

By Michael Kinnucan, Health Policy Director  
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## The House Medicaid Proposal Would be a Disaster for New York

*Attacks on immigrants and safety-net providers would have a catastrophic impact.*

### Key Findings

The House Republican budget proposal would cause 13.7 million Americans to lose health insurance, according to the Congressional Budget Office. New York would face a wide variety of specific impacts, including the following:

- House Republicans will target funding cuts at states that offer healthcare to undocumented immigrants, reducing federal Medicaid funding by \$1.9 billion per year in New York.
- The proposal would also slash payments to safety net hospitals by restricting use of State Directed Payments, putting as much as \$1.6 billion in New York hospital funding per year at risk and likely causing many hospital closures. NYC Health + Hospitals would be particularly affected.
- New York's MCO tax, which was approved by Medicaid just four months ago, could be cancelled as soon as January 2026 – costing the state \$3.7 billion over two years.
- New York would be forced to impose copays on Medicaid recipients earning as little as \$16,000 per year, accelerating the medical debt crisis and preventing Medicaid recipients from seeking preventive care.
- The Republican proposal would force New York to impose burdensome work requirements and paperwork-heavy eligibility tests on Medicaid recipients. While most Medicaid recipients already work, nearly one million New Yorkers could lose coverage due to red tape.
- The budget would force some New Yorkers to sell their homes in order to access Medicaid long-term care.

### Introduction

In February, Congressional Republicans – including all seven New York representatives – voted for a budget reconciliation package requiring \$880 billion in cuts to Medicaid over the next ten years.<sup>1</sup> The reconciliation package set an overall target for spending reductions, but didn't announce what

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<sup>1</sup> <https://clerk.house.gov/Votes/202550>

specifically would be cut from the program. This week, House leadership finally [revealed](#) which program areas will be targeted – and the announcement is bad news for New York, as the targets include crucial priorities for New Yorkers, such as healthcare coverage for immigrants, support for safety-net hospitals and long-term care for middle-class seniors.<sup>2</sup> If enacted, this bill package will cost New York billions – and leave many more New Yorkers uninsured.<sup>3</sup>

Table 1 provides a non-comprehensive list of potential cuts and their budgetary impact on New York. Items are discussed in more detail below.

Table 1. Partial list of proposed cuts to Medicaid in the House Energy and Commerce Reconciliation Package

Policy	Description	Potential Budgetary Impact
Cuts to states that provide healthcare to undocumented immigrants using state-only funds.	States that cover undocumented immigrants using state-only funds (including NY and 12 other states) would face a 10% cut to federal FMAP for the ACA Expansion population.	\$1.9 billion per year.
Cuts to State-Directed Payments	States would be banned from requiring Medicaid MCOs to pay safety-net hospitals at the same rate as commercial insurance.	Up to \$1.6 billion per year.
Elimination of New York's MCO Tax	Provider taxes like New York's MCO tax would be banned, with no transition period. This could take effect as soon as January 2026.	Up to \$4.5 billion, with impact felt as early as January 2026.
Copays for Medicaid	States would be required to charge copays for some Medicaid services to some beneficiaries.	Unknown
Work requirements and more frequent eligibility determinations	States would be required to impose work requirements on Medicaid recipients and redetermine eligibility every six months.	Unknown. One estimate suggests that 974,000 New Yorkers could lose coverage. <sup>4</sup>
Change to asset test for people with disabilities seeking long-term care	States would be required to force some seniors and people with disabilities to sell their homes in order to qualify for long-term care.	Unknown
Ban on Medicaid Funding for Gender-Affirming Care	States would not be allowed to pay for gender-affirming care through federally matched Medicaid funds.	Unknown
Restrictions on 1115 waiver funding.	Congress would direct HHS to restrict how states can spend 1115 waiver funding.	Unknown (New York's existing waiver provides \$7.5 billion in funding over four years).

