

## Medicaid Budget Cut Background & Talking Points

### Background

House and Senate Republicans are attempting to use a process known as Budget Reconciliation to pass tax cuts and other priorities outlined by President Trump. In order to offset the cost of these priorities, Congress is considering significant cuts to Medicaid. The first step of the reconciliation process is for the House and Senate to adopt a budget resolution. The House and Senate have each passed separate resolutions and will have to come to an agreement on a final resolution and then will begin crafting the actual reconciliation bill committed to a broad spending framework. In the coming weeks, each chamber will be debating specific options to meet their spending targets. The House budget resolution requires at least \$880 Billion in savings out of the Energy and Commerce committee, and it will be difficult for the committee to find significant savings outside of Medicaid and CHIP. The Congressional Budget Office projects \$7.5 Trillion in total federal Medicaid spending over the next ten years. Whatever the specific proposals are, there is no way to cut approximately 10% (or more) out of Medicaid without hurting patients and Medicaid providers.

### Key Messages

- Federal cuts to Medicaid – along with the Children’s Health Insurance Program (CHIP) – would be devastating to the care that California children need and to California as a whole.
- Cuts to Medicaid will impact all children, regardless of whether they are covered by Medicaid, because our child health system depends on Medicaid to keep pediatric practices and children's hospitals open
- Medicaid, with its child-focused benefits package, was specifically designed to meet children’s unique developmental needs.
- The Medicaid program is an American achievement and is the backbone of health care coverage for children in the United States.
- As pediatricians devoted to caring for children across our state, we ask you to **join us in opposing any federal proposal that cuts Medicaid funding to our state or limits access to benefits or services for California children and families.**

***Important note: If possible, tell stories of practice and patient (deidentified!) impacts. These could include: a patient on Medicaid had an unexpected health care issue and Medicaid provided coverage; a family did not have to decide between getting care their child needed or paying other bills; without Medicaid coverage, a child missed care/missed a diagnosis/delayed treatment or intervention and experienced a bad outcome; a patient who is thriving because they can get the care they need through Medicaid; etc.***

### Medicaid Is Crucial to Child Health

- Together, Medicaid and CHIP provide coverage for more than 5,000,000 California children.<sup>1</sup>

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<sup>1</sup> <https://www.medicare.gov/medicaid/national-medicare-chip-program-information/medicaid-chip-enrollment-data/monthly-medicare-chip-application-eligibility-determination-and-enrollment-reports-data/index.html>

- Nationally, Medicaid also provides health coverage to 43.9% of children and youth with special health care needs (CYSHCN)<sup>2</sup> and 99% of children in the foster care system,<sup>3</sup> two critically vulnerable populations.
- Medicaid promotes California children’s health and well-being in countless ways, including:
  - Coverage of 40% of births here in California<sup>4</sup>, including critical services like prenatal, maternity, and postpartum care.
  - Provision of routine preventive care like well-baby and well-child exams, where development is monitored, immunizations and screenings are provided, and conditions are caught early and treated, before they become more expensive and acute.
  - Access to dental, vision, and hearing services.
  - Access to acute care for illness, injury, and other issues that arise.
  - Comprehensive and wrap-around care for children and youth with special health care needs (CYSHCN), such as coverage for home care and long-term services and supports that private insurance does not cover.
  - Coverage of essential mental and behavioral health services—including those for neurodevelopmental conditions like attention-deficit/hyperactivity disorder (ADHD) and autism spectrum disorder (ASD)—as well as substance use disorder (SUD) services. These services are critically important in addressing the nationwide crisis in children’s mental health. Because mental and behavioral health issues often begin in childhood or adolescence, catching them early can have long-term for the health of individuals as well as our state.
  - Funding for services in schools, including mental and behavioral health care and special services such as speech and occupational therapy for children with learning disabilities.
- Medicaid coverage has been critical in driving down the rate of uninsured children in which stands at 4.1% as of 2023.<sup>5</sup>
- Beyond these direct services, Medicaid helps to ensure that California children grow to become healthy and productive adults. Children with Medicaid are more likely to be healthier in both childhood<sup>6</sup> and adulthood<sup>7</sup> than their uninsured peers; less reliant on adult disability programs;<sup>8</sup>

