Texas Hospital Association

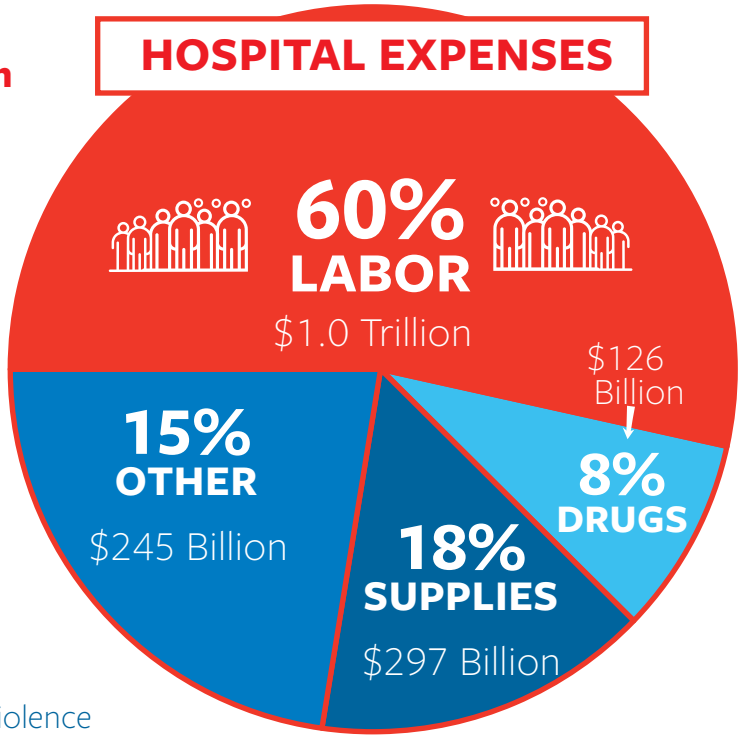
What's Driving the Cost of Hospital Care?



Spurred by factors ranging from inflation to high utilization and acuity to worker burnout, hospitals all over the U.S. continue to face cost containment challenges. Contrary to attempts to blame hospital inefficiency or an overzealous focus on facility profits, these rising expenses reflect **price increases in the technologies, supplies and services hospitals purchase and the wages they pay** to maintain a highly skilled workforce. Labor shortages, administrative burden and complex supply chains also combine to push the cost of care upward.

Hospital Expenses Outpace Inflation

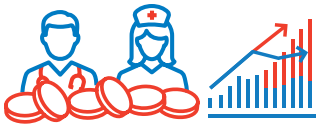
- Total hospital expenses in 2025 **rose by 7.5%, more than twice the rate of growth in hospital prices**.[1]
- Expense growth continues to accelerate. In national data for May 2026, total expenses per calendar day rose by 7% year over year.[2]
- Persistent expense growth **threatens hospitals' viability and their ability to offer comprehensive services.**



Source: *Labor is inclusive of purchased services and professional fees. Average expenses estimated by industry benchmark data from Strata Decision Technology, LLC. American Hospital Association, The Cost of Caring, March 2026.*

Workforce: The Biggest Spend

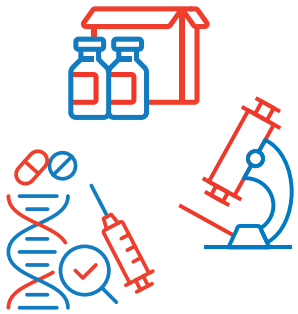
Shortages in the hospital workforce – driven by burnout and increased incidence of workplace violence – have made it paramount for hospitals to offer competitive wages to drive recruitment and retention. A March 2026 analysis by the American Hospital Association showed:



- Labor is the **largest single category of hospital spending,** accounting for 60% of total hospital costs in 2025.[1]
- Advertised salaries for registered nurses **have averaged a 5.5% growth** – more than double the rate of inflation – over the last two years.[1]

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Supplies and Drugs: The Fastest-Growing Spend



Supply and drug costs – the second- and third-largest hospital expenses, respectively – continue to increase. Since 2022, supplies and drugs have overtaken labor as the fastest-growing hospital expenses.

- From May 2025 to May 2026:[2]
  - Drug expenses grew 6%
  - Supply expenses grew 7%

Recent research showed that the **median annual net launch price for 154 new drugs increased 51%** between 2022 and 2024.[3]

Other Key Pain Points for Hospital Costs



- Insurer prior authorization requirements and other administrative burdens, particularly with the increased prevalence of Medicare Advantage plans.



- Government payers (e.g., Medicare/Medicaid) do not cover the full cost of care, and the government payment environment is increasingly unpredictable. When payments are interrupted, some hospitals are pushed to rely on costlier methods of financing operations, such as taking on debt.



- Hospital costs are rising due to higher service volumes in newer, more technologically advanced and costly procedures. From 2019 to 2024, **more than half of the growth in hospital expenses are driven by treating more patients** – including admissions and outpatient visits – with more complex needs, requiring more staff time, monitoring and specialized treatment.[1]



Bottom Line: The cost of care for hospitals is a complex, multifaceted issue. As policymakers seek lower costs for patients, it's important to consider the entire health care system and the array of factors driving today's cost of providing care for Texans.

[1] American Hospital Association, The Cost of Caring, March 2026: https://www.aha.org/system/files/media/file/2026/03/Cost-of-Caring-2026.pdf

[2] Kaufman Hall, National Hospital Flash Report, May 2026: www.vizient.com/insights/reports/national-hospital-flash-report/may-2026-data

[3] Institute for Clinical and Economic Review, Launch Price and Access Report, Oct. 2025: icer.org/wp-content/uploads/2025/10/ICER_2025_Launch-Price-and-Access-Final-Report_For-Publication.pdf

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