
S&P: U.S. States Prepare For Federal Medicaid Cuts As H.R. 1 Leaves Less Operating Room

Key Takeaways

- Federal policy shifts and other cost drivers will keep Medicaid expenditure growth high, outpacing other budget spending. Changes to provider taxes and caps on state-directed payments could place significant pressure on out-year U.S. state budgets.
- States are moving to mitigate Medicaid cost risks, including upfront improvements to technology and administrative processes, ballot initiatives affecting Medicaid expansion, early implementation of new requirements, and targeted revenue enhancements to increase program resources.
- Active management, forecasting, and long-term planning will be important for states to navigate these changes, without weakening state credit quality.

S&P Global Ratings believes the federal-state Medicaid funding partnership has reached an inflection point, following the enactment of H.R. 1, as the federal government shifts greater financial risk and cost variability onto states. According to the Congressional Budget Office (CBO), net spending reductions are estimated to total approximately $900 billion between 2025 and 2034. The evolving Medicaid policy landscape has uneven credit implications across the state sector as it moves from a program with a historically predictable federal-state relationship to one with a source of state budgetary uncertainty. The ability to adjust policies and align future Medicaid spending growth amid a shifting funding environment, while preserving structural budgetary balance and financial reserves, will remain an increasingly important credit factor for states as we evaluate their long-term credit quality.

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