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Nonprofit Hospitals Predicted to See Modest Margin Gains in 2026

Fitch Ratings forecasts that nonprofit hospitals and health systems will continue to achieve modest margin improvements into 2026. The agency projects a median operating margin between 1% and 2%,

[as reported by Fierce Healthcare.](#)

However, Fitch cautioned that “systemwide operating margins may never recover to pre-pandemic levels” due to macroeconomic pressures and legislative threats.

Key Factors Driving the 2026 Outlook

- **Policy and Cost Acceleration:** Management teams are “accelerating expense savings and top-line revenue opportunities” to prepare for reimbursement cuts mandated by the One Big Beautiful Bill Act, which takes full effect after 2026.
- **Improving Labor Trends:** The most significant expense line, labor, is stabilizing. Management teams report that the use of external contract labor, employee turnover, and job vacancy rates have all improved, contributing to the steady margin gains. However, this trend is not universal; providers with “pronounced labor pressures” are seeing weaker operating results.
- **Solid Volume and Investment:** Solid patient volume trends, especially in areas with population growth, have



encouraged many systems to increase capital spending. This investment is focused on improving access and capacity, particularly through outpatient services and access-focused technology, including artificial intelligence (AI).

- **“Trifurcation” of Credit Quality:**

The sector is experiencing an increasingly pronounced “trifurcation of credit quality,” splitting nonprofit systems into three groups:

- **Top 20%:** Strong systems pursuing growth and leveraging technology like AI.
- **Middle 65%:** Expected to “stagnate” at their current credit ratings.

- **Bottom 15%:** Deteriorating hospitals facing increased credit pressure as labor expenses persist.

Fitch anticipates roughly equal numbers of rating downgrades and upgrades, leading to a “neutral” outlook for the sector. The agency warns that “elevated macroeconomic pressure could revert the sector outlook to ‘deteriorating,’” particularly if profitability declines and payer mix erodes.

Industry Groups Urge Trump Administration to Withdraw Proposed HIPAA Cybersecurity Update

More than 100 provider organizations are calling on the Trump administration to immediately withdraw a proposed update to the HIPAA Security Rule, arguing the regulation would impose significant new burdens on the healthcare sector.

The update, released by the Biden administration in 2024, aims to bolster cybersecurity by requiring organizations and their business associates to maintain written security policies and to review, test, and regularly update those policies. It also includes reforms like creating a technology asset inventory and network map to detail the movement of protected health information (PHI).

The Argument for Modernization vs. Implementation Burden

The push for updated standards comes at a time of escalating risk. According to data from the HHS Office for Civil Rights (OCR), the volume of compromised patient records has reached unprecedented levels, with more than 595 million individuals affected by large breaches between 2021 and 2024. Despite this threat, provider groups are concerned about the “substantial new financial burdens” and “unreasonable implementation timelines” included in the proposal.

In a [letter](#) sent to HHS Secretary Robert F. Kennedy Jr. on Dec. 8, major organizations — including the American Medical Association, Advocate Health, and Yale New Haven Health System, led by the College of Healthcare Information Management Executives — argued for a more flexible approach. Organizations are particularly worried because many



requirements would take effect just 180 days after the rule is finalized.

Human Error: The “Digital Door” Left Open

The debate over these regulations highlights a critical vulnerability in health care: the human element. While the proposed rule focuses on technical and administrative safeguards, research shows that [health care employees are often the “weakest link”](#) in the security chain. Recent findings suggest that human-related issues are a primary driver of modern breaches:

- **Insider Risks:** One study by Verizon noted that [70% of health care data breaches](#) are caused by insiders.
- **Poor Cyber Hygiene:** Common errors include responding to phishing emails, accidental malware downloads, and misconfiguring databases that leave millions of records exposed online.
- **Shadow IT:** Employees are increasingly exposing patient data through the unauthorized use of

ChatGPT, Google Gemini, and personal cloud storage.

The [HIPAA Journal](#) points out that while hackers are the ones stealing data, their path is often cleared by employee actions that “leave a digital door open for cybercriminals to walk straight through.”

Seeking a Collaborative Path Forward

While the groups affirmed, “We support updating cybersecurity standards for healthcare,” they stressed that standards “must be flexible enough to accommodate the wide range of provider organizations.” Instead of the current mandate, they urged the HHS to “conduct a collaborative outreach initiative” to develop more practical standards.

This proposed update would be the first change to the HIPAA Security Rule since 2013.

Family Physicians Rapidly Leaving Rural Communities

A new study published in the *Annals of Family Medicine* reveals an “astonishing” decline in the rural family physician workforce. Between 2017 and 2023, the share of family physicians working in rural areas dropped 11% nationwide, representing a net loss of 1,303 doctors. The Northeast saw the steepest decline at 15.3%.

This attrition significantly deepens physician shortages, threatening primary care access for rural populations, especially as young adults move to these areas. Dr. Colleen Fogarty, lead author, stated the speed of this loss is “remarkable and terrible.” The loss of even one doctor forces “overworked colleagues” to carry an increased burden, exacerbating burnout. Other contributing factors include challenges in recruiting students and “uncertainty around visa requirements” for international medical graduates.

