

Health Law Navigators

OBBBA's Medicaid Impact and Strategies for Hospitals and Health Systems

Donn Herring
Zachary Fairlie



SpencerFane®

Presenters

Donn Herring

Partner | St. Louis Office
Health Care Practice Group

Zachary Fairlie

Partner | Kansas City Office
Bankruptcy, Restructuring, and Creditors
Rights Practice Group

Agenda

- Anticipated financial impact of the One Big Beautiful Bill Act (OBBBA) on hospitals and health systems
- Anticipated risk to hospitals and health systems of financial impact of OBBBA
- Anticipated timing of financial impact of OBBBA on hospitals and health systems
- Practical strategies that can be implemented by hospitals and health systems to prepare for financial impact of OBBBA



Anticipated Financial Impact of OBBBA on Hospitals and Health Systems

Reduction in Federal Medicaid Spending

- According to the Congressional Budget Office, OBBBA will reduce federal spending on Medicaid by approximately \$911 billion over the next decade.
- This represents a 14% reduction federal spending on Medicaid over the next 10 years.

Increase in Uninsured U.S.

- Given that the decreases in federal spending resulting from the passage of OBBBA will result from people becoming ineligible to continue to participate in the Medicaid program, the Congressional Budget Office predicts that OBBBA will increase the number of uninsured people in the U.S. by up to 11,000,000 people as people currently participating in the Medicaid program become ineligible to continue to do so.

Breakdown of Impact at State Level

- Decrease in overall federal spending on Medicaid 2025 to 2034:

• Missouri	\$ 21,127,000,000	11.9%
• Kansas*	\$ 2,785,000,000	4.8%
• Texas*	\$ 29,346,000,000	5.7%
• Colorado	\$ 17,632,000,000	12.7%
• Utah	\$ 6,595,000,000	12.1%
• Arizona	\$ 54,239,000,000	18.1%
• California	\$226,554,000,000	13.1%

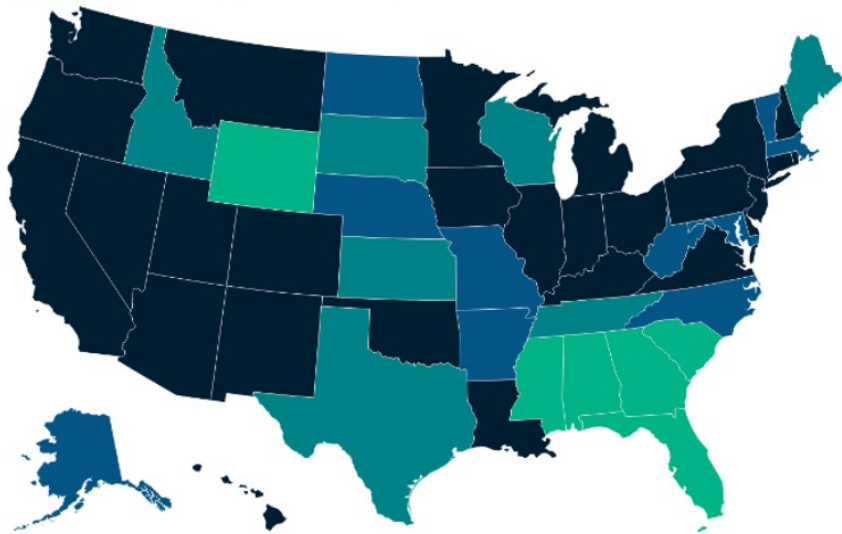
**Decreases disproportionately impact states that expanded their Medicaid Programs during the Obama Administration.*

Breakdown of Impact at State Level

Federal Medicaid Cuts in the Enacted Reconciliation Package, By State

As a % of 10-year baseline federal spending (2025-2034)

< 7% 7%–10% 10%–13% ≥ 13%



Note: \$911 billion in federal Medicaid spending cuts over the 10-year period is allocated across states, including \$79B in estimated Medicaid spending interactions. See Methods in "Allocating CBO's Estimates of Federal Medicaid Spending Reductions Across the States: Enacted Reconciliation Package" for more details.

Source: KFF analysis of CBO estimates of the enacted reconciliation package

KFF

Breakdown of Impact on State Level

- Decrease in federal Medicaid spending on hospital care 2025 to 2034:

• Missouri	\$ 10,894,000,000	21.0%
• Kansas*	\$ 1,538,000,000	8.9%
• Texas*	\$ 20,645,000,000	9.3%
• Colorado	\$ 8,235,000,000	18.2%
• Utah	\$ 3,994,000,000	18.7%
• Arizona	\$ 31,807,000,000	26.7%
• California	\$118,919,000,000	20.1%

