

CAPITOL STREET

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Medicaid Outlook for Reconciliation

Current Law vs Current Policy (ACA) Considerations

Relevant Companies



»» Our Take & Next Up

We provide a menu of Medicaid reduction policies that are more likely given the target for Reconciliation (2025). Centrist Republicans are pushing [back](#) on draconian policies that impact constituents & 2026 midterm cycle, given the importance of insurance benefits in many states. Still, eye-popping Medicaid reform savings numbers will unlikely unnerve investors 1H2025. Slowing the rate of future growth is important, as well as rolling back expansion benefits to mirror non expansion states. See our chart on [Medicaid options \(per Budget Committee\) here.](#)

The Senate is moving first, complicating the Reconciliation process and potentially delaying healthcare priorities to 2H 2025. After delays from the House on scheduling a Budget Committee markup, Senate Budget Committee Chair Lindsey Graham (R-SC) plans to mark up his own budget resolution on Wednesday. The Senate Budget Committee is pushing [forward](#) a 2 bill solution that would focus on border security, military funding, and energy now and tax cuts later. This includes more than \$340 B in new funding for border security and the Pentagon over four years, which will be offset by spending cuts. Medicare is largely off the table so savings are likely to come from Medicaid.

We believe in Medicaid (1) Work requirements (\$134 B/ten) are more likely than per capita caps (PCCs \$474-907 B/ten) or block grants as the latter impact non-expansion states (FL, TX, etc) **(2)** FMAP policies that step down matching rates is also fair game (\$69-\$596 B/ten). **(3)** Eliminating Biden era rules (e.g., nursing home staffing at \$22 B/ten) is also very likely as some never took effect. **(4)** We note SDPs as being at risk (\$25 B/ten), as conservative members look at the near-commercial pay rates with disdain. **(5)** Provider tax reform is possibly tougher to enact but not impossible with reforms at the low end of the CBO ranges (\$48 B - \$630 B/ten). **(6)** FMAP policies are likely. See *charts below.*

»» Key Points

MEDICAID

Medicaid will likely be a major source of funds in Reconciliation but the program is unlikely to be gutted, despite eye-popping targets being circulated (CQ [here](#)). We believe that Medicaid work requirements are more likely than block grants or per capita caps due to the impact on non-Medicaid expansion states.

Medicaid work requirements (saves \$134 B/ten) are more likely than per capita caps (saves up to \$900 B/ten) in reconciliation. Requiring work requirements in States appears to be the favored policy amongst the GOP, as block grants and per-capita caps disproportionately impact non-expansion states.

State directed payment (SDP) reversal (\$25 B/ten) is on the table – conservative Paragon criticizes the parity to commercial rates – while changes to FMAP (see options below that save significant dollars). We said in our 2025 outlook that FMAP and provider tax policies are fair game. Government giveaways and rates approaching commercial irk Paragon.

FMAP reforms also appear to be common-sense, and called out by Paragon ([here](#)). Recall Medicaid is a federal-state administered program. Policies can be dialed up or down, with saving ranging from \$8B to \$561 B over ten (see chart below). Phasing out enhanced Medicaid FMAPs (expansion population) is called out by Paragon, a conservative think tank, whose principals have moved to the White House (Theo Merkel and Lee Zinkman).

Medicaid provider tax reforms are fair game in Reconciliation. Paragon agrees. This is the policy that refers to state Medicaid programs assessing a provider tax in a state, then receiving the matching rate for that fee, which many see as gaming the system. Until 1993, some states had “hold-harmless” agreements with providers where the states taxed providers who received a large amount of Medicaid payments at a higher rate than they taxed other providers of the same type. As a result, federal lawmakers began to require states that taxed healthcare providers to collect those taxes at the same rate from all providers, no matter the number of Medicaid patients served.

| RECONCILIATION OPTIONS IMPACTING MEDICAID | | | | |
|---|--|------------------------|-------------------------|------------|
| POLICY | DESCRIPTION | (SAVINGS) OR COST \$Bn | SECTORS IMPACTED | LIKELIHOOD |
| Establish Medicaid Work Requirements | Implement work requirements for able-bodied adults without dependents to qualify for Medicaid coverage, per Limit, Save, Grow Act | (\$134 B/10) | Medicaid MCOs Providers | HIGH |
| FMAP Policies | Impose a reduction in a state's FMAP if the state uses state-only funding to provide coverage to illegal aliens through the state's Medicaid program | TBD | Medicaid MCOs Providers | MED-HIGH |
| | Base the DC's FMAP on the standard formula rather than fixed at 70% by statute | (\$8 B/10) | | |
| | Lower the Medicaid Matching Rate floor, allow all states' FMAPs to be set according to the formula, impacting high-income states | (\$387 B/10) | | |

