

Institute *for*
Responsive
Government

Unbalanced Ledger: *Why States Can't Afford Deep Medicaid Cuts*

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APRIL 2025

Executive Summary

Federal Medicaid funding cuts currently under consideration by Congress **would cut a minimum of \$88 billion per year** from the program. ***For states, this would mean a loss of federal funding equivalent to the full costs of coverage for 22 million children on Medicaid.*** This report, grounded in insights from state officials and practitioners with experience administering and funding the program, reveals that such cuts would do far more damage than causing millions to lose coverage, as devastating as that impact would be. The cuts would also create insurmountable deficits in state budgets that would decimate the program's ability to work well even for those lucky enough to still have coverage.

Specifically, these cuts would result in:

- States unable to modernize or automate program administration;
- States unable to run programs that prevent waste, fraud, and abuse in the program;
- An overall decrease in the efficiency of program administration;
- Limitations on states' flexibility to meet the needs of their population; and
- States taking taxpayer money away from other critical services in order to cover uncompensated care, job loss, and increased reliance on public benefit programs.

In the words of state officials and practitioners:

“You’re going to have an all-hands-on-deck response. It’s going to put [state officials] in a difficult position.”

– JOE FLORES, FORMER VIRGINIA SECRETARY OF FINANCE

“I’d drop training. Anything I do to train staff or people in the community, gone. Oversight of programs would have to be reduced and we would not be able to focus on program quality”

– JIM JONES, FORMER WISCONSIN MEDICAID DIRECTOR

“Practitioners will be facing very difficult decisions.”

– ELLIOT WILLIAMS, LICENSED SOCIAL WORKER AND MENTAL HEALTH CARE PROVIDER SERVING OHIO

The proposed federal Medicaid funding cuts would place extraordinary strain on state budgets, forcing state officials and policymakers to make difficult decisions that compromise the efficiency, efficacy, and flexibility of state Medicaid programs, leading to worsening experience of enrollees, fewer services, more negative health outcomes and reduced trust in government to operate the program. Funding cuts on this level will reduce the ability for tens of millions of Americans to get and stay healthy – even those still on Medicaid.

Introduction

Medicaid, launched in 1965 as part of the Social Security Act, has become a bedrock program in America's health care system. This joint federal and state program provides health care to almost 80 million Americans, making it the nation's largest health insurer and a key government interaction for about one in five Americans. Medicaid covers more than 40 percent of births, many low-income seniors and people with disabilities, and working adults with limited access to affordable insurance.¹

75%

**of Americans view
Medicaid favorably**

Not only is Medicaid a significant government service provider, it's also highly popular; over 75 percent of Americans view it favorably.² The popularity of Medicaid illustrates its crucial function in connecting everyday Americans with our government. Medicaid's remarkable approval rating also emphasizes Medicaid's role as a successful example of effective and responsive governance.

This report examines the potential impact of large-scale Medicaid cuts – billions or even trillions of dollars in funding – currently being considered by Congress³ on the states responsible for administering the program. For this report, the Institute for Responsive Government turned to state officials and practitioners who have been instrumental in leading, funding, and delivering their state's Medicaid program to help understand the potential impact of Congress's proposed cuts.⁴

“It's been nothing but difficult decisions all the way through – it is not suddenly difficult decisions.”

– MARCUS CHEATHAM, RETIRED HEALTH OFFICER FROM CENTRAL MICHIGAN

Medicaid is already more effective and cost efficient than its private sector counterparts.⁵ Both the federal and individual state governments have historically prioritized cost-effectiveness and maximizing the value of the taxpayer dollar powering Medicaid.

“There is no open checkbook when it comes to Medicaid. States are not spending money that they do not need to spend.”

– JIM JONES, FORMER WISCONSIN MEDICAID DIRECTOR

¹ Burns, Hinton, Rudowitz, Mohamed. KFF. (2025) [10 Things to Know About Medicaid](#).

² KFF. (2025). [7 Charts About Public Opinion on Medicaid](#).

³ Burns. KFF. (2025). [Final Budget Resolution Codifies Unreconciled Differences on Medicaid Cuts in House and Senate Reconciliation](#).

⁴ Unless otherwise noted, the quotes included in this article come from interviews that took place March 10 - 18, 2025, with the Institute for Responsive Government.

⁵ Gunja, Collins, Blumenthal, Doty, Beutel. The Commonwealth Fund. (2017). [How Medicaid Enrollees Fare Compared with Privately Insured and Uninsured Adults](#).

