



## Capitol Insights Newsletter February 21, 2025

Author(s): Luke Schwartz, Matt Reiter

### **What Happened in Congress this Week**

The Senate advanced its budget resolution. This budget resolution is the first step in starting the Budget Reconciliation legislative process which will be key to implementing the Republican agenda during the 119<sup>th</sup> Congress. The House is scheduled to vote on its version of the budget next week.

### **What Medicaid Reforms are on the Table in Reconciliation?**

The House and Senate are advancing their respective budget reconciliation efforts on parallel timelines. However, the two Congressional Chambers are taking competing approaches. The House is attempting to include as much as it can into one reconciliation bill while the Senate is moving a narrower version now with plans to address other policies in a future reconciliation bill. President Trump praised both efforts but stated his clear preference for the more comprehensive House version.

The Senate passed its budget this week and the House is expected to pass its budget next week. These budgets will include instructions to different Congressional committees to identify certain spending or savings targets. These policies will then be combined into the budget reconciliation bill that will be used to advance much of the Republican legislative agenda.

The House version of the bill directs the House Energy and Commerce (E&C) Committee to identify [\\$880 billion in savings](#) over the next ten years. The E&C Committee has broad jurisdiction over federal health programs such as Medicare and Medicaid. Based on policy options that have been circulated in the past, it appears that the Committee will need to make major reforms to Medicaid to achieve its ambitious savings target.

As such, this edition of *Capitol Insights* will explore possible Medicaid reforms that could be included in the E&C portion of the budget reconciliation bill.

#### **A Mile-High Overview of the Medicaid Program**

Medicaid represents [20% of all healthcare expenditures](#) in the United States and it primarily covers low-income earners. As of 2024, [72 million](#) people ([18.9% of the US population](#)) are

---

[Click here to subscribe for weekly updates!](#)

1009 Duke St. Alexandria, VA 22314  
(202) 544-1880 | Fax: (202) 543-5913  
administrator@capitolassociates.com



## Capitol Insights Newsletter February 21, 2025

Author(s): Luke Schwartz, Matt Reiter

covered by Medicaid across all states and territories. The program is dually funded by states and the federal government as a federal-state partnership. The federal government subsidizes a percentage of each state's Medicaid spending. Currently, there is no cap on the federal matching aspect of the program.

### Proposals to Cut Medicaid Spending

Below is a summary of various Medicaid reforms that the E&C Committee could consider. Before diving in, it is important to remember that Congress could ultimately decide to include portions of these proposals and might not include all of the proposals listed below.

Additionally, these savings estimates were generated by Congressional Republicans (unless otherwise noted). The non-partisan Congressional Budget Office (CBO) will provide its own estimate of the projected savings. Congress must use the CBO's estimates to determine the budgetary impact of its policies in a reconciliation bill.

- *Medicaid Work Requirements*

Currently, Medicaid beneficiaries are not required to work to be eligible for Medicaid. Many propose that creating a federal Medicaid work requirement would lead to savings for the program.

Estimated Savings: [\\$120 billion](#) over 10 years.

- *Lower FMAP*

The Federal Medical Assistance Percentage (FMAP) is the percentage of Medicaid costs paid by the federal government to states to help subsidize their Medicaid programs. This percentage varies across states, ranging from a minimum of a 50% match to as high as 77% for some states. One proposal is to lower FMAP percentages for all states, placing a larger financial burden on individual states (and lowering the burden on the federal government) to manage and fund their Medicaid programs. Congress could apply the 50% floor to all states or lower FMAP rates by a smaller margin.

Estimated Savings: [\\$387 billion](#) over 10 years. However, the savings from this policy cannot be accurately estimated without knowing the exact amount of the FMAP change.

---

[Click here to subscribe for weekly updates!](#)

1009 Duke St. Alexandria, VA 22314  
(202) 544-1880 | Fax: (202) 543-5913  
administrator@capitolassociates.com



## Capitol Insights Newsletter

### February 21, 2025

Author(s): Luke Schwartz, Matt Reiter

- *Reducing the Federal Government's percentage of the cost for the ACA expansion population*

The Affordable Care Act (ACA) allows states to voluntarily expand Medicaid to cover people with incomes up to 138% of the federal poverty level. As of today, 41 states and the District of Columbia have expanded Medicaid. As an incentive to expand Medicaid, the federal government covers 90% of the Medicaid costs for this expansion group. This is significantly higher than the 50-77% covered for the traditional Medicaid population.

Under this proposal, the percentage of the expanded Medicaid population would be cut from 90% to some lower percentage, perhaps the FMAP that applies to the rest of the Medicaid population. Some states could choose to end their Medicaid expansion if the match rate is reduced for this population.

According to the [Kaiser Family Foundation \(KFF\)](#), "eliminating the enhanced FMAP for adults in the Medicaid expansion could reduce Medicaid spending by nearly one-fifth (\$1.9 trillion) over a 10-year period and up to nearly a quarter of all Medicaid enrollees (20 million people) could lose coverage."

- *Switch to Block Grants*

A popular alternative to the current Medicaid structure among Republicans is to replace the FMAP match system with federal block grants to states. This approach sets a cap on federal Medicaid payments to states. The federal government would use a state's total population to calculate an amount that a state would receive from the federal government to fund Medicaid.

According to a [CBO report](#), this policy could save anywhere from \$700 to \$900 billion depending on how the block grant amounts are calculated.

- *Establish Per Capita Caps*

Per capita caps are similar to a block grant except they would provide a fixed amount of federal funding for every Medicaid enrollee, rather than basing the number on a state's total population.

The same [CBO report](#) estimates this could save \$600-\$900 billion depending on how the formula is structured.

- *Limit Medicaid Provider Tax*

---

[Click here to subscribe for weekly updates!](#)

1009 Duke St. Alexandria, VA 22314  
(202) 544-1880 | Fax: (202) 545-5913  
administrator@capitolassociates.com



## Capitol Insights Newsletter

### February 21, 2025

Author(s): Luke Schwartz, Matt Reiter

Currently, states are allowed to tax healthcare providers and then return the money to them as higher Medicaid reimbursement rates. The higher reimbursements enable the state to receive more money from the federal government since Medicaid spending is higher (and thus a higher dollar amount that the federal government matches). Currently, the provider tax safe harbor is 6%. Reforms call for the provider safe harbor to be lowered to 3% over time.

This reform is estimated to save [\\$175 billion](#) over 10 years.

#### Conclusion

Cutting federal Medicaid spending is no simple task with major political and public health implications. We will be closely following changes to Medicaid here at Capitol Associates and fully expect future editions of this newsletter will cover this topic further as the reconciliation process advances through Congress.

### Top Stories in Healthcare Policy

The Department of Justice (DOJ) officially [launched an investigation](#) into UnitedHealth Group (UHG) for its Medicare Advantage billing practices, alleging Medicare pays UHG billions of dollars annually for questionable diagnoses.

The Association of American Medical Colleges predicts that the United States physician shortage will reach [86,000](#) by 2026.

[Layoffs](#) continue across many federal health agencies.

The company formerly known as MultiPlan has [rebranded](#) to Claritev. This rebrand occurred amid dozens of lawsuits against the company largely surrounding collusion with health insurance companies in an effort to underpay providers. The company underwent [Congressional scrutiny](#) last year as well.

A new [study](#) published by JAMA shows how significantly healthcare spending varies by county.

---

[Click here to subscribe for weekly updates!](#)

1009 Duke St. Alexandria, VA 22314  
(202) 544-1880 | Fax: (202) 543-5913  
administrator@capitolassociates.com