| RECONCILIATION OPTIONS IMPACTING MEDICAID | | | | | |
|---|--|--|--------------|-------------------------|---------|
| | End Obamacare’s preferential treatment for adults over children by equalizing federal reimbursement of expansion adults to the normal FMAP formula | | (\$561 B/10) | | |
| | Remove American Rescue Plan Temporary FMAP increase by rolling back additional 5% that was made as an additional incentive to whenever a state newly expands Medicaid | | (\$18 B/10) | | |
| | Standardize Medicaid administrative matching rates at 50% for all administrative categories | | (\$69 B/10) | | |
| Repeal CMS Nursing Home Minimum Staffing Final Rule | Repeal “Minimum Staffing Standards for Long-Term Care Facilities and Medicaid Institutional Payment Transparency Reporting” | | (\$22 B/10) | SNFs | HIGH |
| Reverse Expansion of State-Directed Payments (SDP) | Impose limits on SDPs, currently regulations removing limits on the levels of state-directed payments in Medicaid, used to artificially increase federal Medicaid matching funds | | (\$25 B/10) | Hospital Providers | MED |
| Per Capita Caps (PCCs) | Caps on Overall Spending | Apply caps to all eligibility categories, with growth of caps based on CPI-U | (\$742 B/10) | Medicaid MCOs Providers | LOW |
| | | Apply caps to all eligibility categories, with growth of caps based on CPI-U + 1 % point | (\$459 B/10) | | |
| | Caps on Spending Per Enrollee | Apply caps to all eligibility categories, with growth of caps based on CPI-U | (\$893 B/10) | | |
| | | Apply caps to all eligibility categories, with growth of caps based on CPI-U + 1 % point | (\$588 B/10) | | |
| Provider Taxes | Lower tax threshold to 5% | | (\$48 B/10) | Medicaid MCOs Providers | LOW-MED |
| | Lower tax threshold to 2.5% | | (\$241 B/10) | | |
| | Eliminate tax threshold | | (\$612 B/10) | | |

Sources: CBO, Congress.gov, Capitol Street, 2025
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OBAMACARE REFORM & HSA, AHP & ICHRA

“Current policy” versus “current law” assumptions matter as they assume ACA subsidies remain. We have said that a short-term extension of enhanced ACA subsidies (1-3 years at 400-600% FLP) is a likely outcome in

2025. However if budgeteers use current policy, the subsidies would be extended like tax cuts, with no distinction whatsoever.

- If Republicans choose to use the “current policy” Congressional Budget Office (CBO) baseline to presume the 2017 tax cuts continue for the next decade instead of expiring in December, which eliminates the need to offset that spending, it would similarly extend the Affordable Care Act’s premium tax credits that have the same expiration date.
- Using a “current policy” baseline differs from using “current law” as it presumes a policy would stay in place regardless of its expiration date.
- Republicans are considering using that strategy to avoid having to offset the \$4 T or so needed to maintain the majority of the 2017 cuts set to expire.
- Still, the budget committee outline (from mid-Jan) includes reforms to subsidies and eligibility. Subsidy recapture (\$46 B) is here along with other Obamacare reforms are likely in the mix (See chart below) and no brainers for Reconciliation, in our view.

We have said that other insurance “greatest hits” will likely return under the Trump administration: HSAs and ICHRAs (\$0 /ten) to name a few. Trump and the GOP Congress will likely incentivize Health Savings Accounts (HSAs), Association Health Plans, Short-term Duration Plans, and Individual Coverage Health Reimbursement Arrangements (ICHRAs). The HSA & AHP policies tend to score as a cost versus savings (costs \$10 B/ten and \$579 B/ten, respectively).

| RECONCILIATION OPTIONS IMPACTING ACA / OBAMACARE | | | | |
|---|--|------------------------|---------------------------------|------------|
| POLICY | DESCRIPTION | (SAVINGS) OR COST \$Bn | SECTORS IMPACTED | LIKELIHOOD |
| Recapture excess Affordable Care Act (ACA) subsidies | Removes limits on repayments of excess premium tax credit payments so any individual overpaid in tax credits would repay the excess amount, regardless of income | (\$46 B/10) | ACA Plans | MED-HIGH |
| Repeal Obamacare Subsidies “Family Glitch” Final Rule | Repeal “family glitch” decision where Biden Admin illegally created a new affordability standard to both employees and their dependents, resulting in individuals leaving employer coverage and onto ACA plans | (\$35 B/10) | ACA Plans | MED |
| Reform Obamacare Market Plan Design and Eligibility | Reform Obamacare market plan design and eligibility rules (e.g. actuarial value calculations, open enrollment periods) | (\$10 B/10) | ACA Plans | MED |
| Repeal DACA Obamacare Subsidies Final Rule | Repeal decision that expands eligibility by modifying definition of “lawfully present” to include DACA recipients to enroll in subsidized marketplace and basic health program plans (saves \$6 B/ten) | (\$6 B/10) | ACA Plans Basic Health Plans | HIGH |
| Other Reforms to Obamacare Subsidies | Reform subsidies in individual market, lower premiums and out of pocket costs, direct subsidies to patients over health insurers, target Premium Tax Credits to those who need it most | (\$5 B/10) | ACA Plans | MED-HIGH |

RECONCILIATION OPTIONS IMPACTING ACA / OBAMACARE

| | | | | |
|--|--|-------------|--|------|
| Limit Federal Health Program Eligibility Based on Citizenship Status | Remove specific categories of non-citizens (e.g. illegally entered individuals) from eligibility for (all) federal healthcare programs | (\$35 B/10) | Hospitals Providers Health Plans | HIGH |
|--|--|-------------|--|------|

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