Research brief

MEDICAID CUTS & KANSAS

How Senate bill would impact funding for KanCare

United Methodist Health Ministry Fund

REACH healthcare foundation

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The U.S. House recently passed its "One Big Beautiful Bill Act" through the budget reconciliation process. This bill would cut $700 billion from Medicaid and $300 billion from the Supplemental Nutrition Assistance Program (SNAP), thereby removing health care and food assistance from millions of hard-working Americans. It would impact children, seniors and people with disabilities, making it harder to receive health care and to put food on the table.

On June 16, the Senate Finance Committee released its proposed reconciliation legislation, building on the House proposals while making even deeper Medicaid cuts. This committee has jurisdiction in the Senate on tax, Medicaid, Medicare and the Children's Health Insurance Program (CHIP).

To better understand the impact on access to health care, the Kansas-based philanthropies United Methodist Health Ministry Fund and REACH Healthcare Foundation partnered with Manatt Health to model the impact this bill would have on Kansas' Medicaid system over the next 10 years.

While many of the deepest funding cuts and new restrictions are aimed at states that expanded Medicaid, Kansas will still face significant coverage losses and funding reductions.

The analysis shows that under the Senate proposal, Kansas' Medicaid program will lose $4 billion over 10 years and cause at least 13,000 fewer Kansans to have Medicaid coverage.

These deep reductions in funding — which are even deeper than those in the House bill — are driven primarily by provisions that sharply reduce Kansas' ability to rely on provider taxes to help fund its program and its ability to use State Directed Payments to improve access to care and to help stabilize rural hospital finances.

Of note, these estimates are understated. Due to a lack of publicly available data, Manatt did not estimate the lost opportunity of increasing current hospital taxes or introducing new/increased taxes for providers other than hospitals. While those impacts couldn't be modeled, providers will become more financially vulnerable as a result. In addition, the model did not speculate how Kansas would respond if it were faced with steep losses in funding. Without an investment of new state dollars, the state may have to constrain base payments to providers, eliminate or narrow eligibility and benefits.

Coverage losses due to changes in the federal Health Insurance Marketplace also couldn't be modeled; however, they will result in additional coverage losses in Kansas and nationally.

INCREASED UNINSURED RATES

While it is beyond the scope of the modeling to predict whether the spending cuts will prompt eligibility restrictions, the Senate bill — like the House bill — repeals two Medicaid eligibility and enrollment rules that would result in coverage losses in Kansas. One of these rules would streamline enrollment in Medicaid, while the other would reduce barriers to enrollment into Medicare Savings Programs (MSPs). These repeals make it more challenging for people to get and stay insured though Medicaid, as well as make it more challenging for low-income Medicare enrollees to pay their premiums and cost-sharing requirements through MSPs. These two rule repeals are expected to reduce Medicaid coverage by 2.3 million people nationally.

In Kansas, the Manatt modeling shows approximately 13,000 fewer Kansans would be able to enroll in Medicaid, many of whom may become or remain uninsured. Because adults who don't have children don't qualify for Medicaid in Kansas, this policy change will impact children, parents, seniors and people with disabilities, including "dually eligible" Medicare beneficiaries.

As noted, beyond Medicaid coverage loss, the bill has the potential to result in a loss in coverage for Kansans enrolled in the Marketplace. The non-partisan Congressional Budget Office (CBO) estimated the proposed bill will decrease Marketplace enrollment by about one-third nationally.

Coverage loss from changes to Medicaid and the Marketplace will result in increased uncompensated care for the health system, as well as rising medical debt for Kansans.

Increased uncompensated care puts more financial strain on already financially unstable hospitals. Increased coverage losses challenge providers' ability to keep their doors open, which is especially concerning in rural communities. Rural areas face greater health care challenges overall, as rural residents experience higher rates of chronic diseases and hospitals are operating on tighter margins or have been closed, and doctor shortages are more extreme.

