



HEALTHCARE MIDYEAR UPDATE





The healthcare sector is grappling with escalating challenges, including unsustainable loss ratios, increasing nuclear verdicts, rising labor costs, and distinctive exposures. With the demand for healthcare professionals showing no signs of slowing down, it is crucial to understand the evolving trends and shifts within the industry. This understanding will better equip providers to anticipate and mitigate risks that could disrupt an industry already facing persistent challenges.

HEALTHCARE TRENDS

DEMAND OF HEALTHCARE REAL ESTATE

The 2025 U.S. Healthcare Real Estate Outlook by CBRE highlights strong demand for medical outpatient buildings (MOBs), driven by an aging population, rising healthcare spending, and consumer preference for convenient care locations. MOB vacancy rates declined in 2024, while rents and sales activity rose. Most new developments are off hospital campuses, though on-campus MOBs remain larger. Labor shortages are pushing the adoption of AI technologies. Easing inflation and expected interest rate cuts in 2025 are projected to boost leasing and investment activity.

SHORTAGE OF STAFF

The U.S. healthcare system is facing a significant workforce shortage across key sectors. **By 2037, the country is projected to lack over 187,000 physicians**, with rural areas being hit hardest. The nursing workforce, while growing in some disciplines, such as nurse practitioners, is seeing declines in licensed practical nurses and midwives, especially in underserved regions. The most critical gap is in long-term care services and supports, where a shortage of 3.2 million direct care workers is expected due to an aging population and high turnover rates. Additionally, the COVID-19 pandemic intensified the situation, leading to burnout and stress among healthcare workers, prompting many to leave the profession. Educational bottlenecks and limited training opportunities further contribute to the shortage, as they hinder the influx of new professionals into the field.

Escalating issues, such as workplace violence, further exacerbate this problem. Healthcare workers are five times more likely to experience workplace violence than employees in other industries. Critical measures are needed to create a safer and more supportive environment and protect workers.¹

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[Safeguarding Care: Addressing the Rise of Workplace Violence in Healthcare](#)

1. Health Resources & Services Administration

FEDERAL SPENDING CUTS

In FY 2024, the U.S. federal government spent \$1.9 trillion on healthcare, making it the largest budget category. Major areas include Medicare (36%), Medicaid/CHIP (25%), and employer-based insurance subsidies. Proposed federal spending cuts target Medicaid, Medicare, and Affordable Care Act programs, aiming to reduce mandatory and discretionary health expenditures. These cuts could increase the uninsured rate, reduce access to care, raise out-of-pocket costs, and lower provider payments—especially affecting low-income populations. Discretionary cuts also threaten funding for public health agencies, such as the Centers for Disease Control and Prevention and the National Institutes of Health. The changes reflect a significant shift in federal healthcare priorities and funding strategies.

Outsourcing claims and risk management services can be a cost-effective strategy for healthcare facilities looking to optimize their operations, offsetting any federal budgetary cuts. By leveraging the expertise of specialized external providers, healthcare facilities can streamline processes, reduce administrative burdens, and minimize errors, leading to significant cost savings. These providers offer advanced technologies and methodologies that enhance efficiency and accuracy in handling claims and managing risks. Additionally, outsourcing allows healthcare facilities to focus on their core competencies, improving patient care while ensuring that risk management and claims are handled by experts, ultimately contributing to better financial outcomes.

INCREASING PROFIT POOLS

According to [McKinsey](#), the U.S. healthcare sector is poised for growth, with **profit pools expected to reach \$819 billion by 2027**. Key opportunities lie in Medicare Advantage, driven by the expanding dual-eligible population, and group and individual insurance markets, which are rebounding post-pandemic. Outpatient care is gaining momentum due to shifts from inpatient settings, offering cost-effective and accessible services. The healthcare services and technology sector is thriving, especially on digital platforms, which enhance patient engagement and clinical decision-making. Additionally, AI and automation are unlocking efficiencies across operations, while value-based care models are encouraging innovation in care delivery. Despite lingering challenges, these trends present robust opportunities for stakeholders to invest in scalable, tech-enabled, and patient-centered solutions.



