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MTF Bulletin

September 10, 2025

The Changing Landscape: Impacts of Federal Action on Massachusetts

Part 3: Impacts of Federal Reconciliation on the Massachusetts Health Care System

On July 4th, President Trump signed the One Big Beautiful Bill Act (OBBBA) into law. The massive tax and spending bill has been scored by the Congressional Budget Office to increase the nation's debt by $3.9 trillion over the next ten years, and includes myriad policy provisions touching many aspects of the state/federal partnership. This Bulletin provides an initial analysis of how the bill's Medicaid and health care provisions are likely to affect Massachusetts in state Fiscal Year (FY) 2026 and beyond.

This analysis is the latest in MTF's ongoing series looking at the impacts of federal policy changes on Massachusetts. Earlier analyses assessed how federal policy changes could affect state finances and its economy as well as a closer look at the federal reconciliation process.

Health Care Policy Provisions in OBBBA

The Congressional Budget Office (CBO) estimates that OBBBA includes $1.15 trillion in federal savings related to policy changes that will cut federal health care spending between federal fiscal years 2025 and 2034. The total fiscal impact of the cuts is heavily backloaded – with one quarter of the savings projected to occur over the next five years and the remainder occurring after 2029.

OBBBA includes 34 distinct health care provisions, of which 25 are scored by the CBO as cutting spending. Broadly speaking, the provisions breakdown as follows:

OBBBA Health Care Changes by Policy Area

Policy Area	Number of Provisions	Provisions to Cut Spending	5-Year Fiscal Impact	10-Year Fiscal Impact
Health Exchanges	5	5	-$69,511	-$212,968
Medicaid	24	19	-$256,052	-$1,043,325
Medicare	4	1	$2,564	$2,388
Rural Hospitals	1	0	$20,000	$25,000
Interaction Offsets			*$16,841*	*$79,459*
Total	***34***	***25***	***-$286,158.0***	***-$1,149,446.0***

$ in millions

The largest category of policy changes and the vast majority of savings (91 percent) are related to Medicaid, with changes to tax credits for health exchange coverage comprising the next largest share of total savings. Approximately half of all federal spending reductions are driven by three changes to Medicaid:

- Institution of work requirements ($325.8 billion over ten years);
- Limits on the use of state Medicaid provider taxes ($191.1 billion over ten years); and
- Limits to states' use of Medicaid directed payments ($149.4 billion over ten years).

However, even among these three major changes, the impact of timing on cost is apparent. The CBO expects just under five percent of the total estimated cost reduction in these areas to accrue over the first three federal Fiscal Years (FFY 2025 to 2027), with 95 percent of the impact occurring between FFY 2028 and 2034.

The effect of these changes on Massachusetts will depend on a number of factors – from how prevalent a population or practice is in Massachusetts, to policy decisions related to implementation – but the total CBO scores allow for a rough estimate of the fiscal impact on Massachusetts by year.

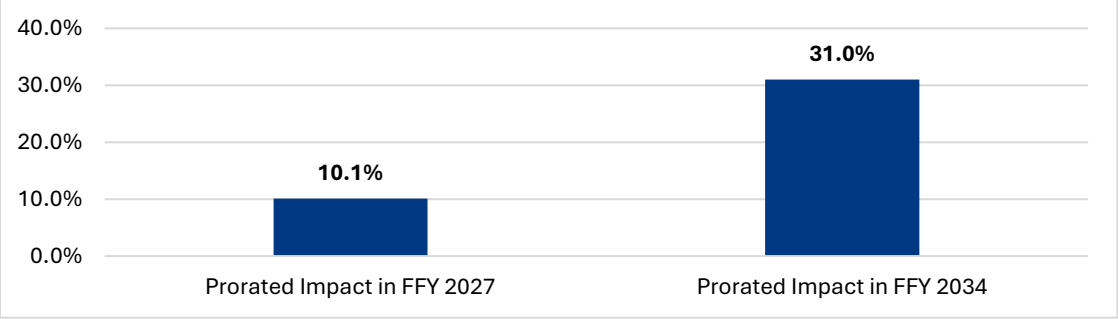
Prorated Estimate of Health Care Impacts on Massachusetts

