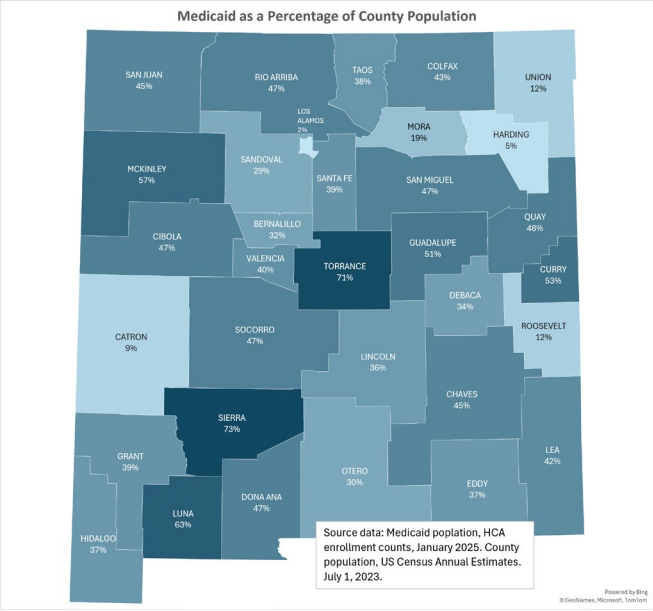
HEALTH CARE AUTHORITY

# POTENTIAL FEDERAL MEDICAID CUTS AND THEIR IMPACT ON NEW MEXICO

Congress and the federal administration have indicated intentions to make major cuts to the federal Medicaid program coverage and funding. Cuts could include:

1. Eliminate enhanced match rate for expansion adult population
2. Drop continuous coverage for children age 0-6
3. Impose per capita caps
4. Limit Medicaid provider taxes
5. Lower the FMAP floor
6. Reduce administrative & technology FFP to 50%
7. Impose national work requirements

If all cuts are implemented, New Mexico will lose an estimated **$3.4 billion in federal funding** to providers in the first year, and **$19.9 billion** over five years.




**ENROLLMENT**

- **836,881** Medicaid members
- **~40%** of state's population
- highest Medicaid per capita in US

**SFY25 BUDGET**
**$11.0 Billion**
$2.5 Billion State Funding
$8.5 Billion Federal Funding

**ESTIMATED SFY25 PAYMENTS**
$3.9 billion to hospitals (35% of Medicaid budget)

**Medicaid** is the largest payor of health care in New Mexico. The entire provider network depends on the state's current Medicaid coverage landscape.

Hospitals receive approximately **$3.9 billion** in annual Medicaid payments.

- Medicaid patients make up nearly one third of hospital volume.
- Eight rural hospitals are at risk of closure within one to three years if Medicaid reimbursements are cut.

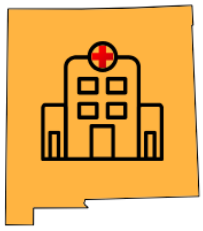
| POPULATION CATEGORIES* | MEMBERS SERVED |
|---|---|
| Children (under 21) | 350,453 |
| Seniors (over 65) | 70,790 |
| Breast and Cervical Cancer | 85 |
| Working Individuals with Disabilities | 3,288 |
| Institutional Care | 3,445 |
| Individuals Receiving Home and Community Based Services | 6,819 |
| Individuals with Developmental Disabilities | 8,058 |
| Pregnant Women | 6,422 |
| Individuals with Serious Mental Illness | 123,564 |
| Individuals with Substance Use Disorder | 38,324 |
| Individuals with Traumatic Brain Injury | 9,268 |
| Adult Expansion population (added under ACA) | 262,000 |

# WHAT CUTTING MEDICAID COULD MEAN



Families forego preventive treatment → and suffer chronic illnesses, → see higher out of pocket costs, → risk of going into bankruptcy, → and cost the State more in Emergency Dept. visits.

When families forego lower cost preventive treatment, chronic illnesses go untreated, health outcomes worsen, and individuals instead access higher cost emergency services that hospitals are required by law to provide.



Hospitals lose billions in income, → treat uninsured at a loss, → are forced to reduce workforce, → and many, especially rural hospitals, could close their doors.

When these individuals do not have health coverage, hospitals bear the cost of their services as **uncompensated care** and are then forced to increase the commercial rates that are paid by insured individuals. So, instead of Medicaid proactively funding lower cost preventive services and directly funding emergency services, cuts to Medicaid result in those same individuals accessing higher cost emergency services that are paid for indirectly by all individuals that have commercial coverage.

Put another way, cuts to Medicaid funding result in **higher prices for commercial insurance coverage,** which are effectively a new tax on those working families.

Reductions in Medicaid will also result in catastrophic losses for our fragile provider network, including the **potential closure of provider offices and hospitals** across New Mexico, especially in rural communities.

