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July 25, 2025
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The State is Understating Threats to NYS Medicaid After OBBBA

New York can protect its Medicaid system from Trump's cuts – but it needs to act now.

Introduction

In the weeks before the One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, Governor Kathy Hochul sounded the alarm loud and clear that the impact on New York's healthcare system would be disastrous. According to the Governor's office, the bill would cause 1.5 million New Yorkers to become uninsured and cause an overall $13 billion impact on the state's healthcare system, including an $8 billion hit to New York hospitals.

Since the bill passed, however, the Governor's team has been framing things very differently. On July 10, New York State Budget Director Blake Washington released numbers which seem to suggest that the impact will be far more modest. Washington argued that the federal funding gap will amount to just $750 million in the current fiscal year (FY 2026) and $3 billion next year (FY 2027). Given these relatively modest budget gaps, Washington downplayed the need for a special legislative session this fall – while also warning that "we can't tax our way out of this."

What explains the U-turn? If healthcare cuts from OBBBA are so apocalyptic, why are the budget gaps so small?

Federal Cuts in Fiscal Years 26 and 27 Will Be Billions Higher Than State Estimates

The simple answer is that most of the healthcare-related budget cuts impacting the state in FY 26 and FY 27 simply aren't included in the Department of Budget (DOB) estimate. DOB appears to be including *only* the State's cost to provide state-funded Medicaid coverage to 500,000 lawfully present immigrants who will be kicked off the Essential Plan starting January 1, 2026. The State is constitutionally obligated to provide Medicaid to this population, and the State has previously estimated that this will cost around $2.7 billion per year or $675 million per quarter – around the same as Washington's numbers for the final quarter of FY26 ($750 million) and the full FY27 ($3 billion).

These are far from the only federal funding cuts New York's healthcare system will face in FYs 26 and 27. For example, Washington's estimates *do not* include the elimination of the MCO tax, the loss of federal funding that will strip health insurance from 1.5 million New Yorkers, or reductions to safety net hospital payments. (See below for details.) These changes represent billions of dollars in *spending cuts* to New York's healthcare system. But they don't show up as a *state budget gap* in DOB's calculations, since New York is not legally obligated to make up the difference.

What FY26 and FY27 cuts are *not* included in the DOB budget gap estimate? Quite a few:

- **$1.6 billion in MCO tax cuts:** The state's MCO tax was projected to bring in $3.7 billion in federal revenue through FYs 26-27. But the tax will be cancelled early, likely in January 2026, resulting in a $1.6 billion reduction in revenue across those two fiscal years. That revenue was projected to support $300M in safety net hospital funding and nearly $700M in Medicaid provider rate increases per year in FYs 26-28 – but the budget provided that this spending would not occur unless MCO tax revenue was available, and now it presumably won't happen. Doctors, hospitals and clinics serving Medicaid patients will see rate cuts, and safety net hospitals will not receive expected operating support through the Safety Net Transformation Fund. Given the extremely parlous state of many safety net hospitals' finances, hospital closures could result.
- **Essential Plan cuts leading to 225,000 newly uninsured New Yorkers and a net reduction of $4.9 billion in healthcare funding to the state:** Under OBBBA provisions that eliminate health insurance subsidies for lawful immigrants, including some green card holders, Essential Plan funding will be cut by a total of $7.6 billion in two stages: first for the 500,000 immigrants below 138% of the federal poverty line on 1/1/26, then for a further 225,000 immigrants above that income level on 1/1/27). The first group will move onto state-funded Medicaid, which pays far lower rates to providers than the Essential Plan – meaning that providers that care for this group will see a substantial revenue loss even though this population will remain insured. The second group will simply become uninsured unless the State acts to protect them. Thus, of the total annualized $7.6 billion federal funding loss due to these provisions, $2.7 billion will be borne by the State – but the remaining $4.9 billion will be borne by the newly uninsured and healthcare providers. This $4.9 billion is not included in Washington's estimates.
- **Changes to Medicaid eligibility that will leave 1.2 million New Yorkers uninsured.** OBBBA makes a number of changes to Medicaid eligibility – including the imposition of work requirements, a requirement that states redetermine eligibility twice a year, and other red tape barriers to maintaining coverage – that the State has estimated will cost over $500 million to implement and will cause 1.2 million New Yorkers to lose health insurance coverage. These changes are set to be implemented in FY 27 (on 1/1/27). The vast majority of the newly uninsured will be in the ACA expansion population, for which the federal government now pays 90% of the cost of coverage. The direct state budget impact of their expulsion from Medicaid would be slightly positive (the state would save 10% of the cost of their care), but the impact on the state as a whole would be disastrous. Over a million people losing coverage would represent a human tragedy for the impacted population and a massive decrease in funding to New York's healthcare system, as the providers who treat this population (and in particular to the hospitals where they will seek emergency care) don't get paid for this care.
- **Changes to the individual marketplace:** OBBBA also restricts eligibility for the individual marketplace and allows enhanced premium tax credits to expire – measures that the State has estimated could cause a further 80,000 people to lose coverage – a decrease of 36 percent.[1]
- **Looming cuts to Disproportionate Share Hospital (DSH) funding:** New York's safety net hospitals rely on federal Medicaid funding through DSH. Under the Affordable Care Act, which passed in 2010, DSH payments were scheduled for significant cuts – but Congress has acted to delay those cuts, and DSH remains a significant source of funding to New York hospitals. The