<sup>2</sup> [https://d1dth6e84htgma.cloudfront.net/05\\_13\\_2025\\_FCMU\\_Memorandum\\_UPDATED\\_55a74a132a.pdf](https://d1dth6e84htgma.cloudfront.net/05_13_2025_FCMU_Memorandum_UPDATED_55a74a132a.pdf)

<sup>3</sup> [https://d1dth6e84htgma.cloudfront.net/05\\_13\\_2025\\_FCMU\\_Memorandum\\_UPDATED\\_55a74a132a.pdf](https://d1dth6e84htgma.cloudfront.net/05_13_2025_FCMU_Memorandum_UPDATED_55a74a132a.pdf)

<sup>4</sup> <https://www.cbpp.org/research/health/harsh-work-requirements-in-house-republican-bill-would-take-away-medicaid-coverage>

## Punishing States that Provide Healthcare to Immigrants

Among the most disturbing proposals in the reconciliation package is one that would penalize states providing health insurance for low-income immigrants – even if the states use state-only dollars to do so. The Republican proposal would cut federal Medicaid matching funds for the ACA expansion population by 10% to any state that provides healthcare to undocumented immigrants – *even if they do so outside of Medicaid and without using federal funding*.

Under current law, the federal government does not match Medicaid spending for undocumented immigrants. But New York, along with 26 other states, has chosen to offer coverage to certain categories of immigrants using state-only funds – including some undocumented immigrants. Low-income undocumented children are eligible for New York’s Child Health Plus (CHP) program, and undocumented seniors as well as pregnant people are eligible for Medicaid. In each case the state pays the entire cost of the program with no federal matching funds.<sup>5</sup>

Covering immigrants is a smart policy for New York, which is home to approximately 600,000 undocumented people. Denying healthcare on the basis of immigration status, particularly to children and the elderly, is cruel and inhumane. It also makes little fiscal sense. People who show up to the emergency room are entitled to emergency care regardless of immigration status, so denying people healthcare simply blocks them from accessing *preventive* care, which can increase healthcare costs in the long term.

Congressional Republicans disagree – and they intend to punish New York for covering immigrants. Specifically, the Republican plan calls for reducing the federal match on Medicaid spending *on US citizens* to penalize states for covering immigrants. Republicans would decrease the Medicaid match for the ACA expansion population by ten percentage points in states that provide health coverage to undocumented immigrants – even if they do so outside of the Medicaid program and with state-only dollars.

How much might that cost New York? New York’s Medicaid program spent approximately \$19 billion on the ACA Expansion population in federal Fiscal Year 2023, of which the vast majority (\$16 billion) was paid for by the federal government and the remaining \$3 billion was paid for using state funds. Under the Republican proposal, New York would be required to pay an additional ten percent of that \$19 billion cost, or \$1.9 billion per year.

Most of the immigrants targeted by this proposal are children. New York and 13 other states cover children regardless of immigration status using state-only funds; to avoid this cut, New York would need to leave those children without healthcare.

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<sup>5</sup> The state does not publicly release the exact number of undocumented immigrants enrolled in Medicaid and CHP, but the number is unlikely to exceed 200,000. A larger number of undocumented immigrants are *registered* for a program called Emergency Medicaid – which provides coverage only for emergency services – but these group are not properly considered Medicaid enrollees and are eligible only for those services to which they are entitled under federal EMTALA regulations.