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<sup>2</sup> The Child and Adolescent Health Measurement Initiative (CAHMI). The National Survey of Children’s Health 2022-2023. Accessed February 16, 2025. <https://www.childhealthdata.org/browse/survey/results?q=11090&g=1167&r=1>

<sup>3</sup> Libby A, Kelleher K, Leslie L, et al. Child Welfare Systems Policies and Practices Affecting Medicaid Health Insurance for Children. *Journal of Social Service Research*. 2006; (10)2: 39-49. Accessed February 17, 2025. [https://www.tandfonline.com/doi/abs/10.1300/J079v33n02\\_04](https://www.tandfonline.com/doi/abs/10.1300/J079v33n02_04)

<sup>4</sup> KFF. State Health Facts: Births Financed by Medicaid, 2023. Accessed February 17, 2025. <https://www.kff.org/medicaid/state-indicator/births-financed-by-medicaid/>

<sup>5</sup> KFF. State Health Facts: Health Insurance Coverage of Children 0-18, 2023. Accessed February 17, 2025. <https://www.kff.org/other/state-indicator/children-0-18/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>

<sup>6</sup> Curie J, Chorniy A. Medicaid and Child Health Insurance Program Improve Child Health and Reduce Poverty but Face Threats. *Acad Pediatr*. 2021 Nov-Dec;21(8S):S146-S15. Accessed February 1, 2025. <https://pubmed.ncbi.nlm.nih.gov/34740422/>

<sup>7</sup> Byker T, Goodman-Bacon A. The Long-run Effects of Medicaid on Disability Applications. NBER Working Paper. August 24, 2018. Accessed February 17, 2025. <https://www.nber.org/programs-projects/projects-and-centers/retirement-and-disability-research-center/center-papers/drc-nb18-15>

<sup>8</sup> Goodman-Bacon A. The Long-Run Effects of Childhood Insurance Coverage: Medicaid Implementation, Adult Health, and Labor Market Outcomes. NBER Working Paper. December 2016. Accessed February 17, 2025. <https://www.nber.org/papers/w22899>

more likely to attend and graduate high school and college;<sup>9</sup> and more likely to be employed,<sup>10</sup> earn higher wages,<sup>11</sup> and pay more in taxes.<sup>12</sup>

### Medicaid Supports the Entire Health Care System and the Communities They Serve

- Medicaid supports the entire child-health ecosystem, not just kids and providers enrolled in Medicaid. It is integral to the viability of pediatric practices across the state, from primary care practices to inpatient hospitals.
- Medicaid covers about 40% of pediatric office-based visits, nearly 50% of pediatric hospital admissions,<sup>13</sup> and more than 60% of infant hospitalizations.<sup>14</sup> Cuts to Medicaid and CHIP threaten to close practices, reduce the number of pediatric hospital beds, and erode the viability of the pediatric delivery system nationwide.
- Medicaid services as a critical source of revenue for hospitals in our state, which often serve entire communities, including families beyond close geographic proximity.
- Medicaid crucially supports access to care in rural communities and supports local economies where the health care institution may be one of the community's largest employers.
- Children living in rural areas are more likely to rely on Medicaid and CHIP for coverage than children living in urban areas.

### Medicaid Supports the Whole Family

- As pediatricians, we acutely understand the connection between the health and well-being of parents and caregivers and that of children.
- Parents who are insured are more likely to have children who are insured; healthy adults are also more able to work and care for their children.
- When parents have coverage, their children are more likely to have coverage and to get needed care. Conversely, when parents cannot address their own physical or mental health needs, they are less equipped to meet their children's needs, and increased family stress caused by ill health or unpaid medical bills directly affects children.