HHS Unveils Strategy to Drive AI Adoption and Cut Bureaucracy

The Department of Health and Human Services (HHS) has released its “OneHHS” strategy to accelerate and centralize the use of artificial intelligence (AI) across the agency, fulfilling President Trump’s directive to cut costs and bureaucracy. Deputy Secretary Jim O’Neill stated that the goal is to “revolutionize health care and human services” and “tear down those barriers” to progress.

The strategy, while initially focused on internal operations, aims to improve public health by supporting “clinical decision support” tools that augment patient care and foster research. HHS’s goals include using AI to drive down hospital readmissions and sepsis mortality.

The plan requires all divisions (including FDA, CDC, and CMS) to share AI resources and establishes a governance board to manage risks. HHS

anticipates a 70% increase in AI use cases in FY 2025.

Study Reveals Flaws in Change Cyberattack Relief Program

A recent study indicates that the CMS relief program designed to mitigate financial disruption during the Change Healthcare cyberattack overpaid many hospitals. The federal government distributed \$3.3 billion to Medicare providers after the attack, which exposed data from over 192 million people and significantly disrupted administrative work like claims processing. The research found that most hospitals received payments exceeding their Medicare revenue loss during the first six weeks of the attack. Critically, more than 300 hospitals did not participate in the program despite facing similar revenue losses, and these facilities were more likely to be small and rural. This suggests that CMS needs to improve outreach for future relief efforts.

Health Systems Face Financial “Trifecta” of Costs, Workforce, and Denials in 2026

A new analysis from the [Kaufman Hall 2025 Health System Performance Outlook](#)

indicates that hospitals are confronting a “financial trifecta” of challenges: rising non-labor expenses, persistent workforce instability, and aggressive payer pressures.

Key Performance Pressures for Providers

- **Non-Labor Expense Spike:** Nearly 60% of health systems reported non-labor cost increases of between 6% and 10% over the past year. These increases are driven by broad inflation and external factors like tariffs, with 83% of organizations taking steps to quantify their impact. As one survey respondent noted, “Pharmaceuticals

and supply costs—we’re very worried about their creep”.

- **Workforce Challenges Continue:** Labor remains the largest operating cost. At least 70% of organizations are pursuing widespread efforts to optimize staffing, including raising salaries (83% of respondents) and offering signing bonuses (81%) to compete for clinical talent. Many are also turning to outsourcing alternatives for non-clinical areas like revenue cycle (58%) and IT (58%).
- **Payer Denials Erode Revenue:** High claim denial rates are identified as a top challenge with managed care organizations. At the hospital level, the leading cause of denials (26%) is front-end breakdowns such as authorization and eligibility issues. For the physician enterprise, the top denial challenge is incomplete or missing documentation.

- **Access and Capacity Strain:** A significant majority, 91% of respondents, reported they couldn’t accommodate patients in a timely manner. Emergency Department (ED) holds were cited by 77% as the most significant capacity constraint. The report’s findings underscore that despite strong patient volumes in some areas, the convergence of these pressures signals a critical moment for health systems to “strengthen their operational footing” for long-term financial resilience.

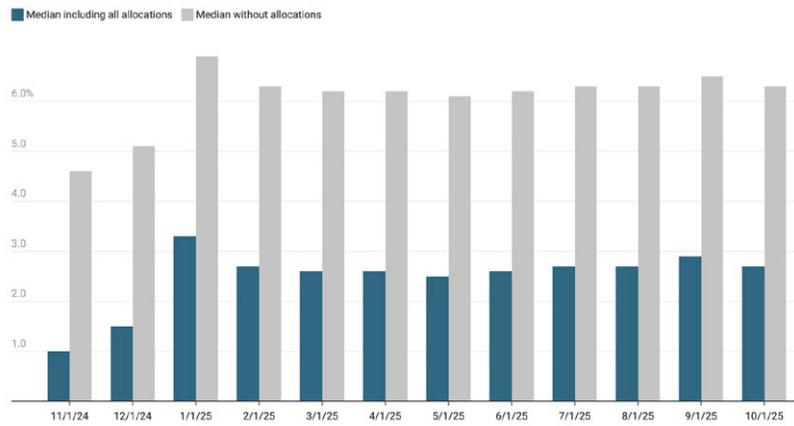
National Hospital Performance in Fall 2025: Volume Up, Revenue Per Discharge Down

Kaufman Hall CYTD Operating Margin Index: October 2025 Data

New data from the [Kaufman Hall National Hospital Flash Report](#) covering October 2025 indicates a complex financial picture for hospitals. While volume remained strong, a drop in the average length of stay translated into a dip in net revenue per discharge.

Here are the key findings from the report:

- **Financial Pressures:** Bad debt and charity care are both continuing to rise.
- **Volume Trends:** Patient volumes were strong in October 2025.
- **Revenue Impact:** The decrease in the average length of stay resulted in lower net revenue per discharge.
- **Workforce:** Staffing levels are reported to be tightening.



The report notes that the median operating margin including all allocations stood at 2.7% as of October 2025, and without allocations, the median operating margin was 6.3%.

Source: [Kaufman Hall](#)



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