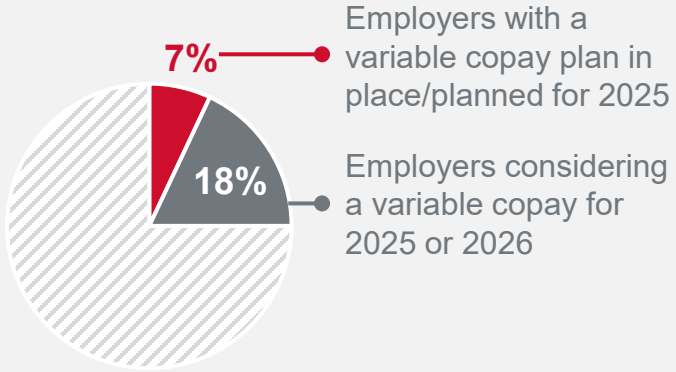
Members search for a **specific service or condition**

Members see a ranked list of providers with **up-front costs**

Members **pay more** for **lower ranked** providers

Member **costs vary** by type of care and/or site of care

Products catch employers' eyes…



Employers with a variable copay plan in place/planned for 2025

Employers considering a variable copay for 2025 or 2026

…but skepticism remains

- Up-front costs not always accurate
- Require competitive provider market
- Require member engagement

Sources: Employers: A health benefit that actually feels like a benefit. Surest. Accessed July 31, 2025; Minemyer P. UnitedHealthcare rebrands Bind plans as Surest as it eyes further growth. Fierce Healthcare. August 11, 2022; Harshey T, Umland B. New survey: Needle starting to move on alternative medical plans. Mercer. June 20, 2024; How It Works. Surest. Accessed July 31, 2025; Surest Enrollees Have 54% Lower Out-of-Pocket Costs and 11% Lower Total Medical Costs than Other Commercially Insured Individuals. UnitedHealth Group. December 2023; Coupe Health for Group Health Plan Brokers. Coupe Health. Accessed July 31, 2025; Coupe Health provides simple, cost-saving alternative to standard health plans. Blue Cross MN. Accessed July 31, 2025.

Service-level steerage will alter contracting dynamics

Provider implications of service-level steerage

- Disruptions to **volumes predictability** and referral pathways
- Reduced ability to **balance negotiated rates** across services
- Potential **patient confusion** about costs and referrals

Key provider responses to prepare for variable copay plans

Engage with the health plan to understand how it determines your rating and copay

> "[Higher rankings are possible] if a provider resolves the condition with fewer complications, fewer readmissions, or for a lower total cost. You get there by **driving better outcomes**."
>
> *Benefits leader, National health plan*

Identify which sites and services are most important for your strategic priorities

Prioritize cost and quality goals for those services to ensure they're well-ranked in plan platforms

Ensure adequate capacity to meet demand for higher ranked services

Equip your staff with the tools and education to answer patients' coverage questions

WHAT TO WATCH

- **Do competitors change their pricing** to drive volumes to specific services and locations?
- Will this alter the **structure of traditional network contracting**?
- What will uptake be with **smaller employers**?

Implications for regional organizations

	Community health systems	SHARED TENSIONS AND CHALLENGES	**Regional health plans**
SAFETY NET ACCESS	Hyper-compete for financially viable volumes		Balance affordability and network stability
PURCHASER SPEND MANAGEMENT *The limits of generic scale:* Niche delegation diffuses ownership	Distinguish performance at treatment level • Reduced direction over referral integrity • Increased standards for high-margin procedures	• Contracting complexity • Eroded brand identity • Fragmented care	Orchestrate connectivity across curated vendors • "Co-opetition" with vendor product entrants • Diminishing returns from traditional utilization management and broad network
CARE DECISION MAKERS	Connect clinician and patient experience		Advocate for local needs amid national standards

03 Care decision makers

FOUNDATIONAL ASSUMPTION

Clinician centrality

Treatment decisions orient on the patient-clinician interaction

Healthcare treatment decisions are **centered around the patient-clinician interaction**, with a reliance on clinicians as trusted authorities with the sole influence over creating an appropriate treatment plan.

EMERGING DYNAMIC

Sprawling advisors

External voices reshape options for patients and clinicians

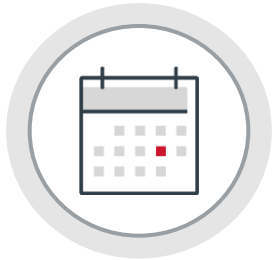
Treatment decisions are increasingly **influenced by voices and dynamics beyond traditional relationships**. Widespread patient dissatisfaction coupled with activities by technology vendors, social media, and other third parties add greater complexity to the patient-clinician relationship, diffusing influence over care decisions.

