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Medicaid's Shrinking Safety Net

U.S. health policy should not have to fight for airtime, but with everyone's attention focused on federal layoffs, trade policy, and immigration (the list goes on), probable deep cuts to Medicaid seem to have fallen below the fold. In February, the House of Representatives voted 217-215 to adopt a budget proposal that calls for at least $1.5 trillion in spending cuts over a 10-year period.[1] If the proposal were to be adopted by the Senate, the Energy and Commerce Committee, which oversees Medicaid, would be tasked with finding at least $880 billion in cuts over the net decade. Essentially, that target could not be reached without Medicaid spending being reduced. What follows are a few thoughts for healthcare leaders as they grapple with the potential for lower reimbursements.

How would spending reduction plans be implemented?

With a per capita cap. The federal government pays a fixed share of states' Medicaid costs, which gives them the predictability they need to run their programs because the amount they receive is based on actual costs incurred. Under a per capita cap, the federal government would instead pay states no more than a fixed amount of funding per enrollee, leaving states responsible for all remaining costs.

A per capita cap is designed to cut federal Medicaid funding by setting spending limits well below what would be needed to keep pace with rising healthcare costs. Each state would be assigned its own initial per capita cap based on the state's current or historical spending; this amount would be set to increase each year at a rate below the growth in per capita healthcare spending. Thus, the cuts would increase over time. Even a proposal with modest annual cuts in the initial years would produce large (and ever-growing) annual cuts in later years. As the annual cuts grow, the cumulative cut to federal funding would grow rapidly.[2]

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By lowering the Federal Medical Assistance Percentage (FMAP) for Medicaid expansion populations. States that have implemented the ACA Medicaid expansion currently receive a 90% federal match rate or "FMAP" for adults covered through the expansion, meaning the federal government pays 90% of the costs for expansion enrollees. Forty-one states (including D.C.) have since adopted Medicaid expansion, and Medicaid expansion enrollees represent nearly a quarter of Medicaid enrollment (as of March 2024) and one-fifth of total Medicaid spending (as of FY 2023).[3] If the FMAP were lowered to the traditional Medicaid range of 50% to 70% (approximate), substantial costs would shift to the states, which could force rollbacks of Medicaid expansion and leave millions uninsured.

What might states do in response?

Since the Affordable Care Act, Medicaid expansion has become widely popular—even in some traditionally conservative states. However, if federal funding is reduced as proposed, states might face hard choices: absorb the cost increases or cut eligibility and benefits. Unfortunately, states would likely look to reduce costs through restricted access, which generally means stricter eligibility verification and enforcing work requirements, both of which are highly controversial. Proponents argue that such reforms will root out waste and fraud, while opponents worry they could create enrollment barriers for the most vulnerable. Reducing enrollment could focus on strict adherence to income, household size, assets, and citizenship guidelines. Proposals regarding work requirements typically require working-age Medicaid beneficiaries (ages 18 to 64) to prove they are working or engaging in other approved activities 80 hours a month, or 20 hours per week.[4] State leaders will be in a tough spot—either raise tax revenue or reduce healthcare coverage.

What can healthcare leaders do in preparation?

Medicaid not only covers a vast segment of low-income populations but also plays a key role in supporting hospitals and community health centers. Proposed cuts would likely lower reimbursement rates, threatening the financial viability of safety-net providers—especially in rural areas where hospitals are critical economic engines.

Healthcare leaders can take a multipronged approach to prepare for potential Medicaid cuts. Here are several key strategies:

1.Conduct a Financial Impact Analysis.

Administrators should review revenue streams and assess how much of the organization's revenue comes from Medicaid in order to understand the patient mix and quantify the potential financial shortfall. Financial modeling could be developed to simulate various reimbursement scenarios.

2. Engage in Policy and Stakeholder Advocacy.

Healthcare leaders should look to collaborate with other providers and policymakers whenever possible. It will be very important that lawmakers understand the impact of their decisions on both the patient population and the provider network. Promoting advocacy efforts can help mitigate the extent of cuts or secure alternative funding.

3. Diversify Revenue Sources.

Goes without saying, but looking to expand revenue from commercial and non-Medicaid sources is advisable. Further, considering innovative contracting models such as bundled payments or value-based care arrangements can possibly improve margins on reduced volumes.

4. Strengthen Strategic Planning.

Taking a hard look at current service lines to identify which clinical services are most reliant on Medicaid funding is advisable. If those services are underutilized or inefficient, it is possible those resources should be reallocated to more financially sustainable areas. Also, a flexible workforce strategy should be developed to meet shifts in patient volumes and service needs.

5. Study Robust Data Sets.

When possible, healthcare leaders should look to gather both internal and external data. Continuously monitoring patient outcomes and financial performance will enable leaders to quickly respond to shifts in funding or patient needs.

In summary, the current topics in Medicaid involve a balancing act between efforts to reduce federal spending—through funding caps, revised matching rates, and stricter administrative measures—and the political and social imperative to preserve and even expand coverage for millions of Americans. By systematically addressing financial vulnerabilities, operational inefficiencies, and policy uncertainties, healthcare leaders can build a resilient strategy that not only mitigates the impact of Medicaid cuts but also positions their organizations for long-term sustainability.

1 Hubbard K., (March 6, 2025). "Congressional Budget Office finds House GOP budget goals would require Medicaid cuts." cbsnews.com.

2 Lukens G., Zhang E., (January 7, 2025). "Medicaid Per Capita Cap Would Harm Millions of People by Forcing Deep Cuts and Shifting Costs to States." cbpp.org.

3 Williams E., Burns A., Euhus R., Rudowitz R. (February 13, 2025). "Eliminating the Medicaid Expansion Federal Match Rate: State-by-State Estimates." kff.org.

4 Coleman A., Federman S. (January 14, 2025). "Work Requirements for Medicaid Enrollees." Commonwealth Fund. commonwealthfund.org.

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