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A MARSH BUSINESS

PLANS ARE WORTHLESS, BUT PLANNING IS EVERYTHING

Leadership Institute

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Igor Belokrinitsky | Ran Strul

A PLAN IS WORTHLESS. PLANNING IS EVERYTHING



IGOR BELOKRINITSKY

Partner, Health
San Francisco



RAN STRUL

Partner, Health
New York

- In the age of rapid transformation and many unknowns, health systems are struggling to project a path to financial sustainability. Yet some immutable truths - demographics, consumer attitudes and even legislation can be quantified and serve as foundation of any plan.
- In this session, Oliver Wyman's Igor Belokrinitsky and Ran Strul will share approaches to financial performance planning, bringing in a national and state-level view to the major drivers impacting health systems financials.
- Their forecast shows a wide range of potential outcomes requiring executives to incorporate both time-proven and new approaches to margin performance to build confidence in becoming a thriving enterprise in the 2030 healthcare market.

PRESSURE AND UNCERTAINTY ARE RESHAPING HOSPITAL ECONOMICS

Over a dozen Pennsylvania hospitals could close, report says

Charted: Hospital CEO turnover is rising, and organizations aren't prepared

Alarming Rise of Workplace Violence Forces Healthcare Workers to Rethink Safety

Where Did All the Nurses Go?

Healthcare remains top cybercrime target: FBI

Public payer-provider fights increase nearly 70%

Health Care Costs Are the Top Household Expense the Public Worries About

CLIMATE CHANGE IS THREATENING PATIENT CARE

Majorities Are Worried About Affording Prescription Drugs for Themselves or Their Family

Why Rural Hospitals Are Facing a Funding Crisis — and How It Could Get Worse

How 35,000 Kaiser Workers Built the Largest Healthcare Strike in U.S. History

Inflation Drives \$4 Billion Surge in Medical Malpractice Losses Over Past Decade

Millions Could Lose Medicaid Coverage Due to New Rules

ACA exchanges will continue to shrink as fewer enrollees pay premiums, analysis suggests



Battle of the bots: As payers use AI to drive denials higher, providers fight back

As denial rates climb to record highs, driven in part by AI-powered robots, health systems are starting to stand their ground.

Health care sector braces for supply chain uncertainty with changing tariff policies

The physician shortage will worsen—unless Congress acts now

WE USED A RANGE OF HIGH PROBABILITY SCENARIOS



Rainy day

A **vicious cycle** of unfavorable policies further destabilizes hospitals and communities they serve

- **Persistent 2-3pp gap** between expenses and prices trend
- **Rising unemployment:** fewer commercially insured, more uninsured
- **Medicaid cuts:** IP and OP reimbursement rates move to 100% / 110% of Medicare
- **Site-neutral payments** shift volume to lower-paid outpatient settings
- **340B cuts** raise costs for safety-net hospitals



Current course and speed (baseline)

The “**new normal**” reflects H.R.1 cuts in a stable economy, with incremental efforts by states and hospitals to maintain access to care and no new policies harmful to the margin

- **Medicaid cuts:** IP and OP reimbursement rates move to 100% / 110% of Medicare
- **More uninsured** as patients lose Medicaid/Marketplace coverage under H.R.1
- **Medicare sequestration persists** at 2%