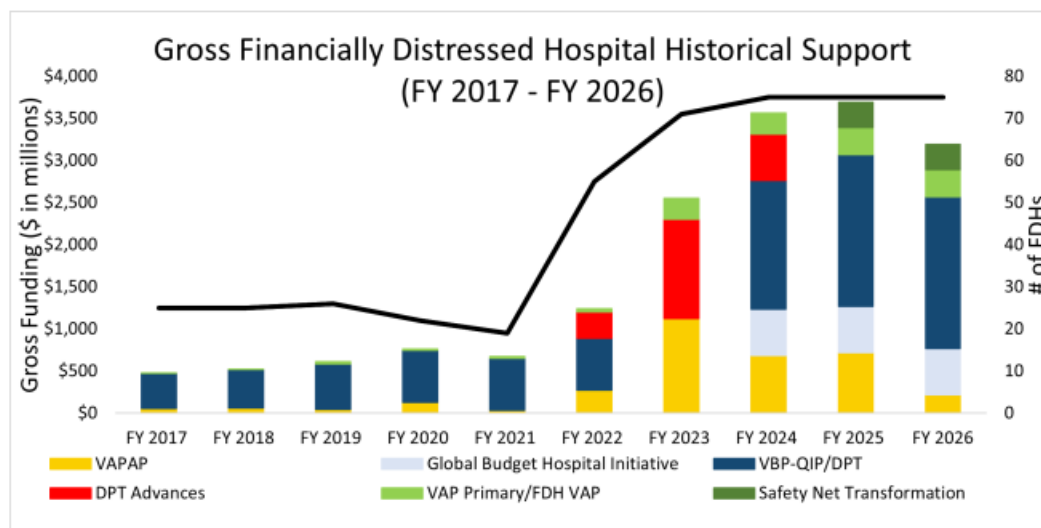
## A Cut to Safety Net Hospitals

In addition to threatening healthcare for immigrants, the Republican proposal would entail a significant cut to safety net hospitals, since it would limit a mechanism known as “State-Directed Payments” (also known as “Directed Payment Templates”), which currently provide \$1.6 billion in funding for New York’s struggling hospitals.

A state-directed payment is a mechanism by which a state Medicaid program directs Medicaid managed care organizations to pay more to specific groups of providers. This is important because providers that serve a large number of Medicaid and Medicare patients often struggle financially; public programs typically pay far less to providers than does commercial insurance, so providers with a large number of Medicaid and Medicare patients have lower revenue than others. New York, like many other states, has used SDPs to remedy this inequity by requiring Medicaid MCOs to pay more to safety-net hospitals. Specifically, SDPs allow states to require MCOs to pay the *average commercial rate* for care at these hospitals – so hospitals get the same payment for care given to Medicaid patients as they would get if those patients had commercial insurance.

Over the past three years, this mechanism has become the primary source of state support for safety net hospitals in New York, directing approximately \$1.6 billion to dozens of urban and rural hospitals across the state. (See Figure 1.)

Figure 1: Sources of support for financially-distressed hospitals in New York, FY17-26.



State-directed payments are the dark blue “VBP-QIP / DPT” bar. Source: Fiscal Year 2026 Executive Budget Briefing.

The Republican proposal would dramatically restrict SDPs by allowing states to pay only up to the *Medicare* rate for care, rather than the average commercial rate. This would represent a dramatic cut – commercial insurers typically pay as much as 2.5 times as much as Medicare. This reduction would force some hospitals to close their doors unless the state identifies other sources of funding.

The SDP cut may be especially dangerous for New York City Health + Hospitals, the city's public hospital system. The recently enacted state budget cuts H+H's allocation from the state Indigent Care Pool by \$113 million. This funding was supposed to be replaced by SDP funding – but if Congressional Republicans have their way, that will likely be impossible.

### Eliminating the MCO Tax – in the Current Fiscal Year

New York's MCO tax is a [provider tax](#) authorized in last year's state budget and approved by the federal government in December 2024. It was expected to raise \$3.7 billion in new federal funding for the state over the next two years. The tax was legal under existing federal regulations, but the Biden administration had begun a process to change those regulations, so the tax was expected to expire after two years.

Congress and the Trump administration have now announced plans to eliminate the tax much, much sooner – blowing a multi-billion-dollar hole in New York State's budget as soon as January 2026. The MCO tax elimination is running on two parallel tracks: The reconciliation bill would ban taxes like New York's, with HHS given flexibility on timeline. But on May 13, CMS issued a [proposed regulation](#) which would cancel New York's tax even if the reconciliation bill does not pass.

In a remarkable break with precedent, this rule would take effect *immediately* if finalized – which could happen as soon as late 2025 or early 2026. That means New York would get only about half of the tax revenue it was counting on and would see an impact as soon as January 2026 – in the current fiscal year.

How big would the cuts be? Accounting for the MCO tax is complex (see page 80 of our [FY26 Executive Budget briefing](#)), but the state was counting on approximately \$7.9 billion in all-funds spending from the MCO tax over SFYs 2026-28. Now at least half of that money won't be coming. In the FY26 Enacted budget, the legislature spent MCO tax revenue on a variety of programs – including general Medicaid funding (\$500M state-share), support for safety net hospitals (\$300M), and rate increases for hospitals, nursing homes, FQHCs and physicians. If either the proposed CMS rule or the proposed reconciliation budget is enacted, the state will struggle to find other sources of funding.

