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# The “Silver Tsunami” is changing municipal credit—here’s how

June 2026



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## Demographic trend: The Silver Tsunami

While birth rates are declining, the baby boomer generation, those born from 1946–1964, remains the nation’s largest cohort, driving rapid growth in the senior population. Now aged 61–79, this cohort is largely retired or nearing retirement, relying more on savings for income and on government-sponsored health care programs. We’ve seen the Silver Tsunami grow over the past 15 years and expect it to continue over the next 15 years. At first glance, a growing population segment might appear positive for municipal credit compared to declining birth rates, but the credit implications are more nuanced than they appear.

Rather than creating broad-based tailwinds, these demographic shifts are driving increasing divergence across issuers. The sectors most directly exposed, hospitals and senior living, are experiencing the Silver Tsunami in very different ways, making bottom-up credit selection, revenue mix analysis and regional positioning increasingly important for municipal bond investors.

## Sector overview: Hospitals

The key question for municipal bond investors is: What does this mean for credit quality?

As the population ages, these trends are expected to create greater dispersion in hospital financial performance, driven by differences in payor mix, labor costs and geographic exposure. This makes security selection increasingly important when evaluating health care credits.

To understand why, we start with hospital fundamentals, particularly nonprofit systems. Demographic indicators such as population size and growth, income and wealth levels, poverty and unemployment rates form the foundation of hospital fundamentals. Hospital demand is traditionally measured through inpatient admissions and discharges, which are closely tied to population growth. Hospitals incur the cost of treating patients upfront and are later reimbursed by insurance providers, or “payors,” after discharge.

A key complexity of the US health care system is its multi-payor model, unlike the single-payor systems common in many other countries. In a single-payor model, one tax-funded insurer covers all patients, whereas in the United States, different populations are covered by a mix of public and private insurance payors.

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The main payor groups in the United States are:[1]

| Payor Type | Share of Admissions/Discharges |
|---|---|
| Medicare (federal insurance for ages 65+) | ~50% |
| Medicaid (state insurance for low-income/children/other) | 15%–20% |
| Commercial/managed care (non-governmental insurance administered by private companies like Cigna, UnitedHealthcare and Blue Cross Blue Shield) | 25%–30% |
| Self-pay (i.e., uninsured) | 5%–10% |

In the US model, each payor reimburses hospitals at different rates, unlike in a single-payor model that has a unified funding/payout scheme. Medicare reimbursement is typically described as breakeven, while Medicaid reimbursement is generally lower, often covering about 50%–70% of cost. Commercial/managed care reimbursement is typically anywhere between 1.2–2.2x Medicare rates. This distinction is central to understanding why demographic shifts matter; 'as the senior population grows, the share of patients reimbursed at breakeven rates rises with it.'

The dual trends of the Silver Tsunami and lower birth rates have given way to structural challenges within the sector:

1. **Adverse payor mix:** More hospital patients are covered by breakeven Medicare rates, while the share of higher-reimbursing commercial plans continues to contract.
2. **Strained health care workforce:** More patients are older and sicker, increasing demand for care, while retirements exceed the pipeline of younger workers, leaving hospitals understaffed.

At a macro level, these trends have contributed to lower hospital margins due to lower reimbursement rates and higher staffing costs. The knock-on effects for hospitals include the rationalization of unprofitable service lines, increased reliance on state support and a rise in strategic partnerships or mergers and acquisitions (M&A). Additionally, these pressures have prompted federal and state experimentation with alternative reimbursement models and supplemental funding programs.

Regional differences further complicate the picture and are a key consideration for investors evaluating geographic exposure. Rural markets often face small or declining populations, a high Medicaid mix and the outmigration of younger and commercially insured residents. These factors, combined with a reliance on economically sensitive industries such as agriculture, manufacturing, tourism and energy, contribute to a disproportionate number of distressed hospitals and closures.

Geographically, the Northeast, Midwest and parts of the South Atlantic are experiencing the highest concentration and fastest aging rates. While this supports service demand, the resulting concentration of Medicare reimbursement compresses profitability. In contrast, the South, West and exurban/suburban areas have seen the strongest youth population growth, fostering more favorable commercial-payor mixes and supporting strategic expansion. For investors, this regional divergence underscores why broad sector allocations might be less effective than targeted, research-driven positioning.

