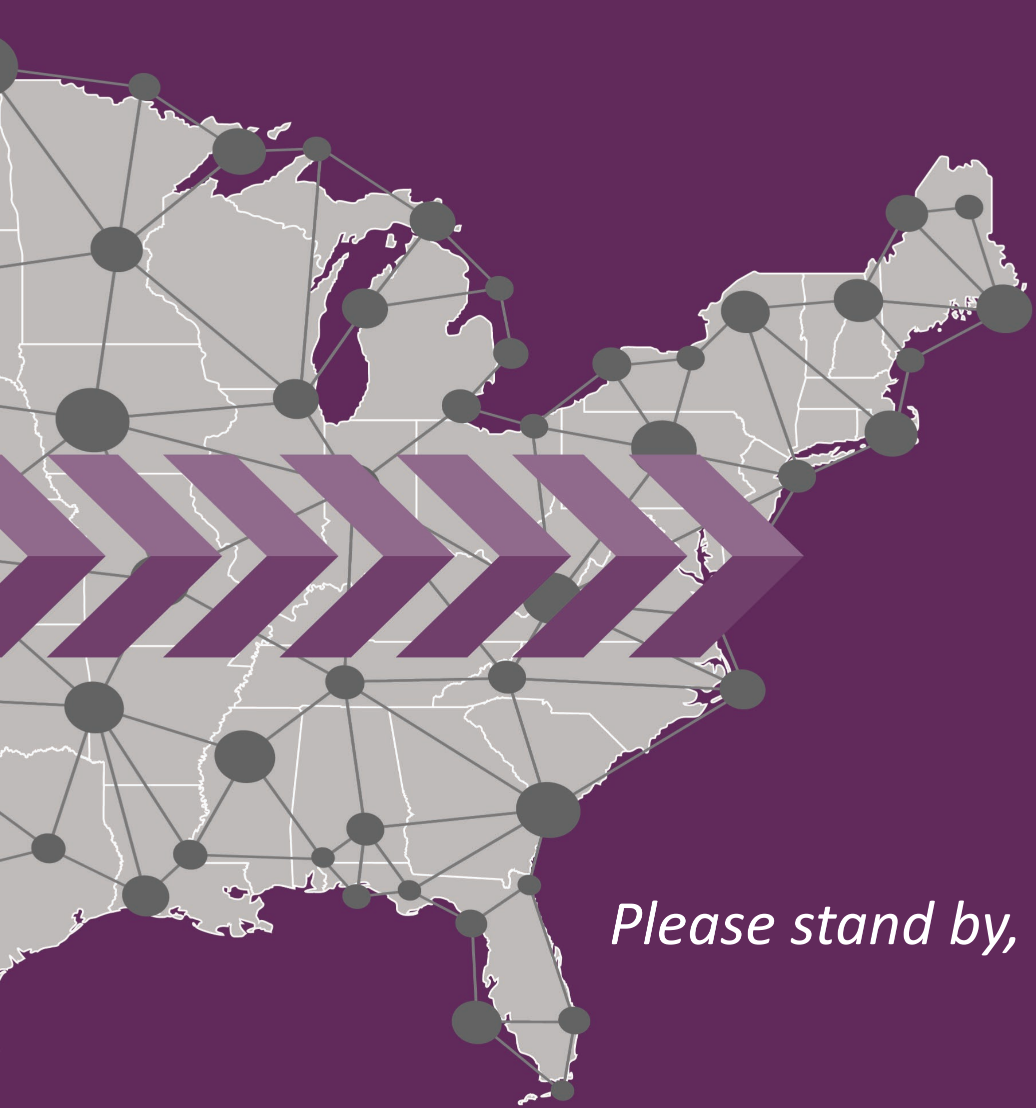


Potential Impact of Federal Changes on State Healthcare Programs

February 26, 2025

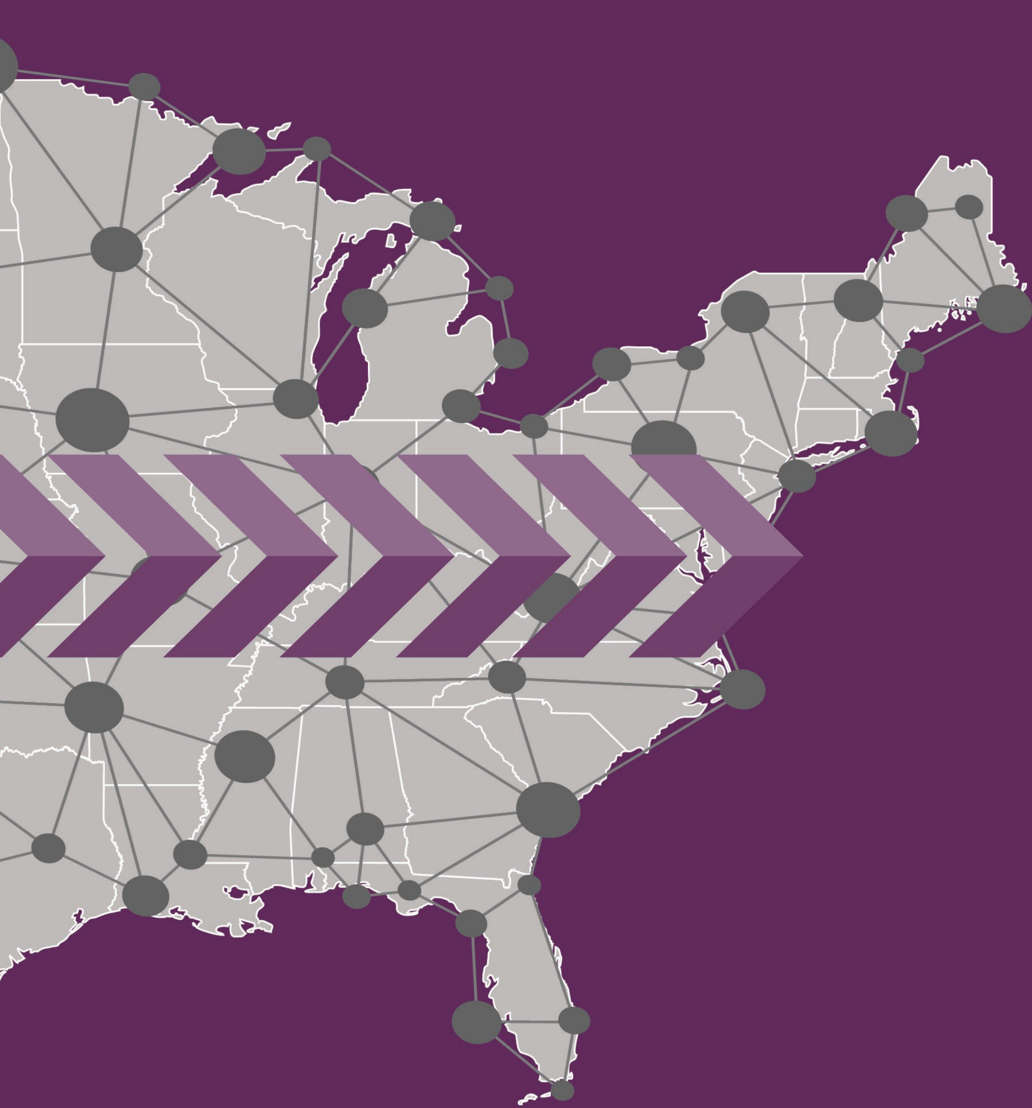
4:00 – 5:00 p.m. ET

Please stand by, this webinar will begin shortly

STATE Health & Value STRATEGIES

Driving Innovation Across States

A grantee of the Robert Wood Johnson Foundation



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About State Health and Value Strategies

State Health and Value Strategies (SHVS) assists states in their efforts to transform health and healthcare by providing targeted technical assistance to state officials and agencies. The program is a grantee of the Robert Wood Johnson Foundation, led by staff at Princeton University's School of Public and International Affairs. The program connects states with experts and peers to undertake healthcare transformation initiatives. By engaging state officials, the program provides lessons learned, highlights successful strategies, and brings together states with experts in the field. Learn more at www.shvs.org.

Questions? Email Heather Howard at heatherh@Princeton.edu.