### Cutting Benefits Through a Sea of Red Tape

The Republican proposal would also target low-income Medicaid beneficiaries more directly, by requiring states to impose copays, work requirements and constant eligibility checks. These requirements would force the state to spend more on Medicaid administration and would result in loss of coverage for many people who are in fact eligible but face bureaucratic hurdles to demonstrating their eligibility.

Specifically, the proposal includes:

- 1) **Work requirements:** States would be required to set up a system for checking that adult Medicaid recipients with incomes between 100% and 138% of the federal poverty line (\$15,650 and \$21,597 in annual income).
- 2) **More frequent eligibility checks:** States will be required to verify Medicaid recipients' eligibility every six months, rather than annually.

- 3) **Copays and deductibles:** States will be required to charge copays for services provided to Medicaid recipients, although recipients may not be charged more than 5% of their annual income.

What impact will these provisions have? A recent analysis from the Center on Budget and Policy Priorities suggests that nearly 1 million New Yorkers could lose coverage.<sup>6</sup> Research shows that 94% of adults on Medicaid already meet the proposed work requirement criteria – they are working, attending school, serving as the primary caregiver for a child or disabled person – but work requirements, particularly in combination with more frequent eligibility checks, will still likely result in disenrollment.<sup>7</sup> Low-income people may face unstable living situations, limited internet and phone access, language barriers, and other demands on their time that prevent them from proving that they're eligible. Those who miss an eligibility check will be left without healthcare – even if they are in fact eligible.

Copays will likewise create barriers to care. Some may argue that relatively low copays shouldn't be too much of a problem, but any charge at all creates uncertainty and fear for low-income people who may have experienced medical debt. Ironically, copays may simultaneously be high enough to create significant barriers to care, but still too low to generate meaningful savings: 5% of one's annual income, or \$1000 for someone earning \$20,000 a year, is likely high enough to dissuade many low-income people from seeking care, but it's a drop in the bucket for the state and federal governments.

Not only will these proposals limit access to care, but they'll also burden states with the cost of building a new administrative infrastructure, creating reams of red tape and drawing state resources away from useful investment. If this proposal passes, New York State civil servants will be required to spend the next two years developing systems to pursue indigent Medicaid enrollees for \$15 copays, demand that they prove how many hours they worked last month, and cut off their access to healthcare if they fail to answer.

### Kicking Elderly and Disabled New Yorkers Out of their Homes

The federal budget also takes direct aim at elderly and disabled New Yorkers by changing the asset test prospective Medicaid beneficiaries are required to meet to access long-term care. While most Medicaid beneficiaries face only an income test, those seeking long-term care are required to have low income and limited assets. (To put it another way, Medicaid rules require that people spend down their life savings in order to access long-term care.) Applied strictly, an asset test could force elderly and disabled people out of their homes, since many families' most valuable asset is their home. So current law permits states to disregard up to \$1,097,000 of home equity in applying asset tests – and New York has chosen to do so. Under current law, the home equity limit is adjusted upward every year to account for inflation.

The Republican proposal would fix the home equity limit at \$1 million, with no inflationary increase. This would be more restrictive than current law in New York and would become steadily more restrictive as inflation increases home values. Retired New Yorkers who have paid off their mortgages

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<sup>6</sup><https://www.cbpp.org/research/health/harsh-work-requirements-in-house-republican-bill-would-take-away-medicaid-coverage>

<sup>7</sup><https://www.kff.org/medicaid/issue-brief/5-key-facts-about-medicaid-work-requirements/>

but need long-term care would effectively be forced to sell or mortgage their homes to pay for care. The impact would fall most heavily on states like New York with high home values.

### **Conclusion: New York in the Crosshairs**

Congressional Republicans have repeatedly promised to avoid slashing Medicaid, and with good reason: Medicaid is a popular program with broad, deep constituencies in every state in the country. Unfortunately, there is simply no way Republicans can achieve the cuts they need to fund President Trump's proposed tax cut without huge and painful cuts to the program. While Republicans have avoided some high-profile and controversial changes to Medicaid – like cuts to the federal match and per-capita caps – the policies they have proposed are just as damaging, threatening loss of healthcare for 13 million people and creating multi-billion-dollar budget holes in states across the country – including New York, where seven Republican members of Congress will face tremendous pressure to reconsider.