Debunking the Myths of the One Big Beautiful Bill

Myth: States will not be able to cope with the limits on Medicaid money-laundering mechanisms.

Key facts

- The One Big Beautiful Bill (OBBB) Medicaid reforms would incentivize states to prioritize caring for the needy, not using the federal government as a cash cow.
- States now pay the lowest share of Medicaid expenses in history — driven by Medicaid money laundering and Obamacare.
- Under the Biden administration's policies, Medicaid money laundering exploded with provider taxes inflating Medicaid payment rates well above Medicare rates.
- The OBBB adopts an Obama-era proposal to phase down provider taxes from 6.0 percent to 3.5 percent starting in 2028 in Medicaid expansion states — an annual 0.5 percent decrease. The bill also freezes provider taxes, so states can't increase this funding scam after July 4, 2025.
- The OBBB implements stricter rules on provider taxes to curb egregious state abuses, such as a managed care tax that California used to draw down $10 billion in federal funds without spending any of its own money. The next year, California expanded Medicaid to unauthorized immigrants.
- The Biden administration issued a rule that states could make Medicaid payments through insurers up to average commercial rates, which average 2.5 times Medicare rates. The OBBB ensures that Medicaid rates, through health insurers, are capped at or just above Medicare rates. More than 80 percent of voters support capping Medicaid rates at Medicare levels.

Background

Leaders of both parties have expressed concern about provider tax schemes. In 2011, then Vice President Biden called them a "scam." President Obama's 2013 budget first proposed reforms to phase down the provider tax safe harbor from 6.0 percent to 3.5 percent. The safe harbor is effectively the amount that states can tax providers and leverage that revenue to obtain federal matching funds, which are then used to make large payments to the taxed providers. In many instances, states keep some of the extra federal funding to use on unrelated programs. The OBBB also helps CMS better ensure that taxes on providers are broad-based and uniform. These requirements prevent states from disproportionately taxing entities that receive the benefit of higher Medicaid payments, a sure sign that the tax is meant for money laundering rather than a legitimate revenue source.

In part due to states' increased use of Medicaid money-laundering, the federal government now covers 75 percent of Medicaid spending — far above the historic 60 percent share. As states now contribute less than their historic share of Medicaid, they have less incentive to care about results. Instead, they use Medicaid as a federal cash cow for their state coffers. This dynamic reduces states' incentives to run their Medicaid programs efficiently.

The OBBB limits state proposals not submitted by the date of enactment to Medicare rates in Medicaid expansion states (and 110 percent of Medicare rates in non-expansion states) and would gradually phase down payments above Medicare rates until they comply. This mirrors the existing cap for Medicaid rates when paid through fee for service. Medicaid paying much more than Medicare threatens seniors' access to care by leading providers to prioritize Medicaid over Medicare.