House Appropriations Health & Human Services Committee

Subject Matter Hearing: HR 1's Impact on Illinois Medicaid

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October 29, 2025

HFS

Illinois Department of Healthcare and Family Services

HFS' Guiding Principles

- Ensure eligible Illinoisans receive and maintain the coverage and benefits they qualify for.
- Ensure the Illinois Medicaid program maintains the ability to cover as many health care services as possible.
- Mitigate harm as much as possible.

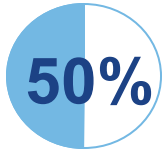
Medicaid Background

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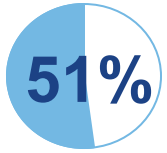
Medicaid 101

Medicaid is a joint federal and state program that provides health coverage for people with limited income and resources.

- The federal government pays a specified percentage, called the Federal Medical Assistance Percentage (FMAP), of Illinois' program expenditures.
  - The FMAP is based on the state per capita income, meaning that higher per capita income states get proportionally fewer federal dollars.
  - Current federal law sets the minimum FMAP at 50%. Illinois' FMAP for FFY26 is 51.82%.
  - Some eligibility groups and specialized programs have higher FMAP, such as 90% for ACA expansion adults, 90% for family planning services, and 66% for children enrolled in the Children's Health Insurance Program (CHIP).
- Illinois funds its share of Medicaid expenditures through general revenue, health care related taxes (e.g., hospital assessment, nursing home assessment), and other sources.



Federal FMAP floor



IL FFY25 FMAP



ACA expansion FMAP

Medicaid 101

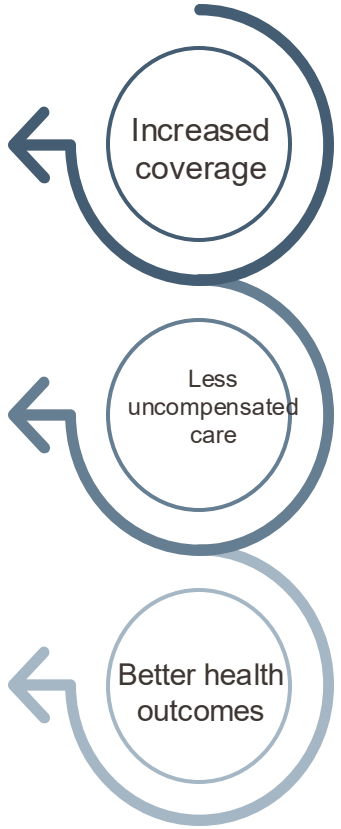
- At the end of SFY24, over **3.4 million Illinoisans** were enrolled in Medicaid.
- Who are Illinois Medicaid customers?
  - 44% are children
  - 9% are seniors
  - 7% are adults with disabilities

Illinois is a managed care state.

- Managed care is a method of delivering health care through a system of network providers that offer quality health care and care coordination.
- When a Medicaid customer enrolls in managed care, they become a member of a health plan. The health plan offers the full range of Medicaid benefits while helping to coordinate care.
- In SFY24, the managed care program offered quality healthcare services and enhanced care coordination to **80% of all Medicaid customers**.

Affordable Care Act (ACA) Medicaid Expansion

- At the end of SFY24, over **770,000** adults were enrolled in Medicaid under the ACA expansion population.
  - The 2010 ACA expansion of health insurance coverage extended Medicaid to single, childless adults with incomes up to 138% of the federal poverty level (FPL) who previously had no option to enroll in Medicaid.
- Illinois implemented Medicaid expansion in January 2014. Between 2013 and 2015:
  - Hospitals saw an approximately **37% reduction** ($675 million) in uncompensated care costs.
  - The uninsured rate **dropped by about 44%.**
- Research shows gaining Medicaid coverage improves access to preventive and primary health care, particularly in rural areas, and improves health outcomes while reducing financial strain.