Year	FFY 2025	FFY 2026	FFY 2027	FFY 2028	FFY 2029	FFY 2030	FFY 2031	FFY 2032	FFY 2033	FFY 2034	FFY 2025 – 2029	FFY 2025 – 2034
US Impact	-$782	-$25,329	-$66,238	-$80,179	-$113,630	-$140,351	-$158,830	-$173,612	-$187,003	-$203,494	-286,158	-1,149,446
Prorated MA Impact	***-$16***	***-$532***	***-$1,391***	***-$1,684***	***-$2,386***	***-$2,947***	***-$3,335***	***-$3,646***	***-$3,927***	***-$4,273***	***-6,009***	***-24,138***

$ in millions

If the impact of federal health care cuts to Massachusetts is assumed to be proportionate to its share of the national population, the FFY 2026 impact on Massachusetts is $532 million.[1] It is projected to double by FFY 2027, and increase by a further $1 billion in annual cost by FFY 2029. By FFY 2034, the negative impact on Massachusetts will be more than $4 billion, roughly equivalent to 20 percent of the FY 2026 MassHealth spending budget and 30 percent of federal Medicaid revenues used in the current year's spending bill.

Prorated Impact of Federal Cuts as Share of MassHealth Revenue



[1] While population share can provide a rough estimate of total impacts on Massachusetts and is a reasonable method to proxy for enrollment and eligibility based changes, it is not a useful method for other changes, notably State Directed Payments. This Bulletin's analysis of specific changes notes instances where prorating impact on population is not applicable.

As the chart above shows, the estimated amount of federal cuts is equivalent to 10 percent of the amount of federal Medicaid revenue relied upon in the FY 2026 state budget. That amount triples over the next 10 years.

Impacts of Major Health Care Changes on Massachusetts

While the total cost of OBBBA's health care changes on Massachusetts are helpful to give a sense of scope, a closer examination of some of the bill's largest provisions is important to help policymakers assess actual impacts and timeline. This section looks at six of the major provisions in the bill, providing an overview of the change proposed, a timeline for implementation, and an estimated Massachusetts cost. The provisions are organized by the CBO's estimate for total savings generated over the next ten years.

Medicaid Work Requirements

Implementation Date	1/1/2027
Prorated CBO Impact on MA: FFY 2026	$0.0
Prorated CBO Impact on MA: FFY 2027	-$274.7
Prorated CBO Impact on MA through FFY 2034	-$6,841
$ in millions	

The largest estimated cost savings in OBBBA is from the imposition of Medicaid work requirements on non-disabled, Medicaid enrollees that do not have children or meet other exemption criteria. The savings generated come from disenrolling Medicaid members, thereby reducing federal reimbursements for eligible costs. Assuming the average Medicaid enrollee affected by work requirements costs $8,000 and the average federal coverage for members subject to the work requirement is 70 percent, CBO estimates imply that around 9 million Medicaid members would lose enrollment by FFY 2034.[2]

The proposal would require states to implement "community engagement" requirements for all eligible Medicaid members. The bill lays out nine exemption categories, meaning that the requirement generally applies to adults who are not disabled, do not have children, and are not eligible for Medicare.

The bill defines community engagement as 80 hours of a qualifying activity in a month. Qualifying activities include:

- Employment;
- Community service;
- Eligible education programs; and

[2] For the purposes of this analysis, we assume that national Medicaid per member spending is $8,000. While that annual figure is higher in Massachusetts, we assume an average affected MassHealth member cost of $8,000 per year due to the fact that many MassHealth members with more expensive medical conditions will be exempt from work requirements.

- Eligible work programs.

Non-exempt Medicaid members must demonstrate compliance or their state must be able to prove compliance with valid information sources (i.e. income matching with a tax collection agency). Anyone deemed non-compliant would have 30 days to provide proof of sufficient community engagement or they would lose their benefits.

The bill does allow states to apply for a two-year delay in implementation (to 2029). The decision to delay implementation would made by the Secretary of Health and Human Services.