While Congress has discussed many changes to Medicaid policy since its inception, two approaches have recently attracted the most attention due to the significant amount of funding they would cut from the federal budget:

1. Per Capita Cap

Today, the federal government pays 50 to 90 percent of the actual costs incurred in running the program and providing health care. Under this proposal, a state would receive a predetermined, maximum amount of federal money for each Medicaid enrollee, regardless of actual spending. If actual Medicaid costs exceed the per capita cap, the state would be forced to cover the difference, leading to cuts in benefits, eligibility, or provider payments.

2. Elimination or Reduction of Federal Medical Assistance Percentage (FMAP) for Medicaid Expansion

The federal government currently pays for 90 percent of the costs for Medicaid expansion enrollees in the 40 states and DC that have expanded their program under the Affordable Care Act. If the enhanced FMAP is eliminated, federal match rates for the expansion would drop to 50 to 77 percent depending on the state, a significant reduction in federal funds that again would force states to come up with millions of funding suddenly or stop covering millions on Medicaid.

Regardless of the specific form that these cuts would take, **the ultimate impact is that states are estimated to lose up to almost a third of the income to fund their total state budgets over the next ten years.**⁶ As a result, these proposed cuts to federal Medicaid funding would:

- Prevent states from modernizing and automating;
- Eliminate states' ability to prevent waste, fraud, and abuse in the program;
- Decrease the efficiency of program administration;
- Limit states' flexibility to meet the needs of their population; and
- Force states to spend more taxpayer money to cover uncompensated care, job loss, and increased reliance on public benefit programs.

“Clinicians are going to be doing more work to manage caseloads and greater uncertainty for less money. People are going to need to make personal sacrifices.”

– ELLIOT WILLIAMS, LICENSED SOCIAL WORKER AND MENTAL HEALTH CARE PROVIDER SERVING OHIO

Significant cuts to federal Medicaid funding would have a devastating impact, essentially dismantling one of the country's largest and most utilized government service delivery programs. Continued federal funding for Medicaid is essential for states to effectively manage the program, while minimizing the burden and excess costs for states, health care providers, and Medicaid enrollees.

⁶ Williams, Burns, Rudowitz. KFF. (2025). [Putting \\$880 Billion in Potential Federal Medicaid Cuts in Context of State Budgets and Coverage](#).

Impact Overview

If Medicaid is cut

States Would Be Unable to Modernize or Automate Medicaid

Modernizing and automating program administration through technologies like online applications, automated renewals, and AI chatbots presents a significant long-term cost-saving opportunity for Medicaid. These improvements have the potential to streamline operations and reduce unnecessary spending caused by excessive administrative overhead, complex paperwork, and the constant churn of enrollees due to temporary eligibility changes, personal information updates, or paperwork issues.⁷ States like Wisconsin have already pioneered such initiatives, saving precious time and resources for Medicaid employees.

“Wisconsin was one of the first states that created an online application where you can see eligibility, appointments, and pick plans. This has reduced the amount of time and effort our county eligibility counselors have to spend on those conversations and applications.”

– JIM JONES, FORMER WISCONSIN MEDICAID DIRECTOR

The federal government currently plays a crucial role in supporting these modernization efforts by reimbursing up to **90 percent** of technology update costs for state Medicaid programs.⁸ This federal investment is essential for providing incentives for states to modernize, automate, and secure their Medicaid systems. Without this support, states would be unable to implement these necessary changes, leading to increased costs and inefficiencies in the long run.

The importance of technological advancements in Medicaid administration was further emphasized during the unwinding of the COVID-19 public health emergency, when states had to redetermine eligibility for millions of enrollees. States that had invested in updated technology were able to navigate this complex process more efficiently, while those without these tools faced significant challenges.

“If we didn’t have updated technology, we would still be doing the unwinding [of the Public Health Emergency continuous eligibility associated with the COVID-19 pandemic]⁹ process.”

– JIM JONES, FORMER WISCONSIN MEDICAID DIRECTOR

⁷ Assistant Secretary for Planning and Evolution, Office of Health Policy. (2021). Medicaid Churning and Continuity of Care: Evidence and Policy Considerations Before and After the COVID-19 Pandemic.

⁸ MACPAC. Medicaid 101: Financing

⁹ Medicaid.Gov. ARCHIVED: Unwinding and Returning to Regular Operations after COVID-19.