Support for this webinar was provided by the Robert Wood Johnson Foundation.
The views expressed here do not necessarily reflect the views of the Foundation.

About Manatt Health

Manatt Health, a division of Manatt, Phelps & Phillips, LLP, is an integrated legal and consulting practice with over 160 professionals in nine locations across the country. Manatt Health supports states, providers, and insurers with understanding and navigating the complex and rapidly evolving healthcare policy and regulatory landscape. Manatt Health brings deep subject matter expertise to its clients, helping them expand coverage, increase access, and create new ways of organizing, paying for, and delivering care. For more information, visit www.manatt.com/ManattHealth.aspx

Housekeeping Details

- Use the ‘Q&A’ function in Zoom to submit questions and comments to the meeting facilitators. **Note that you must select to submit a question anonymously.**
- All participant lines are muted.
- After the webinar, the slide deck and a recording will be available at **www.shvs.org**.

Agenda

- **Level-Setting**

- **Implications of Potential Federal Policy Changes for States**
  - Medicaid
  - Marketplace

- **Looking Ahead**

- **Discussion**

Level-Setting

Overview of Potential Federal Policy Changes

The new administration and Congress are considering a number of Medicaid and Marketplace changes.

Medicaid

- Require or allow per capita caps/block grants.
- Reduce the Medicaid Federal Medical Assistance Percentage (FMAP).
- Reduce use of provider taxes and state directed payments (SDPs).
- Require or allow work reporting requirements.
- Rescind recent Medicaid rulemaking and/or issue new rules.

Marketplace

- Sunset or modify the enhanced premium tax credits (PTCs).
- Promote alternative health coverage products.
- Implement legislative and rulemaking changes.

**Note: The potential federal policy changes outlined in this webinar are not an exhaustive list of the proposals currently under consideration by the administration and Congress.*

Vehicles for Advancing Federal Changes (1/2)

Executive Action

- **Executive Orders (EOs):** EOs, issued at the president's discretion, direct the operations of the federal government (e.g., launch investigations), signal presidential priorities, and may preview future policymaking.

> While EOs can influence how existing laws are interpreted and enforced, they cannot create, repeal, or amend laws passed by Congress, override court rulings, or directly change regulations issued by federal agencies.

- **Enforcement Discretion:** The executive branch may direct federal agencies to delay or suspend implementation timelines, deny or approve waiver requests, and adjust the administration's legal position in ongoing litigation. Agencies are responsible for implementing and enforcing policy changes under the president's direction.

- **Regulations:** The executive branch may direct federal agencies to propose, modify, rescind, or replace regulations or guidance. The rulemaking process itself is carried out by federal agencies and requires public notice, comment, and revision.

Vehicles for Advancing Federal Changes (2/2)

Congressional Action

- **Budget Reconciliation:** A process used to fast-track certain legislation related to budgetary changes by bypassing the Senate filibuster, requiring only a simple majority for passage; timing is variable.

- **Appropriations Process:** Outside of Budget Reconciliation, the House and Senate Appropriations Committees produce appropriations bills to fund government agencies and programs. Unlike a budget resolution, which sets broad fiscal targets and may include reconciliation instructions for policy changes, appropriations bills allocate actual funding but generally do not enact major policy overhauls. While appropriations can influence healthcare by funding key programs, it is unlikely that any significant healthcare legislation will be included in appropriation bills. If new appropriations bills are not adopted and if Congress fails to adopt a continuing resolution to extend existing funding levels, appropriations funding will expire on March 14.

- **Legislative Process:** A multi-step process involving: drafting of legislation, introduction in the House and/or Senate, committee review, floor action, and enactment (requiring presidential signature). The timeline varies.

Implications of Potential Medicaid Changes for States

Per Capita Caps and Block Grants

The current federal financing structure allows states to guarantee Medicaid coverage to all eligible individuals; per capita caps and block grants would shift financial costs and risk to states.