At a micro level, positive demographic trends can be an advantage for opportunistic, well-run hospitals with the financial resources and management capabilities to invest in growing markets. However, it may also mask weak underlying operations and management teams. On the contrary, negative demographic trends expose poorly run organizations and push even the most efficient independent operators into exploring partnerships/M&A and exiting unprofitable services and markets.

The increasing demand for hospital services suggests organizations will need to increase their capital spending to maintain bed capacity, competitiveness and market share. This will likely result in an extended cycle of debt issuance to fund critical infrastructure projects and to catch up on capital plans postponed during the COVID-19 pandemic. The growing supply of health care credits makes the ability to differentiate between well-positioned and vulnerable issuers even more critical.

Given these dynamics, here are the key credit factors we assess when evaluating nonprofit hospital credits:

| Credit Factor | What We Assess |
|---|---|
| **Essentiality** | Size/scale, clinical breadth/depth and market position |
| **Market position** | Scale, competitive advantage and strategic growth |
| **Demographics** | Population size/growth and wealth/income/employment |
| **Payor mix** | Exposure to Medicare (breakeven), Medicaid (below cost at ~50%–70%) and commercial reimbursement (above Medicare rates) |
| **Operating margins** | Ability to fund operations, debt service and capital investment |
| **Balance sheet strength** | Liquidity and leverage |
| **Capital investment** | Capital spending needs (capital expenditures vs. depreciation), funding sources (debt, liquidity, philanthropy) and condition/age of facilities |
| **Management** | Experience and track record, quality of governance and disclosure, and potential red flags (e.g., weak leadership, conflicts of interest) |

Demographic trends like the Silver Tsunami and lower birth rates are complicating the economics of this complex sector. In addition, significant policy changes at the federal and state levels are creating a dynamic, rapidly evolving landscape for the modern hospital investor. Hospitals are an essential service, anchoring the sector's high credit quality and resilience. However, regional differences in population trends and socioeconomic indicators create meaningful variation in service demand, payor mix and ultimately operating and fiscal performance. Understanding these differences is increasingly critical in managing risk and identifying idiosyncratic upside potential across ratings, regions and organizational profiles.

## Sector overview: Senior living

Senior living presents a compelling paradox for municipal bond investors; 'it is one of the sectors most directly supported by demographic tailwinds, yet it remains one of the riskiest from a default perspective with a gross default rate of 9%.'[2] Understanding what separates resilient credits from vulnerable ones in this space requires a closer look at the demand dynamics, supply constraints and credit factors at play.

The increasing senior population will drive continued demand for senior housing given the typical move-in age is the early 80s, with the average age of residents in the mid-80s. Senior living occupancy has seen a strong recovery across the continuum since the COVID-19 pandemic. According to the National Investment Center for Seniors Housing and Care (NIC), through the fourth quarter (Q4) 2025, overall senior housing occupancy increased 2.2% for the year to 89.1%, marking 18 consecutive quarters of occupancy rate increases. By care segment, independent living occupancy stood at 90.6%, assisted living at 87.7% and skilled nursing at 86.5%.