A look at the patient experience – from their view

Patients are frustrated with care costs, access, and experience

36%

Of adults have skipped or **postponed care due to cost** in the past 12 months, 2025



31 day

Wait time for a new patient specialty physician appointment in 2025, up 19% since 2022

52%

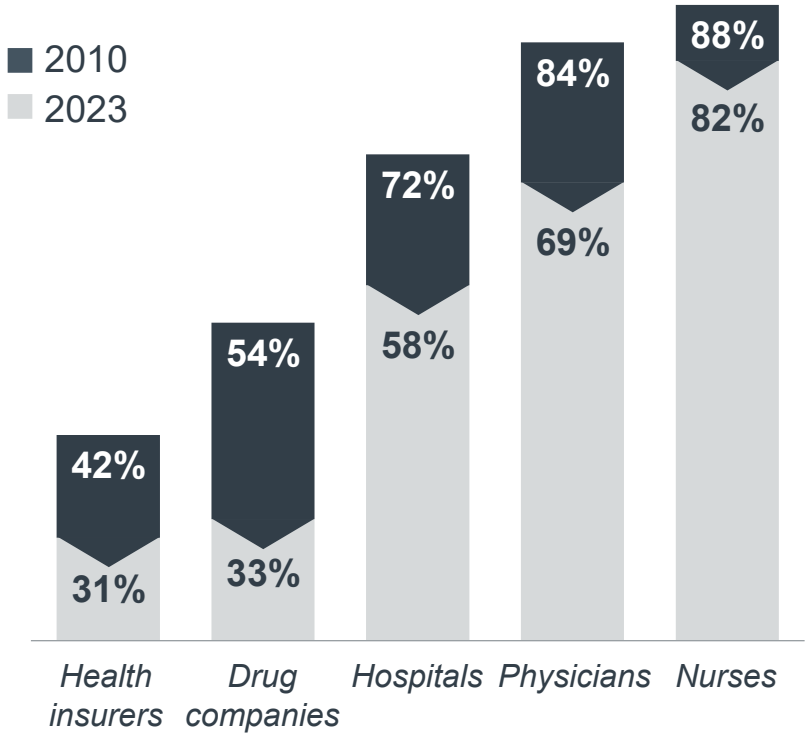
Of Americans say their symptoms are **"ignored, dismissed, or not believed"** when seeking medical treatment, 2022

Source: Sparks G, et al. Americans' challenges with health care costs. KFF. July 11, 2025; 2025 Survey of physician appointment wait times and Medicare and Medicaid acceptance rates. AMN Healthcare. Accessed July 14, 2025; MITRE-Harris poll: Many patients feel ignored or doubted when seeking medical treatment. MITRE. December 20, 2022.

Dissatisfaction with patient experience brews distrust

Dissatisfaction spans healthcare sectors

Percentage of respondents rating the medical care and services provided by each group as excellent or good



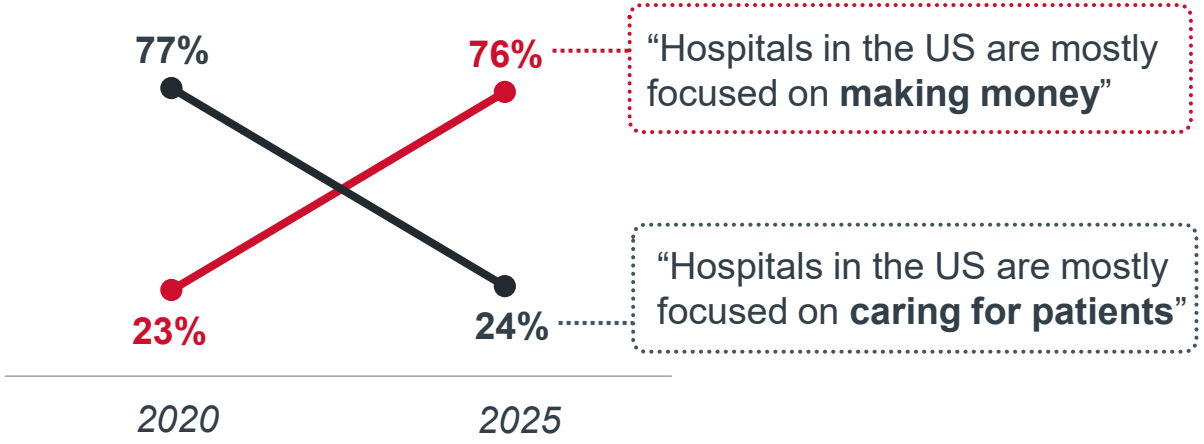
Growing distrust extends to hospitals and physicians

Consumers increasingly distrust their doctors

8pt Increase in share of Americans who do not trust their doctor at all or not much to make the right recommendations when it comes to health issues, from 7% in 2023 to 15% in 2025

Consumers say now hospitals care more about money than care

Percentage of respondents agreeing most with each statement



Sources: Healthcare system. Gallup. Accessed May 23, 2025; Squyres I, et al. The State of play: Healthcare in 2025. Jarrard. Accessed May 23, 2025; Kearney A, et al. KFF Tracking poll on health information and trust: January 2025. KFF. January 28, 2025.