How It Would Impact Massachusetts

The work requirement proposal would begin to directly affect Massachusetts' state budget and its health care system midway through FY 2027, when the requirement goes into effect. There are three predictable effects of this proposal on the state budget and larger health care system:

- **Increased MassHealth Administrative Costs** – Creating a new work requirement program for hundreds of thousands of MassHealth enrollees will have material startup and ongoing costs to administer. The reconciliation bill does make $200 million available for state implementation grants, but state costs would likely exceed the $4 million or so Massachusetts might expect to receive. It is likely that state administrative costs will be in the $10 million to $20 million range.
- **Reduced MassHealth Spending and Federal Reimbursement** – The direct result of the imposition of work requirements is fewer people receiving MassHealth benefits. This will reduce state spending on MassHealth, but it will also reduce federal reimbursements for state spending. The majority of those not exempt from the work requirement are enrollees covered through the Affordable Care Act, meaning the state currently receives 90 percent reimbursement for their eligible costs. Therefore, the net impact of state budget savings will be between 10 and 30 percent of the gross cost reduction.
- **Increased Uninsured Population** – MassHealth is the largest insurer in Massachusetts, providing some form of coverage to more than 2 million residents. If thousands of covered members are unenrolled it is likely that many will end up without insurance. An increase in the uninsured population will increase financial pressure on the state's larger health care system, as the cost of care for uninsured residents is covered through the state's Health Safety Net, which currently has a funding shortfall of approximately $290 million and reimburses providers at rates far below MassHealth.

Only five percent of total estimated savings are expected through the end of FFY 2027 (September 30th of 2027), meaning that large changes in MassHealth enrollment due to this policy change are unlikely to materialize before October 2027. However, if the CBO estimates are accurate and the impact in Massachusetts is proportionate to our share of the Medicaid population, it could reduce MassHealth enrollment by up to 200,000 members.

Estimating the State Budget Impact

Reducing the MassHealth population by imposing a work requirement will have three primary state budget impacts:

- A reduction in MassHealth spending, and federal reimbursement;
- An increase in demand on the Health Safety Net Trust Fund, which covers a share of the cost of service for the uninsured and underinsured; and
- Increased financial strain on hospitals with the largest Medicaid client populations.

Given Massachusetts' relative success in maintaining MassHealth coverage for eligible members during the mandatory redetermination period following the end of the COVID public health emergency, it is possible that the number of members unenrolled through a work requirement would be less than the national average. The analysis below assumes a range of between 100,000 and 200,000 disenrolled MassHealth members. The analysis reflects $8,000 in current spend per affected member under the assumption that the relative acuity of non-exempt MassHealth members will be lower than other MassHealth members.

Initial Budget Estimate for MassHealth Spending

Members Lost	100,000	200,000
Assumed Cost Per Member Spend	$8,000	$8,000
Total Foregone Spending	$800,000,000	$1,600,000,000
Assumed Federal Reimbursement Share	80%	80%
Net Budget Savings	***$160,000,000***	***$320,000,000***

Using rough estimates for average cost per-member and federal reimbursement share, we find that a reduction in MassHealth enrollment between 100,000 and 200,000 members would reduce total spending by between $800 million and $1.6 billion. However, the net budget savings would be just 20 percent of that amount, possibly less. The reason for this significant discount is that the vast majority of those likely to be unenrolled through this policy are members covered through the Affordable Care Act, with costs eligible for 90 percent reimbursement. For those members, the state will save 10 cents for every dollar in reduced spending.

However, as noted above, a significant increase in unenrolled members will also increase rates of uninsurance and underinsurance, thereby increasing demand for health services covered by the Health Safety Net (HSN). The impact on the HSN will depend on how many MassHealth members are unenrolled and unable to find alternate insurance, but the impact will be significant. If we assume that each additional HSN user will cost $2,000 per year, potentially a conservative estimate based on FY 2019 HSN data, each 50,000 in new users will increase demand by $100 million. That means if just half of those losing coverage due to work requirements use the HSN, its shortfall will increase by more than 30 percent. HSN costs are paid for by the state and supported by required contributions from providers and insurers.

Finally, removing thousands of MassHealth members from consistent coverage is likely to worsen long-term health outcomes and reduce the largest and most consistent source of funding for community health centers and safety net hospitals already under significant fiscal strain.