GROWING MEDICAL COSTS

According to a recent study by [PWC](#), medical costs are at their highest in 13 years, with an 8% increase for the group market and 7.5% for the individual market in 2025. This surge is driven by persistent inflationary pressures, rising prescription drug spending, and increased behavioral health utilization. A key contributor is the growing use of GLP-1 drugs for diabetes and weight management, alongside higher-acuity inpatient and outpatient care, much of it from deferred pandemic-era treatments. Providers are seeking to recover rising operating costs through health plan contracts, further fueling cost growth. While biosimilars and internal cost-saving strategies offer some relief, they are insufficient to offset the broader inflationary forces. The report emphasizes that this trend is a call to action for healthcare organizations to rethink affordability and implement more effective cost management strategies to ensure sustainable care delivery.



TECHNOLOGY TREND

In 2025, U.S. healthcare payers are prioritizing technology investments that enhance efficiency, accuracy, and member engagement. According to HealthAxis, the top areas of focus include advanced analytics (22%), AI-powered customer service tools (20%), and payment integrity tools (18%). These investments aim to reduce administrative costs, detect fraud, and improve the member experience. Advanced analytics help payers make data-driven decisions, while AI tools streamline customer interactions and reduce call center burdens. Payment integrity solutions are critical for identifying billing errors and ensuring accurate claims processing. The report emphasizes that these technologies not only improve operational performance but also support regulatory compliance and financial sustainability. As healthcare payers face rising costs and evolving consumer expectations, strategic tech adoption is becoming essential for maintaining competitiveness and delivering value-based care.

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[Healthcare and AI:
The Need for a Cautious Approach](#)

GROWING OUTPATIENT SERVICE

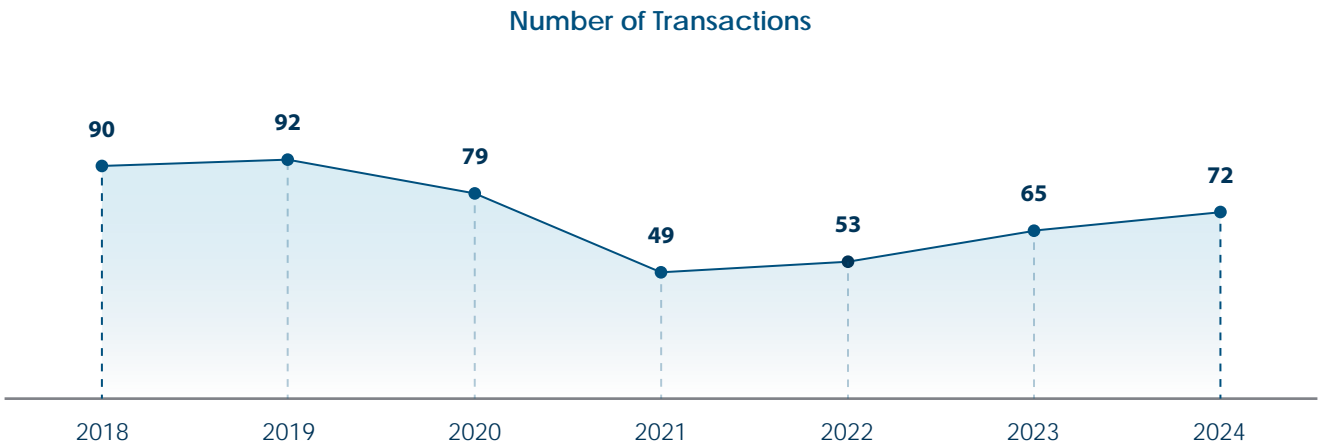
According to a report by [JLL](#), outpatient healthcare volumes in the U.S. are projected to grow by 10.6% over the next five years, driven by an aging population, rising chronic disease rates, and patient preference for less invasive, lower-cost care. **Health systems and corporate medical groups are expanding their ambulatory care strategies, acquiring physician groups, and increasing their real estate footprint.** Specialty services such as orthopedics and behavioral health are leading this shift. Limited availability of purpose-built medical office buildings and rising rents are also reshaping healthcare real estate, making outpatient care a key focus for providers and investors alike.