Distrust derails clinical quality

Commonly reported healthcare consequences of higher patient distrust

Reduced adherence to clinical instructions

Less likely to adhere to medications and less likely to enact suggested behavioral changes

Reduced use of preventive medicine

Less likely to engage with preventive medicines including health screenings and vaccines

Increased rate of broken referrals

Less likely to follow referral recommendations

Increased likelihood of violence

More likely to commit violent acts against healthcare workers

Poor clinical interactions affect care patterns

36% (n=525) Of minority patients who have skipped or avoided care because they did not like the way a health care provider or their staff treated them, 2021

When a primary care physician-patient relationship[1] is severed…

4% Increase in patient mortality

4% Increase in emergency department visits

3% Increase in hospital admissions

1. 20% sample of Medicare patients from 2002–2019 encompassing all healthcare encounters paid by Medicare for about 16 million patients.

Sources: Sabety A. The value of relationships in healthcare. Journal of Public Economics. September 2023; Read L, et al. Rebuilding trust in health care. Deloitte. August 2021.

Workforce stability ever more elusive as threats mount

Workforce experience and structural factors challenge healthcare worker supply

Experience challenges

Persistent burnout

49% Of physicians report feelings of burnout
n=9,226

52% Of nurses report feelings of burnout
n=79,022

Violent encounters

82% Of nurses experienced at least one incident of workplace violence, 2023
n=914

Demographic vulnerabilities

Immigration policy stressors

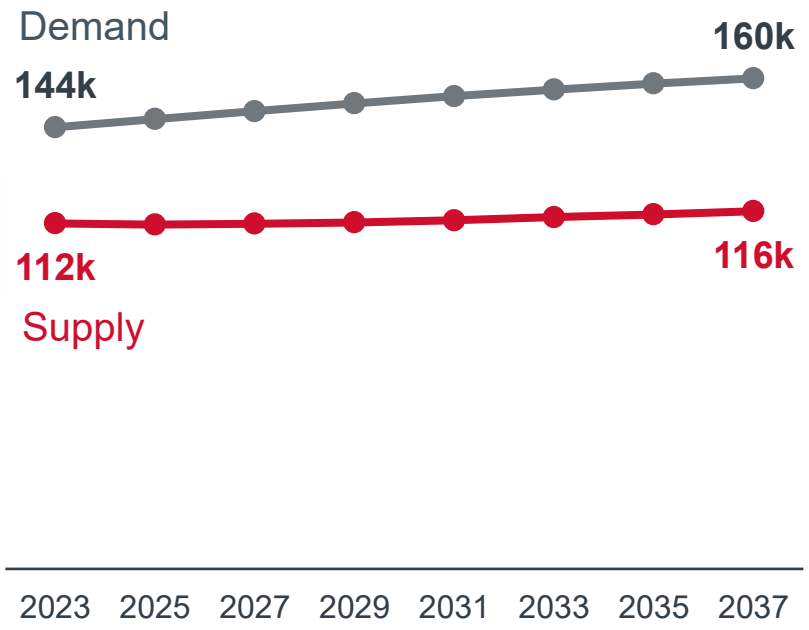
27% Of hospital-based physicians are immigrants

