



# Impending Medicaid Funding Reductions — Strategic Implications for Health Plans, State Budgets and Vulnerable Populations

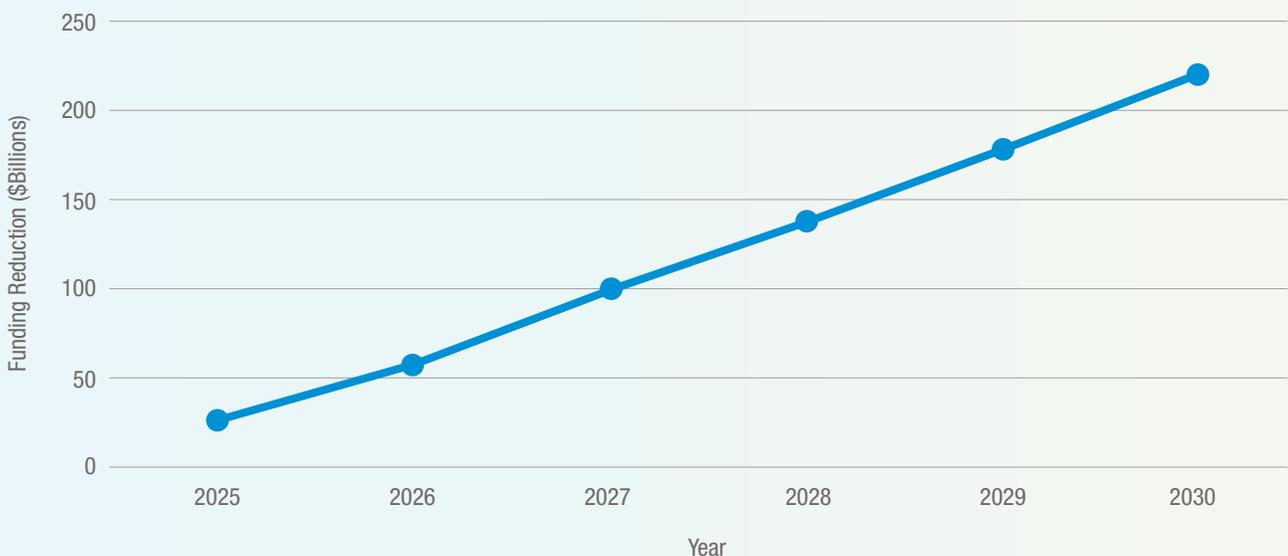
## Introduction



The Trump administration has proposed significant reductions to Medicaid funding, with estimates suggesting cuts of up to \$800+ billion in the next decade as part of a broader fiscal policy changes.<sup>1</sup> These reductions are designed to offset tax cuts and increased defense and border security spending but carry substantial risks for health plans, state budgets, healthcare providers and millions of Medicaid enrollees — particularly those in Special Needs Plans.

With Medicaid covering more than 85 million Americans, including low-income families, seniors and individuals with disabilities, the proposed funding reductions will force states to either increase their own spending, reduce provider payments, cut benefits or restrict eligibility. This paper explores the anticipated policy changes, financial implications for key health plans, risks for states with high Medicaid enrollment, and potential disruptions for healthcare provider organizations and public health systems.

Projected Medicaid Spending Cuts (2025-2030)



Source: A&M estimates assuming gradual acceleration in Medicaid cuts over time, with the steepest reductions occurring in the later years as cost-containment measures become more aggressive

<sup>1</sup> Richard Cowan and Gabriella Borter, "What US social spending programs could be hit by Trump tax cuts?" Reuters, February 26, 2025, <https://www.reuters.com/world/us/what-us-social-spending-programs-could-be-hit-trump-tax-cuts-2025-02-26/>