Medicaid Customer Testimonial

"I'm very appreciative, I'm grateful that there is a program such as Medicaid out there for those of us that can't afford mental health insurance."

- A single adult customer who relies on Medicaid to access behavioral health services



Budget Impact

- Last year, more than 17% of the state's general funds budget was for Medicaid.
- In SFY24, Illinois received over **$20 billion** from the federal government for Medicaid spending across the state. That amount made up about 62% of the total funding for Medicaid programs in Illinois.
- In SFY24, the ACA Medicaid expansion alone brought in over $7 billion to the state in federal revenue.
- Cuts in federal funding will put pressure on the state budget, which could lead to reduced services and enrollment, as the state cannot make up the funding gap.
- Fewer people with Medicaid coverage will put financial pressure on hospitals and clinics.



Economic Impact

- **Hospitals:** Illinois' hospitals and health systems, most of which serve Medicaid customers, generate about **$117.7 billion for the state** every year and support **445,000 full-time jobs**, comprising about 11% of the state's total employment.
- **Local government:** Federal cuts to Medicaid will leave state and local governments with vast budget shortfalls, compromising successful existing partnerships.

➢ The Ground Emergency Transportation (GEMT) Program is federally funded; in SFY24, HFS received **$235 million** in federal match for emergency transportation services, which is passed to providers annually as a supplemental reimbursement.

- **Schools:** Nationally, Medicaid is the third-largest funding stream for K-12 public schools. In SFY23, Illinois Local Education Agencies (LEAs) were reimbursed about $315 million by the Medicaid program.

Medicaid Supports the Health and Human Services Sister Agencies







Federal Changes to Medicaid



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HR 1 Provision	Effective Date
Freeze current and prohibit new provider taxes	July 4, 2025
Prohibit Medicaid funding to Planned Parenthood for 1 year	July 4, 2025
Cap new SDPs at 100% Medicare payment rates	July 4, 2025
Rural Health Transformation Program	Application due November 5, 2025; awards decided December 31, 2025
Narrow the definition of "qualified aliens"	October 1, 2026
6-month eligibility redeterminations for ACA adults	January 1, 2027
Work requirements	January 1, 2027 (January 1, 2029, with good faith effort determination)
Phase-down provider hold harmless threshold	October 1, 2027
Reduce current SDPs by 10 percentage points per year until the SDPs are no greater than 100% of Medicare	January 1, 2028
Cost-sharing for ACA adults	October 1, 2028
Modify "generally redistributive" provider tax criteria	Transition period of up to 3 years
Several other eligibility-related proposals	January 1, 2027 – October 1, 2029

HR 1 Impacts on Medicaid Customers

- **Approximately 68% of non-disabled customers aged 19-64** who are enrolled in Illinois Medicaid have some income, while others have valid exemptions like a disability, caregiving responsibilities or being enrolled in school.

- Nationally, Medicaid customers who are considered able-bodied but are not working are: **79% women**, **50% aged 40+** and **28% live in rural areas.**

- **Impacts on customers with disabilities:** Nationally, 1 in 5 enrollees under 65 who use institutional Long-Term Services & Supports and 1 in 10 enrollees under 65 who use Medicaid Home & Community-Based Services are eligible for Medicaid through the ACA expansion.

Impact of HR 1 on Medicaid Customers

- **Projected Losses:**
  - Internal estimates show that between **270,000 and 500,000 Illinoisans** will lose Medicaid coverage due to the new federal work requirements. That means close to **15% of our current customers** could lose coverage.