28% Of long-term care workers are immigrants

Looming retirement wave

47% Of physicians are age 55 or older

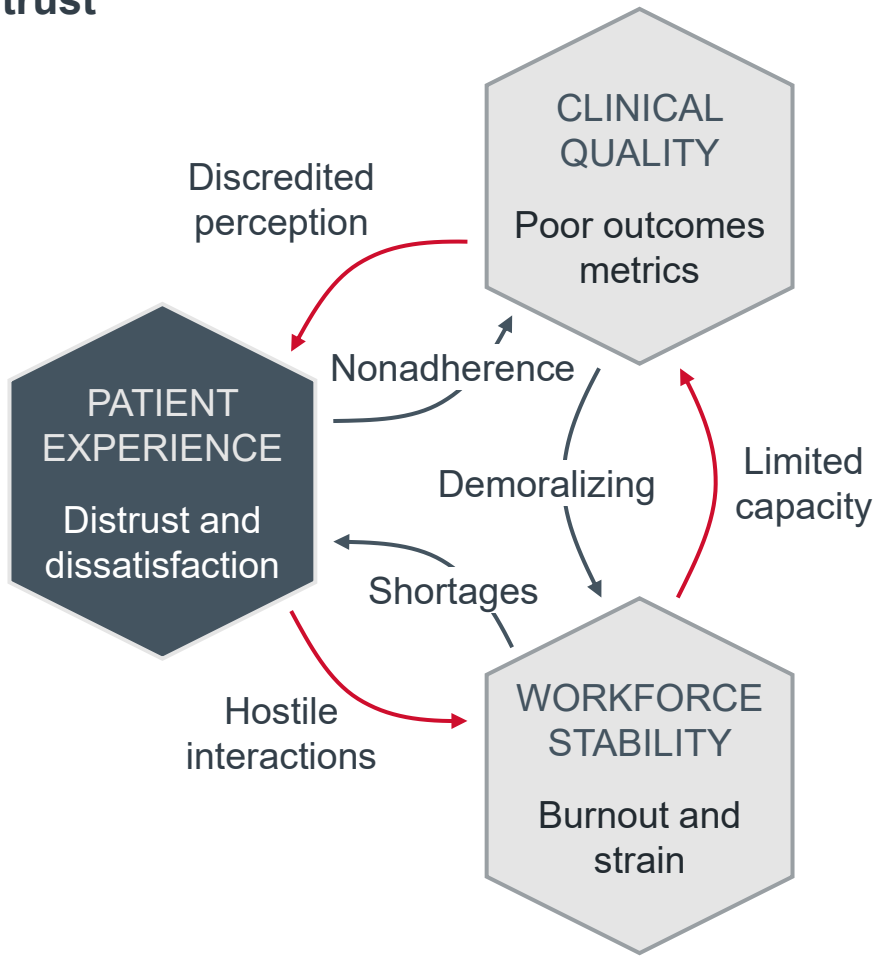
Projected supply and demand of primary care physicians (internal medicine)



Hulver S, et al. What Role Do Immigrants Play in the Hospital Workforce? KFF. June 17, 2025; Primary Care in Crisis: New Scorecard Reveals Sector Struggling to Meet Demand, Retain Physicians, and Secure Adequate Funding. The Physicians Foundation. February 28, 2024; The Complexities of Physician Supply and Demand: Projections From 2021 to 2036. Association of American Medical Colleges. Accessed August 27, 2025; McKenna J. Medscape Physician Burnout & Depression Report 2024: "We Have Much Work to Do." Medscape. January 26, 2024; Workforce Projections. National Center for Health Workforce Analysis: Health Resources and Services Administration. Accessed August 27, 2025; "NNU Workplace Violence Report". National Nurses United. February 2024; Chidambaram P, Pillai D. What Role Do Immigrants Play in the Direct Long-Term Care Workforce? KFF. April 2, 2025; B. Mackenzie. Burnout rates by healthcare occupation. Becker's Hospital Review. December 2024; U.S. Physician Workforce Data Dashboard. AAMC. Accessed September 25, 2025.

Consumer experiences intersect with care delivery goals

Feedback cycles of declining patient trust



A diffusion of influence over care decision makers

SAFETY NET ACCESS

PURCHASER SPEND MANAGEMENT

CARE DECISION MAKERS

The new power brokers

Clinician employment	Patient engagement	Operating pathways
Who is directing and managing the clinical workforce?	*Who are patients consulting and listening to?*	*Who is curating the recommended care protocols?*

Physician practice owners

WHAT'S NEW?

Drug wholesaler acquisition of physician practices

Direct-to-consumer disrupters

WHAT'S NEW?

Political-cultural shifts, AI platforms, and direct-to-consumer services

Industry enablement vendors

WHAT'S NEW?

AI implementation in clinical workflows and revenue cycle activities

Many familiar ambitions for physician acquisition

Common strategic models for organizations that acquire physician practices

MODEL	Consumer-focused front door	Single-specialty platform	Medicare Advantage utilization manager	Regional multispecialty network
DEFINITION	Accessible clinics drive business to other healthcare services	Aggregated practices with scale and shared resources	Senior-focused primary care clinics for MA patients	Multispecialty delivery network pursuing diversified growth paths
EXAMPLES	• One Medical • Village MD	• HOPCo • Unified Women's Health	• Agilon Health • Oak Street	• Optum Health • Privia
HOW THEY WORK WITH PHYSICIANS	● Employment ○ Joint venture ○ IPA[1] ○ MSO[2]	● Employment ● Joint venture ○ IPA ● MSO	● Employment ○ Joint venture ○ IPA ● MSO	● Employment ● Joint venture ● IPA ● MSO

WHOLESALERS?