## Federal Budget and Medicaid Restructuring



### Congressional and Administrative Policy Actions

- **Block Grants and Per Capita Caps:** The administration is considering shifting Medicaid funding to a block grant or per capita cap model, limiting federal contributions and placing more financial responsibility on states.
- **Reduced Federal Medical Assistance Percentage (FMAP) rates:** Lowering FMAP could force states to compensate for lost funding, leading to eligibility reductions or provider payment cuts.
- **Rollback of ACA Medicaid Expansion:** Proposals to eliminate or restrict Medicaid expansion threaten millions of enrollees in expansion states.
- **Work Requirements and Enrollment Restrictions:** Implementing new work requirements could reduce Medicaid enrollments, impacting vulnerable populations and increasing administrative burdens for states.

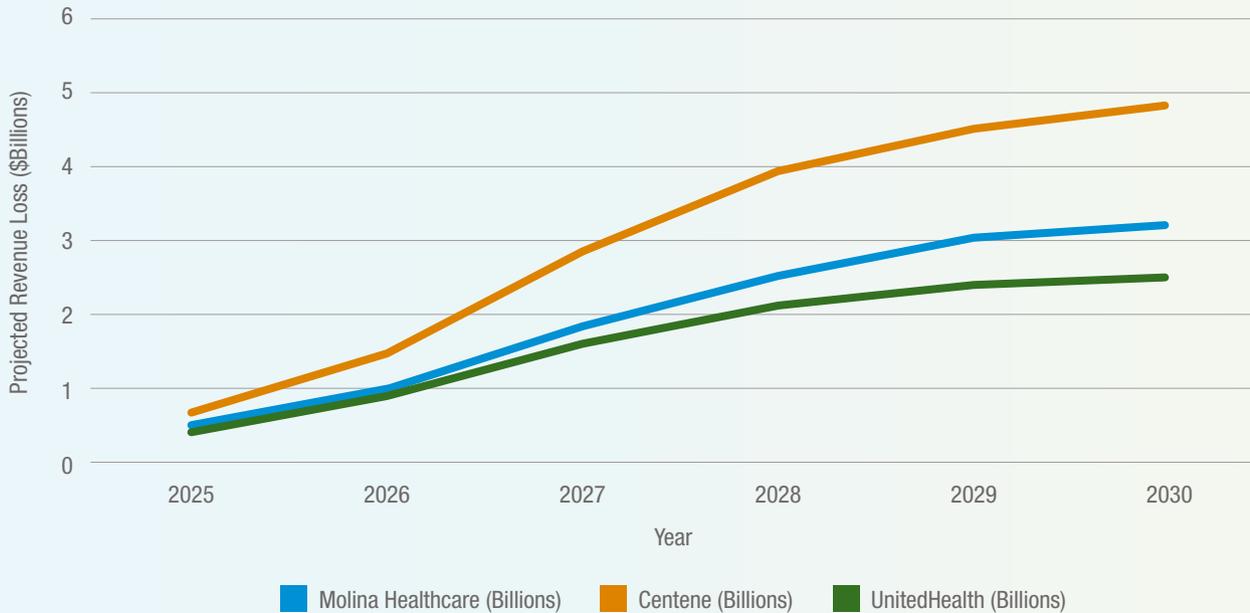
### Estimated Financial Impact

- The House budget resolution passed in early 2025, outlines \$2 trillion in spending reductions, with approximately \$800+ billion specifically targeting Medicaid over the next ten years.
- If enacted, these cuts would dramatically reshape Medicaid's financial structure, shifting costs to states and leading to potentially significant coverage losses.

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Projected Financial Impact of Medicaid Cuts on Key Health Plans



Source: A&M estimate; projected revenue losses are based upon the market share percentage of Medicaid and estimated share of total corporate revenue, as disclosed by the companies listed and publicly available information.

