

H.R. 1 — One Big Beautiful Bill Act

Medicaid Implications for Pennsylvania

RCPA H.R. 1 Summit - May 11, 2026

Presented to: Rehab & Community Providers Association

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Signed into law: **July 4, 2025** | Federal Medicaid Reductions: **~\$900 Billion over 10 years** | Estimated national coverage loss: **11.8 Million**

Medicaid Eligibility & Community Engagement Requirements

WHAT THE LAW REQUIRES

Who it applies to:

Non-pregnant adults ages 19–64 enrolled in Medicaid through the ACA expansion ($\leq 138\%$ FPL) or comparable 1115 waiver coverage

The requirement:

Demonstrate at least 80 hours/month of qualifying community engagement activities

Qualifying activities:

Employment, job training, education (half-time+), community service, or a combination

Verification:

States must verify compliance at eligibility determination and at a new 6-month redetermination; frequency may to be determined by the states, i.e., one month prior for new applicants, any month within the previous six months for beneficiary redeterminations

Notice & disenrollment:

Individuals given 30 days to demonstrate compliance after notice of non-compliance before disenrollment

KEY EXEMPTIONS

- ✓ Individuals in acute treatment, inpatient, or residential settings
- ✓ Individuals with a physical, intellectual, or developmental disability that significantly limits ≥ 1 activities of daily living
- ✓ Individuals who are medically frail or have qualifying serious medical conditions*
- ✓ Individuals with a serious mental illness or substance use disorder
- ✓ Pregnant individuals through the postpartum period (currently 12 months of continuous coverage)
- ✓ Primary caregivers of a child under 14 or a person with a disability
- ✓ Veterans with a disability rated as total
- ✓ Individuals receiving SSI or SSDI, or who meet Social Security's definition of disability

* Medical Frailty to be defined by the HHS Secretary – Guidance still to be issued

PA Note: Even those who are exempt will likely have to provide some documentation unless the state can determine exemption status independently. Providers will play a key role in supporting exemption documentation for individuals they serve, particularly those with physical, intellectual, or developmental disabilities, those receiving SSI/SSDI, medically frail individuals, and caregivers of people with a disability.

Implementation Timeline & Pennsylvania Impact



PENNSYLVANIA IMPACT

~811,000* (Jan. 2026)

PA Medicaid expansion adults potentially subject to work requirements (1 in 4 of all PA Medicaid enrollees)

~310,000

Pennsylvanians estimated to lose Medicaid coverage due to work requirements ~200K & more frequent renewals ~100K (PA DHS estimate)

6 months

New redetermination frequency for expansion adults (was annual). Effective with first redetermination in 2027

~\$16.3B*

PA General Fund Medicaid request FY 2025–26 — federal cuts will significantly increase state cost pressure

*IFO June 2025 Estimates

Medicaid Financing Changes: Provider Taxes & State Directed Payments

PROVIDER TAXES

Current Structure

States tax providers (hospitals, MCOs, nursing homes, behavioral health facilities, etc.) up to 6% of net patient revenues. Revenue used to draw down federal match — a critical tool for states to fund their Medicaid share.

H.R. 1 Change — Moratorium (Immediate)

No new or increased provider taxes permitted for any provider type. Pennsylvania and all states are frozen at their pre-enactment tax levels effective upon signing.

H.R. 1 Change — Phase-Down (ACA Expansion States)

Cap requires a .5% step down from 6% or current amount over 3.5% → 5.5% (FY2028) → 5.0% (FY2029) → 4.5% (FY2030) → 4.0% (FY2031) → 3.5% (FY2032+). This ramp applies to most provider types.

Important MH Provider Note

Community mental health centers, psychiatric hospitals, and outpatient behavioral health providers may face the full impact of the cap reductions beginning in FY 2028 as MCO Assessment is phased down.

PA Budget Impact

Pennsylvania has managed care plan (MCO) taxes above 3.5% that will be subject to the phase-down. DHS estimates significant state budget pressure beginning in FY 2028, requiring new revenue or spending cuts.

STATE DIRECTED PAYMENTS (SDPS)

What Are SDPs?

Medicaid managed care payments directed by states to specific providers above base capitation rates. Pennsylvania uses SDPs extensively to support hospital rates, long-term services, and behavioral health providers.

H.R. 1 Change — New Cap (Immediate)

New or newly approved SDPs capped immediately at 100% of Medicare rates (PA is an expansion state). This significantly limits states' ability to supplement provider payments going forward.

