

# Proposed Medicaid Cuts Would Have Catastrophic Impact On Texas

Texas operates a lean, cost-effective Medicaid program that saves taxpayers and the federal government billions of dollars. Using a managed care delivery system, provider-financed supplemental payments and strict eligibility requirements, any cuts to an already bare-bones program would have a catastrophic impact on the safety net. According to the Manhattan Institute, Texas has the **lowest** percentage of Medicaid spending above federal minimums of any state. Recent budget discussions **have included talk of cutting Medicaid by hundreds of billions of dollars – which could punish Texas' Medicaid program** more than that of other states.<sup>1</sup> **Cutting funding to Medicaid providers is a threat to access to care**, even if Congress doesn't directly touch Medicaid benefits.

## Myth-Busting: Texas Medicaid Financing

**Myth:** Medicaid isn't cost effective.

**Facts:** Texas keeps Medicaid spending to a minimum, focusing on core populations including children, pregnant women and the disabled. Texas' Medicaid cost growth over time is far lower than the national average.<sup>2</sup>

**Myth:** Medicaid supplemental payments are unnecessary.

**Facts:** Because base Medicaid payments reimburse well below the cost of care, supplemental payments (financed through provider taxes) are necessary to address Medicaid and uninsured care shortfalls. These payments ensure the stability of the safety net and access to care for Medicaid populations.

**Myth:** Provider taxes abuse the Medicaid system.

**Facts:** Provider taxes are not fraud, waste or abuse. Provider taxes are longstanding, legally vetted and congressionally approved methods of finance, used in every state except Alaska.

**Myth:** Provider taxes lack oversight.

**Facts:** Provider taxes have extensive state and federal oversight. Texas' transparency and regulation of provider tax financing goes beyond federal requirements and is considered a national model by the Medicaid and CHIP Payment and Access Commission (MACPAC).<sup>3</sup>

**Myth:** Hospitals are inappropriately earning average commercial rates in Medicaid directed payments.

**Facts:** Hospitals are not earning average commercial rates in Medicaid directed payments when the cost of the provider tax is subtracted out. The net state directed payment earned by Texas hospitals equals around 80-90% of Medicare rates, according to MACPAC.<sup>4</sup>

<sup>1</sup> <https://media4.manhattan-institute.org/wp-content/uploads/pope-capping-medicaid.pdf>

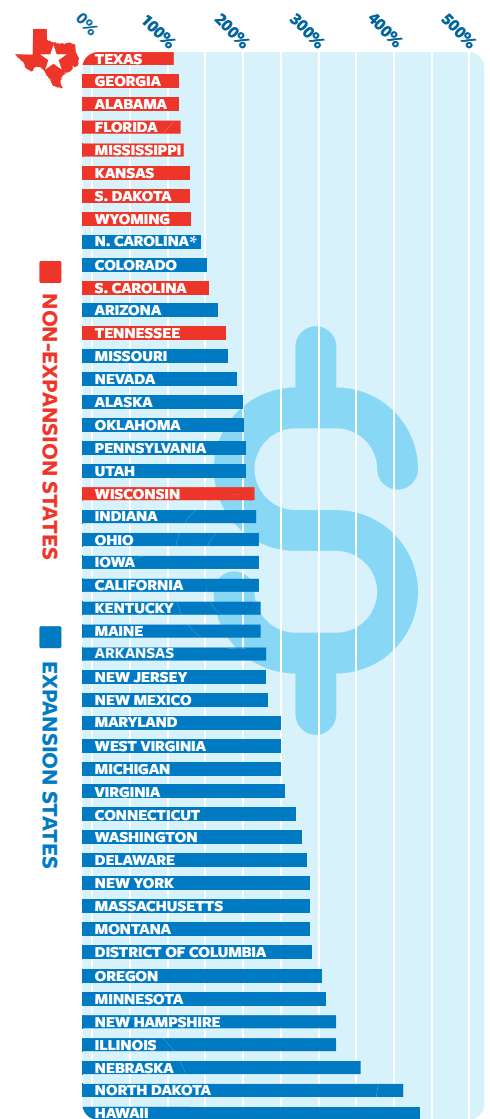
<sup>2</sup> <https://www.hhs.texas.gov/sites/default/files/documents/texas-medicaid-chip-reference-guide-15th-edition.pdf>

<sup>3</sup> [https://www.macpac.gov/wp-content/uploads/2024/06/MACPAC\\_June-2024-Chapter-1-Improving-the-Transparency-of-Medicaid-and-CHIP-Financing.pdf](https://www.macpac.gov/wp-content/uploads/2024/06/MACPAC_June-2024-Chapter-1-Improving-the-Transparency-of-Medicaid-and-CHIP-Financing.pdf)

<sup>4</sup> Ibid.

