EXECUTIVE INSIGHTS

Healthcare Forecast 2025: Trends Shaping the Year Ahead

2025 represents a critical crossroads for healthcare, where escalating challenges — from workforce shortages and rising costs to complex regulatory pressures — collide with transformative opportunities in precision medicine, virtual care and technological innovation. Healthcare stakeholders face a delicate balancing act: addressing today's immediate hurdles while positioning for tomorrow's breakthroughs.

As providers tackle rising inpatient acuity and workforce demands, payers recalibrate strategies amid market turbulence, and healthcare information technology (HCIT) providers drive bold initiatives, the healthcare ecosystem is poised for meaningful change. This edition of L.E.K. Consulting's *Executive Insights* outlines our predictions on the key themes and trends that will shape the evolving healthcare landscape in 2025.

Provider predictions

Below are seven key trends facing the provider landscape in 2025:

1. **Declining hospital operating margins.** Median 12-month rolling average hospital operating margins are expected to decline by 1%-2% in 2025, following a recovery from -1% in Q3 2022 to 4% in Q3 2024. While payer efforts to address their own financial pressures will contribute to this decline, the primary drivers are secular (e.g., labor challenges, site-of-care shifts and competition). These pressures are unlikely to abate in the short term and will disproportionately affect systems unable to invest in addressing these structural pressures, widening the gap between financially resilient and struggling providers.

2. **Headwinds for capitated risk arrangements.** While long-term opportunity and tailwinds remain, the penetration of capitated risk arrangements is projected to decline in the near term. Capitated clinics, which faced closures in 2024, will see further attrition in 2025. In addition, market uncertainty is prompting health plans to scale back the establishment of new capitated contracts, slowing growth in this model.
3. **Rising inpatient acuity levels.** As inpatient acuity levels continue to rise, hospitals must continue to invest in recruiting and scheduling clinicians with the specialized skills their patients require. To meet these needs, third-party clinical workforce partners (e.g., vendor management systems, managed service providers, locums) will need to enhance their ability to target placements to specific hospital needs.
4. **Renewed growth in virtual care.** Following a post-pandemic decline, utilization of virtual care will increase as both an offensive strategy (i.e., to better attract and retain patients, enhance service and expand reach) and a defensive strategy (i.e., to address labor and cost challenges). We expect to see additional well-targeted investments in 2025 — behavioral health, remote patient monitoring and perioperative care remain prime use cases for virtual care.
5. **Precision medicine and genomics expansion.** Precision medicine and genomics are set for significant growth in 2025, especially in oncology but extending to other areas as well. While the potential benefits include enhanced care, closer relationships with patients, downstream revenue capture and new avenues for research and innovation, achieving these outcomes will be anything but straightforward. Providers must navigate myriad operational, governance and regulatory risks to harness these technologies successfully.
6. **Hospital M&A activity increasing.** More than 100 hospital and health system M&A transactions will be announced in 2025, with a greater emphasis on cost synergies than on scale and empire building. Consolidation could face less regulatory scrutiny under the Trump administration (although uncertainty here remains high).
7. **Creative non-merger partnerships rising.** Non-merger partnerships between provider organizations, such as co-branded services, shared back-office operations and joint ventures/partnerships, will increase as providers seek new opportunities to achieve financial and operational benefits.

Payer predictions

Here are six trends facing payers in 2025:

1. **Ongoing Medicare Advantage (MA) market challenges.** After years of record growth, investments and profits, MA is in turmoil today and likely to remain so throughout 2025 due to changes to the risk adjustment model (v28), utilization increases, star rating declines, Inflation Reduction Act (IRA) changes to Part D and increased capital costs. Similar to the two-to-three-year recovery arcs from previous regulatory shocks to MA over the past 25-plus years, we expect it will take another one to two years for the MA market to normalize. While not all MA plans and MA-focused capitated providers will survive these challenges, those that adapt and deliver value beyond risk adjustment will position themselves for long-term success.
2. **Medicaid margin pressure.** Redeterminations have reduced Medicaid enrollment from 95 million beneficiaries in Q2 2023 to fewer than 80 million today. Since the disenrolled population has skewed toward lower-cost members, medical loss ratios of managed care organizations (MCOs) have risen significantly. States have been slow to adjust rates commensurately, and it may take one to two years for Managed Medicaid profit margins to stabilize. During this time, MCOs will face increased pressure to innovate and demonstrate value in cost containment, care management and value-based care.
3. **Challenges for stand-alone PDPs.** Stand-alone prescription drug plans (PDPs) are under increasing strain from new regulatory requirements, including those from the CY2025 Final Rule and the IRA. More stringent eligibility requirements for medication therapy management programs are expected to raise administrative costs, while lower out-of-pocket caps for beneficiaries (down from $8,000 in 2024 to $2,000 in 2025) will drive up pharmacy spend for plans. Several health plans have already exited the PDP market for 2025, and disenrollment will likely continue.
4. **Increasing pressure to cover GLP-1s.** Growing evidence of short- and long-term cost savings combined with increased production capacity and growing consumer demand will push both commercial and government payers to expand coverage of GLP-1 medications for weight loss in 2025.
5. **ICHRA enrollment growth.** After several years of limited traction, the growth of individual coverage health reimbursement arrangements (ICHRAs) is expected to accelerate in 2025. Small businesses are increasingly recognizing their potential to reduce coverage costs, while health plans expand their ICHRA product lines and enhance administrative infrastructure to simplify access and implementation for employers.

6. **Rising specialty pharmacy costs.** Specialty pharmacy costs will continue to outpace overall medical cost inflation in 2025, as the IRA's drug price negotiations are set to take effect in 2026. This sustained growth will continue to attract the attention of regulators and Congress, potentially leading to legislative efforts aimed at breaking up the vertically integrated payer, pharmacy benefit manager and specialty pharmacy structures.

HCIT and private equity predictions

Four trends affecting the HCIT and private equity spaces are:

1. **Greater integration of HCIT solutions.** As healthcare solutions companies consolidate and grow, they are shifting from point solutions to comprehensive product suites. Bundling products, and pricing those different bundles, is becoming a critical go-to-market strategy. There is also growing pressure to demonstrate return on investment, which could lead to greater use of at-risk or contingency-based pricing models.
2. **Generative AI primarily for administrative efficiency.** Generative artificial intelligence (AI) adoption in healthcare will primarily focus on back-office tasks, such as revenue cycle management, coding and denials management, to enhance administrative efficiency. However, clinical applications remain limited in the near term due to hallucinations and other errors, which could increase the risk of medical malpractice and improper patient care.
3. **Cautious AI adoption.** As healthcare organizations seek efficiency gains, some are taking a measured approach by optimizing their use of existing AI technology while experimenting with large language models on a small scale. Others, driven by hype, risk overreaching — implementing unproven applications, exposing too much data or seeking unrealistic goals — which may result in early failures.
4. **Resurgence in private equity activity.** Following three years of declines since 2021, U.S. healthcare private equity deal activity is expected to rebound in 2025. Declining interest rates, reduced debt costs and regulatory wins (e.g., Gov. Gavin Newsom vetoing AB 3129,[1] which called for healthcare system consolidation) are creating a favorable environment. Additionally, large portfolios of aging assets and pressure from limited partners to return funds should spur sales and valuations.

Beyond the horizon: Healthcare in 2025

The healthcare sector in 2025 is at a pivotal juncture, with challenges and opportunities reshaping its trajectory. Providers are tasked with overcoming workforce shortages while adopting technologies that enhance patient care and streamline operations. Payers must navigate regulatory changes and shifting member expectations, requiring strategic thinking and innovative solutions. Meanwhile, HCIT and private equity stand ready to drive efficiency and create transformative advancements across the ecosystem.

This year will test the resilience and adaptability of every stakeholder in healthcare. Those that respond with foresight, collaboration and a commitment to meaningful change will lead the way in redefining healthcare for years to come.

For more information, please **contact us**.

Endnotes

[1]Leginfo.legislature.ca.gov, "AB-3129 Health care system consolidation." https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202320240AB3129

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