Premium Tax Credit Access

Implementation Date	Various; starting 1/1/2026
Prorated CBO Impact on MA: FFY 2026	-$103.6
Prorated CBO Impact on MA: FFY 2027	-$324.8
Prorated CBO Impact on MA through FFY 2034	-$4,472

$ in millions

In addition to Medicaid changes, OBBBA also made major changes to premium tax credits (PTCs) available to eligible individuals seeking care through state health insurance exchanges – the Health Connector in Massachusetts. The changes in legislation, along with several federal rules that have recently been promulgated, will limit eligibility for credits and require additional eligibility verification steps. As with several of the major Medicaid changes, these health exchange provisions appear designed to reduce federal costs by increasing barriers to accessing PTCs.

There are five major changes to PTCs included in OBBBA that have material savings for the federal government and an impact on Massachusetts:

- **Limiting PTC Eligibility** *(ten-year savings of $69.8 billion)* – This change would eliminate PTC eligibility for several non-citizen populations who lawfully reside in the country. Under the change, most asylum seekers, refugees, those pending legal status and people with Temporary Protected Status would not be eligible for PTCs.
- **Eliminating PTC Eligibility for Lawful Permanent Residents Ineligible for Medicaid Coverage** *(ten-year savings of $49.5 billion)* – This change would prevent those with an income level under 100 percent of the federal poverty level from accessing PTCs if they are ineligible for Medicaid or CHIP due to their immigration status.
- **Eliminating Income-Based Special Enrollment Periods** *(ten-year savings of $39.5 billion)* – This change would prohibit states from allowing individuals with qualifying income to enroll in health exchange plans outside of the standard open enrollment period, effectively saving money by limiting enrollments to one defined period in the year.
- **Increasing Eligibility Verification** *(ten-year savings of $36.9 billion)* – This change requires confirmation and reconfirmation of income, resident status, health insurance status, and place of residence prior to enrollment or reenrollment. This provision will prevent automatic enrollment and reenrollment. The provision also prohibits enrollment for members who have not met timelines for tax filing or reconciled any issues with prior receipt of PTCs.
- **Elimination of Cap on PTC Recapture** *(ten-year savings of $17.3 billion)* – This provision would eliminate existing maximum repayment levels for those who have received PTCs in advance in excess of the amount to which the person is ultimately entitled. Prior to OBBBA, repayment amounts were capped for people and families under 400 percent of the federal poverty level (FPL). The repayment caps varied depending on enrollment type and income, but individual repayment was capped at $1,575 for an individual with an income between 300 and 400 percent of FPL.

In total, the CBO estimates that these PTC changes will reduce federal health care spending by $213 billion through FFY 2034.

How it Would Impact Massachusetts

In Massachusetts, about 330,000 people use PTCs to access subsidized health insurance through the Connector. The impact of these PTC changes in Massachusetts will be fewer people eligible for insurance subsidies and a higher rate of disenrollment due to those unable to meet new enhanced eligibility requirements.

The largest Massachusetts impact of these changes are eligibility restrictions based on verification of immigration or citizenship status. In a presentation to the Health Connector Board in June of 2025, Connector staff estimated that the changes to limit immigrant eligibility would result in 50,000 to 60,000 current enrollees losing access to PTC subsidies, rendering health insurance unaffordable through the exchange.

In addition, changes to require reverification of all eligibility criteria will significantly undercut the Commonwealth's successful reenrollment process. According to Health Connector data, 55 percent (about 175,000 people every year) automatically reenroll for coverage. Under federal changes, manual reverification will be required in many of these cases. If the churn rate for this population is just 15 percent (likely a low estimate), new requirements would remove another 20,000 enrollees (after accounting for the population likely to lose coverage due to resident provisions). Like other OBBBA changes, federal rules governing this provision will impact of the scope of the change.

Potential Impact of PTC Changes on Connector Enrollment

Members Using PTCs	332,000
Immigration Potential Impact	60,000
Reverification Potential Impact	20,000
Potential Enrollment Loss	***80,000***

Combined, these changes could eliminate insurance coverage for 80,000 Connector members – one quarter of the current enrollment. Prorating the CBO estimate of total federal savings implies a state loss of PTCs of $4.5 billion over ten years. However, if 80,000 members lose coverage, it would take about $700 million in annual insured health care spending out of the Connector. Some individuals will likely find other forms of insurance, but many will likely become uninsured.