If Medicaid is cut

States Would Lose Ability to Fight Waste, Fraud and Abuse

As the United States' single largest health insurer and a program managed by both federal and state governments, Medicaid is inherently a complex system. In addition to the millions of Americans who are enrolled in the program, there are thousands of providers, state agencies, delivery systems, vendors, and complicated eligibility rules that vary from state to state. All of these complicating factors mean that there are opportunities for "waste, fraud, and abuse" to become a part of the system.

Medicaid fraud and abuse is vigorously investigated and tracked using current Medicaid funding.¹⁰ Notably, the FY2023 Health Care Fraud and Abuse Control Program Report compiled by the Departments of Health and Human Services and Justice did not contain any evidence of enrollee fraud. Most monetary loss from Medicaid fraud is found to be by providers.¹¹

Even with the current reality of low levels of fraud and abuse occurring in the Medicaid program, **Medicaid's investment in fraud investigation pays off significantly, returning about \$4 in recoveries for every \$1 spent on Fraud Control Units.**¹³ Federal funding cuts would reduce the ability of Medicaid Fraud Control Units to continue their work, making fraud more likely. At the same time, proposed Medicaid cuts would eliminate funding that states use to update the computer systems necessary to track questionable payments, unnecessary care, and accurate enrollments.

"We can use pattern recognition software to identify where things aren't quite right which is helpful for reducing fraud or abuse."

– JIM JONES, FORMER WISCONSIN MEDICAID DIRECTOR

Similarly, there are instances of waste within the Medicaid program. For example, the Wall Street Journal published an article earlier this year highlighting costs of people erroneously enrolled in Medicaid in more than one state because of poor system design. These are not cases of intentional waste, fraud, or abuse. This unnecessary spending also will not be resolved if federal Medicaid funding is cut. The technical and program solutions to these kinds of problems rely on up-front investments to reap significant cost-savings over the long term.

Learn more about the issue of duplicate enrollments and how cross-sector innovation can be used to solve the problem [here](#).

¹⁰ U.S. Department of Health and Human Services Office of Inspector General. [Medicaid Fraud Control Units](#).

¹¹ Hinton, Mathers, Rudowitz. KFF. (2025). [5 Key Facts About Medicaid Program Integrity – Fraud, Waste, Abuse and Improper Payments](#).

¹² Weaver, Mathews, McGinty. Wall Street Journal. (2025). [Taxpayers Spent Billions Covering the Same Medicaid Patients Twice](#).

“If a state Medicaid department loses funds for admin or loses agency staff, it raises the specter that you increase the likelihood for errors or even fraud.”

– JOE FLORES, FORMER VIRGINIA SECRETARY OF FINANCE

The absence of funding to combat waste, fraud, and abuse, would perpetuate the waste of the limited remaining Medicaid funds of a state and also make Medicaid more vulnerable to malicious fraud and abuse attempts in the future.

If Medicaid is cut

Medicaid Program Administration Would Be Less Efficient

Compounding the incidental waste of Medicaid program administration that would worsen under federal Medicaid cuts, the cuts would also tank Medicaid's administrative efficiency. A limited budget for states to administer the Medicaid program would rob states of the resources needed to enable the program to be administered smoothly and ensure a high quality of service provided to enrollees. States would be forced to make difficult decisions about program administration with limited funds, and current processes critical to the program's success may be cut. Inevitably, this would lead to greater inefficiencies and a decline in the quality of service provided rather than innovation and improvement.

Jim Jones, Wisconsin's former Medicaid Director, outlined some of the first administrative processes that would be eliminated from a state Medicaid department if the proposed cuts by Congress went into effect:

“I'd drop training. Anything I do to train staff or people in the community, gone. Oversight of programs would have to be reduced and we would not be able to focus on program quality. Our response to legislative correspondence would be really slow. Coordination with other agencies, like public health departments or the department of justice, which saves the state tons of money overall, would be gone. There would generally be slower and less efficient implementation of new policies.”

Regardless of the specific decisions that are made, Medicaid program administration would be made less efficient if Congress enacts significant defunding of the federal Medicaid budget. For example, reduced training for staff could lead to errors and inefficiencies in the delivery of service, while less oversight of programs could result in fraud, waste, and abuse. Decreased coordination with other agencies could lead to missed opportunities for cost savings.

While the specific decisions made by each state would vary, the overall effect would be a less efficient and effective Medicaid program, with potentially negative consequences for enrollees.

