Improving the One Big Beautiful Bill
Further Reducing State Medicaid Money Laundering

The Medicaid money laundering apparatus starts with financing gimmicks — provider taxes and intergovernmental transfers (IGTs) — that states use as its share of Medicaid funding. States then obtain large federal funds without any actual state contribution. States use this funding to make large payments to politically powerful providers. During the Biden administration, Medicaid money laundering exploded, driving a massive shift in costs from states to the federal government, and providing a lucrative source of corporate welfare for insurers and big hospital systems. Medicaid rates to hospital systems are now well above Medicare rates in many states, threatening seniors' access to health care services.

The OBBB took three positive steps to reduce Medicaid money laundering:

- Capping new state-directed payments (SDPs) — those submitted after the date of enactment of the law — at Medicare rates in Medicaid expansion states and 110% of Medicare rates in non-Medicaid expansion states.
- Freezing Medicaid provider tax rates and preventing new ones.
- Fixing a loophole that permitted massive kickbacks through states' ability to tax Medicaid plans and providers at much higher rates than private plans and providers.

The Senate can take three actions to further reduce Medicaid money laundering.

#1 — Cap All State-Directed Payments (SDPs) at Medicare Rates

The Biden administration issued a rule that permitted states to set payment rates up to average commercial rates (ACR) through SDPs. This introduces perverse incentives for providers to raise their prices for private payers. While OBBB capped new SDPs at Medicare rates (110% of Medicare rates in non-expansion states), existing SDPs were excluded from the cap. The Senate should extend the caps on new SDPs to existing SDPs. Congress should minimize HHS discretion in setting cap rates.

According to Paragon-commissioned polling, 83% of voters support limiting Medicaid payment rates to no more than Medicare rates.

#2 — Phase Down Medicaid Provider Taxes (in Expansion States)

Lowering the provider tax safe harbor threshold, particularly for managed care taxes, would reduce the fuel for states to inflate federal Medicaid expenditures. President Obama proposed lowering the safe harbor from 6% to 3.5%, a level the Senate should consider. The Senate could exempt nursing homes and rural providers from the reform. The Senate could consider lowering the threshold just in expansion states as Obamacare's 90% federal reimbursement for expansion enrollees amplifies the rate of return on money laundering.

#3 — Limit Medicaid Payment Rates to Government Providers to No More than Private Provider Rates for the Same Services

States use IGTs to make inflated payments to government-owned providers, such as county hospitals, local government emergency transport companies, and university health systems. In essence, states recycle funds to inflate federal Medicaid payments, allowing government providers to receive significantly higher rates than private ones for identical services.