[1] https://info.nystateofhealth.ny.gov/news/press-release-governor-hochul-unveils-new-data-showing-massive-increases-new-yorkers-monthly

House version of OBBBA would have extended DSH again – but the Senate version removed this provision, and DSH is now due for dramatic cuts. A recent estimate by Jillian Kirby Bronner at the Rockefeller Institute suggests cuts could begin impacting the state in FY 27 and cost the state's hospitals $1.4 billion.[2] (The American Hospital Association and Kaiser Family Foundation both say that cuts will begin even sooner, on October 1, 2025; the reason for this discrepancy is not clear.[3])

- **Enormous financial pressure on safety-net hospitals.** The mixture of coverage losses and funding cuts described above will put tremendous pressure on the state's hospital system – particularly rural hospitals and those in low-income areas, which already struggle to stay open and rely on state support. These hospitals will likely need larger bailouts in the future to stay open, a further source of pressure on the state budget. OBBBA does provide $10 billion per year in funding to support rural hospitals over the next five years, but half of this funding will be split evenly among states regardless of population – meaning that New York is guaranteed just $200 million per year – and the remainder will be awarded through competitive grants. It is likely that New York's share of this funding will be a drop in the bucket relative to expanded hospital need.

Estimating a total state budget cost for all these cuts is challenging, given the complexity of timing and dependence on policymakers' decisions. But the figure is far closer to the $13 billion estimated by Hochul before OBBBA passed than it is to the $3 billion annual figure that the State is currently advancing.Again, none of these cuts are included in Blake Washington's estimate of the federal funding gap, because the State isn't legally required to replace all this lost federal funding. Washington counts only state-financed coverage for the Aliessa immigrant population, which is the state's legal obligation.

But the state certainly *should* act to replace some of this funding. The consequences of simply allowing these cuts to happen would be nothing short of catastrophic. If state lawmakers don't find more money to keep people insured and support healthcare providers, hundreds of thousands of New Yorkers will be newly uninsured by the end of FY27, many hospitals will close, and preventable deaths will rise.

What should the State do?

While OBBBA makes many cuts to New York's healthcare system, the primary effects of these cuts fall into two categories: Over a million New Yorkers will lose insurance, and safety net providers will see a huge funding crunch. To response, the State must act to *keep people insured and support safety-net providers.* We will have much more to say in the coming weeks about how the state should do those things, but to summarize:

1) **The State should act to protect low-income and immigrant healthcare access by offering state-funded Medicaid or Essential Plan coverage to more people.** Keeping people insured is humane, it saves lives, and it's also smart policy: Health insurance allows people to stay healthy and get consistent primary care, which lowers healthcare costs system-wide. Just because the

[2] https://www.rockinst.org/blog/an-analysis-of-the-one-big-beautiful-bill-act-obbbas-impact-on-healthcare-for-new-york/
[3] https://www.kff.org/tracking-the-medicaid-provisions-in-the-2025-budget-bill/ , https://www.aha.org/system/files/media/file/2020/02/fact-sheet-medicaid-dsh-0120.pdf

federal government isn't funding health insurance doesn't mean the State should cut off access. Indeed, the State already plans to offer state-funded Medicaid to 500,000 people eliminated from the Essential Plan, because it is constitutionally obligated to do so. New York could extend this idea, expanding eligibility for state-funded Medicaid to replace federally funded coverage. It could also support the individual market by subsidizing coverage there for higher-income individuals. More ambitiously, the State could expand public insurance offerings to higher-income individuals and small businesses on a premium-funded basis – expanding the pool of publicly insured individuals and allowing greater efficiency while addressing spiraling healthcare costs in the employer insurance market.

2) **The State must support safety-net hospitals.** Hospitals in low-income and rural areas struggle to keep their doors open – and OBBBA will make that task even harder by raising the uninsured rate and cutting off safety-net funding streams. The state will need to expand state-funded subsidies for these hospitals or risk a wave of hospital closures across the state.

3) **New York can and must spend its healthcare dollars more efficiently.** New York, like the rest of the United States, spends far more on healthcare than any other developed country while providing worse care and leaving many people uninsured. The budget crunch due to OBBBA makes remedying this situation all the more pressing: We can't afford to waste money. The state should consider requiring wealthy nonprofit hospitals, which run operating surpluses in the hundreds of millions of dollars a year, to pay their fair share towards supporting hospitals that serve the low-income. More ambitiously, it should explore hospital price regulation, which effectively controls healthcare costs system-wide while achieving a more just distribution of healthcare dollars among providers. It should also work to eliminate wasteful, profit-seeking middlemen in the healthcare system – for example by eliminating the failed "partial capitation" MLTC program, which allows insurance companies to skim taxpayer dollars intended for home care. There are many opportunities to save money in the healthcare system, and now is the time to pursue them.

Conclusion

Addressing the threat posed by OBBBA to our healthcare system will cost far more than $3 billion per year, even with savings described above. It will also require significant creativity: The State will need to design new programs and make old ones more efficient, stakeholders will need to come together to set priorities, and the State will need to work through complex implementation in the face of a hostile federal government. That's why it's urgent to start as soon as possible. The alternative – allowing the uninsured rate to more than double, permitting hospitals to close, and accepting preventable deaths among low-income New Yorkers – is simply unacceptable.