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The Margin Squeeze

Why Community Health Systems Can't Afford to Ignore the Employer Market

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Declining reimbursements, rising costs, and private equity competition are converging — and the commercial employer market may be the most powerful lever health systems have left.

The Challenge

Community health systems are facing a financial reality that leaders can no longer defer. Operating margins at nonprofit hospitals have declined sharply over the past several years, driven by a confluence of forces: Medicare and Medicaid reimbursement rates that consistently fall below the cost of care, accelerating labor and supply chain expenses, and the long shadow of pandemic-era volume disruptions that have yet to fully recover.

According to the American Hospital Association, more than half of U.S. hospitals finished the fiscal year with negative operating margins. While the largest health systems may have the financial reserves to weather prolonged pressure, community health systems — the backbone of care for millions of Americans — have far less margin for error. For these organizations, the question is no longer whether to pursue new revenue strategies, but which strategies will actually move the needle.

At the same time, the payer mix is shifting in ways that threaten long-term viability. As baby boomers age into Medicare, the commercially insured share of patient volume at many community hospitals is

shrinking — and with it, the cross-subsidy that has historically allowed hospitals to offset government payer shortfalls. The commercial market, once taken for granted, has become a strategic imperative.

Private equity-backed primary care entrants have recognized this vulnerability and are moving aggressively. Companies like Oak Street Health (now part of CVS Health), Premise Health and VillageMD have made direct relationships with employers central to their growth strategy — relationships that have historically belonged to community health systems by default. The window to act is narrowing.

53%
of U.S. hospitals posted negative operating margins in recent years

$95B
estimated annual revenue loss from private-to-public insurance shift

WHY EMPLOYER-BASED HEALTH PLANS MATTER

Employer-based health plans represent the most profitable revenue segment for hospitals and health systems. Protecting and growing this commercial market share is essential to long-term financial viability. Health systems that proactively engage local employers gain a critical competitive advantage.

The Opportunity

Employer-sponsored health plans represent the single most profitable patient segment for hospitals and health systems. Commercially insured employees and their dependents generate reimbursement rates that are, on average, significantly higher than Medicare or Medicaid. For a community health system facing margin compression, protecting and growing this segment is not a nice-to-have — it is a financial survival strategy.

Yet most health systems have never actively managed employer relationships. They have relied on passive referral patterns, assuming that local employers would naturally direct employees to the nearest hospital.

That assumption is increasingly untenable as employers become more sophisticated buyers of healthcare and as national competitors offer more compelling, data-driven alternatives.

The opportunity is significant. A direct-to-employer strategy creates multiple revenue streams simultaneously: increased primary care visits, specialist referrals, preventive screenings, and diagnostic services — all from a commercially insured population. One Applied Health Analytics health system partner reported that its employer initiative generated $9.8 million in annual recurring revenue from primary care referrals alone.

Key Revenue Drivers

- Primary care referrals from worksite health programs and biometric screenings
- Specialist referrals driven by risk-stratified care coordination
- Reduced leakage to out-of-network and private equity-owned providers
- Enhanced payer mix through increased commercial volume
- Value-based contract readiness through demonstrated population health outcomes

The Solution

A structured direct-to-employer strategy positions the health system as the preferred population health partner for local businesses — replacing passive referral dependence with active commercial market development. Applied Health Analytics has spent over 15 years building and refining the infrastructure that makes this strategy work at scale for community health systems.

The foundation is the bIQ™ Population Health Management platform, which provides risk stratification, member engagement, care coordination, incentive management, and outcomes reporting in a single integrated system. This technology enables health systems to demonstrate measurable value to employers — the kind of data-driven accountability that sophisticated benefits buyers now require.

Applied Health Analytics works with health system leadership to build a dedicated commercial market service line — an organizational structure that aligns clinical, operational, and sales capabilities around the employer opportunity.

Risk Stratification Engine	Identifies high-cost, high-opportunity employees; drives targeted care coordination referrals

Member Engagement Portal	Increases program participation and incentive attainment; drives ongoing system utilization
Care Coordination	Closes care gaps, reduces unnecessary ED utilization, increases primary care and specialist referrals
Claims Analytics	Demonstrates ROI to employer; strengthens renewal and expansion conversations
Incentive Design & Management	Drives behavior change and program completion; measurable health outcomes for employer reporting

"Our commercial strategy is front-and-center to achieving our payor mix objectives. Last year, we touched over 41,445 employees through our HRA, on-site screening events and seminars. Primary care physician referrals were up considerably and represented annual recurring revenue of $9.8 million."
— President, Payor Strategy, Midwest Academic Medical Center

Proven Results

Charlotte Pipe and Foundry (CP&F), a North Carolina-based manufacturer employing 1,200 workers, had reached a financial breaking point with double-digit annual increases in health benefit costs. CP&F engaged Atrium Health, powered by Applied Health Analytics technology, to implement a targeted population health initiative.

Using risk stratification, biometric screening, and incentive-based engagement, the program identified employees at elevated risk for heart disease and diabetes — the two primary cost drivers for CP&F — and deployed health coaches to support behavior change over a 12-month program year.

Beyond the savings to CP&F, the initiative generated significant referral volume and recurring revenue for the sponsoring health system — demonstrating that a well-designed employer program creates a virtuous cycle: healthier employees, lower employer costs, and stronger commercial revenue for the health system.

30%
decrease in healthcare utilization among participating employees

$1.6M
in savings over the prior program year

A Partnership with Applied Health Analytics

Applied Health Analytics provides community health systems with the strategy, technology, and execution capability to build and sustain a commercial market initiative. The partnership model includes three integrated components:

Strategy Development

Applied Health Analytics audits existing commercial market activity and delivers system-specific recommendations for structure, resources, budgets, and tools — grounded in what has worked across more than 3,700 employer relationships nationwide.

Interim Management

During launch, Applied Health Analytics provides in-market leadership to ensure a successful start that reflects positively on the health system's brand and service quality while the long-term team is identified and trained.

Strategic Execution

For health systems seeking full-scale execution, Applied Health Analytics recruits, trains, and manages a senior executive dedicated to driving the commercial market strategy — providing ongoing assessment, communication, and initiative development.

Conclusion

The margin squeeze facing community health systems is real, structural, and unlikely to reverse. Government reimbursement will not close the gap. Labor costs will not recede. Rival providers will not

stop competing for employer relationships. The only variable that health system leadership can meaningfully control is how aggressively they pursue the commercial market.

Employer-sponsored health plans represent the highest-margin, highest-opportunity patient segment in the market. Health systems that build structured, technology-enabled relationships with local employers today will be positioned to grow revenue, enhance payer mix, and defend their primary care perimeter against well-capitalized competitors.

The health systems that wait will find the window closing. Applied Health Analytics has the proven strategy, the technology platform, and the execution experience to help community health systems act now — before the margin squeeze becomes a margin crisis.

Ready to advance your commercial market strategy? Visit **appliedhealth.net** or call **(615) 665-8825** to schedule a strategy session.

ABOUT APPLIED HEALTH ANALYTICS

Founded in 2009 as a Joint Venture partner with Vanderbilt University Medical Center in Nashville, Tennessee, Applied Health Analytics is recognized by health system executives across the United States as the trusted leader in the execution of employer-centric, population health management strategies. Through the combination of strategy leadership, best-in-class technology, and go-to-market sales support, Applied Health Analytics links the workforce health interests of over 3,700 employers nationwide with the commercial market share and payer mix objectives of health system leadership.