  - States that have imposed work requirements, such as Arkansas and Georgia, saw tens of thousands of eligible enrollees lose coverage. Of those disenrolled in Arkansas, **97% were compliant or had exemptions, but still lost coverage.**

Eligibility Changes



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Implementation Planning for HR 1

Eligibility

- Eligibility-related changes, particularly work requirements and 6-month redeterminations, require immense resources, time, and stakeholder coordination.
- Our multifaceted strategy towards optimizing implementation of these changes includes:
  - Maximize policy flexibilities to ensure as few customers as possible lose coverage due to new eligibility requirements.
  - Leverage information technology (IT) to maximize automation, streamlining applications and redeterminations, exempting eligible individuals seamlessly, and optimizing our customer interface so it is easy to navigate and maintain compliance.
  - Develop a robust communications plan that leverages community partnerships to assist customers and grows existing education and training resources to help customers satisfy requirements.
  - Build state staff capacity to address new requirements, IT implementation and enrollment.

Implementation Planning for HR 1

Eligibility: Maximize Policy Flexibilities & Leverage IT

- HFS is developing policies and procedures for the application process, exemption and compliance verification processes, and renewal process that will maximize exemptions and reduce the burden on customers.
- HFS is focusing on how to maximize automated eligibility processes and exploring AI for eligibility verification purposes.
- HFS is assessing what platforms and products exist, how we can leverage technology to make this process as easy as possible for customers and for the state on the administrative side, and how we can procure these platforms quickly.

Implementation Planning for HR 1

Eligibility: Communications

- Building on lessons learned from the Public Health Emergency (PHE) unwinding, HFS plans to employ a comprehensive, multi-modal, and cross-sector communications strategy.
- To date, HFS has: 1) Co-hosted a Town Hall with DHS on HR 1 impacts; 2) Created a Federal Resource webpage with FAQs and other materials, and 3) Engaged in countless one-on-one conversations with stakeholders both in and outside state government.
- HFS is in the early stages of developing a long-term communications plan with DHS, GO, and other state partners, which will leverage CBOs, MCOs and other partners to communicate with customers and help ensure they are prepared for the new requirements.

Implementation Planning for HR 1

Eligibility: Building Capacity

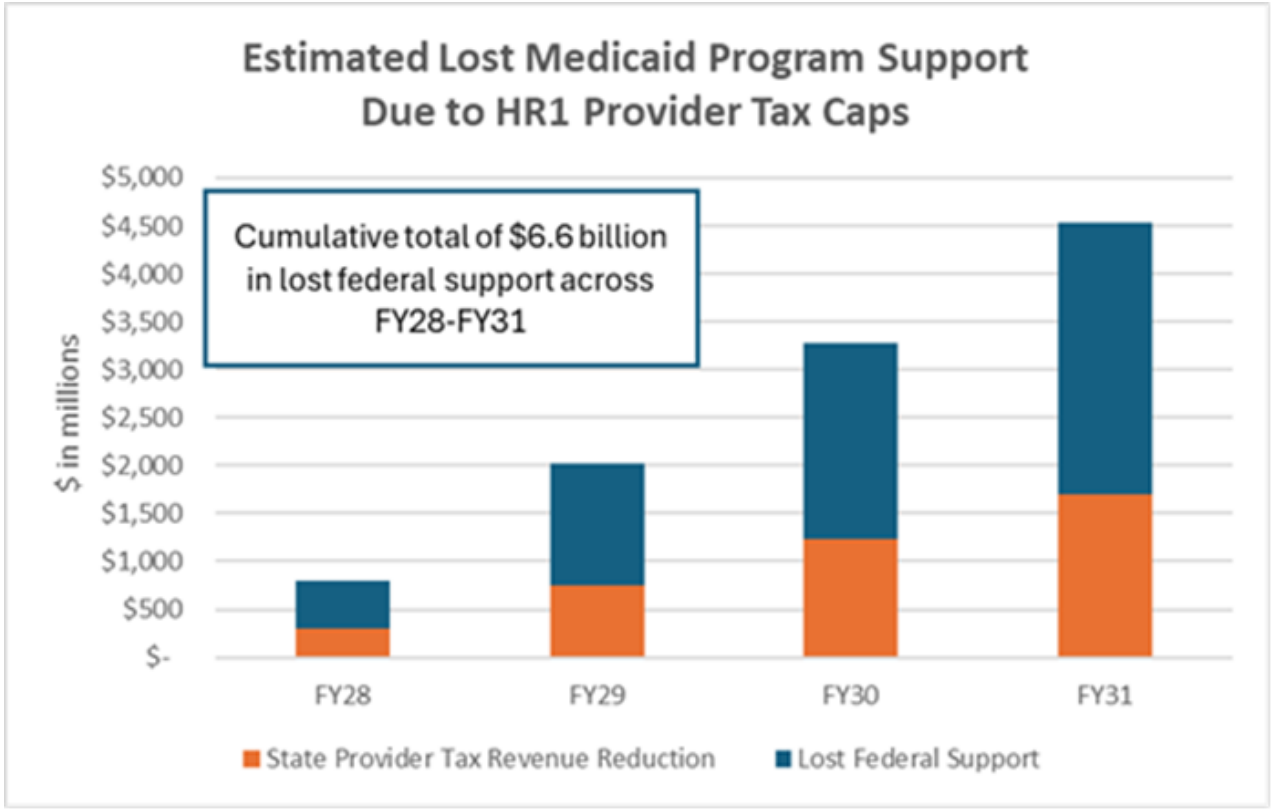
- HFS is collaborating closely with the GO, DHS and other agencies to build an operational plan that leverages existing efforts to implement SNAP work requirements and contemplates additional processing needs for case workers resulting from HR 1 changes to both Medicaid and SNAP.
- Staffing and support needs include strategic project management, IT expertise and additional caseworkers to adequately implement work requirements and other eligibility changes.
- HFS' multifaceted strategy towards optimizing implementation of these changes includes maximizing automation, optimizing the customer technical interface, and growing state education and training resources to help customers satisfy new requirements.