1. Independent practice association. 2. Managed services organization.

Dominant wholesalers are more than just intermediaries

Key wholesaler services

Distribution services

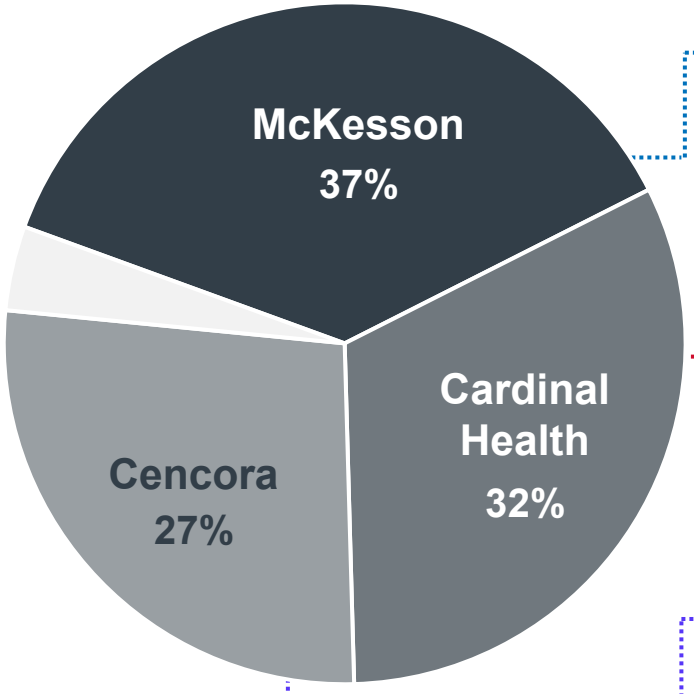
- Drug distribution
- Logistics
- Storage
- Inventory management

Pharmacy operations support

- Pharmacy franchise programs
- Payer contracting
- Technology
- GPOs[1]

Profile of largest players

2024 wholesale distribution market share



2024 total revenue and key business

McKesson
$309B

10% of revenue connected to other key business segments, International services, prescription technology, and medical-surgical supply

Cardinal Health
$294B

23% of revenue driven by specialty solutions, medical products, logistics, and home health equipment

Cencora
$227B

32% of revenue attributed to specialty businesses in medical supply, international services, and supply chain management

1. Group purchasing organization

Source: Fein A. The 2024-25 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors. Drug Channels Institute. October 2025.

Wholesalers move upstream into care delivery

Major medical group acquisitions by drug wholesalers

McKesson

2010	**US Oncology**	*2K providers*
2016	**Vantage Oncology Holdings**	*350+ physicians*
2024	**PRISM Vision Holdings**	*180+ physicians*
2024	**CORE Ventures**	*250+ physicians*

Cardinal Health

2024	**Integrated Oncology Network**	*100+ providers*
2024	**GI Alliance**	*1K+ physicians*
2025	**Urology America; Potomac Urology**	*110+ providers*
2025	**Solaris Health**	*250+ providers*

Cencora

2023	**OneOncology**	*900+ providers*
2024	**Retina Consultants of America**	*315+ physicians*
2024	**United Urology Group**	*250+ providers*

ONCOLOGY PROVIDER · OPHTHALMOLOGY · GASTROENTEROLOGY · UROLOGY

Potential benefits for wholesalers

Creates more control across care continuum from drug distribution to patient care

Secures downstream demand in complex specialties with high reimbursement

Potential implications for physicians

Increased infrastructure, technology, and administrative support for providers

More influence on physician clinical decision-making and treatment options

See additional sources slide.

Distrust fuels the measles comeback

Measles outbreak demonstrates impacts of distrust

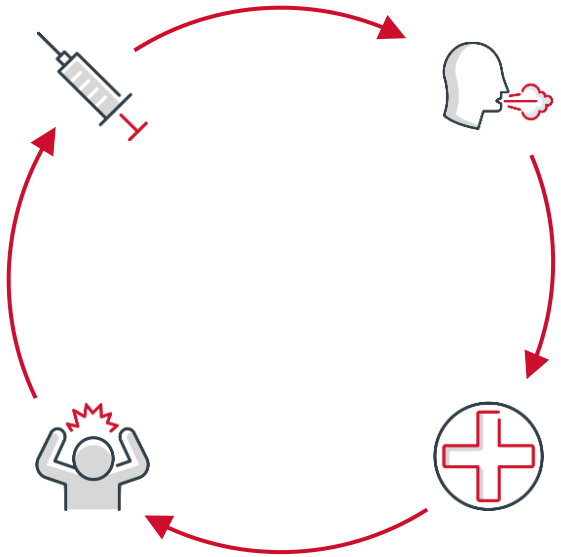
Distrust reduces preventive care

39 States lack herd immunity for measles (MMR[1] vaccination rates over 95%) for the 2023-2024 school year, up from 30 states in 2019-2020

Preventable burden adds to burnout

"We're having a much more difficult time trying to reassure people that we really are doing the right thing… Burnout, for sure, for pediatricians would be on the rise."