| POTENTIAL MEDICAID CUT | EST. MEMBER OR PROVIDER IMPACT | EST. ANNUAL STATE FUNDING IMPACT | EST. 5-YR TOTAL STATE FUNDING IMPACT | EST. ANNUAL FEDERAL FUND IMPACT | EST. 5-YR TOTAL FEDERAL FUND IMPACT |
|---|---|---|---|---|---|
| **1. Eliminate enhanced match rate for expansion adult population** If match rate reduced from 90% to 71.66% | 262,000 adults (under age 65, under 138% FPL) | $458.8 million* | $2,553.0 billion* | ($458.8) million* | ($2,553.0) billion* |
| **2. Drop continuous coverage for children age 0-6** | 25,000 children | ($27.8) million | ($154.6) million | ($70.5) million | ($392.4) million |
| **3. Impose per capita caps** Replace open-ended match rate with set limit on the amount Medicaid spending can grow per person | Cuts to rates, populations served, and/or covered services. | ($3.9) million | ($405.8) million | ($14.7) million | ($1,509.2) billion |
| **4. Limit Medicaid provider taxes** If State Directed Payment program provider contributions were reduced by 50% | 48 hospitals and 68 nursing facilities | ($158.9) million | ($794.6) million | ($591.1) million) | ($2,955.4) billion |
| **5. Lower the FMAP floor to 50%** If match rate reduced from 78.81% to 50% | Cuts to rates, populations served, and/or covered services. | $2,053.3 billion | $11,424.4 billion | ($2,053.3) billion | ($11,424.4) billion |
| **6. Reduce administrative & technology FFP to 50%** | Cuts to ability to modernize systems | $118.7 million | $593.5 million | ($118.7) million | ($593.5) million |
| **7. Impose national work requirements** | Approx. 110,000 members required to comply, estimated 64,000 adults would lose coverage. | ($61.0) million | ($339.2) million | ($548.7) million | ($3,053.2) billion |
| **Total Impact to Expenditures** | | **$1,920.4 billion** (*excluded) | **$10,323.6 billion** (*excluded) | **($3,396.9) billion** (*excluded) | **($19,927.9) billion** (*excluded) |

*Note: The discrete impacts for each item above have been modeled separately and do not include interactions that may occur between multiple items if implemented in conjunction. Only direct impacts are shown. In response to these direct impacts, the State may adjust coverage, rates, and/or services, but those potential secondary impacts from state policy changes are not modeled here.*

## Impacts of Each Proposed Cut

1. Eliminate the 'enhanced' federal match rate for the adult expansion population

   The Affordable Care Act (ACA) incentivizes states to expand Medicaid to cover previously ineligible adults under age 65 with income up to 138% FPL by paying an enhanced 90% federal match rate. Today, New Mexico covers 262,000 adults under this category. This proposal could reduce the match rate to 71.66% (regular match rate), although Congress could choose to further reduce it.

   Cutting the match rate effectively defunds the overall operating budget of the Medicaid program, shifting $458.8 million in costs to the State General Fund in the first year. No state can meet such an abrupt and costly funding need, which is the point – this proposal is intended to force states to stop covering working-age adults. Should so many New Mexicans lose health care coverage, hospitals (and potentially other providers) will be forced to provide uncompensated care to this population, creating a large insurance coverage gap in New Mexico's health care system.

2. Drop Continuous Coverage for Children Ages 0-6

   New Mexico Medicaid finances approx. 70% of the births and children under one year of age and currently covers 350,453 children in total. Since 2024, children under 6 years old have had continuous Medicaid coverage, easing the administrative burden on families who were required to renew their child's Medicaid coverage on a yearly basis, even though they remain eligible. If this option is eliminated some parents will not file for renewal—which occurs in approximately 25% of cases—and 25,000 New Mexican children would be at risk of losing health care coverage, decreasing their access to preventative care.

3. Impose Per Capita Caps

   States must set fair payment rates for health care providers so that Medicaid members can get the care they need. The amount of money spent per Medicaid member depends on how often services are used, the acuity of the Medicaid population (i.e., the severity of medical conditions across all Medicaid beneficiaries), and how much providers are paid. The main reasons costs go up are rising medical prices, how often people need care, and their health care needs. Across the country, experts expect Medicaid per capita costs to grow by about 4.8% each year through 2031.

   This plan would set a limit on how much Medicaid spending can grow per person, but it wouldn't fully consider the rising medical costs or how often people need care. For example, a common way to measure inflation, called the Consumer Price Index for all Urban Consumers (CPI-U), is currently around 3.0%. However, this does not keep up with the actual costs of health care.

   The *only* option for states will be to reduce provider reimbursement rates, reduce eligibility, and/or eliminate covered services. Cutting rates will trigger providers to leave the Medicaid network, reducing access to care for members and increasing chronic illness.

4. Limit Medicaid Provider Taxes Thereby Reducing Health System Support

   New Mexico pays for its state match with a combination of General Fund and provider contributions. Hospitals and other provider groups voluntarily contribute these funds in recognition of the value that Medicaid provides to the entire health care system.

   In New Mexico, 48 hospitals and 68 nursing facilities participate in State Directed Payment programs that incentivize quality and accountability in facilities that serve the state's most vulnerable people. Cutting these contributions would leave hospitals and nursing facilities without crucial income support that keeps their businesses viable.

5. Lower FMAP Floor

   Today, the federal government supports states by paying for 78% to 100% of traditional Medicaid costs. Estimating a drop to just 50% federal participation shifts more than $2 billion in costs to the State in the first year alone.

6. Reduce Administrative & Technology FFP to 50%

   The federal government currently pays 90% of a state's administrative costs for developing systems and technology, 75% of the cost of running them, and 50% for everything else. These enhanced rates encourage states to invest in better technology and program efficiency. This proposal would cut administrative matching rates to 50% for all categories, making it harder for the state to invest in new technologies.

7. Impose National Work Requirements to Maintain Medicaid Eligibility

   Approx. 110,000 Medicaid members ages 19-64 in New Mexico would be required to report monthly employment or community engagement hours in order to maintain their health care coverage. Many members are already employed, often in one or more minimum wage jobs or part-time work. Given that the State would be required to fund, build, and maintain new IT systems to track and monitor compliance and manage this new requirement, the cost of such a system outweighs the benefit.

These cuts are a multi-pronged strategy to pay for federal tax cuts on the backs of *all* state budgets, forcing states to make impossible choices between raising taxes, dropping coverage, reducing eligibility, eliminating services, and cutting provider rates.

Just as the health care system is beginning to recover from COVID, the scale and magnitude of these cuts would plunge New Mexico and every other state into an immediate, yet entirely avoidable, health care recession.