Financing Changes

Implementation Planning for HR 1

Financing Changes

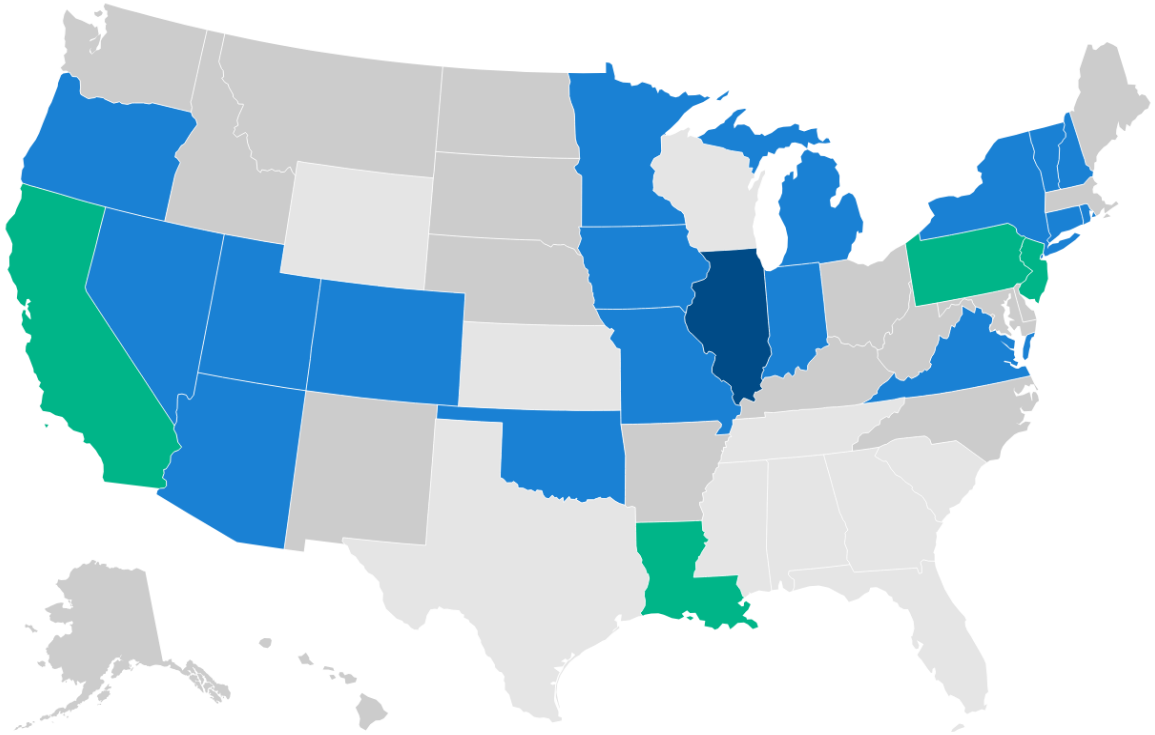
1. Expansion states must phase down their taxes from **6% to 3.5%** of net patient revenues starting October 1, 2027.
2. Modifies the criteria for a provider tax to be deemed “generally redistributive,” effective upon enactment with a transition period TBD.
3. Existing SDPs must be phased down to 100% of Medicare payment levels (for expansion states) starting January 1, 2028.
    - Requires Illinois to reduce hospital SDPs by **$3.4 billion** over funding reduction period.