H.R. 1 Change — Phase-Down of Existing SDPs

Existing SDPs approved before May 1, 2025, are grandfathered until January 1, 2028, then reduced by 10 percentage points per year until capped at 100% of Medicare.

Timeline

Jan. 1, 2028: Reductions begin on grandfathered SDPs
Each subsequent year: 10% reduction annually until Medicare parity

Impact on PA Providers

Many PA providers receive supplemental payments through SDPs. Rate reductions beginning in 2028 will intensify an already challenging staffing and financial environment

Combined estimated federal savings from Provider Tax & SDP changes: **\$374 Billion** over 10 years — directly reducing dollars available to PA providers.

PA Estimates a loss of \$2 Billion per fiscal year beginning in 2028 with ~ \$20 Billion loss over the 10-year period

How States Control Medicaid Costs: The Three Levers

When federal funding is cut, states cannot print money. They must choose from three levers — often all three simultaneously.

1 Reduce Number of Eligible Individuals

Limit the number of people covered under the Program

- Increase eligibility thresholds for optional categorically and medically needy coverage groups
- Eliminate optional coverage groups – Medical Assistance for Workers with Disabilities (MAWD); Breast and Cervical Cancer Prevention and Treatment
- Eliminate optional Medicaid expansion group itself (though unlikely in PA)

APD IMPACT

Adults with physical, intellectual, or developmental disabilities are largely exempt — but must document their status. Providers may face added burden helping individuals prove exemption eligibility, while churn disrupts access to services.

2 Reduce Optional Services & Benefits

Eliminate or Place New or Additional Limits on Services

- States may reduce or eliminate optional services
- Narrow scope of covered services by placing limits on the number of visits/services/dollar threshold; or impose more stringent prior authorization guidelines

APD IMPACT

HIGH RISK for APD community — home and community-based services (HCBS), personal care, supported employment, day programs, and assistive technology are all optional Medicaid services subject to state cuts

3 Reduce Provider Payment Rates

Review Services for Rate Adjustments

- Cut Medicaid fee-for-service rates or managed care capitation payments
- Reduce or eliminate supplemental payments and SDPs to providers, i.e., IP and OP Hospitals, Private Duty Nursing, IP/OP BH and SUD services
- Freeze rate increases — effectively a rate cut in an inflationary environment
- Reduce provider taxes (now mandated by H.R. 1) → less revenue to support rate levels

APD IMPACT: Provider closures, reduced access, workforce shortages

PA Medicaid reimbursement rates for services may be further strained; rate cuts may further deepen the workforce shortage, accelerate provider closures, and leave Pennsylvanians without access to critical long-term services and supports

Implementation Challenges: What Providers Need to Know

1 | Inadequate Implementation Timeline

H.R. 1 allowed fewer than 18 months from enactment to go-live. States must redesign eligibility systems, train workers, and send enrollee notices -- without adequate time to test or prepare. Errors will be inevitable due to lack of early guidance on key implementation requirements.

IMPACT: Eligible individuals and families may lose coverage due to system errors before exemptions are properly coded. Compressed time for adequate staff training on complex disability determinations.

3 | Limited State Capacity

PA DHS already faces staffing shortages, backlogs, and long call center wait times before work requirements take effect. Adding 6-month renewals and work verification will further strain the entire Medicaid system.

IMPACT: Children, older adults, and people with disabilities who are NOT subject to work requirements will still experience coverage delays and service gaps as overwhelmed eligibility workers miss routine renewals.

2 | Lack of Federal Guidance

CMS interim final rule on work requirements not due until June 1, 2026 -- only 7 months before go-live. States are designing systems now without knowing final federal rules on exemption definitions or medical frailty criteria.

IMPACT: Medical frailty criteria -- critical for many aging and disability enrollees -- remain undefined. States may build wrong screening tools, putting eligible people at risk of wrongful disenrollment.

4 | Coverage Loss Projections

Up to 7 million nationally could lose coverage in 2028 (Urban Institute). Even the conservative estimate is **3 million** with strong state mitigation. In PA: ~310,000 estimated to lose coverage. Most losses will be due to administrative failure, not ineligibility.

IMPACT: Providers should prepare for coverage disruptions beginning in early 2027, with churn and reapplication adding administrative burden to providers and families alike.

CBPP (April 2026): Even eligible people will lose coverage due to rushed implementation -- Eligible populations face cascading risks even if exempt from work requirements.