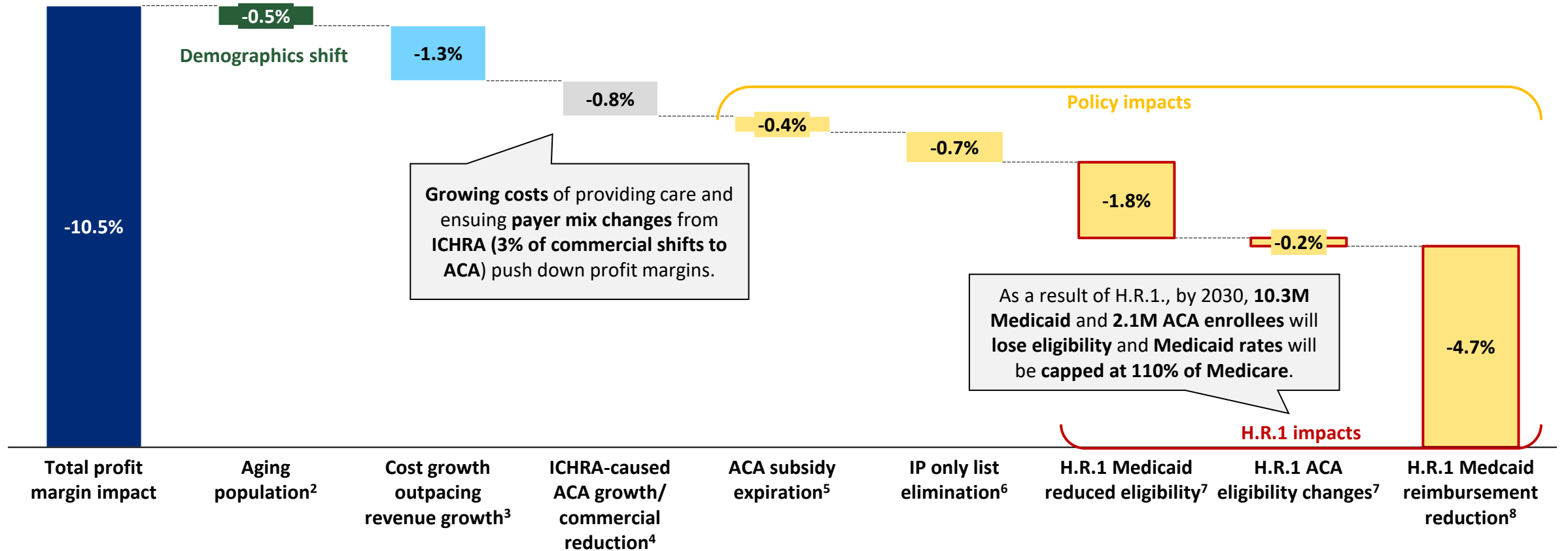
Critical but stable

A **virtuous cycle** of hospital transformation, enabled by favorable public sector policies and actions spurs economic growth, innovation and sustainability

- **Restored ACA subsidies** support Marketplace enrollment
- **Higher commercial enrollment** and better reimbursement from job growth and economic growth