CONSOLIDATION

The recent [HHS](#) report highlights significant consolidation in healthcare markets over the past thirty years, with hospital services concentration in metropolitan statistical areas (MSAs) rising from 65% in 1990 to 90% in 2016. Physician and insurance markets have also seen substantial consolidation, with 75% of health insurance markets considered highly concentrated by 2024. This consolidation has led to higher prices, reduced access, and lower-quality care. Hospital mergers have resulted in price increases ranging from 6% to 65%, and acquisitions by health systems have increased Medicare spending. Private equity (PE) investments have surged, with PE-backed companies owning over 30% of physicians in some MSAs, leading to further price hikes and quality concerns. The report calls for more transparency and regulatory scrutiny to address these issues.

According to another report by [KaufmanHall Hospital and Health System M&A](#), in 2024, hospital and health system mergers and acquisitions (M&A) rebounded with 72 announced transactions (up from 65 announced transactions in 2023), nearing pre-pandemic levels. Despite signs of industry stabilization, financial distress remained a key driver, with a record 30.6% of deals involving distressed organizations. Divestitures surged, making up 62.5% of all transactions—more than double the previous year. The average size of the smaller party in these deals was \$559 million in annual revenue, while distressed sellers averaged \$401 million. Overall, M&A activity was fueled by ongoing financial pressures, credit disparities, and strategic repositioning efforts.

Additionally, new partnership models emerged in healthcare, with General Catalyst’s HATCo planning to acquire Summa Health and Kaiser Permanente’s Risant Health completing its acquisition of Cone Health. Below are trends in transactions in the U.S. healthcare sector.





SHIFT TO VALUE-BASED CARE

In 2024, the shift to value-based care (VBC) continues to gain momentum as a response to unsustainable healthcare costs and the limitations of fee-for-service models. VBC emphasizes better patient outcomes, improved quality of care, and lower total costs. According to the AMA, over 93.5 million Americans are now covered under accountable care organizations, and 73% of payers expect continued growth in alternative payment models. The adoption of two-sided risk models—where providers share in both savings and losses—has reached 24.5% of all payments. Medicare Advantage and commercial plans have significantly increased VBC participation, driven by the demand for transparent, simplified models that reward providers for preventive care, chronic disease management, and patient well-being.

TELEMEDICINE AND REMOTE PATIENT MONITORING

In 2024, telemedicine and remote patient monitoring (RPM) evolved rapidly, driven by technological innovation and healthcare system needs. Centralized virtual care departments are becoming standard, offering 24/7 access to remote services. There's a shift toward continuous monitoring of vital signs, especially for high-risk patients, enhancing real-time care. Despite financial pressures, health systems are expanding RPM due to its cost-effectiveness and growing patient demand. Predictive analytics and AI are being used to anticipate health issues and reduce hospital readmissions, while hospital-at-home programs supported by RPM are expanding for chronic and post-operative care. There's a focus on underserved populations and aging patients with chronic conditions, with a trend toward personalized, proactive, and accessible care models.

According to [Definitive Healthcare's 2024 insights](#), out of 5,000 U.S. hospitals with a reported telehealth technology installation, 78.6% have installed a telemedicine solution. Maryland reported the highest telehealth adoption rate (95.8%), followed by Connecticut (94.2%), Massachusetts (93.8%), Virginia (93.6%), North Carolina (93.4%), Oregon (91.4%), Michigan (90.6%), and West Virginia (90.4%).

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[The Future of Telehealth:
A Passing Phase or Here to Stay?](#)

In conclusion, the healthcare sector is navigating a complex landscape marked by significant challenges and transformative trends. Risk is always present regardless of industry, but in fast-paced and high-stakes settings such as those in healthcare, mitigating risk and managing impacts efficiently and effectively are extremely important.

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