In addition, these changes occur as the future of pandemic-era PTC expansions is very much in question. The American Rescue Plan enhanced PTCs, making people with higher incomes eligible and increasing the amount of premium-reducing credits. Those enhanced credits are set to expire at the end of 2025 unless Congress acts and could affect a further 20,000 Connector members.

Estimating the State Budget Impact State subsidies for Connector coverage are typically contingent on an enrollee receiving federal PTCs, meaning that direct state costs for subsidies would decline if thousands lost access to PTCs. Connector regulations make clear that this general rule also applies to a recent ConnectorCare pilot, which expands state subsidies to residents with income up to 500 percent of FPL.

As with major Medicaid changes, the primary impact of PTC changes on the budget will be indirect – if the number of uninsured individuals increases, the Health Safety Net's budget shortfall grows and the risk of provider failure increases as their share of uninsured patients rises dramatically.

Provider Taxes

Implementation Date (freeze)	7/4/2025
Implementation Date (hold harmless)	10/1/2027
Prorated CBO Impact on MA: FFY 2026	NA
Prorated CBO Impact on MA: FFY 2027	NA
Prorated CBO Impact on MA through FFY 2034	NA

$ in millions

The next largest source of federal health care spending cuts estimated by the CBO is related to the provider taxes that states use to offset state cost share requirements for Medicaid. Provider taxes are levied on health care entities – typically health care providers, but also managed care organizations and other health related entities – with the proceeds used to support state Medicaid programs and provide state matching payments. Often, provider taxes are associated with rate increases or program changes that also provide benefits to assessed providers. Under current law, as long as state provider taxes make up 6 percent or less of affected provider revenues, state Medicaid offices are able to construct the taxes in a way that ensures providers that increased payments will fully offset any provider tax amount.

OBBBA includes several changes to provider taxes:

- The bill prevents states from implementing provider taxes on new classes of providers, not subject to tax as of July 4, 2025.
- The bill limits the ability of states to differentiate tax rates within a provider tax class, especially if the differential rate is higher for Medicaid units of cost than non-Medicaid units of cost. Historically, states have used rate structures that increase rates for entities more likely to benefit from enhanced Medicaid payments, thereby mitigating tax impacts on entities less likely to receive a Medicaid benefit. Eliminating these differentiated rates is referred to as the "uniformity" provision.
- The bill phases down the existing 6 percent revenue cap on provider taxes. As mentioned above, states have had wide latitude to levy approved provider taxes, as long as those taxes do not

exceed 6 percent of affected provider revenues. OBBBA reduces that cap to 3.5 percent by FFY 2032.[3]

The prohibition on new provider taxes and the requirement for uniform rates is effective in FFY 2026. The first phasedown of the 6 percent threshold, from 6 percent to 5.5 percent, occurs in FFY 2028.

How It Would Impact Massachusetts

Massachusetts, like 48 other states, uses provider taxes to help support its Medicaid system and state provider taxes have increased in recent years. For example:

- Since 2022, the state has increased hospital assessments from $422.5 million to $880 million (in FFY 2023) and then to $1.48 billion (in FFY 2025).
- In 2024, the state created a Managed Care Organization Assessment used to support increased MCO rates and provide $70 million in support to the General Fund;

The prohibition on new classes of provider taxes will preclude the state from pursuing recent proposals to levy similar assessments on pharmacies, or increase current assessment levels, but Massachusetts is not as reliant on provider taxes as other states and so the freeze and hold harmless step down will have limited impacts on the state's current provider tax structure By prohibiting any change in provider tax rates, the federal changes will take away a major tool the state has used in recent years to increase payments to hospitals and other providers in the future.

The bill's prohibition on differentiating rates based on Medicaid share of service, will impact the state budget in FY 2026. The MCO assessment does levy a higher rate on MCOs depending on Medicaid share of business, but then makes those providers whole through the form of increased rates. The state will now be required to implement one uniform MCO rate. This will likely result in reduced MassHealth tax MCO rates and a loss of about $70 million in revenue to the General Fund.