Potential Policy Change	Implementation Vehicles	Implications
Mandate or allow per capita caps to limit the amount of federal funding to a fixed amount per enrollee and spending growth over time. *Typically establishes base year of Medicaid spending per enrollee eligibility group. Cap increases over time by a pre-set amount (e.g., inflation). States receive the sum of the per enrollee amounts multiplied by the number of enrollees in each group. Adjusts for enrollment. Does not account for actual cost growth.*	• ***Congressional***: Through Budget Reconciliation, enact statute to mandate or authorize (allow) states to take-up capped funding models. • ***Executive***: Allow state take-up of capped funding via section 1115 authority.	• The Congressional Budget Office (CBO) estimates that implementation of per capita caps would ***reduce federal Medicaid funding to states by between $588 billion and $893 billion over the next 10 years*** (i.e., 2025-2034). • Per capita caps: (1) lock states with lower per-enrollee costs into relatively low spending, making it difficult to cover new costs (e.g., provider reimbursement, prescription drugs, benefits); and (2) squeeze states if per capita costs grow faster than the allowed trend rate.
Mandate or allow block grants to limit the amount of federal funding to a fixed amount over time. *Typically establishes base year of Medicaid spending. Cap increases by a specified amount each year, typically tied to inflation plus an add-on amount. No enrollment growth adjustment. Does not account for actual cost growth or actual enrollment changes.*		• CBO estimates that implementation of block grants would ***reduce federal Medicaid funding to states by between $459 billion to $742 billion over the next 10 years.*** • Under a block grant: states with higher spending, enrollment, and/or cost growth would be disproportionately impacted.

Medicaid FMAP

Medicaid is jointly financed by states and the federal government. Changes to the federal share of costs (i.e., the FMAP) could impact eligibility, enrollment, benefits, and plan/provider rates.

Potential Policy Change	Implementation Vehicles	Implications
Change the FMAP rate formula: • Implement a 50% administrative match rate for all activities. • Remove the FMAP floor. *CA, CO, CT, DC, MD, MA, NH, NJ, NY, WA, and WY have match rates at the FMAP floor.*	• ***Congressional***: Through Budget Reconciliation, enact legislation to mandate changes to the FMAP (which is determined by statute).	• CBO estimates that reducing the administrative match rate to 50% would ***reduce federal Medicaid funding to states for administrative activities by $69 billion over the next 10 years***. • CBO estimates that removing the FMAP floor would ***reduce federal Medicaid funding by $530 billion over the next 10 years in the affected states***.
• **Reduce the 90% federal match** for the Medicaid expansion population to the standard Medicaid match rate. *41 states, including D.C., have expanded Medicaid; nine states have trigger laws that would automatically eliminate Medicaid expansion if federal funding drops.*		• CBO estimates that eliminating the 90% federal match for expansion would ***cut federal Medicaid funding to expansion states by $561 billion over the next 10 years***. • The Kaiser Family Foundation (KFF) estimates a reduction of up to $1.9 trillion in Medicaid spending over 10 years and ***coverage loss for up to 20 million people*** if all states drop expansion.

Provider Taxes and SDPs

If enacted, proposed changes to provider tax and SDP policy would impact state budgets and delivery systems.

Potential Policy Change	Implementation Vehicles	Implications
Change provider tax policy, used by states to fund a portion of the state share of Medicaid expenditures (42 C.F.R. § 433.68).	• ***Congressional***: Through Budget Reconciliation, enact legislation to reduce the ability of states to use provider taxes and/or eliminate or reduce SDPs. • ***Executive***: Direct agencies to initiate rulemaking and develop guidance to restrict use of provider taxes and/or SDPs.	• CBO estimates that reducing or eliminating provider taxes would ***reduce federal Medicaid funding to states by between $48 billion and $612 billion over the next 10 years***. • As of 2025, 50 states (including the District of Columbia) are using at least one provider tax (e.g., hospitals, nursing homes).
Changes to SDP policy, through which states may direct Medicaid managed care plan expenditures in connection with implementing delivery system and provider payment initiatives (42 C.F.R. § 438.6).		• The GOP-issued House Ways and Means Committee budget menu estimates that imposing limits on SDPs would ***reduce federal Medicaid funding to states by up to $25 billion over the next 10 years***. • Nearly all states use SDPs to provide supplemental payments to hospital systems and other providers, totaling hundreds of millions of dollars.

Work Reporting Requirements

Under the first Trump administration, CMS approved 13 section 1115 waivers that conditioned Medicaid coverage on meeting work reporting requirements; work requirements are again gaining traction.