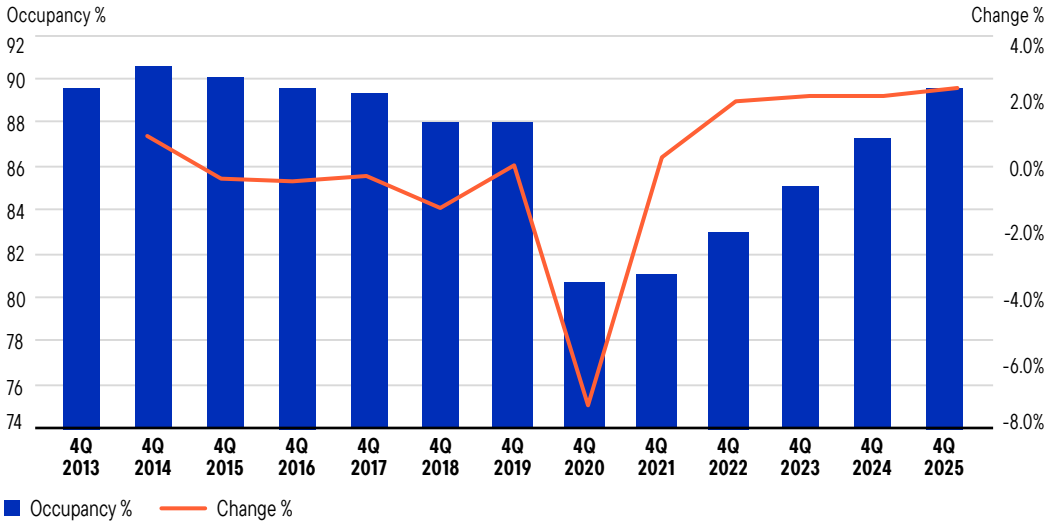
Limited new inventory further strengthens the demand backdrop. Year-over-year growth remained below 1% through Q4, marking the lowest level since National Investment Center (NIC) began tracking inventory data in 2006. New inventory is expected to remain low because of lengthy development timelines, elevated construction costs and a constrained funding environment. Inventory growth in the coming year is expected to stem primarily from existing campus expansions, repositioning initiatives and strategic affiliations and/or acquisitions.

These favorable supply-demand dynamics anchor a stable outlook for the sector, but they do not eliminate credit risk. The 9% gross default rate is a reminder that demographic growth alone does not guarantee stronger credit. Therefore, careful credit selection is paramount. Here are key credit factors we consider when investing in nonprofit senior living debt:

| Credit Factor | What We Assess |
|---|---|
| **Demand** | Occupancy remains one of the strongest indicators of financial stability due to its direct link to revenue generation (Exhibit 1). |
| **Financial strength and flexibility** | Strong fiscal management, rate-setting power, stable margins and ample liquidity provide resilience against expense pressures, workforce challenges and operational volatility. |
| **Size, scale and unit mix** | Multi-site systems benefit from diversification and economies of scale; communities weighted toward independent living typically earn higher margins. |
| **Housing market sensitivity** | Demand is closely tied to housing-market health, particularly for entrance-fee models, while rental-only communities historically experience greater occupancy volatility. |
| **Management** | Experienced, capable leadership is critical, especially for new developments or expansions. |

## Exhibit 1: NIC Primary Market Total Occupancy

December 31, 2025




Source: NIC MAP Data. Analysis by Franklin Templeton Fixed Income Research. As of December 31, 2025.

Ultimately, while aging demographics provide a structural tailwind for senior living, the implications for hospitals are more nuanced. In this environment, disciplined credit selection remains essential to identify resilient operators capable of navigating the distinctive challenges facing both the hospital and senior living sectors.

## Conclusion

For municipal bond investors, the Silver Tsunami is not a simple demand story. Instead, it is a key driver of credit differentiation, operating variability and capital needs across health care sectors. As these trends unfold, investment outcomes will increasingly depend on bottom-up credit selection, regional positioning and disciplined underwriting, rather than broad sector exposure.

As this two-part series illustrates, analysis of population demographics provides a critical framework for understanding the economy and is essential to fundamental municipal market research. The current shift toward falling birth rates and an expanding senior population creates either headwinds or tailwinds depending on the specific sector, region and issuer. From public schools and higher education to hospitals and senior living, these complex population dynamics increase the value of our experienced research bench, as digging deep across the market is necessary to find opportunities. Across all the sectors affected by these evolving trends, rigorous credit selection remains the best way to identify the strongest credits and avoid the most challenged ones.

**Endnotes**

1. Source: KFF. "Discharges by Payer – Key Facts About Hospitals." As of February 19, 2025.
2. Source: Ziegler Credit Surveillance and Analytics. "Municipal Bond, Fixed Rate Default Study of Not-for-Profit Continuing Care Retirement Communities." As of March 5, 2025.

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