Estimating the State Budget Impact

The provider tax changes in OBBBA will cost the state budget about $70 million on an annual basis. The limits on provider tax rates and the phasedown of the hold harmless provision will not have a direct impact on the state budget – payments made to providers reliant on provider taxes are contingent on the receipt of federal reimbursement, meaning that even if Massachusetts was affected by the caps, the state would be able to reduce total payments to ensure budget neutrality.

By eliminating increased use of provider taxes as a tool moving forward, the state will lose an increasingly relied upon means to increase directed payments to providers – especially providers serving the largest share of Medicaid patients.

State Directed Payments[4]

[3] The cap reduction does not apply to nursing and intermediate care facilities.

[4] It does not make sense to prorate the impact of State Directed Payment (SDP) changes based on population because SDP arrangements vary widely by state and is not well correlated to population.

Implementation Date	1/1/2028
Prorated CBO Impact on MA: FFY 2026	NA
Prorated CBO Impact on MA: FFY 2027	NA
Prorated CBO Impact on MA through FFY 2034	NA

$ in millions

Under current law, states can receive federal approval to make directed payment arrangements with providers – typically to incentivize certain types of care or to provide additional financial support to those serving the highest share of Medicaid patients. Under the existing policy, the upper limit for those payments, which are made in the form of rates, is the average commercial payment rate for hospitals.

Under OBBBA, existing state directed payment rates are required to phasedown to no more than the Medicare payment limit, beginning in 2028. Payments currently exceeding that level would be reduced by 10 percentage points annually until they reached the Medicare amount. Studies have found that commercial hospital rates can be up to double that of Medicare, and CBO estimates that this change will result in $149.4 billion in total savings over the next ten years.

How It Would Impact Massachusetts

Massachusetts makes a number of State Directed Payments (SDP) that exceed the Medicare rate. Those SDP arrangements range from incentive payments related to quality of care, behavioral health services, to a general rate add-on for hospitals. In FY 2025, Massachusetts SDPs totaled just over $2 billion. Under the OBBBA change, Massachusetts providers would see a reduction in payments under this change beginning in calendar year 2028. Estimating the impact on those payments and the state is challenging. The method for determining how existing rates compare to Medicare rates will likely be laid out in CMS regulation and that method will be essential to determining how Massachusetts' SDPs compare to the relevant threshold. In addition, there is not comprehensive information readily available that shows existing SDP rate levels in comparison to commercial and Medicare levels.

However, available analysis comparing commercial and Medicare rates makes clear that the impact of the SDP change on providers will be significant. In 2020, the Kaiser Family Foundation published a literature review of research on the difference between commercial and Medicare rates. The research shows that differences vary depending on type of care, but that commercial rates were 89 percent more for inpatient hospital services on average, 164 percent more for outpatient hospital services, and 43 percent more for physician services. If we use the lowest of these rate differentials (43 percent) to create a conservative baseline for rate changes, the impact on SDP payments in Massachusetts would be reduced by more than $350 million. If SDP rates in Massachusetts had to fall 89 percent to meet the Medicare level, it would reduce currently payments by more than $600 million. More detailed information on how current SDP rates relate to commercial and Medicare will be needed to make accurate estimates of the likely fiscal impact.

Estimating the State Budget Impact

Massachusetts' SDPs are predicated on the availability of federal reimbursement. Therefore, there is no direct fiscal impact to the state budget if federally approved SDPs are reduced; the state would simply reduce its anticipated payments. However, as with other changes highlighted in this analysis, the indirect effects on the state budget are likely to be profound.

The recent experience with Steward Hospitals provides an unsettling glimpse at the potential fiscal and health policy consequences the Commonwealth faces when confronted with the choice between a closed hospital or a financial rescue. In the case of Steward, this stark choice occurred for seven different hospitals in seven different areas of the state. Ultimately, two facilities closed, while the state spent $676 million, net of provider repayment, to ensure the continued operation of five hospitals. In the Steward situation, more than half of this amount ($359.7 million) is eligible for federal reimbursement.