Potential Policy Change	Implementation Vehicles	Implications
Mandate or allow work reporting requirements, whereby Medicaid eligibility for adults is conditioned on compliance. *House and Senate Republicans have begun introducing legislative proposals to impose work reporting requirements in Medicaid. Bills such as H.R. 1059, H.R.1452, and S. 447 have been referred to their respective committees for review.*	• ***Congressional***: Through Budget Reconciliation, enact statute to mandate or authorize (allow) state work reporting requirements. • ***Executive***: Allow state take-up of work reporting requirements via section 1115 authority.	• The GOP-issued House Ways and Means Committee budget menu estimates that implementing work requirements would ***reduce federal Medicaid funding to states by up to $100 billion over the next 10 years***. • In 2023, CBO estimated that a Medicaid work requirements bill (H.R. 2811) would reduce federal Medicaid funding to states by over $108 billion over the period of 2023 to 2033.

Federal Medicaid Rulemaking

Recent rulemaking may be rescinded or replaced in favor of new regulations.

Potential Policy Change	Implementation Vehicles	Implications
• **Rescind Medicaid rules approved under the Biden administration**, for example: – Eligibility and Enrollment (E&E) final rule. – Access final rule. – Nursing Home Minimum Staffing final rule. • **Initiate new Medicaid rulemaking** (e.g., Public Charge).	• ***Congressional***: Through the Budget Reconciliation or the legislative process, rescind existing Medicaid rules or enact new statutory requirements. • ***Executive***: Initiate new rulemaking to rescind/replace regulations or delay implementation of provisions.	• The GOP-issued House Ways and Means Committee budget menu estimates that over the next 10 years, the federal government could reduce federal Medicaid funding by: - Repealing the E&E final rule ($164 billion). - Repealing the Access final rule ($121 billion). - Repealing the Nursing Home Minimum Staffing final rule ($22 billion). - Reinstating the Public Charge final rule ($15 billion).

Implications of Potential Marketplace Changes for States

Enhanced PTCs

Congress extended enhanced PTCs under the Inflation Reduction Act of 2022; however, these subsidies (which help eligible individuals buy Marketplace insurance) are set to expire at the end of 2025.

Potential Policy Change	Implementation Vehicles	Implications
Eliminate or extend/make changes to enhanced PTCs (e.g., eliminate "zero-dollar" plans, weight enhancements to people with higher incomes). *Reminder: Enhanced PTCs reduced net benchmark premiums to zero for people with incomes up to 150% of the federal poverty line (FPL) and made subsidies available to people with incomes above 400% of the FPL for the first time.*	• ***Congressional***: (1) Decline to extend enhanced PTCs beyond 2025; or (2) through Budget Reconciliation, extend and/or make statutory change(s) to alter eligibility for/value of enhanced PTCs.	*If enhanced PTCs are eliminated:* • The Urban Institute estimates a ***16% increase in uninsurance*** and a 42% reduction in subsidized Marketplace coverage. • CBO estimates a drop in enrollment from 23 million in 2025 to 15 million in 2030. • KFF finds that consumers may experience ***significant premium increases*** (an estimated 75% on average), varying based on their income and geographic area.

Alternative Health Coverage Products

Alternative health coverage products often offer lower premiums than Marketplace coverage and are not required to comply with Affordable Care Act (ACA) requirements.

Potential Policy Change	Implementation Vehicles	Implications
Expand access to alternative health insurance plans: • Association Health Plans. • Health Sharing Ministries. • Short-Term Limited-Duration Insurance (STLDI). • Other Potential New Plan Type (not yet defined).	• ***Congressional***: Pass legislation to expand access to new plan types. • ***Executive***: Direct agencies to initiate rulemaking to allow take-up of alternative insurance coverage products.	• May reduce enrollment in Marketplaces and change the composition of Marketplace risk pools, with potential implications for premiums and carrier participation. • May increase Navigator/call center support wait times as consumers seek more information and answers to their questions about new products.

On February 14, CMS announced a reduction in funding for the ACA Navigator program from $98 million to $10 million.