Implementation Planning for HR 1

States with hospital or managed care organization (MCO) provider taxes in excess of 3.5% of net patient revenues in SFY 2024 that have also adopted the ACA expansion

- Hospital and MCO taxes > 3.5% net patient revenues, expansion (1 state)
- Hospital tax > 3.5% net patient revenues, expansion state (17 states)
- MCO tax > 3.5% net patient revenues, expansion state (4 states)
- No affected hospital or MCO taxes
- Not an expansion state



Implementation Planning for HR 1

Financing

- Medicaid financing changes related to provider taxes and state directed payments (SDPs) will necessitate changes to hospital SDPs and the hospital, nursing home, and managed care organization (MCO) taxes.
    1. Reduce the hospital SDPs
    2. Restructure the nursing home and MCO taxes to come into compliance with new uniformity requirements
    3. Phase down the hospital and MCO taxes to meet the new hold harmless threshold
- HFS will pursue legislation, pending further guidance from federal CMS.

Rural Health Transformation Program

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Rural Health Transformation

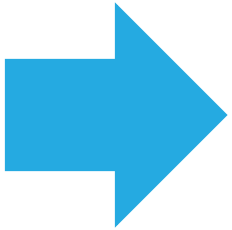
- HR 1 establishes the **Rural Health Transformation Program (RHTP).**
  - Total of $50 billion over FFY 2026 – 2030 in grants to states.
  - The Notice of Funding Opportunity was released September 15, and includes 5 strategic goals:
    - Make rural America healthy again
    - Sustainable access
    - Workforce development
    - Innovative care
    - Tech innovation
  - The application is due November 5, and CMS will make award decisions by December 31.
  - **HFS will be hosting a virtual town hall for all state legislators at 10:30 a.m., Thursday, Nov. 13.**

Rural Health Transformation

Stakeholder engagement included 9 state agencies, over 20 provider associations, numerous rural hospitals, health centers and community mental health centers, Illinois universities and community colleges, legislators, and numerous vendors.

Stakeholder Engagement Overview

1. Conducted **38** one-on-one discussions
2. Held public listening session with nearly **300** attendees
3. Received over **120** written public comments
4. Held **46** follow-up conversations



Application Formulation

1. Organized by NOFO strategies
2. Align with state assets and needs
3. Research of best practices across states
4. Finalized application initiatives

Looking Ahead

- **H.R. 1 Implementation**
  - Partnering closely across state agencies and with external stakeholders
  - Building additional staff capacity
  - Robust communication to customers
- **Back to the guiding principles**
  - Ensure eligible Illinoisans receive and maintain the coverage and benefits they qualify for
  - Ensure the Illinois Medicaid program maintains the ability to cover as many health care services as possible.
  - Mitigate harm as much as possible

Thank you.

Questions?