Georgetown University
McCourt School of Public Policy
CENTER FOR CHILDREN
AND FAMILIES

Medicaid Cuts:
Issues Facing Medicaid Providers and Enrollees

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TOPIC ONE:
MEDICAID PROVIDER TAXES

Provider Taxes Basics

- Medicaid is is jointly financed by states and the federal government; states get federal matching funds for spending
- But states struggle to pay their state share of Medicaid costs
- One way they can raise money for state share is provider taxes
- Provider taxes are critical to state financing:
  - 17% of state share nationally is raised by provider taxes
  - Every state but Alaska is doing this
  - States' best tool to fill a budget hole or fund a new idea

How Does It Work?

- States charge a "health care-related assessment" to a specific group of providers, and use the dollars to fund the state share
- Biggest targets of taxes are hospitals, nursing facilities, ICF-ID, and MCOs, though many other provider types can be targeted
- Providers usually *support* the tax, which is often designed in collaboration with providers
  - States often use at least some of the funding to bolster provider rates
  - Providers often prefer paying a tax and increasing coverage to having the state fill a budget hole by cutting rates

The Rules

- There are numerous legal requirements (statute and regulations) to protect the fiscal integrity of provider taxes
  - Taxes must be broad-based, uniform, & can't "hold harmless"
- If the tax goes above a 6% threshold (6% of provider revenue), then the state must meet very onerous HH standard
  - Therefore, all states stay under this 6% "safe harbor" for all of their provider taxes – 6% is effectively a cap
  - GOP proposals would lower this safe-harbor to 4% 2026-27, 3% thereafter, effectively reducing the cap on provider taxes
  - GOP says proposal cuts $175B; CBO scored $630B max

Impacts of Reducing Use of Provider Taxes

- States lose some current state funding, and have a limit on raising revenue with provider taxes in the future
  - Every dollar of state financing they lose also means losing the corresponding federal matching dollars

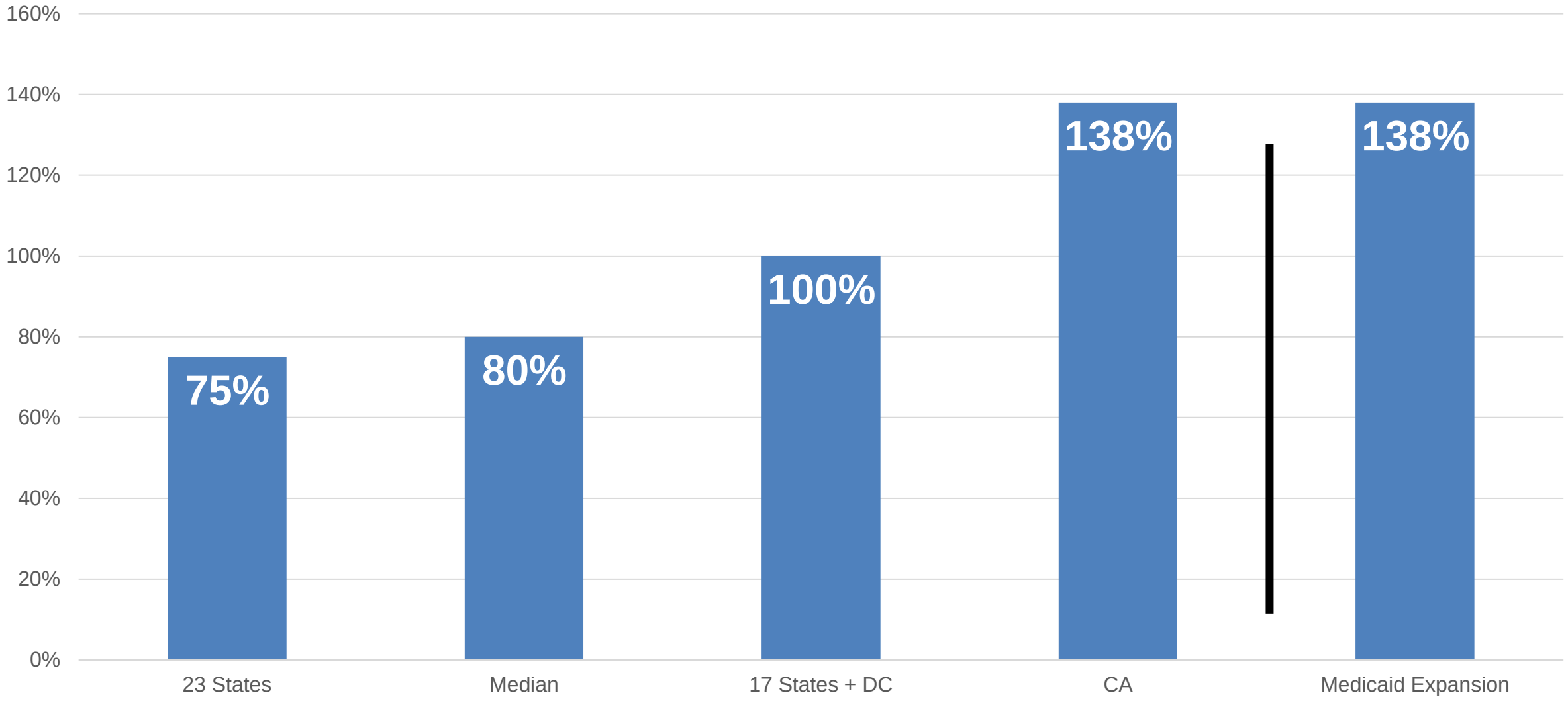
1. States will lose state dollars, federal match, & their lifeboat
2. States that financed Medicaid Expansion (or other projects) with a provider tax may lose their expansions (or projects)
3. Providers will be hit very hard, because states rely on provider tax revenue to supplement low Medicaid payment rates