If Medicaid is cut

States Would Lose Flexibility to Meet the Needs of Their Population

Traditionally, states have three main options when seeking to address funding cuts to Medicaid, whether due to federal changes or state budget considerations. States can cut eligibility, cut benefits provided, cut provider rates or enact some combination of these cuts. There are limits to each of these choices, as well as tradeoffs that must be balanced. Medicaid laws do require a baseline set of benefits be offered to enrollees in the Medicaid program. If a state lowers provider rates, Medicaid may still be able to retain brick and mortar providers for services that do not require an ongoing physical presence, like hospitals and nursing homes, within state lines. However, providers of services that do not require an ongoing physical presence, like home care or behavioral health, may move on to another state with better rates.

“Medicaid cuts will lead to less state flexibility and autonomy for Virginia. It refocuses the direction of the Commonwealth, instead of going forward with one path, it will be working with fewer resources.”

– JOE FLORES, FORMER VIRGINIA SECRETARY OF FINANCE

Even more challenging for states would be the ability to invest in promising program designs that truly meet the needs of their population. Medicaid’s regulatory structure creates a paradigm where traditional “one-size-fits-all” approaches **must** be covered, while innovative programs **may** be created. Take for example, specialty cancer care. If an enrollee needs highly specialized cancer care based on their diagnosis, Medicaid must cover that doctor’s visit and the testing. However, those services might only be available in a major metropolitan center, hours away from an enrollee’s home. Some states have developed flexible innovations to allow those services to be accessed remotely, through a team-based telehealth approach known as Project Echo.¹³ But such services must be accounted for *in addition* to rather than *instead of* the in-person services, requiring more resources. Cutting budgets would restrict the ability of states to design and deploy new programs that better meet the needs of their populations and that have the potential of reducing costs in the long run.

¹³ Project Echo. (2025). [Our Work in New Mexico](#).

If Medicaid is cut

States Would Spend More Taxpayer Money to Cover Uncompensated Care, Job Loss, and Reliance on Public Benefit Programs

The proposed Medicaid funding reductions under consideration in Congress would have far-reaching consequences. Cuts at a large scale would cause states to limit the range of services available to Medicaid beneficiaries and the categories of people eligible for the program. Many states have laws already on the books that would lead to the disenrollment of tens of thousands of adults working low-wage jobs that don't offer other health care options in the Medicaid expansion population.^{6,7,8} When these individuals become uninsured or underinsured due to a loss of Medicaid coverage, their health needs do not go away. States will have to carry the burden of hundreds of millions of dollars in uncompensated care being provided without the current 90 percent federal funding for the expansion population.

Furthermore, while Medicaid reimburses health care providers at a much lower rate than private insurance, in many locations, Medicaid is a primary payer for services. Health care providers such as hospitals and clinics that accept Medicaid patients would experience significant financial strain due to a substantial loss in funding. In many communities, particularly rural and underserved areas, these providers already operate on thin margins, and loss of Medicaid funding could lead to workforce reductions, service cutbacks, or even permanent closures. States would be the ones on the hook to bail out institutions, such as local hospitals, that are now faced with huge amounts of uncompensated care and reduced reimbursement rates.

Joe Flores, former Virginia Secretary of Finance, outlines the estimated impact on the expansion population and the cost of uncompensated care in Virginia:

“In the crosshairs is the ‘expansion’ population. People who are now used to receiving coverage may have their services reduced or eliminated, and taking a benefit away is not very popular. But it’s also unlikely that we have enough general funds to provide Medicaid coverage for this group, absent federal funding. In response to the Medicare Catastrophic Coverage Act of 1988, a bill that modified health care services for seniors but increased premiums, a group of elderly people rocked a legislator’s car with him in it.”

“We would be required to disenroll current Medicaid recipients if the 90 percent federal matching rate for the expansion group went down by even a percentage point because we have a trigger law. Will the newly uninsured go back to Virginia Commonwealth University and University of Virginia hospitals for uncompensated care? That’s going to cost them millions. You might be talking close to \$300M a year, based on actual costs projected forward from more than a decade ago.”