## Short-Term Challenges

- Medicaid Redetermination Fallout:** Health plans continue to face widespread coverage losses and membership churn as millions of Medicaid enrollees are disenrolled due to eligibility redeterminations.
- Adverse Risk Selection:** Many of the Medicaid members who retain coverage have higher healthcare needs, increasing medical loss ratios and driving unexpected cost spikes.
- Surge in Medical Expenses:** Rising utilization rates, particularly among high-cost populations, are leading to greater financial strain on health plans that rely heavily on Medicaid revenue.
- Shifting Enrollment Dynamics:** As disenrolled Medicaid members transition into ACA marketplace plans or Medicare Advantage, health plans must recalibrate provider contracts, adjust premium pricing and optimize risk management strategies to sustain financial stability.
- Revenue Disruptions:** Immediate cuts to Medicaid funding could lead to lower capitation rates, forcing health plans to either absorb losses or pass costs onto providers.
- Market Exits and Consolidation:** Some health plans may consider exiting unprofitable Medicaid markets, which could reduce competition and member choice.
- Operational Adjustments:** Plans will need to rapidly adjust risk models, provider contracts and internal cost structures to maintain financial stability.

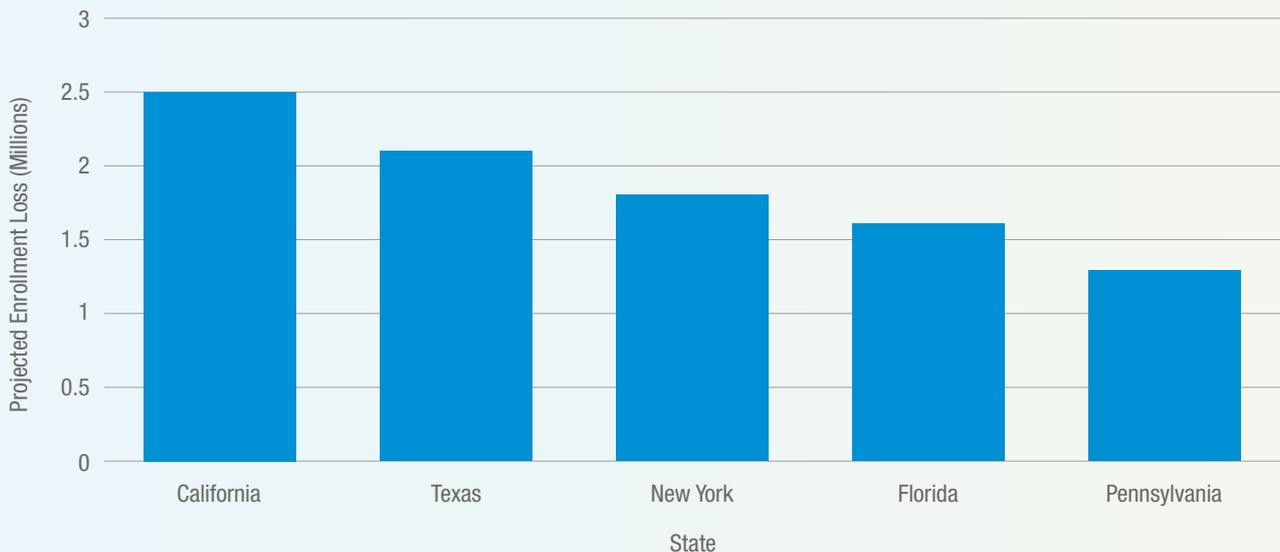


## Long-Term Risks and Strategic Responses

- **Persistent Adverse Selection Pressure:** Without policy adjustments, health plans may continue to experience deteriorating risk pools, necessitating premium increases, benefit modifications or stricter utilization management.
- **Pressure on Medicaid Managed Care Contracts:** State Medicaid agencies may renegotiate capitation rates to account for a higher-cost member mix, placing financial pressure on Medicaid-focused plans.
- **State and Federal Policy Adjustments:** States may seek Section 1332 and Section 1115 waivers to stabilize Medicaid enrollment or mitigate premium increases in ACA and Medicare markets.
- **Investment in Cost Containment Strategies:** Health plans will need to ramp up value-based care initiatives, enhanced care coordination programs and predictive analytics to manage escalating healthcare costs and improve outcomes.
- **Shifts in Membership:** Over time, plans may see lower enrollment as eligibility criteria tighten, reducing overall covered lives.
- **Regulatory Uncertainty:** The policy landscape may continue to evolve, requiring plans to stay engaged with federal and state lawmakers to advocate for favorable policy adjustments.
- **Diversification Strategies:** To mitigate long-term risk, Medicaid-focused health plans like Molina and Centene will likely need to expand their Medicare Advantage and ACA marketplace presence to offset Medicaid losses.



Top 5 States with Largest Medicaid Enrollment Loss



## Short-Term Impact

- **Immediate Budget Gaps:** States relying heavily on federal Medicaid funds may face urgent shortfalls, requiring emergency budget adjustments.
- **Emergency Cost-Cutting Measures:** Some states may implement immediate provider reimbursement cuts, leading to reduced provider participation in Medicaid.
- **Rapid Changes to Eligibility Criteria:** To manage shortfalls, states may introduce new eligibility restrictions, removing thousands from Medicaid rolls.