TOPIC TWO:
CUTS TO MEDICAID EXPANSION & PWDs

Medicaid Expansion Includes PWDs

- Medicaid expansion is misunderstood by critics
- Medicaid expansion is critical for people with disabilities, pregnancy, and other "traditional" populations
- Medicaid expansion includes individuals with a very wide range of disability status, function, and chronic illness
  - General Medicaid **income limits** for disability are very low and lower than Medicaid expansion eligibility limits
  - SS **disability standards** are so strict that even many PWDs who do meet the income limits may not qualify for SSI

Medicaid Disability Income Limits Compared to Medicaid Expansion (% FPL)



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Based on Source: KFF Survey of Medicaid Financial Eligibility & Enrollment Policies for Seniors & People with Disabilities, 2024

Most Medicaid PWDs Are Not Qualifying by SSI

- Social Security disability standards are extremely strict
- If you look at Medicaid enrollees, nearly two-thirds (66%) of the nonelderly adults with disabilities do not get SSI
  - Medicaid expansion is a major eligibility pathway for this group
- Based on 2019 data: Looking at the Medicaid enrollees, in expansion states 68% of nonelderly adults did not have SSI, whereas only 53% were without SSI in nonexpansion states

Impact Evidence

- Medicaid expansion has been associated with improved full-year coverage, primary care use, and out of pocket spending for adults with disabilities
- Studies show coverage gains are broad: including disability generally, and specifically in SUD, MH, and chronic illness
- In Medicaid expansion states, increases in PWDs working and decrease in PWDs reporting not working due to disability
  - Data did not show this in non-expansion states
  - Also in expansion states: decline in SSI participation

All Medicaid Expansion Cuts Hurt PWDs

- Per capita caps – broad or targeted at Medicaid expansion – would be a massive cut (up to $900B), hurting PWDs
- Reducing Medicaid expansion match would be a massive cut to Medicaid expansion ($581B), hurting PWDs
- Work requirements will cut Medicaid expansion funding and enrollment, and be particularly harmful on the PWDs and other health conditions that struggle to meet the work requirement

TOPIC THREE:
SEPARATING FICTION FROM FACT

Fiction: The Cuts Are Just Targeting "Waste & Fraud"

- The three major cut proposals – per capita caps, reducing Medicaid expansion match, and reducing minimum matching rates – total $1.85 trillion and are just flat funding reductions
  - There are no proposals about fraud
- The funding cuts slash Medicaid everywhere, including vast majority of places where there is no waste, and at the same time don't actually address and waste where/if there is any
- MACPAC, GAO, and others have urged more CMS oversight; CMS passed regs; GOP proposal includes rescinding the regs

Fact: PWDs and Their Providers at Highest Risk of Cuts

- Eligibility and services for kids/parents are more likely to be (1) mandatory and (2) inexpensive.
- Eligibility and services for PWDs/OA more likely to be optional and expensive, so that's where the bulls-eye is:
  - Cuts to optional eligibility (ex. HCBS waiver categories)
  - Cuts to optional services (ex. therapies, HCBS, etc.)
  - Cuts to provider rates
- PWDs will likely be most heavily impacted by cuts; there is no way to "exempt" people from disabilities from impacts