

FINANCIAL IMPACT OF PLANNED MEDICAID CUTS IN TN

PLANS TO CUT FEDERAL MEDICAID FUNDING WILL UNDERMINE TENNESSEE'S STATE BUDGET

Federal Medicaid Funding Changes are Imminent

The extension of the 2017 Trump tax cuts is **projected to cost \$4 trillion over the next decade**. To offset this, Republican leaders propose deep cuts to Medicaid (TennCare), SNAP, and the Affordable Care Act, transferring the burden to states to decide who and what gets cut. However, it remains unclear how states could effectively implement these reductions without causing significant harm to essential services. Congress must provide clear solutions before imposing this responsibility on states.

Using the Budget Reconciliation process, Congress is expected to adopt a budget resolution soon after January 3, 2025, setting funding cuts for each program. Congressional committees will then draft amendments to achieve those reductions. While specifics on affected people and services will emerge later, **the critical decisions on cut amounts will likely occur within weeks**.

Background: The Important Role of Federal Medicaid Funding in Tennessee's State Budget

The total state budget for Fiscal Year 2024-2025 is \$52.6 billion. Of this amount, \$19.8 billion comes from federal funding. **Federal Medicaid funding accounts for \$9.5 billion, which is nearly half (48%) of all federal revenues in the state budget.** This funding represents 18% of the entire state budget, meaning that 18 cents of every dollar in the state budget comes from federal Medicaid funds-- this exceeds the revenue generated from *all* state franchise and excise taxes combined. Federal Medicaid funding defrays the costs of several state agencies.

The Effects of Federal Funding Cuts on Tennessee's Budget

The nonpartisan Congressional Budget Office projects \$7.5 trillion in Medicaid spending over ten years. Cuts to federal Medicaid funding to pay for tax cuts would significantly impact Tennessee's budget. Applying those percentage reductions to the current amount of federal Medicaid funding in the state budget highlights the amount of annual revenues the state stands to lose:

- A \$500 billion cut to Medicaid would cost Tennessee \$636 million (6.7% of \$9.5 billion)
- A \$1 trillion cut to Medicaid would cost Tennessee \$1.2 billion (13.3% of \$9.5 billion)
- A \$2 trillion cut to Medicaid would cost Tennessee \$2.5 billion (26.7% of \$9.5 billion)

NOTE Two factors may alter the amounts of these annual reductions in state revenues:

- Depending on the ultimate shape of the cuts, Congress may distribute federal funding cuts unevenly among states, meaning Tennessee's funding losses could be higher or lower than the averages cited.
- The reductions might not be spread evenly across the ten year period. Congress would likely increase the rate of the reductions over time, so that annual losses would initially be lower than the ten-year average, followed by years in which the annual reductions would exceed that average.

POTENTIAL IMPACT OF MEDICAID CUTS ON TENNESSEE'S STATE BUDGET (CONT'D)

The State's Options for Absorbing Potential Cuts in Federal Medicaid Funding

Congress will likely promise states "flexibility" to cut enrollment, services and rates as necessary to live within reduced federal funding. TennCare is recognized as an efficient managed care program with minimal fraud and waste that could be eliminated to produce savings. The only way to achieve significant savings is by cutting enrollment, services or rates. Such cuts have serious consequences, however, for Tennessee and its people:

Half of all children and half of all births are covered by TennCare. The majority of children with special health care needs rely on TennCare for their coverage.

TennCare is the **principal source of coverage in rural communities**, and the rural health care infrastructure is heavily reliant on TennCare funding. **Tennessee already leads the nation in rural hospital closures per capita, and cuts to TennCare would further destabilize these hospitals, which are vital not only for healthcare but also for local economies**, as they are major employers and key to attracting new businesses.

60% of nursing home residents are dependent on TennCare coverage.

TennCare covers over a fifth of mental health and substance abuse treatment services in the state. Tennessee has one of the highest overdose death rates in the nation.

Direct payments to safety net hospitals are critical to the ability to maintain critical parts of the health care infrastructure (e.g., burn units and neonatal intensive care units) on which all Tennesseans rely, regardless of source of coverage.

The Economic Impact of Medicaid Cuts on Tennessee Families and Communities.

- **Four in ten Tennesseans** are already burdened by uninsured medical debt. Reducing Medicaid coverage would expose more families to medical debt and financial insecurity.
- Any large reduction in federal funding will ripple throughout the state's economy, including the job market, and will cost thousands of jobs.

What cuts will the state have to make to cope with the planned federal Medicaid cuts?

How will Tennessee deal with cuts in federal support of this magnitude? The effects of capping federal funding will be compounded over time by **relentless inflation in health care costs that consistently outstrip state tax revenues**, leading to recurring state budget shortfalls. TennCare alone cannot absorb the loss of federal Medicaid funding. As the largest expense in the state budget, education would inevitably be impacted, but all areas of spending are at risk.

How does Congress expect Tennessee to cope with the planned cut in federal funding:

- By eliminating TennCare coverage for certain populations? If so, which ones?
- By eliminating TennCare coverage of certain types of care? If so, which ones?
- By reducing payments to providers? If so, which ones, and by how much?
- By cutting other state services, such as education and public safety? If so, which ones and by how much?