**Decreases disproportionately impact states that expanded their Medicaid Programs during the Obama Administration.*

Breakdown of Impact at State Level

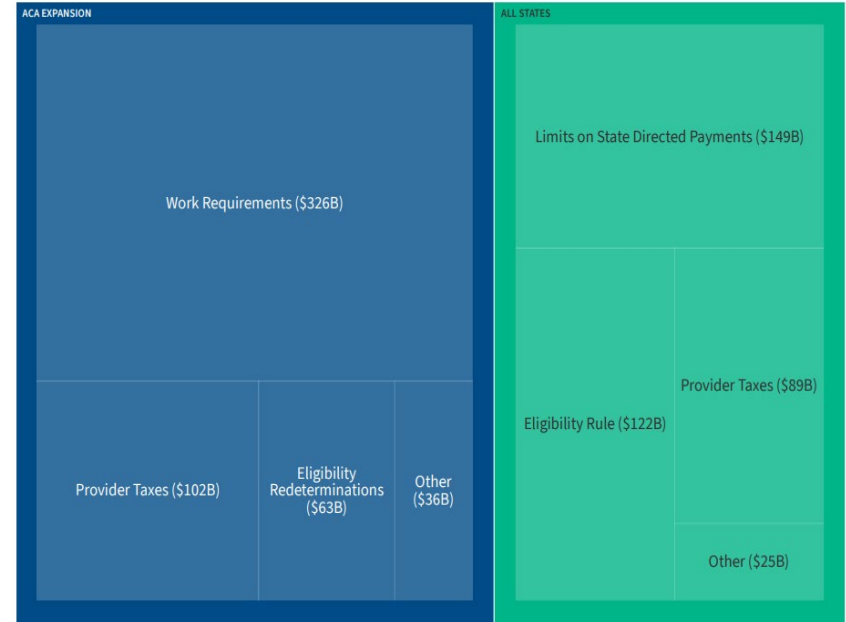
- Decrease in Medicaid enrollment 2025 to 2034:

• Missouri	130,000	10.0%
• Kansas*	13,000	3.4%
• Texas*	153,000	5.4%
• Colorado	152,000	12.3%
• Utah	33,000	9.3%
• Arizona	234,000	10.7%
• California	1,786,000	12.0%

**Decreases disproportionately impact states that expanded their Medicaid Programs during the Obama Administration.*

Specific OBBBA Measures Impacting Spending

Work requirements	\$326B
Provider taxes	\$191B
Eligibility redeterminations	\$ 63B
State-directed payment limits	\$149B
Eligibility rule prohibitions	\$122B
Other	\$ 61B



Rural Health Transformation Funds

- OBBBA will provide \$50,000,000,000 additional funding for rural health care providers payable to the states and distributed by the states to the rural health care providers.
- The first \$25,000,000 of this amount will be distributed to each state in the amount of \$500,000,000 per year each year from 2026 to 2030.
- The balance of this amount will be distributed to the states in annual payments from 2026 to 2030 based on a methodology yet to be determined by the federal government.
- While the Rural Health Transformation Funds will assist rural hospitals financially, they are unlikely to fully make-up for the Medicaid cost reductions triggered by OBBBA.



Risks to Hospitals and Health Systems of Financial Impact of OBBBA

Low Operating Margins

- Hospitals generally operate with very low operating margins compared to other industries.
- In 2024, median hospital operating margins were:
 - All hospitals 4.9%
 - Nonprofit hospitals 1.2%
 - Rural 1.0%
 - Medicaid expansion states 1.5%
 - Non-expansion states -1.5%

Percentage of Hospital Costs Covered by Medicaid

- Medicaid covers a significant percentage of hospital costs in the U.S.:
 - All hospital care 20%
 - Inpatient hospital care 25%

Risks of Decreased Medicaid Funding

- Given the percentage of hospital costs covered by Medicaid, reductions in Medicaid funding will decrease hospital operating margins, potentially shifting them into the negative.
- These decreases will have a significant impact nonprofit hospitals given their already low operating margins (1.2%).
- These decreases will drastically accelerates the financial peril being faced by rural hospitals, i.e., prior to OBBBA 33% of the rural hospitals in the U.S. were at risk of closing due to serious financial problems, including 12 hospitals in Missouri, 30 hospitals in Kansas, 21 hospitals in Texas, one hospital in Colorado, and six hospitals in California.



Anticipated Timing of Financial Impact of OBBBA on Hospitals and Health Systems

Reductions are Backloaded

- Approximately 76% of the cuts in federal spending on Medicaid do not occur until between 2030 and 2034.*
 - July 4, 2025 Restrict Funding for Certain Family Planning Providers
 - October 1, 2026 Limit Medicaid Coverage for Refugees and Asylees
 - October 1, 2026 Implement Cap on Provider Taxes
 - December 31, 2026 Implement Semi-Annual Eligibility Redetermination
 - December 31, 2026 Implement Work Requirements
 - January 1, 2027 Implement Retroactive Coverage Limits
 - January 1, 2028 Implement Rollback of Grandfathered State Directed Payments
 - October 1, 2028 Implement Cost Sharing for Adults in Expansion State
- *Full impact of many changes implemented now will not be felt until 2030 to 2034.*

Significance of Backloaded Reductions

- There is still time for hospitals and health systems to address their existing financial and operational issues to prepare for the financial impact of the reductions in federal spending on Medicaid caused by OBBBA.
- Although the work may be difficult, there is no time to wait.