- **Appropriate utilization growth** as access improves and barriers to care fall

EVEN IN THE “BASELINE” SCENARIO, MARGINS COULD DROP BY 10.5 POINTS, DRIVEN PRIMARILY BY HR1 CUTS AND COSTS GROWING FASTER THAN REVENUE

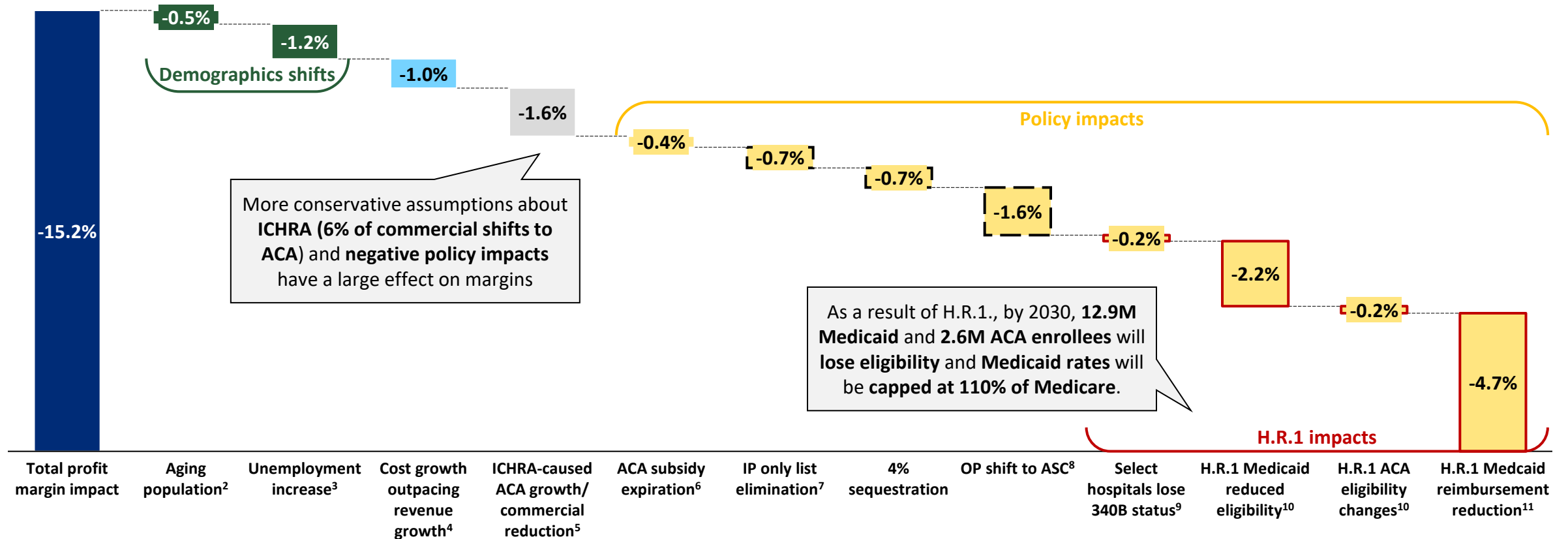
2030 Profit Margin Impact, “Baseline” Scenario¹
 Hospital only; cumulative compared to 2025 baseline, %