### Cuts to Medicaid Aren't Just "Streamlining" or "Trimming the Fat" – They Would Devastate State Budgets Well Beyond Health Care

- Medicaid is the largest source of federal funding to states and makes up approximately 1/5 of a state's budget. Funding reductions at the scope being proposed would shift more of the costs of

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<sup>9</sup> Georgetown Center for Children and Families (CCF). How Medicaid Supports Student Success. Accessed February 17, 2025. <https://ccf.georgetown.edu/2025/01/09/how-medicaid-supports-student-success/>

<sup>10</sup> Goodman-Bacon A. The Long-Run Effects of Childhood Insurance Coverage: Medicaid Implementation, Adult Health, and Labor Market Outcomes. *American Economic Review*. August 2021; (111) 8: 2550-93. Accessed February 17, 2025. <https://www.aeaweb.org/articles?id=10.1257/aer.20171671>

<sup>11</sup> Brown D, Kowalski A, Lurie I. Medicaid as an Investment in Children: What is the Long-Term Impact on Tax Receipts? NBER Working Paper. January 2015. Accessed February 16, 2025. [https://www.nber.org/system/files/working\\_papers/w20835/w20835.pdf](https://www.nber.org/system/files/working_papers/w20835/w20835.pdf)

<sup>12</sup> Alker J, Osorio A, Park E. Medicaid's Role in Small Towns and Rural Areas. Georgetown Center for Children and Families (CCF). January 15, 2025. Accessed February 16, 2025. <https://ccf.georgetown.edu/2025/01/15/medicaids-role-in-small-towns-and-rural-areas/>

<sup>13</sup> <https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2809064>

<sup>14</sup> <https://hcup-us.ahrq.gov/reports/statbriefs/sb299-Hospital-Stays-Children-2019.jsp>

the Medicaid program directly to states, which already face strained budgets and cannot withstand sizable cuts without making deep cuts to other parts of the state budget.

- Reducing federal funding for Medicaid would force California into impossible choices: cut spending in other programs like education, transportation, infrastructure, and public safety; significantly raise revenue through taxes; or cut Medicaid spending by limiting eligibility and enrollment, cutting benefits and services, and lowering provider payment rates.
- In the end, children and families will obtain fewer benefits, suffer diminished access to needed care, and experience periods with limited coverage, or no coverage at all.

### Responses to Specific Mechanisms for Cutting Medicaid

- Converting Medicaid financing to a block grant or per capita cap will devastate the Medicaid program and specifically harm children. Such a fundamental change in the financing of the Medicaid program would cost- and risk-shift the entire financing of the program to California and other states. Past policy proposals show that a capped federal allotment is unlikely to keep pace with the actual cost of care over time, leaving states responsible for an increasing share of the costs. E.g. earlier similar proposals that purported to account for inflation would have left nearly all states exceeding the spending cap in just the first four years of the policy.<sup>15</sup> Further, this seismic upheaval in Medicaid funding would end up impacting state budget items well beyond health care, including education, transportation, infrastructure, and public safety.
- Cutting the federal medical assistance percentage (FMAP) is a significant reduction to the federal government's commitment to Medicaid and a direct cost-shift to our state. The FMAP, also known as the federal match rate, is the percentage of Medicaid costs paid by the federal government to the states. Various proposals to reduce the FMAP – whether a blanket change to the federal minimum, a targeted approach to specific eligibility groups, or other changes – collectively represent direct federal cuts to Medicaid without lowering the costs California faces. The FMAP is a force multiplier on current state Medicaid spending; for every \$1 that California spends on Medicaid, we receive \$1.00 in a federal Medicaid match.<sup>16</sup> Medicaid's FMAP structure must be maintained to ensure that financing of the program remains responsive to California's needs and any economic changes that could affect the state's budget – for example, if the state faces economic pain (such as during a recession or other emergency), the federal share of Medicaid spending increases.
- Reducing or eliminating provider taxes is a threat to California's budget. Provider taxes are already governed by federal statute and regulation, and as such are required to meet specific standards. States use provider taxes to help finance the state share of Medicaid spending; such spending is critical toward maintaining existing Medicaid programs. If cut or eliminated,

