Medicaid Cuts & Rural Impact

Medicaid in Rural America

Medicaid provides essential health coverage for residents of small towns and rural communities, playing a significant role in these areas when compared to metropolitan regions. Large reductions in federal Medicaid funding would put Americans living in rural communities and their health care systems at serious risk.

- In six states—including New Mexico, Louisiana, and South Carolina—more than 50% of children in rural areas are covered by Medicaid/CHIP (1).
- Medicaid covers 18% of adults in rural areas. Among non-elderly adults, at least 20% rely on Medicaid in 15 states, with the highest rates in Arizona (35.9%), New York (33.9%), and New Mexico (31.6%) (1).

Medicaid funding is critical for sustaining rural healthcare systems, including hospitals, clinics, and community health centers. A strong relationship exists between Medicaid coverage levels and the financial viability of rural hospitals and providers. Medicaid expansion is associated with improved hospital financial performance and substantially lower likelihoods of closure, especially in rural markets and counties with large numbers of uninsured adults before Medicaid expansion (2).

- Nearly 50% of rural hospitals operate with negative margins (3). Further reductions in Medicaid funding would force many facilities to:
  - Reduce or eliminate essential services
  - Delay much-needed equipment upgrades
  - Close their doors entirely
- Rural hospital closures would leave many residents without nearby health care access, forcing them to travel long distances for even basic treatments and emergency care. As a result, many patients may forgo preventive or routine care, leading to higher utilization of emergency departments, increasing costs to the larger health care system. Rural hospitals are the largest employers in many rural areas, creating further economic challenges for individuals living in rural communities.

Cuts to Medicaid would shift health care costs onto rural families, many of whom already struggle with financial instability. Without Medicaid, families would face higher out-of-pocket expenses, leading many to delay or forgo necessary treatments. This burden would worsen health outcomes, especially for those managing chronic conditions like diabetes, heart disease, and cancer, which are the leading causes of death for rural residents.

Find out about Medicaid in your Rural Area

Reforms to Medicaid spending will impact states unevenly, with those having older and lower-income populations, like rural areas, being more impacted.

- 2023 Rural Medicaid coverage by county
- 2024 Medicaid Enrollment Data, Percent of Total Population, by state or Congressional District

Converting Medicaid payments to a per capita cap.

Proposal: A block grant or per capita cap would limit federal Medicaid funding, shifting extra costs to states. State Medicaid budgets are already strained, and cuts in the federal share may not be sustained. As a result, States might raise premiums, deductibles, and co-pays, leaving more low-income residents uninsured.

Impact on Rural: Medicaid block grants and per capita caps would jeopardize provider sustainability, particularly in rural areas. Block grants or per capita caps could exacerbate this trend by increasing the number of uninsured, creating waiting lists, and/or reducing Medicaid reimbursement rates (4).

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Restricting state use of provider taxes to finance state Medicaid costs.

Proposal: States rely on a variety of sources to finance Medicaid programs, including taxes and assessments on health care providers and managed care plans. As of 2018, provider taxes accounted for about 17% of the state share of the cost of Medicaid (5). Proposals would phase down the safe harbor threshold for provider taxes from 6% to 3% by 2028, limiting states' ability to use these taxes to finance Medicaid, which could force states to cut Medicaid programs and reduce federal spending by an estimated $175 billion over ten years (6). Further, provider-directed payments in Medicaid made by managed care plans help states close gaps in payment between Medicaid and other payers.

Impact on Rural: Restricting use of state-directed provider payments threatens their rural providers who rely on these funds to sustain key services. In the 2010s, two-thirds of all rural closures nationally were in the South, where most states have not expanded Medicaid and the greatest number of rural hospitals have closed (7).

Eliminating enhanced expansion matching rates and lowering minimum matching rates.

Proposal: Reduce or eliminate the 90% federal matching rate to state FMAP matching rate, which on average is 57%. This would end up shifting a large portion of costs to states, potentially leading to reductions in the number of expansion states (8).

- Nine states have "trigger" laws that automatically drop Medicaid expansion if the FMAP is lowered: Arizona, Arkansas, Illinois, Indiana, Montana, New Hampshire, North Carolina, Utah, and Virginia.
- Three other states have trigger laws authorizing the state Medicaid agency to drop the expansion or require state legislative reconsideration: Idaho, Iowa, and New Mexico.

Impact on Rural: Almost two-thirds of the rural uninsured population lives in states that are not expanding Medicaid at this time. Among uninsured rural individuals, about 15% are estimated to fall into the coverage gap compared to 9% of the uninsured in metropolitan areas. Rural hospitals often serve lower-income populations that are less likely to have health insurance or be covered by Medicaid or Medicare, making public payers extremely important to hospital financial viability (9).

- Medicaid expansion is correlated with better rural hospital financial performance. Rural hospital closures are more likely in states that have not expanded Medicaid (2).
- When a rural hospital closes, not only does the community lose access to vital health care, but a major employer and community lynchpin ends, affecting the larger community.
- Investing in public payers to support strong rural health infrastructure is critical to the future of rural areas.

Imposing onerous Medicaid work reporting requirements.

Proposal: Establish a minimum work requirement for certain adults enrolled in Medicaid as a condition of coverage.

Impact on Rural: As the system currently stands, Medicaid work requirements can cause adverse effects on rural providers and residents. Rural Americans are more likely to be low-wage workers, more likely to be unemployed, and have fewer job options than urban Americans, making rural Medicaid enrollees more susceptible to losing coverage under work requirement policies. Medicaid work requirements can weaken rural hospitals' financial positions in states that implement these requirements as a condition of coverage and may contribute to further rural hospital closures and poorer rural health outcomes (10).

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