Practical Strategies

Communicate Impending Risks

- Hospitals need to clearly communicate with their governing boards, their leadership, and their employees about the impending risks they are facing due to the changes to Medicaid caused by OBBBA.
 - As observed by C. Northcote Parkinson, “The time spent on any agenda item will be in inverse proportion to the sum of money involved.” Parkinson’s Law of Triviality
 - Stated differently, the more complex, daunting, and difficult the issue, the less time people are willing to invest in resolving it, especially if they can busy themselves with resolving issues that are less complex, less daunting, and easier to resolve.
 - The decks need to be cleared of other issues so OBBBA can receive the attention it requires.

Communicate Impending Risks

- Hospitals need to clearly communicate with their patients and their communities about the impending risks they are facing due to the changes to Medicaid caused by OBBBA.
- Surviving the changes to Medicaid wrought by OBBBA will require a patient and community buy-in as the hospital is forced to make the difficult choices necessary to survive.
- This is especially true in rural communities where the closure of a cherished programs may rightly be seen as increasing risk for community members as they will be required to travel further to receive care previously received in the community. It is important that community members understand that these decision are driven by the need for the hospital to survive to continue to serve the community.

Renew Focus on Financial Hygiene

- Collect co-pays, deductibles, and patient cost sharing amounts at the time care is delivered.
- Aggressively pursue claims denials by Medicare, Medicare Advantage, Medicaid, and other third-party payors.
- Closely monitor vendor contracts, including automatic escalatory clauses, vendor performance failures, and contract expiration dates.
- Fully utilize all group purchasing arrangements.
- Retain outside consultants to review cost reporting and revenue cycle processes for lost revenue opportunities.

Monetize of Hospital Assets

- Monetizing hospital assets allows the hospital to generate revenue that can be used to reduce debt thereby improving cash flow.
 - Factor hospital accounts receivable.
 - Sell or lease excess hospital assets, e.g., real property with no immediate plans for use. (Apparently, there are even private equity backed groups that purchase landlord's right under cellphone tower leases.)
 - Sell/leaseback key hospital assets:
 - Major equipment
 - Facilities

Negotiate with Existing Creditor

- Model short-term and long-term liquidity needs
- Be aware of monetary and nonmonetary obligations
- Communicate early and often with lenders
- Available options: amendments, standstill agreement, forbearance agreement, and refinancing

Bankruptcy Options

- Bankruptcy is a tool
- Chapter 7 – liquidation
- Chapter 11 – reorganization
- Right-size liabilities and get a fresh start

Maximize Collaboration Opportunities

- By collaborating with other hospitals, individual hospitals are able to benefit from cost savings, new revenue opportunities, and enhanced reimbursement
- Collaboration opportunities take many forms:
 - Hospital-to-Hospital Arrangements
 - Hospital Association Facilitated Arrangements
 - Independent Hospital Networks
 - Purchasing focused
 - Reimbursement focused

Consider Affiliation Opportunities

- By affiliating with a larger hospital or health system, a hospital is able to benefit from better pricing for goods, supplies, and services, lower costs for administrative services that are centrally provided, and better reimbursement due to stronger bargaining power.
- Affiliations may take the form of:
 - Facility management agreements
 - Facility leases (especially for government hospitals)
 - Member substitutions (for nonprofit hospitals)
 - Facility purchases
 - Equity purchases

Convert to Rural Emergency Hospital

- Rural emergency hospitals* receive enhanced reimbursement from Medicare in exchange for limiting their services to 24/7 emergency services, observation services, and additional outpatient services that do not exceed an annual per patient average length of stay of 24 hours.
- Rural emergency hospitals receive:
 - 5% over the payment rate of the hospital Outpatient Prospective Payment System (OPPS) for services, plus
 - A fixed monthly payment of \$285,625.90 (in 2025), subject to annual increases.

**Limited to facilities enrolled as CAHs or rural hospitals with not more than 50 beds as of December 27, 2020.*

Convert to Governmental Status

- Governmental hospital generally benefit from some level of tax support from the local community.
- Conversion to governmental hospital requires approval from existing governmental entities at the county or city level or direct approval by voters.
- Because of the approval process, conversion to governmental hospital status requires a long lead time.

Questions

Thank You!



Donn Herring

Partner

St. Louis

314.333.3966

dherring@spencerfane.com



Zach Fairlie

Partner

Kansas City

816.292.8223

zfairlie@spencerfane.com