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Marking Up Medicaid: How the Proposed Budget will Impact Medicaid Funding, Coverage, and Care

This week the House Committee on Energy and Commerce released its mark up of the Republican budget reconciliation plan. The E&C Committee was charged with finding at least $880 billion in cuts over the next ten years. To achieve this goal, they proposed significant changes to Medicaid, including proposals that will increase budgetary pressures on states (and through states, on providers and patients); proposals that will impact access to Medicaid coverage; and proposals that will impact access to care for Medicaid enrollees. It is estimated that this proposal would save about $625 billion but lead to 10.3 million people losing Medicaid access and 7.6 million people becoming uninsured by 2034. This issue of *Health Care in Motion* provides an overview of these themes, highlighting key proposals within each category.

Proposals that will increase budgetary pressures

Some of the proposals in the E&C mark up will significantly increase financial pressure on states, especially states seeking to implement innovative initiatives within their Medicaid programs. This will force states to reconsider how they finance their Medicaid programs, or cut benefits and eligibility due to reduced federal funding. These proposals include:

FMAP: What It is & Why It Matters

Medicaid is a federal-state partnership. FMAP is the percentage of Medicaid costs the federal government will contribute to match state funds. The lowest FMAP rate possible is 50%, meaning that the federal government will only contribute half of that state's Medicaid costs. To encourage states to expand Medicaid, the ACA set an FMAP of 90% for the expansion population (meaning that states would only have to cover 10% of the cost of these enrollees).

Eliminating the FMAP incentive: In 2021, the American Rescue Plan Act offered states that had not yet expanded Medicaid a 5% increase in their traditional Medicaid FMAP for two years after expansion. It was done in an effort to encourage the twelve states that had not yet expanded Medicaid to do so and offer coverage to the then 4 million Americans who were unable to access Medicaid or afford Marketplace plans. Some states, like North Carolina and South Dakota, did expand their Medicaid programs in response. But there are ten states that still have not expanded Medicaid and 1.4 million Americans remain in the coverage gap. Eliminating the FMAP incentive makes it harder for these states to finally expand Medicaid.

Imposing an FMAP penalty on states that cover immigrants: The mark up also proposes a 10% FMAP reduction for Medicaid expansion in states that cover undocumented residents using their own funds. There is a five-year waiting period before lawfully present residents can access federally funded Medicaid. But some states use state-only funds to cover additional groups of immigrants, including lawfully residing children and pregnant women needing prenatal care, and may provide state-funded care to undocumented people permanently residing in the U.S. The proposal is essentially a penalty on states seeking to facilitate access to care for noncitizens and raises questions about how much control the federal government can have over state policy.

Imposing a prohibition on new provider taxes or increases to existing ones: The proposal freezes provider tax rates, prohibits new provider taxes, and limits the use of some existing ones. Given that all states except Alaska have instituted at least one provider tax, this proposal has the potential for significant impacts, including higher state taxes, decreased Medicaid eligibility, lower provider payment rates, and fewer covered benefits for Medicaid enrollees. States will struggle even more during economic downturns when state general revenue streams, like income or sales taxes, decrease but more people qualify for Medicaid. This prohibition will force states to either find other sources of funding (such as cutting funding for education) or decrease the services they provide or the populations they cover under Medicaid.

Putting the 1115 waiver budget neutrality requirement into statute: Section 1115 of the Social Security Act allows states to pilot experimental initiatives, such as programs that integrate new services, populations, or payment models, but these pilots have traditionally been conditioned on a policy that the experiment not increase federal costs beyond what they would have been without the waiver, *i.e.*, they must be "budget neutral." This wonky technical aspect of 1115 waivers has historically been dictated by policy and regulatory guidance, but the reconciliation bill seeks to embed it in statute.

The proposed policy would immediately require the Secretary of Health and Human Services to begin certifying that 1115 waivers would not result in an increase in federal expenditures and develop a specific methodology for applying any savings accrued as a result of the waiver. Those savings have allowed for additional discretionary spending and paved the way for states to build out new innovations. The potential decreased flexibility found in this proposal could prevent states from pioneering innovative Medicaid programs, including projects that can effectively address health disparities.

Proposals that will impact access to coverage

The second category of proposals are ones that will make it harder for people to successfully enroll in Medicaid, even if they technically qualify. These proposals include:

Increasing frequency of eligibility determinations for the expansion population: The proposed reconciliation bill will require states to verify the eligibility of Medicaid expansion enrollees every six months. Currently, states must review the eligibility of these enrollees every twelve months. In 2024, when states had to unwind pandemic-era Medicaid policies, including a pause on disenrollment, we learned that more frequent eligibility determinations created procedural roadblocks, even for people who qualify for Medicaid. Many enrollees lost their coverage due to procedural reasons, with some states reporting that 94-97% of their Medicaid terminations were based upon procedural issues rather than a lack of eligibility. A concern with increasing eligibility verification frequencies is that it increases the chances that people will lose coverage due to paperwork.