1. Each driver is estimated to include the aging-population adjustment and is otherwise calculated independently of other drivers; 2. Impact from the 65+ population increasing from 18.6% of US population in 2025 to 20.7% in 2030; 3. Net impact of revenue and cost growth rates, revenue by line of business and individual costs have specific assumed growth rates detailed in the model methodology. Represents impact not explained by other variables in scenario; 4. Assumes 3% of Commercial enrollees will switch to an ACA plan by 2030. Reflects projected change in ACA enrollment due to subsidy expiration, based on decline in first-month paid premiums from 2025–2026; 5. Assumes 4% of IP utilization across LOBs shifts to lower-acuity settings, with 2% shifting to OP and 2% to ambulatory, while the health system retains the reduced revenue; 6. Assumes Medicaid and ACA enrollees losing coverage become uninsured, driver reflects both lost revenue and reduced care costs, due to reduced utilization, associated with these patients; 7. Impact from State-Directed Payments being reduced to 100% of Medicare

THE “RAINY DAY” SCENARIO COULD BRING A 15 PT DROP AS DAMAGING POLICIES ARE EXACERBATED BY AN ECONOMIC DOWNTURN

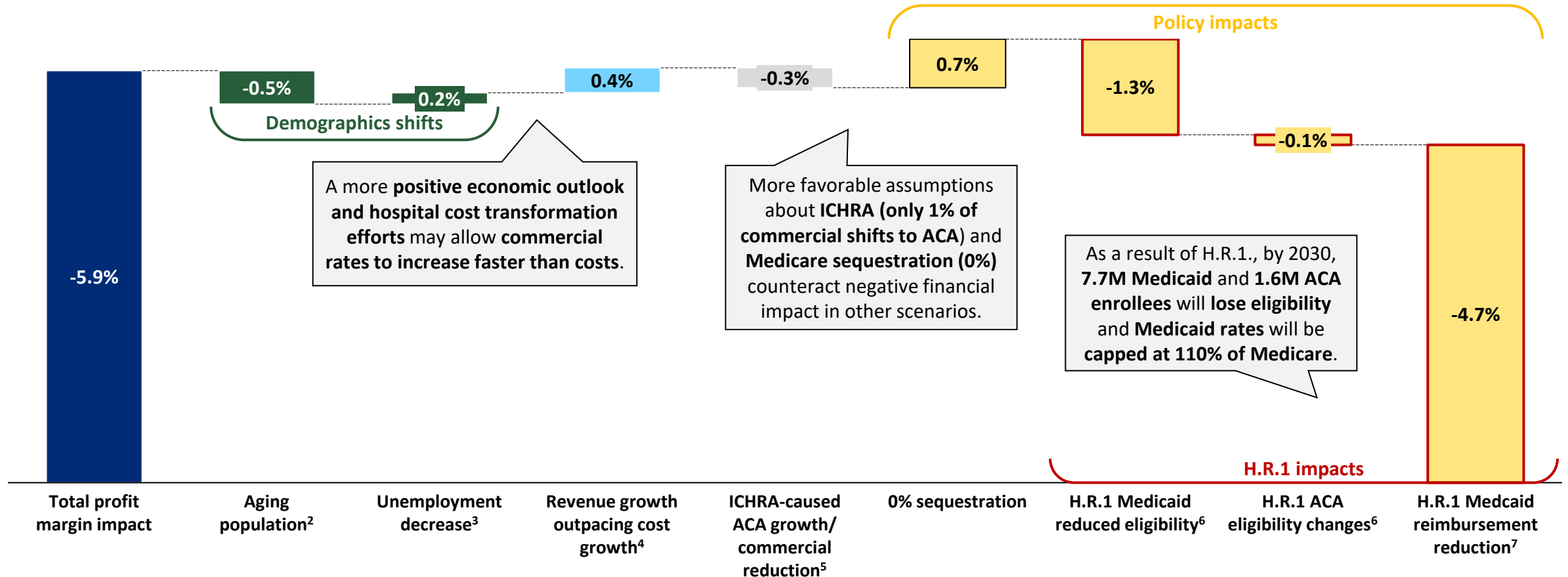
2030 Profit Margin Impact, “Rainy Day” Scenario¹
Hospital only; cumulative compared to 2025 baseline, %



1. Each driver is estimated to include the aging-population adjustment and is otherwise calculated independently of other drivers; 2. Impact from the 65+ population increasing from 18.6% of US population in 2025 to 20.7% in 2030; 3. Unemployment increases from 4.4% to 9.3%; 4. Net impact of revenue and cost growth rates, revenue by line of business and individual costs have specific assumed growth rates detailed in the model methodology. Represents impact not explained by other variables in scenario; 5. Assumes 6% of Commercial enrollees will switch to an ACA plan by 2030; 6. Reflects projected change in ACA enrollment due to subsidy expiration, based on decline in first-month paid premiums from 2025–2026; 7. Assumes 4% of IP utilization across LOBs shifts to lower-acuity settings, with 2% shifting to OP and 2% to ambulatory, while the health system retains the reduced revenue; 8. Shift of appropriate procedures to Ambulatory Surgery Center rates due to Payor requirements; 9. Hospitals that were on the verge of losing their Disproportionate Share Status (DSH) will lose it due to Medicaid changes in H.R.1, resulting in loss of 340B status; 10. Assumes Medicaid and ACA enrollees losing coverage become uninsured, driver reflects both lost revenue and reduced care costs, due to reduced utilization, associated with these patients; 11. Impact from State-Directed Payments being reduced to 100% of Medicare

EVEN A MORE OPTIMISTIC “CRITICAL BUT STABLE” SCENARIO COULD LEAVE HOSPITAL SYSTEMS WORSE OFF UNLESS THEY STEM THE COST GROWTH