The Steward example is not a precise parallel to the potential impact of SDP payments, but there are lessons. If safety net hospitals experience a sustained reduction in resources, it is plausible that they will seek other forms of financial assistance, look to reduce services, or even close. To avoid this, the state could be asked to provide additional financial backing or to facilitate transferred ownership. However, unlike in the case of Steward facilities, additional federal reimbursement may not be forthcoming. In the case of Steward, one-time supplemental payments were in the $140 to $250 million range to stabilize the finances of a hospital as it transferred to a new owner. The cost of mitigating permanent reductions in Medicaid payment could be far greater.

Medicaid Eligibility Rule Moratorium

Implementation Date	4/1/2026
Prorated CBO Impact on MA: FFY 2026	-$188.4
Prorated CBO Impact on MA: FFY 2027	-$323.7
Prorated CBO Impact on MA through FFY 2034	-$3,508

$ in millions

OBBBA suspends implementation of CMS eligibility rule changes affecting the Medicare Savings Program and the Children's Health Insurance Program (CHIP), which were scheduled to be implemented in 2026. There are a number of elements to the proposed rules that are being halted, but generally they accelerated access to benefits, required states to facilitate enrollment of likely individuals, reduced paperwork and verification requirements for enrollment and updated redetermination processes.

The bill delays implementation of these rules until the end of FFY 2034. The CBO estimates the ten-year savings of these provisions to be $167 billion, which prorates to $3.5 billion if the Massachusetts impact is the same as its population share. These federal savings will result from lower total Medicaid enrollment compared to what would be the case if the rules went into effect.

How It Would Impact Massachusetts

These changes should not affect the current MassHealth program in Massachusetts. The new federal rule has not yet gone into effect, and the change does not require the state to change existing eligibility or redetermination processes.

These changes will affect future MassHealth caseload trends in the Medicare Savings and CHIP programs. Both of these programs provide the state with reimbursement opportunities in excess of the standard 50 percent federal match. Therefore, these changes could slightly reduce potential future Medicaid caseload, but more likely will reduce future federal resources for residents already on other forms of MassHealth.

The Massachusetts' share of federal spending reductions in the table above is best understood as the amount of federal Medicaid reimbursements that the state will forego by not increasing MassHealth rolls as a result of the rule changes.

Estimated the State Budget Impact

These changes will not change any budget assumptions included in the state's FY 2026. The two rules are generally effective in April of 2026, the last quarter of the state's FY 2026 budget. It does not appear that the FY 2026 budget made any specific assumptions related to these rules.

Going forward, these changes could impact total Medicaid enrollment, though more likely will affect the composition of Medicaid enrollees, with fewer members participating in the Medicare Savings Program and CHIP.

Eligibility Redeterminations

Implementation Date	1/1/2027
Prorated CBO Impact on MA: FFY 2026	$0.0
Prorated CBO Impact on MA: FFY 2027	-$107.4
Prorated CBO Impact on MA through FFY 2034	-$1,315

$ in millions

OBBBA changes Medicaid redetermination timelines for ACA expansion states, beginning on January 1, 2027. Under the change, states will be required to reassess ACA expansion group member eligibility at least every six months, as opposed to the current requirement of every 12 months.

The CBO estimates that this change will reduce federal Medicaid spending by $62 billion between FFY 2027 and FFY 2034. Assuming the Massachusetts share of this impact is proportionate to our population, this would reduce federal Medicaid spending in Massachusetts by $1.3 billion. Given that the change does not affect the 10 states that have not expanded Medicaid through the ACA, this Massachusetts impact is likely understated.

How It Would Impact Massachusetts

The impact of this change on Massachusetts would be increased MassHealth churn, fewer total MassHealth members, and an increase in the uninsured and underinsured populations. The extent of the impact will depend on how the accelerated redetermination timeline will affect MassHealth member churn.

Prior to the pandemic, Massachusetts had above average rates of Medicaid member churn. In a CMS analysis of 2018 state data, the US average churn rate was 22 percent – meaning that 1 in 5 Medicaid members experienced some coverage loss during the year. In Massachusetts, that rate was approximately 27 percent, ranking in the top ten for highest rates of coverage loss. Following the pandemic, Massachusetts' churn rate (40.5 percent) remained higher than the national average (30.1 percent) when all states were required to redetermine member eligibility at the conclusion of the federal Public Health Emergency.