Imposing work requirements: The proposed reconciliation bill seeks to enshrine work reporting requirements as a nationwide component of Medicaid programs, starting in 2029. States would be required to condition

Medicaid eligibility on at least 80 hours per month of qualifying activities (with exceptions for certain adults). About 36 million individuals, or about 44% of Medicaid enrollees nationally, would find themselves at risk of losing health care coverage if work requirements become a national requirement. The work requirement proposal generates by far the biggest cuts to Medicaid, estimated to save $301 billion over the next decade, because of how many would likely lose coverage. The proposal also includes an explicit ban on the use of Section 1115 to circumvent this requirement and contemplates short term funding for states to operationalize the policy.

The first Trump administration encouraged states to utilize Section 1115 waivers to pursue work reporting requirements, but Georgia and Arkansas were the only states to actually implement a work requirement. Both Georgia Medicaid and other safety net programs, such as SNAP, provide illustrative examples of how work requirements can decrease enrollment, increase administrative churn, with only minor impacts on the stated goal of incentivizing individuals to pursue employment. In 2023, 71% of working age Medicaid enrollees were in school or working.

Proposals that will impact access to care

A third category of proposals are ones that will make it harder for Medicaid enrollees, even once successfully enrolled in the program, to access the care and services they need. This includes prohibitions on types of care available, excluding certain providers from Medicaid, and imposing additional costs on Medicaid enrollees looking to use their coverage:

Imposing new cost-sharing requirements for some Medicaid enrollees: This proposal would require states to impose cost-sharing on Medicaid expansion enrollees with incomes over 100% of FPL ($32,150 per year for a family of four). Cost-sharing would be capped at $35 per service, with some exemptions for primary care, prenatal care, pediatric care, and emergency department care. Currently, federal law limits how much states can charge Medicaid enrollees in premiums and cost sharing. This is an important protection because research has demonstrated again and again that higher out of pocket costs, especially for low-income individuals, leads to reduced use of care and worse health outcomes: simply put, people don't get the care they need because of cost-sharing. Cost-sharing requirements will disproportionately burden people living with chronic or complex conditions, as they would need to pay each time they accessed needed, regular care.

Impeding access to gender-affirming care: The proposed reconciliation bill attacks coverage of gender affirming care, following many of the proposals and policy shifts set forth by the Trump Administration already. The bill prohibits Medicaid funding from paying for certain gender affirming procedures for individuals less than 18 years old. Impacted care would include various surgeries and hormone therapy (including puberty blockers). Exceptions are made when these procedures and medications are used to "normaliz[e]" puberty for those experiencing precocious puberty, "correct" variations in sex characteristics, and to reverse the effects of previous gender affirming care, among other scenarios. The bill also includes language that prohibits these gender affirming procedures from being considered an Essential Health Benefit. Essential Health Benefits are subject to key consumer protections (e.g., the prohibition of annual and lifetime dollar limits on coverage) thanks to the Affordable Care Act. Excluding gender affirming care from this

designation would not only eliminate these protections but could also make coverage of this care more variable across the insurance market.

Defunding certain providers of reproductive health care: The proposed reconciliation bill includes language that would defund Planned Parenthood and potentially other abortion providers. The bill would prohibit Medicaid funding to "providers that are nonprofit organizations, that are essential community providers that are primarily engaged in family planning services or reproductive services, provide for abortions other than for Hyde Amendment exceptions, and which received $1,000,000 or more . . . from Medicaid payments in 2024." This provision singles out high-capacity health care providers who are essential to delivering *non-abortion* care to millions of patients. In 2021, 11% of female Medicaid enrollees who received family planning services got this care at a Planned Parenthood. Providers of this size are responsible for delivering critical reproductive health care (such as cancer screenings and birth control) to individuals in medically underserved areas. This bill would target these providers based on their spending of non-federal dollars, forcing them to choose between being able to offer access to abortion care and other reproductive health care and family planning services.

What's Next?

The Energy and Commerce Committee stayed up all night to finish its review of the proposed reconciliation bill, starting debates on the changes to Medicaid only after midnight on Wednesday, May 14, with much of the contentious debate focused on the work requirements. Overall, the reconciliation bill stops short of radically changing Medicaid by imposing per capita caps or eliminating the expansion population entirely. But, while the bill avoids some of the ideas that were most unpopular with Republican Senators and Congresspeople, it is not a forgone conclusion that it will pass. Republican majorities in both the House and the Senate are slim, with some Republicans wanting to achieve significant deficit reductions and others looking to avoid massive cuts to a popular program. People living with chronic conditions, especially those who access care through Medicaid, should make sure to understand how the proposals in the reconciliation bill would impact their ability to get the health care they need and communicate with their representatives to make their concerns known.

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