2030 Profit Margin Impact, “Critical But Stable” Scenario¹
 Hospital only; cumulative compared to 2025 baseline, %

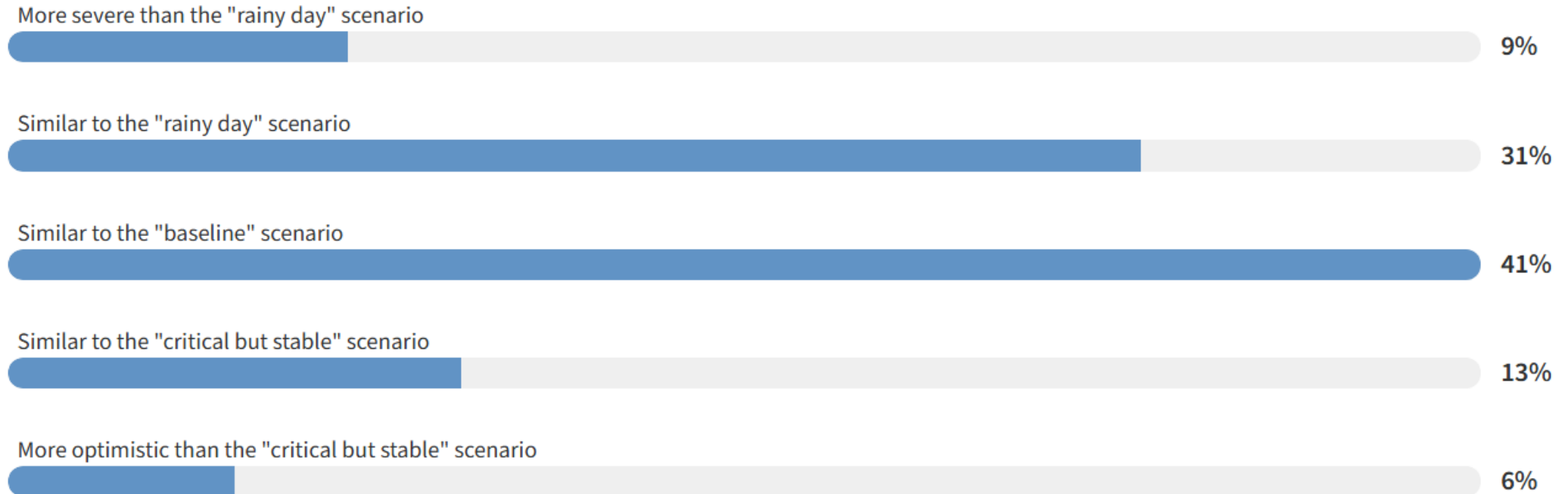


1. Each driver is estimated to include the aging-population adjustment and is otherwise calculated independently of other drivers; 2. Impact from the 65+ population increasing from 18.6% of US population in 2025 to 20.7% in 2030; 3. Unemployment decreases from 4.4% to 3.6%; 4. Net impact of revenue and cost growth rates, revenue by line of business and individual costs have specific assumed growth rates detailed in the model methodology. Represents impact not explained by other variables in scenario; 5. Assumes 1% of Commercial enrollees will switch to an ACA plan by 2030; 6. Assumes Medicaid and ACA enrollees losing coverage become uninsured, driver reflects both lost revenue and reduced care costs, due to reduced utilization, associated with these patients; 7. Impact from State-Directed Payments being reduced to 100% of Medicare

Sources: NASHP Hospital Cost Tool, 2023; Clarivate DRG enrollment data; CMS; BLS; US Census; KFF; OW Analysis

AUDIENCE POLL

Which Future Are You Planning For?



EXISTING MITIGATION EFFORTS WILL LIKELY BE INSUFFICIENT, REQUIRING DISRUPTIVE CHANGES TO PORTFOLIOS, FOOTPRINTS AND BUSINESS MODELS



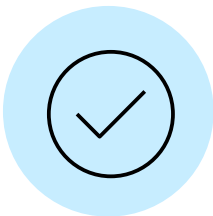
TRANSFORMATION 3.0
(Advanced – “Embracing the New”)

How do we build new growth engines?



TRANSFORMATION 2.0
(Evolving – “Matching Supply and Demand”)

How do we create value?



TRANSFORMATION 1.0
(Foundational – “Persistence and Scaling”)

How do we serve?

“TRANSFORMATION 1.0” EFFORTS ARE STILL VITAL: WE SEE HIGH, UNNECESSARY AND COSTLY VARIATION IN UTILIZATION, QUALITY AND ACCESS



1.5-2x

Variability in risk-standardized readmissions

for pneumonia, heart failure, COPD, AMI¹



2x

Variability in risk-adjusted hospital length of stay

for pneumonia, heart failure, hip/knee, AMI²



8x
(17-135)

Variability in # of days waiting for cardiology appointment in Boston (avg. is 72)



15.5x

Variability in rates of low-risk C-sections (4% to 62%)