TOTAL IMPACT

$2.46 BILLION
IN REDUCED FEDERAL MEDICAID FUNDING OVER 10 YEARS

$4.05 BILLION
IN TOTAL REDUCED MEDICAID FUNDING (STATE + FEDERAL) OVER 10 YEARS

13,000
KANSANS PREVENTED FROM ENROLLING IN MEDICAID; THOUSANDS MORE TO LOSE MARKETPLACE COVERAGE

**Figures include an increase in SDPs approved by the Kansas Legislature, which are awaiting approval from the Centers for Medicare & Medicaid Services (CMS).*

FUNDING IMPACT TO HOSPITALS

PROJECTED FUNDING LOSSES

1-YEAR TOTAL IMPACT

Federal	State	TOTAL
-$501 million	-$325 million	**-$826 million**

1-YEAR HOSPITAL IMPACT

Federal	State	TOTAL
-$403 million	-$261 million	**-$664 million**

10-YEAR TOTAL IMPACT

Federal	State	TOTAL
-$2.46 billion	-$1.59 billion	**-$4.05 billion**

10-YEAR HOSPITAL IMPACT

Federal	State	TOTAL
-$1.7 billion	-$1.1 billion	**-$2.8 billion**

State Directed Payments

The bill's primary expenditure impact to Kansas' Medicaid funding is through changes to State Directed Payments (SDPs), a financing mechanism that allows Kansas to enhance Medicaid rates for hospitals, where base rates often fall well below the cost of care.

SDPs strengthen access to care and have become a crucial tool for Kansas. They not only allow Kansas to offset shortfalls in base payments, but they help sustain vital services in communities where health care options are scarce — especially in rural areas.

Kansas' largest SDP program provides about $400 million in additional funding each year to critical access and general hospitals, which helps hospitals maintain operations and enhance care quality and access.

The state estimates that base Medicaid base payments for hospitals cover only 72% of costs for inpatient services and less than 40% of costs on outpatient services. SDPs are critical to closing that gap and helping hospitals stay open. For this reason, Kansas is seeking to expand its SDP program for the coming years, an option that has been available to states since 2016.

While the House bill would prohibit any new SDPs above Medicare payment levels while, essentially "freezing" Kansas' current SDP program at its approved dollar amount, the Senate proposes even deeper cuts. Instead of a freeze, would require Kansas to reduce its current SDPs (including one pending federal approval) by 10 percentage points per year starting in 2027 until they were cut back to 110% of Medicare rates.

This reduction in current SDPs poses an existential threat to many Kansas hospitals that need these payments to provide vital services. The bill also prevents Kansas from introducing any new SDPs above this level.

Sustaining Rural Hospitals

Rural hospitals often operate on razor-thin margins, making it nearly impossible for them to modernize facilities, expand services or implement care delivery reforms that drive better outcomes. Additionally, in recent years, low margins have led to a significant number of rural hospital closures.

In Kansas, 63 rural hospitals are at risk of closure and 26 are at immediate risk of closure — higher than anywhere else nationwide. Statewide, Kansas hospitals are operating with negative margins, with a -4.7% average operating margin in 2023. And, operating margins are more challenging for rural hospitals, with 87% operating in the negative.

Reductions to SDPs risk intensifying existing health care access challenges in rural communities. Without adequate reimbursement, hospitals face difficult choices, including to limit services, delay infrastructure improvements, or, in the worst cases, shut down entirely, jeopardizing access to care for the most vulnerable populations. This is particularly concerning for services such as obstetrics, which have already experienced notable decline in Kansas, with 17 unit closures since 2010 that have led to maternal health care deserts.

In addition to SDP reductions, increased uncompensated care due to more uninsured Kansans places additional financial strain on Kansas hospitals, particularly in rural areas.

These cuts threaten the long-term viability of rural hospitals and the essential services they provide, further limiting health care options for rural residents across the state.

> **The Senate bill reduces funding by an additional $279 million over 10 years on top of the House bill's funding cuts.**

RURAL KANSAS BY THE NUMBERS:

32% OF RURAL CHILDREN ENROLLED IN MEDICAID

11% OF RURAL ADULTS ENROLLED IN MEDICAID

12% OF RURAL SENIORS ENROLLED IN MEDICAID

26 RURAL HOSPITALS AT IMMEDIATE RISK OF CLOSURE

63 RURAL HOSPITALS AT RISK OF CLOSURE