VIEWPOINT

Effect of Medicaid Cuts on the Medical Care Ecosystem

Mitchell H. Katz, MD

As Congress considers large reductions to Medicaid funding, most of the attention has appropriately been on the harm that may occur to low-income persons. Today, Medicaid and the Children's Health Insurance Program (CHIP) cover 79 million US residents, of which 37.5 million are children.[1] Medicaid expansions have been associated with better access to health care, improved use of health services, and increased quality of care.[2]

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Loss of Medicaid coverage or narrowing of benefits will reverse this progress. Already, the Centers for Medicare & Medicaid Services (CMS) has said that it would no longer approve state waivers to provide funding for medically related social needs, such as housing or food. Proposed work requirements, which have been implemented in some states, have resulted in persons losing benefits without concomitant increases in employment.[3] Shorter enrollment periods and stricter documentation requirements will result in people falling off the rolls.

Less well appreciated is how Medicaid payment cuts will affect the medical care ecosystem in the US, resulting in a large number of reverberating losses. Medicaid payments do not go to low-income persons. There are far-reaching casualties from Medicaid cuts, beyond the harms to the beneficiaries of the program, which I review in this article.

States

Medicaid is a federal-state partnership program. In 2026, the federal government will pay between 50% and 77% of the cost of the program for traditional beneficiaries (eg, children, disabled adults).[4] As an incentive for states to expand Medicaid under the Affordable Care Act, the federal government increased its share to 90% of the cost for the expanded population. The incentive worked: 40 states and the District of Columbia expanded Medicaid. However, a proposal in Congress would lower the federal match for the expanded population to the same as the federal match for traditional populations.

On the face of it, this proposal sounds much less draconian than cutting Medicaid benefits directly. Why should the federal government pay 90% for a nondisabled adult and only 50% for a child or disabled adult? However, as I presaged in the introduction, the money is not going to the beneficiaries. The loss of federal funds will be to the states, which will have 2 choices. First, they can continue the expanded population by replacing lost federal share with state funds. In this case, casualties of a Medicaid cut may include public education and transportation. The cost for all states to continue expanded Medicaid with a standard federal match would be $626 billion over a 10-year period.[4] Second, states can eliminate the benefit, with the result of millions of people losing Medicaid.

Hospitals

Hospitals in the US, especially those with emergency departments, will be harmed in several ways. The Emergency Medical Treatment and Labor Act (EMTALA) of 1986 requires that hospitals that participate in Medicare and have an emergency department provide emergency care without regard to insurance or the patient's ability to pay.

Many nonprofit hospitals report operating losses, with America's Essential Hospitals (a coalition of safety net hospitals) reporting an average operating margin of −9% in 2022.[5] These losses will deepen if there are more patients without insurance who arrive at the emergency department requiring care. Hospitals will need to cut services, delay purchases of equipment or capital improvements, or face closure. Additionally, hospitals have large fixed costs. Although Medicaid generally pays less than private insurance, patients with Medicaid help finance hospitals at the margins. Empty beds bring in no revenue. Once you have purchased a computed tomography scanner or magnetic resonance imaging machine, extra cases, including patients with Medicaid, bring in additional revenue to support the hospital.

Teaching hospitals may be harmed disproportionately from decreases in Medicaid enrollment, as the federal government compensates hospitals for the cost of teaching residents through the Medicare and Medicaid Graduate Medical Education program. Payments are keyed to Medicaid volume, but there are no payments for uninsured persons.

Physicians

There is no EMTALA requirement for outpatient physicians. Most private practices do not accept uninsured persons unless they can afford to pay for themselves. Physicians who see patients with Medicaid will now face the wrenching choice of continuing to see the patients despite their inability to pay or transitioning them to another clinician. In a hospital setting, physicians will not receive professional fees for their services to uninsured persons. Community physicians, who cannot choose which patients they will come to the hospital to see if they are on call, may be unwilling to participate in the on-call schedule.

Federally Qualified Health Centers

These centers receive an enhanced rate for patients with Medicaid compared with private physician offices in exchange for their commitment to provide care to Medicaid recipients and the uninsured. However, if fewer persons have Medicaid, the enhanced rate for those remaining Medicaid recipients is unlikely to cover all of the new uninsured individuals.

Certified Nursing Facilities

Medicaid is the primary payer for 63% of the residents at certified nursing facilities.[6] Even though most nursing home patients have Medicare, it only pays for a limited number of weeks. Decreasing

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Medicaid benefits and eligibility will make it difficult for skilled nursing facilities to provide the necessary care for disabled and older adults in their community.

Insured Persons

Persons with health insurance will not escape the harms that will come from Medicaid cuts. Private insurance in the US cross-subsidizes the costs of those patients who are uninsured. If the percentage of patients who are uninsured increases, hospital systems will demand higher rates from insurance companies, which will then pass along these increases to purchasers of insurance. If insurance is costlier, fewer persons will be able to afford it, resulting in more uninsured persons and a vicious cycle of cost increases.

The care insured persons receive will likely also deteriorate with Medicaid cuts because health care facilities will have less money to invest in new equipment, buildings, and staffing.

Employers

The expansion of Medicaid enables employers to avoid providing health insurance to low-income workers. Instead, they can encourage employees to sign up for Medicaid at no cost to the worker. If states limit Medicaid eligibility, employers need to either purchase insurance for their workers (at a cost that will stifle future wage increases) or leave their workers uninsured.

Economic Activity

A large number of businesses support the medical care ecosystem, including pharmaceutical companies, laboratories, insurance companies, medical equipment suppliers, device manufacturers, hospital construction companies, and food and laundry providers. All these businesses would experience losses from Medicaid cuts. A 2025 report estimated that potential cuts to Medicaid and the Supplemental Nutrition Assistance Program could lead to 1 million jobs lost and a $113 billion decline in states' gross domestic products by 2026.[7]

Conclusions

Recognition of the widespread harm that could come from large Medicaid cuts leads to a potential path forward for preventing these harms. Successful advocacy often relies on coalition building. Low-income persons do not have a powerful lobby. However, states, hospitals, physicians, clinics, certified nursing facilities, informed consumers, and the major business interests that stand to lose from Medicaid cuts could band together to protect Medicaid benefits.

Beyond hospital, outpatient, and institutional care, Medicaid pays for services that are critical to the lives of low-income people. For example, Medicaid pays for home care services that are vital for keeping people out of institutions. Children covered by Medicaid and CHIP receive dental care. In some states, adults also receive dental benefits under Medicaid.

Without Medicaid, low-income persons will avoid seeking medical care. This will result in lost opportunities to prevent disease (eg, hypertension treatment to prevent strokes) and to treat serious diseases (eg, cancer) at an earlier stage. Medicaid is vital to beneficiaries and to the health care ecosystem that we all rely on.

ARTICLE INFORMATION

Author Affiliation: NYC Health + Hospitals, New York, New York.

Corresponding Author: Mitchell H. Katz, MD, NYC Health + Hospitals, 50 Water St, 17th Floor, New York, NY 10007 (Mitchell.Katz@nychhc.org).

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