OTHER INDUSTRIES HAVE SHOWN THAT IT IS POSSIBLE TO PRODUCE CONSISTENTLY HIGH-QUALITY, HIGH-VALUE OUTPUTS DESPITE HIGHLY-VARIABLE, COMPLEX INPUTS



1.03x

Variability in on-time delivery

across leading global parcel carriers

- USPS: ~94%
- Fedex: ~95%
- UPS: ~97%



1.02x

Variability in completed domestic flights

across leading airlines

- American: ~96.0%
- Delta: ~97.6%
- United: ~97.6%



1.002x

Variability paid in full loans

across leading financial institutions

- JPMorgan Chase: ~99.3%
- Bank of America: ~99.4%
- Wells Fargo: ~99.5%



1.0005x

Variability in system uptime

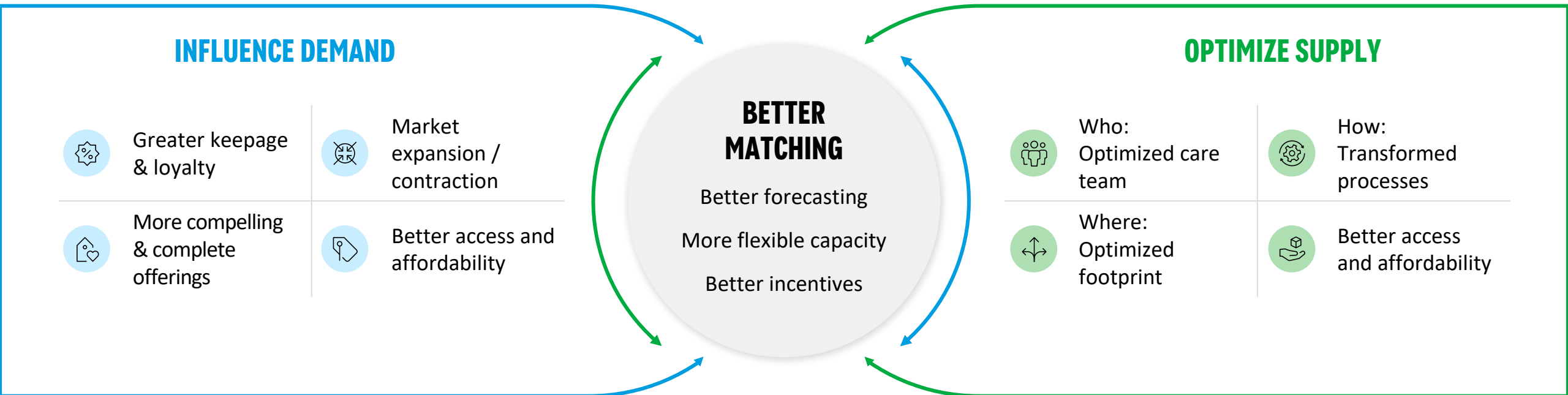
for leading cloud service providers

- Azure: ~99.95 - 99.99%
- Google: ~99.95 - 99.99%
- AWS: ~99.99 - 99.999%

TRANSFORMATION 2.0 ENTAILS ADJUSTING TO CHANGES IN THE MARKET DEMAND AND SUPPLY, OFTEN REQUIRING A DISRUPTION OF THE STATUS QUO



IF HEALTH ORGANIZATIONS ARE WILLING TO EVOLVE, THEY CAN ENGAGE MULTIPLE LEVERS TO SHIFT DEMAND, REDEPLOY SUPPLY AND MEET THE NEEDS EFFICIENTLY



HEALTH ORGANIZATIONS ARE OPENING UP ACCESS WHILE MAKING THEIR CAPACITY MORE SCALABLE, FLEXIBLE AND EFFECTIVE

INFLUENCE DEMAND



Multi-specialty access at major retail and sporting locations; food as medicine



Can run a clinical trial at 40 locations simultaneously

BETTER MATCHING

OPTIMIZE SUPPLY



Standard national L&D service line, delivers 1 in 10 babies in the US








Reinventing the rural healthcare model (physical and digital)



Flexible demand-based staffing for nurses with "surge pricing" while reducing travelers