Federal Legislative and Rulemaking Changes to the Marketplace

Federal legislative and rulemaking changes to the Marketplace could entail the following:

<table>
<tr><th>Potential Policy Change</th><th>Implementation Vehicles</th><th>Implications</th></tr>
<tr>
<td>Rescind Marketplace rules approved under the Biden administration, for example:
Family Glitch final rule.
Deferred Action for Childhood Arrivals (DACA) final rule (could alternatively be struck down by the court.)
Initiate new rulemaking. (The administration is expected to release the Individual Health Insurance Market and Exchange Program Integrity proposed rule early this year.)
Cut spending via Budget Reconciliation.</td>
<td>Congressional: Through the Budget Reconciliation or the legislative process, rescind existing Marketplace rules, reduce funding, or enact new statutory requirements.
Executive: Initiate new rulemaking to rescind/replace regulations.</td>
<td>The GOP-issued House Ways and Means Committee budget menu estimates that over the next 10 years, the federal government could reduce federal funding for coverage affordability programs by:
Repealing the Family Glitch final rule, which would reduce access to PTCs for family members of workers with “affordable” employer-sponsored insurance ($35 billion).
Repealing the DACA final rule, which would prohibit DACA recipients from enrolling in Marketplace plans with PTCs ($6 billion).
Removing PTC repayment caps to recapture all subsidy overpayments ($46 billion).
Limiting eligibility for PTC, Medicaid, and other federal healthcare programs for certain categories of non-citizens ($35 billion).</td>
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Looking Ahead

Current Status of Budget Reconciliation

- **On February 21, the Senate passed its budget resolution, S.Con.Res.7.**
  - The Senate budget resolution includes reconciliation instructions for congressional committees aimed at increasing spending on homeland security and defense, setting up a two-bill approach.
- **On February 25, the House narrowly passed its budget resolution along party lines.**
  - The House budget resolution aims to pass a single reconciliation bill to advance a number of Trump administration priorities and includes broad reconciliation instructions.
  - The resolution directs the House Energy and Commerce Committee to reduce the deficit by no less than $880 billion, which is expected to **encompass significant overhauls to federal financing for Medicaid**.
  - However, the precise policies will only be unveiled once committees start drafting their reconciliation legislation to meet the fiscal targets set out in the budget resolution.
- **The two chambers must now reconcile the significant differences between the respective budget resolutions.** The Senate may face pressure to pass the House version, given President Trump appears to have endorsed the House's resolution, but Senators have expressed concerns with the intended Medicaid cuts.

Financial Modeling

It will be important for states to conduct their own modeling of the financial impact of Medicaid and Marketplace proposals.

- Legislative discussions are moving quickly, so states will need to be prepared to respond as proposals emerge.
- Modeling proposals and scenarios for how states might respond is crucial for state Medicaid directors to inform Governors, budget offices, legislators, providers, and other stakeholders on the implications of potential changes to the state budget, enrollees, providers, and other stakeholders.
- Effective models should project expenditures, enrollment, and other variables (as applicable) under current law and compare against projections of what could occur under the proposals as well as interactions between different proposals.

Key Model Outputs

Changes in federal funding.

Changes in state spending.

Changes in enrollment.

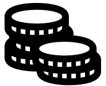
New Jersey recently released a report evaluating the impact of potential reductions in federal Medicaid matching funds to the state. New Jersey considered proposals to: remove the FMAP floor, eliminate the 90% federal match for the Medicaid expansion population, and impose per capita caps on Medicaid funding.

Messaging on Medicaid Funding Proposals

As states estimate impacts of proposals to reduce federal Medicaid funding, it will be important to put coverage and fiscal impacts in context for key stakeholders including by:

Reminding key stakeholders what Medicaid is and who it's for.

Clearly communicating about potential cuts to Medicaid and potential impacts to the state/enrollees, including the state budget and provider systems.



Emphasizing that states prioritize good stewardship of Medicaid funding, including vigilance in identifying and stamping out fraud, waste, and abuse.

Lifting up the potential impact of Medicaid cuts on seniors, people with disabilities, and children.