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<sup>15</sup> Lukens G, Zhang E. Medicaid Per Capita Cap Would Harm Millions of People by Forcing Deep Cuts and Shifting Costs to States. Center on Budget and Policy Priorities (CBPP). January 7, 2025. Accessed February 17, 2025. <https://www.cbpp.org/research/health/medicaid-per-capita-cap-would-harm-millions-of-people-by-forcing-deep-cuts-and>

<sup>16</sup> KFF. State Health Facts: Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier, FY 2026. Accessed February 17, 2025. <https://www.kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier>

California would be forced to replace those funds with general revenues or new taxes, or implement cuts directly to Medicaid that would result in fewer people in our state having access to care.

#### Work Requirements Don't Increase Work, Just Red Tape

- Implementing Medicaid work requirements will put up to 8,156,000 California adults at risk for losing coverage, which will also directly affect children.<sup>17</sup>
- Nearly all Medicaid enrollees ages 19-64 already work or would likely be eligible for an exemption to a work requirement because they care for a dependent family member, have a disability or serious illness, or attend school.<sup>18</sup>
- Work requirements merely burden families with red tape to maintain Medicaid coverage, often resulting in eligible, working adults losing coverage simply by falling through administrative cracks.
- When Arkansas implemented a Medicaid work requirement in 2018, 18,000 individuals quickly lost coverage—the vast majority for administrative reasons—at a programmatic state implementation cost of \$26 million, before the policy was stopped in federal court.<sup>19</sup>

#### Claims of Reducing “Fraud, Waste, and Abuse” are Just Cuts in Disguise

- Some of the proposals to cut federal Medicaid funding have been falsely described as “reducing waste, fraud, and abuse.” No effort to target waste, fraud, or abuse would account for even a fraction of the savings generated by cuts in the range of \$880B. This scale of cuts cannot be achieved without deep cuts to the programs that serve California families.
- Medicaid is already an efficient program and has multiple internal programs and initiatives to combat waste, fraud and abuse, including the Medicaid Integrity Program (MIP), Medicaid Fraud Control Units (MFCUs), Recovery Audit Contractors (RACs), provider screening and enrollment requirements, and several more. Moreover, the administration of Medicaid is overseen by the Government Accountability Office (GAO) and the HHS Office of Inspector General (OIG), as well as Congressional and state legislative oversight committees.
- Defunding Medicaid is not limiting waste, fraud, and abuse it is just limiting options for children and families to get the care they need.

#### Pivot for topics not listed above:

- Thank you so much for this great question/for bringing this up. Our focus today is to discuss the importance of Medicaid and CHIP for children’s health, but the team in AAP’s DC office may be able to provide more information on this. I will let them know that you’d like some follow-up information, and you can reach out to them directly at [kids1st@aap.org](mailto:kids1st@aap.org).

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<sup>17</sup> <https://www.cbpp.org/research/health/medicaid-work-requirements-could-put-36-million-people-at-risk-of-losing-health>

<sup>18</sup> Tolbert J, Cervantes S, Rudowitz R, et al. Understanding the Intersection of Medicaid and Work: An Update. February 4, 2025. Accessed February 17, 2025. <https://www.kff.org/medicaid/issue-brief/understanding-the-intersection-of-medicaid-and-work-an-update/>

<sup>19</sup> Government Accountability Office (GAO). Actions Needed to Address Weaknesses in Oversight of Costs to Administer Work Requirements. October 2019. Accessed February 17, 2025. <https://www.gao.gov/assets/d20149high.pdf>