Dr. Sapna Singh, CMO, Texas Children's Pediatrics



Health outcomes worsen

92% Of measles cases were among individuals who **were unvaccinated** or with unknown vaccination status in 2025

Exacerbated needs strain capacity

13% Of measles cases **required hospitalization** in 2025,[2] and cases are most frequently admitted via the emergency department

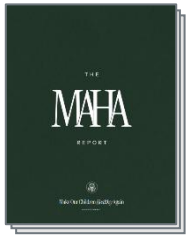
> **Once we see a resurgence of measles, we know that other diseases are going to come behind it.**
>
> Eric Ball, MD, District Vice Chairperson, American Academy of Pediatrics, District IX

1. Measles, mumps, rubella.
2. Through August.

Source: Williams E, et al. Kindergarten routine vaccination rates continue to decline. KFF. August 5, 2025; Measles cases and outbreaks. CDC. Accessed August 27, 2025; Chovatiya R, Silverberg J. Inpatient morbidity and mortality of measles in the United States. PLOS ONE. 15(4). April 28, 2020; Unger T. Biggest challenges for pediatricians: Physician burnout, addressing misinformation and more. AMA Update.July 10, 2025; Sun L. US measles cases reach 33-year high as outbreaks spread. The Washington Post. July 7, 2025.

HHS gives MAHA a mainstream home, amid concerns

MAHA Commission activities



MAHA[1] Report

Alleges four causes of childhood disease: overmedicalization, behavior, processed foods, chemical exposure

Critics raised concerns about misleading data and framing medications as the cause of disease

MAHA Strategy Report

Outlines four solution domains with 128 initiatives grouped by: rigorous research, private sector collaboration, realigned incentives, and public awareness

Critics raised concerns about promoting treatments that do not align with current evidence and uncertainty about initiative funding

Notable HHS actions related to MAHA priorities

Scrutiny over vaccines

ACIP[2] and CDC staffing shakeup:

- **JUNE:** RFK removed all ACIP members despite prior assurances against doing so
- **AUGUST:** CDC Director fired; officials resigned over political interference in scientific integrity

Vaccine approval and development:

- FDA commissioner issued stricter Covid vaccines development framework
- HHS cancelled HIV research efforts and contract for flu vaccine development

Current immunization recommendations:

- **Covid:** no longer default recommendation
- **MMRV:** recommend separating vaccines

Some states no longer follow ACIP guidance

Focus on autism causes

- FDA issued a warning to pregnant women that Acetaminophen can cause autism
- MAHA Report links autism to food colorings
- FDA approved label update for leucovorin to treat autism
- NIH will grant $50M under the Autism Data Science Initiative

1. Make America Healthy Again.
2. Advisory Committee on Immunization Practices.

See additional sources slide.

New clinical influencers go direct to consumers

Gathering health information

52% of Americans have tried a health tactic[1] they found on **social media** in the last year, while 34% tried a tactic from their healthcare provider

> Women turn to TikTok for health information and **OBGYNs are there to meet them**
>
> *ABC News*

25% of adults under 30 say they use **AI chatbots** at least once a month to find health information and advice

> Chatbots routinely answer health queries with **false information that appears authoritative**
>
> *CBC News*

Seeking care and treatment

11% of adults who have taken a GLP-1 obtained them from an **online provider or website**

> Direct-to-consumer models run the risk of **pushing drugs on patients** who might not need them
>
> *Fierce Pharma*

Longevity startup **Function Health**, which offers members lab tests and clinician summaries, was valued at $2.5B

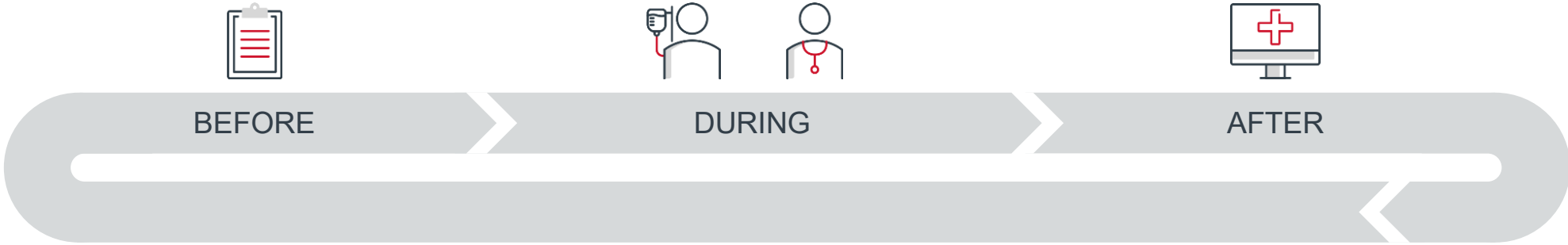
> Function Health collaborates with GRAIL to offer **multi-cancer early detection test** nationwide
>
> *PR Newswire*