Similarly, the Ohio Governor's 2025 proposed two-year general fund budget mandates that Ohio end its expansion of Medicaid eligibility should the federal funding match drop below its current 90 percent match. Included in the budget proposal is also a mandate that the state discontinue the program including \$500 million for mental health and addiction services if the federal match is reduced.¹⁴

As access to care diminishes, or Medicaid eligibility and enrollment becomes more complicated because of increased administrative burden, patients may be forced to delay treatment until their conditions reach a critical point. Instead of seeking preventive and primary care, patients will use emergency departments for conditions that could have been managed more affordably and effectively earlier on. Emergency care is not only more expensive but is also frequently uncompensated or undercompensated, placing further financial pressure on the system and contributing to the rising cost of care for everyone.

“Leading up to expansion, Ohio’s health care system was in bad shape. 1.2 million people didn’t have affordable health insurance. Without it, many delayed care or ended up in the emergency room. Hospitals passed the cost of unpaid care to private insurance, raising costs for employers. Every rural hospital was at risk of closing, and some did.”

– GREG MOODY, FORMER OHIO GOVERNOR'S OFFICE OF HEALTH TRANSFORMATION DIRECTOR ¹²

Moreover, job losses in the health care sector, one of the largest employers in many communities, would have a rippling effect on the financial burden placed on states. Fewer health care jobs due to hospital and clinic closures and a reduction in provider reimbursement payouts, coupled with an increase in uncompensated care, would mean that the people with well-paying, stable health care jobs are now unemployed or earning less. Laid-off health workers and the families they support may find themselves newly in need of state-funded programs for public assistance, from unemployment insurance to housing support and food assistance programs.

“If the cuts to provider rates are big enough, clinicians will not be able to feed their families. If a community counseling agency is no longer able to provide services to people who receive Medicaid benefits, providers will experience layoffs. Practitioners will be facing very difficult decisions.”

– ELLIOT WILLIAMS, LICENSED SOCIAL WORKER AND MENTAL HEALTH CARE PROVIDER SERVING OHIO

¹⁴ Moody. Ohio Joint Medicaid Oversight Committee. Testimony. (2025). [Ohio Medicaid Expansion History And Impact](#).

Further compounding the economic burden placed on states that would already be forced to try and administer their program while filling insurmountable gaps in their own budget, states would face a rise in uncompensated care costs, supporting health care providers and institutions in their states, and providing public assistance to an entirely new population.

“Cutting Medicaid would have a cascading effect. We are always trying to create jobs in these [rural] communities, like dairy farms and other low wage jobs, but the health sector jobs are middle class jobs that drive the economy. If we get rid of these health care jobs, we get rid of these last good jobs in the community and gut the entire economic wellbeing of the community. Health care jobs keep the Piggly Wiggly open.”

– MARCUS CHEATHAM, RETIRED HEALTH OFFICER FROM CENTRAL MICHIGAN

Conclusion

The Medicaid cuts currently being considered by Congress would have severe and wide-ranging consequences for states that would impact far more than the lives of people who lose Medicaid coverage. It would make Medicaid worse for people who can still keep it – and would make things worse for all Americans in other ways.

Significant federal funding loss would strain state budgets, creating insurmountable deficits. Furthermore, states' ability to limit waste, fraud, and abuse within the Medicaid program would become drastically reduced. Moreover, these cuts would severely restrict their ability to adapt Medicaid services to their populations' specific needs. Additionally, states would be unable to invest in modernizing or automating their Medicaid systems, hindering efficiency and innovation. The administrative processes of the Medicaid program would become increasingly cumbersome and time-consuming, reducing the trust that residents have in the program and consequently government as a whole.

And that's not all. Economic downturn in communities, whether it be the result of other policy and funding changes or standard economic changes, would be exacerbated by the cuts and will have repercussions beyond the Medicaid program. Health care providers, who rely on Medicaid reimbursements, would face financial strain, potentially leading to job losses and reduced access to care. The overall economic health of communities would suffer as a result of decreased health care spending and the ripple effects on local businesses and employment. At the same time, more taxpayer money would have to be spent covering uncompensated emergency room care for patients who are left with no other access to health care.

In summary, the level of cuts to federal Medicaid funding currently being evaluated by Congress would shift a significant financial burden onto states, forcing them to raise taxes or cut essential services to make up the shortfall. Rather than promoting efficiency or accountability, **the cuts would undermine state flexibility, strain local economies, and ultimately cost taxpayers more in the long run.**

About

The Institute for Responsive Government is a nonpartisan nonprofit dedicated to ensuring state and federal governments work effectively for the very people they serve. The Institute for Responsive Government provides data, research, and expertise to elected officials in order to find practical policy solutions that make government systems more efficient, accessible, and responsive.

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