Discussion

The slides and a recording of the webinar will be available at www.shvs.org after the webinar

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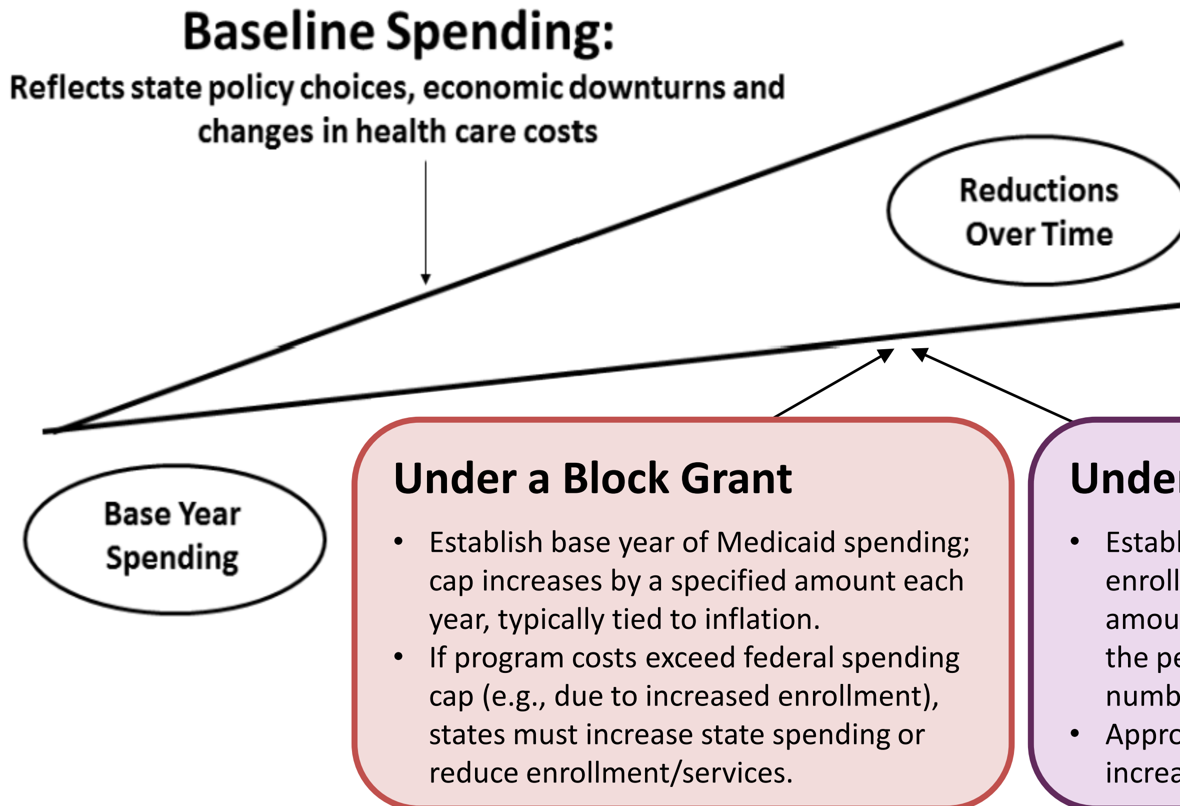
Appendix

Medicaid Block Grants vs. Per Capita Caps

The federal government and states have historically shared anticipated and unanticipated Medicaid program costs.



For more information, please see the following SHVS resources:

- Per Capita Caps in Medicaid: Emerging Issues for States
- Data Points to Consider When Assessing Proposals to Cap Federal Medicaid Funding: A Toolkit for States
- Capping Federal Medicaid Funding: Key Financing Issues for States

Under a Block Grant

- Establish base year of Medicaid spending; cap increases by a specified amount each year, typically tied to inflation.
- If program costs exceed federal spending cap (e.g., due to increased enrollment), states must increase state spending or reduce enrollment/services.

Under a Per Capita Cap

- Establish base year of Medicaid spending per enrollee; cap increases over time by a pre-set amount (e.g., inflation). States receive the sum of the per enrollee amounts multiplied by the number of enrollees in each group.
- Approach adjusts for enrollment, but not increases in health costs or changes in technology.

Source: KFF, 5 Key Questions: Medicaid Block Grants & Per Capita Caps.