1. Health and wellness tool, resource, trend, or product.

Sources: State of consumer health. Healthline. October 8, 2024; Kindelan K. Women turn to TikTok for health information and OBGYNs are there to meet them. ABC News. February 13, 2020; Presiado M, et al. KFF health misinformation tracking poll: Artificial intelligence and health information. KFF. August 15, 2024; Zafar A. Talk to medical professionals, not just ChatGPT, urge Ontario doctors. CBC News. July 12, 2025; Montero A, et al. KFF Health Tracking Poll May 2024: The Public's Use and Views of GLP-1 Drugs. KFF. May 10, 2024; Goldman M. More pharma giants embrace direct-to-consumer sales. Axios. August 4, 2025; Bradbury R. Redpoint-led round values longevity startup Function health at $2.5B. PitchBook. February 19, 2025; Function Health collaborates with GRAIL to offer multi-cancer early detection test nationwide. *PR Newswire*. December 4, 2024.

The technological transformation of the clinical journey

AI and automation implementation across the journey of patient-clinician interactions



AI & AUTOMATION USE CASES	BEFORE	DURING	AFTER
Reduced burden	• Scheduling and intake • Eligibility checks • Prior authorization requests	• Ambient listening scribes • Evidence-based medical necessity criteria review	• In-basket messaging management • Visit summary documentation
Expanded capability	• Customized medical history summarization and formatting • Adapt capacity for predicted utilization	• Documentation and quality gap opportunity prompts • Decision support with future outcome prediction	• Real-time risk monitoring (for falls, sepsis, HACs,[1] etc.) • Tailored patient communication and check-ins

Levels of ownership over model control:

- Built in-house by organization
- Built by vendor, reliant on organizational data
- Built by vendor, reliant on external vendor data

1. Hospital-acquired condition.

CoMET "Large Medical Model" simulates future events

Epic's Cosmos Medical Event Transformer (CoMET) generative AI model represents future possibilities

TRAINING INPUTS	MODEL OUTPUTS
De-identified full patient journeys, including medical history, encounters, demographics, lab results, medications, diagnoses, etc.	**Predicted future patient journey**, incorporating expectations for condition improvement or exacerbation, admissions, ED visits, medical events, etc.

- Model trained using **151B** tokens created from **118M** patients and **115B** discrete medical events
- Data drawn from Epic Cosmos dataset representing **16.3B** encounters from over **300M** unique patients at **310** systems
- Outperformed or matched task-specific models for **55** out of **78** tasks (diagnosis prediction, prognosis, encounter prediction, etc.)

STATUS QUO

Example single-purpose machine learning model

TRAINING INPUTS	MODEL OUTPUTS
• Fall history • Fear of falling • Functional status	• Risk of fall during hospital stay • Risk of falling in future

Considerations for CoMET rollout

Access

Limited research focused rollout in February 2026 to participants, with broader access possible in late 2026

Control

Epic will determine best use cases and turn them into products via EHR

Caution

External experts caution about limitations for ability to link cause and effect, and potential for embedding inequities and bias

Source: Trang B. Epic's 'large medical model' aims to change how hospitals predict patient risk. STAT. August 27, 2025; Waxler S, et al. Generative Medical Event Models Improve with Scale. arXiv preprint arXiv:2508.12104. August 16, 2025; Capodici A, et al. A scoping review of machine learning models to predict risk of falls in elders, without using sensor data. *Diagn Progn Res*. 2025 May 6;9(1):11.

Can the industry escape an AI billing ‘arms race’?

Payer and provider approaches to reimbursement

Payers seek AI-enabled payment integrity solutions to manage utilization and reduce costs

“Payment integrity is an area where we shouldn’t hold back. We’re seeing an uptick in provider rev cycle activity.”

Health plan strategy leader

Competing escalation today…

Emerging RCM & PI activities

- CPT severity code increases
- Auto appeals and denials
- Lengthening medical record

Providers seek AI-enabled revenue cycle solutions to avoid denials and optimize revenue

“We have to start using our own tools to keep up, if payers are going to keep using AI.“

Hospital revenue cycle leader

…toward a shared equilibrium in the future?