TRANSFORMATION 3.0 – “EMBRACE THE NEW”: IN OTHER INDUSTRIES, SOURCES OF VALUE HAVE EVOLVED FROM CORE OFFERINGS

Company	Core Offerings	Sources of Value	Impact
	Air travel	Co-Brand Credit Cards / rewards program	Generated ~\$8B in revenue in 2025, accounting for more than entirety of its profit
	Online retail	AWS	AWS makes up ~57% of total operating profit
	TV / Movies	Theme parks & products	\$30B+ revenue annually, making up 57% of operating income in 2025
	Razor	Blade refills	Drives recurring high-margin revenue over customer lifetime
	Engine manufacturing	Engine maintenance / aftermarket	~60% of revenue, driving ~23% increase in operating margin from 2024-25

LARGE FOR-PROFIT NETWORKS HAVE BEEN PURSUING DIVERSIFICATION FOR OVER A DECADE

UNITEDHEALTH GROUP

Optum Launched

Becomes platform for care delivery & PBM businesses

Impact: By 2025, Optum made up 52% of total EBITDA

2011



Express Scripts Acquisition

Becomes Evernorth – a “health services” division

Impact: Evernorth now comprises ~83% of total revenue

2018



Ambulatory Thesis Crystallizes

Target established to have 20 OP locations for each IP hospital

Impact: Sustained OP growth outpacing IP, driving revenue growth

2023

2026



USPI JV Launched

Tenet executes on path to full ownership over next 7 years

Impact: In 2025, ambulatory care was 44% of total EBITDA (with up to 40% margin)

2015



CenterWell Launched

PE investment supports development of primary care, pharmacy, and post-acute platform

Impact: 22% cumulative growth, with \$22.5B of revenue in 2025

2021



Talkspace Acquisition

Deepens long-standing focus in BH while expanding OP, telehealth and DTC offerings

Impact: Supports growth while diversifying payer mix and delivery channels

COMMUNITY HEALTH SYSTEMS CAN USE THE PORTFOLIO MINDSET TO CREATE LOCAL SCALE ADVANTAGES

From	To
Acute care delivery focus with a “destination” facility	Distributed physical and digital footprint including ambulatory and pharmacy, with high local density
Everything to everyone, everywhere	Targeted, intentional suite of services by location and geography balancing mission and margin
Fiercely self-reliant	Network of partnerships to access capital, markets, capabilities
90% of technology spend on maintenance	AI investments that help control the “front door”, harness data, optimize costs, and create customers and clinicians for life
Several opportunistic diversified investments/ventures – “everything is possible”	Tightly-managed, mission-aligned diversified portfolio with disciplined exits
‘Poly-Pilot’ syndrome	Everything has an expiration date built into it



A WORD ON PARTNERSHIPS



TRANSFORMATION 3.0
(Advanced – “Embracing the New”)

Benefit from partners



TRANSFORMATION 2.0
(Evolving – “Matching Supply and Demand”)







Use partners to do it



TRANSFORMATION 1.0
(Foundational –
“Persistence and Scaling”)

Do it yourself

NEXT STEPS: THE EXECUTIVE'S TRANSFORMATION AGENDA

- 1**  Conduct scenario planning tailored to your organization's context
- 2**  Reengage stakeholders—including employees, policymakers, patients, communities, and donors—to communicate challenges and foster collaboration
- 3**  Develop and implement the 1.0-2.0-3.0 transformation plan with specific targets, timelines, and contingency strategies for different scenarios
- 4**  Re-examine capital availability and expected returns with a portfolio lens to it
- 5**  Establish early warning systems and guideposts to monitor scenario developments and trigger appropriate actions
- 6**  Consider your board membership composition and engagement model given pace and breadth of topics to cover

An aerial, top-down view of a modern university campus. The image shows several large, light-colored buildings with flat roofs and large windows, arranged in a grid-like pattern. Green spaces, including lawns and clusters of trees, are interspersed between the buildings. The overall scene is well-lit, suggesting a bright day. The text 'Q&A' is centered in the middle of the image.

Q&A

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