## Federal Medicaid Funding

as percentage of estimated state plus federal spending on mandatory benefits

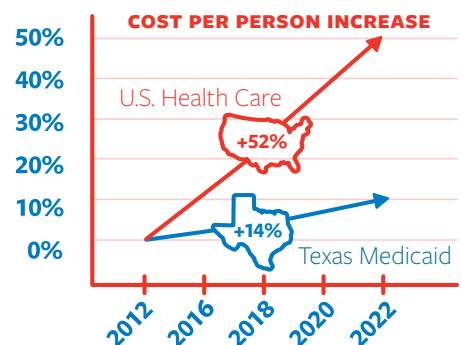


Manhattan Institute. (2024). Slowing Optional Medicaid Spending Growth.

\*Research was conducted before North Carolina expanded Medicaid.

## Cost Growth Contained

Increased enrollment and improved preventative care within managed care keeps Texas Medicaid costs contained: 38 percentage points lower than the national average.



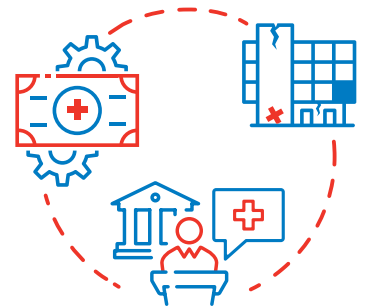
Texas HHSC. (2024). Texas Medicaid and CHIP Reference Guide, 15th ed.

## Budgetary “reforms” would cause pain to taxpayers and patients



If the budgetary reforms being considered by Congress result in billions of dollars in Medicaid cuts to Texas, the state and localities would be forced to raise taxes and/or reduce access to care. Talks have included several potential routes to cutting Medicaid funding, including:

- **Limiting Provider Taxes by Reducing the Safe Harbor Exception<sup>5</sup>**
  - 6% to 5% reduction = \$1.6 billion gross loss to Texas Medicaid (\$961 million net loss to hospitals)
  - 6% to 3% reduction = \$4.9 billion gross loss (\$2.9 billion net)
  - 6% to 0% reduction = \$10.1 billion gross loss (\$6.1 billion net)
- **Restricting Medicaid State-Directed Payments (SDPs) to Medicare Rates**
  - \$2.4 billion loss to Texas Medicaid (\$1.4 billion net loss to hospitals)<sup>6</sup>
  - These cuts harm Texas’ Medicaid quality strategy. Currently, Texas hospitals earn most SDP dollars above Medicare rates based on demonstrated patient outcomes.
- **Implementing Medicaid Per-Capita Caps**
  - \$29-55 billion loss in federal funds to Texas’ Medicaid program over 10 years.<sup>7</sup>



### Impact on the Economy and Patients

Texas cannot absorb Medicaid cuts of this magnitude without affecting enrollees’ access or burdening state and local tax bases.

- For every lost federal dollar, state or local spending would have to increase by the same amount to fill the gaps. State or local tax increases would be needed to replenish the lost funds, but fiscally conservative states like Texas are unlikely to do so. If these dollars are lost, existing hospital operations and capacity could not continue.
- Medicaid-heavy service lines like **pediatrics, behavioral health and obstetrics are most likely to be considered for reduction or elimination.**
- **Maternal care in rural settings would be placed in extreme peril,** as these hospitals can least afford to sustain further Medicaid losses.
- Research, education and community outreach efforts will also be negatively impacted.
- State and local economies will suffer. According to the Texas Health and Human Services Commission, Texas’ \$11 billion in supplemental and directed payments under the state’s 1115 waiver support 142,000 jobs, primarily health care workers. Every \$1 in supplemental and directed payment spending creates \$5 in additional economic impact to the state.<sup>8</sup>
- Even if the final budget package doesn’t cut Medicaid benefits, cutting funding to providers arrives at the same result. **Without Medicaid providers, there is no Medicaid program.**



### For Texas, Some Cuts *Won’t* Heal.

Reject budget proposals that would be devastating to your constituents, the economy and access to care across the state.



<sup>5</sup> The safe harbor exception is a threshold percentage (6%) provider tax rate that generally cannot be exceeded to fund the nonfederal share of Medicaid.

<sup>6</sup> Based on a federal proposal to lower the upper payment limit in Medicaid state-directed payments from average commercial rate to rates set by Medicare.

<sup>7</sup> <https://www.urban.org/sites/default/files/2025-02/Imposing-Per-Capita-Medicaid-Caps-and-Reducing-the-Affordable-Care-Act%E2%80%99s-Enhanced-Match.pdf>

<sup>8</sup> <https://www.hhs.texas.gov/sites/default/files/documents/funding-impacts-dsrip-transition-report.pdf>