Emerging mutual improvements

- Improve documentation accuracy
- Circumvent eligibility-based denials
- Reduce administrative costs

Potential capability transformation

- Consolidated patient billing
- Real-time claims adjudication
- Contracting for clinical appropriateness

Source: Advisory Board interviews.

CMS invites tech sector to run ‘WISeR’ prior auth

Components of new CMMI Wasteful and Inappropriate Service Reduction (WISeR) Model

VOLUNTARY PARTICIPANTS

Technology vendors with demonstrated experience using AI and automation tools to manage prior auth processes for payers

> “WISeR is the first Innovation Center model in which **technology innovators** will be the only model participants.” CMMI, 2025

SCOPE OF EFFECT

Providers and suppliers for Traditional Medicare

Operating in Arizona, New Jersey, Ohio, Oklahoma, Texas, or Washington

Selected services that are vulnerable to fraud, waste and abuse, including:

- Skin and tissue substitutes
- Electrical nerve stimulator implants
- Knee arthroscopy

DESIGN

Providers will either submit a prior auth request for selected services or go through retrospective review

Vendors will apply their technology to assess coverage determinations

Vendors receive a percentage of the savings associated with averted wasteful, inappropriate care

PAYMENT ADJUSTMENT

Based on participant performance across:

Process:

- Number of non-affirmations and favorable appeals
- Volume of requests processed

Experience:

- Timeliness of response
- Clarity of explanation of request determination

Clinical quality outcomes:

- Use of alternative services
- Evidence of ongoing urgent need to address issue

Source: WISeR (Wasteful and Inappropriate Service Reduction) Model. CMS. June 27, 2025; Davis J, et al. Three key takeaways from the CMS Innovation Center’s new WISeR Model. McDermott+. July 10, 2025.

Implications for regional organizations

	Community health systems	SHARED TENSIONS AND CHALLENGES	Regional health plans
SAFETY NET ACCESS	Hyper-compete for financially viable volumes		Balance affordability and network stability
PURCHASER SPEND MANAGEMENT	Distinguish performance at treatment level		Orchestrate connectivity across curated vendors
CARE DECISION MAKERS	Connect clinician and patient experience • More competition for patient share of wallet • Greater burnout from admin tasks and difficult patient management • Increased ED use	• Diminished physician alignment impact • Agnostic national vendor standards • Care pattern shifts	Advocate for local needs amid national standards • Limited direction over care choices • Poor clinical outcomes • Clinical documentation and billing escalation

The new power brokers:
Sprawling advisors diffuse influence

Implications for regional organizations

	Community health systems	Regional health plans	
SAFETY NET ACCESS *The care ecosystem tipping point:* Utilitarian patchwork diffuses responsibility	Hyper-compete for financially viable volumes	Balance affordability and network stability	Balance sustainability across stakeholders
PURCHASER SPEND MANAGEMENT *The limits of generic scale:* Niche delegation diffuses ownership	Distinguish performance at treatment level	Orchestrate connectivity across curated vendors	Performance evaluation at diverging levels
CARE DECISION MAKERS *The new power brokers:* Sprawling advisors diffuse influence	Connect clinician and patient experience	Advocate for local needs amid national standards	Importance of local, human advocacy

Leaders must set a clear course in regional context

INDUSTRY'S UNRAVELING ASSUMPTIONS

What is changing about business expectations?

- Balance sustainability across stakeholders
- Performance evaluation at diverging levels
- Importance of local, human advocacy

+

INTERNAL STRENGTH

What is your operating position and trajectory?

- Resilience, adaptability, and discipline
- Resources and capacity
- Expertise and capabilities

+

ORGANIZATION'S EXTERNAL EDGE

What are others in your regional ecosystem doing?

- Competitor priorities
- Essential service gaps
- Community collaboration

→

Leaders' mandate

Command

Realistic opportunity to deliver on market need

Collaborate

Partners must enable collective success

Cede

Expending resources without strategic focus

What Greater Heartland leaders should know today

Let us know how we did:

1. Patients and purchasers are exasperated by incumbents' failure to address industry misalignment. Social and political support is crumbling.
2. As a result, control over care delivery will diffuse across partners and partial competitors, challenging legacy assumptions about the healthcare business model.
3. The safety net will no longer guarantee baseline access. Instead, access will be a patchwork that hinges on business utility.
4. Purchasers can no longer rely on scale for spend management. Instead, payers will delegate to niche experts.
5. Clinicians won't be the sole care decision-makers. Instead, an array of advisors will influence which treatments are viable and appealing.
6. Ultimately, no organization exists in a vacuum, and leaders need to prepare for spillover effects within their regional ecosystem.

Who else at your organization should see this research? Tell us via the QR survey or contact ask@advisory.com

Questions?

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