## Long-Term Considerations

- **Potential Tax Increases:** States may look to raise revenue through tax hikes or seek alternative funding models to sustain Medicaid.
- **Federal Waiver Programs:** Some states may pursue Section 1115 waivers or other flexibility mechanisms to maintain Medicaid coverage despite funding reductions.
- **Healthcare System Strain:** If Medicaid enrollees lose coverage, uncompensated care costs for hospitals could rise, further straining state budgets and provider networks.

- **California, New York, Texas, and Florida** — each with more than 4 million Medicaid enrollees — are heavily dependent on federal funding.
- **Expansion States (e.g., Pennsylvania, Ohio, Michigan, Illinois)** may struggle to maintain Medicaid expansion populations.
- **Non-Expansion States (e.g., Texas, Florida, Georgia)** could see further coverage gaps, particularly for low-income adults.

## Potential State-Level Responses

- **Reduced Provider Reimbursements:** States may cut payments to hospitals, physicians and long-term care providers, leading to fewer participating Medicaid providers.
- **Eligibility Reductions and Benefit Cuts:** Some states may tighten eligibility requirements or eliminate optional benefits, such as dental or vision care.
- **State Revenue Increases:** States may seek alternative tax strategies or federal waiver programs to offset funding losses.



## Short-Term vs. Long-Term Implications for Healthcare Providers



### Short-Term Impact

- **Declining Reimbursement Rates:** Hospitals and providers reliant on Medicaid could see immediate revenue losses, leading to staff reductions and service cutbacks.
- **Financial Uncertainty:** Safety-net hospitals may delay capital investments or freeze hiring due to budget uncertainty.
- **Provider Participation Issues:** Lower reimbursements could cause more providers to drop out of Medicaid, exacerbating access issues.

### Long-Term Considerations

- **Hospital Closures and Consolidation:** Prolonged Medicaid cuts could lead to the closure of rural and urban safety-net hospitals, forcing patients to travel further for care.
- **Shift in Care Delivery Models:** Providers may expand telehealth services or shift toward value-based care models to remain financially viable.

- **Long-Term Workforce Challenges:** Ongoing reimbursement challenges could deter medical students from entering primary care fields, worsening physician shortages.
- **Hospital Service Reductions:** Hospitals that rely heavily on Medicaid reimbursements may face severe financial strain, potentially leading to closures or service reductions.

### Nursing Homes and Long-Term Care Facilities

- **Nursing Home Shutdowns:** In states like New York, multiple nursing homes have already shut down due to low Medicaid reimbursement rates, a situation that could worsen under further funding cuts.<sup>2</sup>

### Community Health Centers and Home Care Agencies

- **Community Health Centers** serving low-income Medicaid beneficiaries may reduce services or close entirely, limiting access to preventive and primary care.
- **Home Care Agencies**, already struggling with staffing shortages, may cut services for seniors and individuals with disabilities, pushing more patients into costlier institutional care.