Given these analyses, it is apparent that Massachusetts is likely to meet or exceed national averages for increased churn as a result of increased eligibility checks. Massachusetts enrolls between 300,000 and 500,000 members from the ACA expansion population. If the state's pre-pandemic churn rate of 27 percent remains true, but the frequency of checks is doubled, it would imply an additional 80,000 to 135,000 disenrollments per year. However, it is important to note that many of these members are likely to re-enroll within the same year and so the 12-month coverage loss, will be lower on a per-member basis. However, even if half of affected members re-enroll, it still equates to 40,000 to 67,500 lost members. Some of these affected members would also potentially be impacted by work requirements. Accounting for the overlapping impact of the two policies, the lost enrollment is likely in the 20,000 to 35,000 range.

Some disenrolled members will have access to other care, but a portion will become uninsured and will increase pressure on uncompensated care and the Health Safety Net.

Estimating the State Budget Impact

As with other changes designed to reduce Medicaid enrollment, the direct budget impact will be a reduction in state MassHealth spending, largely offset by a reduction in federal revenues. The affected population is typically eligible for reimbursement far in excess of the state's standard 50 percent rate. That means that a majority of the savings from membership reductions will accrue to the federal government.

Projection of Potential State Impact of Increased Redeterminations

Assumed Lost Membership	Federal Reimbursement Assumption	Assumed Per Member Spend	State Savings
20,000	80%	$10,000	$40,000,000
20,000	90%	$10,000	$20,000,000
25,000	80%	$10,000	$50,000,000
25,000	90%	$10,000	$25,000,000
35,000	80%	$10,000	$70,000,000
35,000	90%	$10,000	$35,000,000

Depending on the loss of enrollees and the actual reimbursement level, annual state savings are likely to be in the $25 million to $70 million range. However, as with other enrollment policy changes, these savings will likely be more than offset by increased demand for Connector coverage and uncompensated care.

Putting It All Together

Health care cuts included in OBBBA will eliminate Medicaid and subsidized Connector coverage for hundreds of thousands of Massachusetts residents. While these changes will not immediately imperil the state budget, the reduction in coverage will create a domino effect ratcheting up financial pressure on providers, increasing shortfalls within the Health Safety Net, and leading to calls for the state to stabilize health care finances. Given that any state approach to mitigate these financial impacts would not be eligible for federal Medicaid reimbursement, the medium-term implications of these changes are dire.

Using the best available data, and conservative assumptions, MTF estimates that OBBBA changes will eliminate health care coverage for about 255,000 current MassHealth and Connector members over the next ten years. The three changes to Medicaid alone would more than double the number of uninsured individuals in the state, reduce federal health care spending in the state by $1.8 billion per year and increase Health Safety Net demand by up to $510 million. At the same time, changes to SDP policy could reduce hospital payments, over time, by between $350 and $600 million.

Estimating Enrollment Impact of OBBBA Changes

Medicaid Loss - Work Requirement	150,000
Medicaid Loss - Reverification	25,000
Connector Loss - Immigration Changes	60,000
Connector Loss - Reverifification	20,000
Total Estimated Enrollment Loss	***255,000***

Because OBBBA health care cuts come in the form of reduced enrollment and payments to providers, they do not have the immediate catastrophic impact on the state budget that some might expect. State spending in the short term will be reduced, as will be federal revenues. But policymakers would be foolish to not take action now to forestall or mitigate the impact of hundreds of thousands of Massachusetts residents losing insurance coverage. Immediate action entails two elements:

- Investing in strong systems to ensure that eligible members remain enrolled on MassHealth; and
- Convening all health care stakeholders to improve the financial resiliency of the health care system to ensure that the system can adjust to the impacts of federal changes in a way that maintains high quality care without losing sight of system affordability.

Prior to OBBBA, the state's health care system was in a fragile place – with costs escalating, while the fiscal position of many providers remained tenuous, and the aftermath of the Steward crisis affected access in several regions of the state. The coverage impacts of OBBBA will be significant and will affect not just those losing access to insurance, but the health care system and the state budget. The time is now to prepare for those impacts.