<sup>2</sup> Raga Justin, "Lawmakers decry closures of over a dozen nursing homes in NY, Times Union, February 25, 2025, <https://www.timesunion.com/capitol/article/lawmakers-decry-closures-dozen-nursing-homes-ny-20185197.php>



## Implications for Medicaid Enrollees and Public Health Systems



### Short-Term Impact

- **Coverage Losses and Access Barriers:** Millions of Medicaid enrollees face the risk of losing coverage due to tighter eligibility requirements and funding reductions, disproportionately impacting low-income families, seniors and individuals with disabilities.
- **Gaps in Care for High-Risk Populations:** Special Needs Plans and other specialized Medicaid programs could see funding constraints, leading to disruptions in chronic disease management and essential services.
- **Increased Pressure on Emergency Departments:** As more individuals lose Medicaid coverage, hospitals and emergency departments may see a surge in uncompensated care cases, driving up healthcare system costs.

### Long-Term Considerations

- **Health Disparities and Worsening Outcomes:** Reduced access to Medicaid-funded services may widen health disparities, particularly in rural and underserved urban communities.
- **Public Health Consequences:** Cuts to Medicaid could result in reduced funding for community health programs, affecting services such as maternal health, mental health, substance use treatment and preventive care initiatives.
- **Economic Ripple Effects:** Loss of Medicaid funding could destabilize local economies, particularly in states where Medicaid expansion has driven healthcare employment and industry growth.

## Conclusion and Next Steps for Stakeholders



The proposed \$800+ billion in Medicaid funding cuts will fundamentally reshape the healthcare landscape, placing health plans, state governments, providers and beneficiaries under significant financial pressure.



## Recommended Actions



### Health Plans

- **Recalibrate Provider Contracts** to adjust for reimbursement fluctuations and ensure network stability.
- **Adjust Premium Pricing and Risk Corridors** to compensate for adverse selection and rising medical costs.
- **Expand Predictive Analytics Capabilities** to model risk, utilization trends and member retention strategies.
- **Invest in Care Coordination and Member Engagement Strategies** to mitigate cost escalation and improve Star Ratings performance.

### State Governments

- **Seek Alternative Funding Sources** through state tax strategies or new federal waiver programs.
- **Implement Flexible Eligibility Models** to prevent drastic enrollment losses.
- **Collaborate With Health Plans and Providers** to optimize managed care contracting terms amid budget constraints.

### Healthcare Providers

- **Advocate for Sustainable Medicaid Reimbursement Rates** to prevent provider shortages.
- **Expand Telehealth and Alternative Care Models** to offset reductions in in-person care reimbursements.
- **Strengthen Financial Sustainability Strategies** to navigate lower Medicaid reimbursement rates effectively.

### Public Health Organizations

- **Engage in Policy Advocacy** to protect Medicaid funding for preventive and community-based care programs.
- **Expand Partnerships With Community Organizations** to sustain essential health initiatives amid funding cuts.
- **Enhance Outreach Efforts** to assist Medicaid beneficiaries in maintaining or transitioning coverage.

### Medicaid Enrollees

- **Stay Informed:** Keep track of Medicaid policy changes at the federal and state level to understand eligibility requirements and coverage options.
- **Explore Alternative Coverage Options:** If disenrolled, evaluate options through the ACA marketplace, employer-sponsored insurance or state-based programs.
- **Seek Assistance for Reenrollment:** Work with community health organizations, navigators, and Medicaid support programs to appeal disenrollments or reapply for benefits.
- **Utilize Available Resources:** Leverage free or low-cost healthcare services, including federally qualified health centers and nonprofit medical clinics, to maintain access to care.



## KEY CONTACTS

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