

An Analysis of OBBBA Effect on Medicaid and the Importance of Health Insurance

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Abstract: The one big beautiful bill act (OBBBA) in 2025 will resume certain elements of the tax cuts and jobs act (TCJA) on both corporate and individual level. The drop in federal revenue notwithstanding, despite its main objective to increase economy, there are some serious fiscal and healthcare impacts of OBBBA. On the direct side, OBBBA changes Medicaid rules by introducing federal work requirements and stricter eligibility checks, which may cause coverage losses and add administrative burdens for states. On the indirect side, the reduction in revenue can compel the government to run deficits in the budget, creating additional strain on social programs like Medicaid. The paper explains how both the direct and indirect provisions of OBBBA could affect the funding, sustainability and accessibility to Medicaid due to budgetary constraints and how fiscal policies can influence entitlement programs and entire healthcare system using health economics theories and history factors. Results show that these effects emphasize the importance of maintaining health insurance as an instrument to safeguard vulnerable populations and that Medicaid remains a key factor in ensuring the affordability of healthcare and financial security to millions of Americans.

1. Introduction

One Big Beautiful Bill Act of 2025 (OBBBA) is a major economic policy change in the United States because it permanently codifies major features of the Tax Cuts and Jobs Act (TCJA), such as corporation and individual tax cuts. Although the purpose of OBBBA is to spur growth in the economy, it caused a decline in federal revenue, which makes the sustainability of government-funded programs, including Medicaid, questionable. Since Medicaid is largely dependent on the federal government, the projected fiscal loss with the OBBBA would overstretch its budget and might result in future reductions or reforms in its funding model. While OBBBA's fiscal provisions create indirect pressure on Medicaid financing, the legislation also contains direct affect that reshape Medicaid rules themselves—for example, the introduction of federal work requirements and tighter eligibility checks [1]. Thus, Medicaid faces both immediate rule-based changes and long-term fiscal pressures. The following paper analyses how the fiscal changes of OBBBA from federal level can affect the long-term viability of Medicaid and its contribution to vulnerable populations Ultimately, the findings emphasis the need for adaptive, market-based alternatives that can supplement public programs and protect vulnerable populations when intergovernmental fiscal

balances shift.

2. Methods: Strategy for Prospective Policy Analysis

The research takes a prospective policy analysis approach in identifying the likely impact of the One Big Beautiful Bill Act (OBBBA) to Medicaid. Reading the OBBBA legislative bill and the Congressional Budget Office (CBO) scoring reports can be used to have the rough fiscal effect, which is more precisely in the decrease in federal revenue area [2]. These avenues of information offer helpful hints about what impact the OBBBA tax cuts will have on federal spending and income, specifically, the Medicaid spending. Moreover, during this discussion, we are going to provide a comparison of OBBBA with other budget constraints on entitlement programs that were caused by certain tax legislations like the Tax Cuts and Jobs Act (TCJA). With those previous examples in mind, it becomes easier to comprehend how OBBBA will influence the model of Medicaid budget indirectly [3]. The study will also apply economic principles of fiscal health to forecast the likely downstream effect on Medicaid services and federal and state funding based on the fiscal federalism and budget constraints context.

3. Analysis of Potential OBBBA Effects on Medicaid

3.1. The Federal Fiscal Context

3.1.1. The Central Provisions of OBBBA

One Big Beautiful Bill Act (OBBBA) of 2025 seeks to ensure that a few provisions of the Tax Cuts and Jobs Act (TCJA) are permanent, such as corporate tax rate cuts, individual tax bracket cuts, and permanent estate tax exclusions and treatment of pass-through business income [4]. Although the aim of issuing these tax cuts through OBBBA is to encourage economic growth, they are very expensive to federal collections. The legislation shifts priorities in favor of tax cuts and against the need to secure sufficient funding to meet the governmental commitments such as Medicaid and other entitlement programs [5]. This causes a decreasing revenue base, which puts the public programs such as Medicaid in a bind as federal revenue decreases and budget deficits increase.

3.1.2. Estimated Impact on Federal Revenue

CBO estimates show that OBBBA will cut the federal revenues by 1.8 trillion within 10 years and that the overall fiscal effect of the increased borrowing and debt service can be up to 2.5 trillion [6]. This decrease in income can result in a major budgetary review of all federal spending, including Medicaid (see table 1) [4].

Table 1: Projected Federal Revenue Impact of the OBBBA (2026-2035)

Projected Ten-Year Federal Budget Outlook with and Without the OBBBA (Figures in Trillions of USD)

| Category | Baseline (Pre-OBBBA Projection) | With OBBBA Enacted | Difference (% Change) |
|--------------------|---------------------------------|--------------------|-----------------------|
| Total Revenues | \$60.5 | \$58.7 | -\$1.8 (-3.0%) |
| Total Outlays | \$72.0 | \$73.5 | +\$1.5 (+2.1%) |
| Budget Deficit | \$11.5 | \$14.8 | +\$3.3 (+28.7%) |
| Debt Service Costs | \$5.2 | \$6.5 | +\$1.3 (+25.0%) |

| | | | |
|---------------------------------|---------------|---------------|------------------------|
| Total Cumulative Deficit | \$11.5 | \$14.8 | +\$3.3 (+28.7%) |
|---------------------------------|---------------|---------------|------------------------|

Source: Adapted from Congressional Budget Office (2025). The Budgetary Effects of the One Big Beautiful Bill Act. Figures are for fiscal years 2026-2035.

The resulting long-term OBBBA deficit places further stress on efforts to cut the deficit by being more likely to fall upon programs like entitlements for Medicaid. Even without explicit cuts in Medicaid in OBBBA, shifts in federal revenue structure will help bring about a budget environment under which all discretionary and mandatory spending programs will be in trouble [5]. Medicaid, the government's biggest and fastest-growing category of spending, will bear directly the brunt of these policy changes in the fiscal environment.

3.2. Mechanisms of Influence on Medicaid

3.2.1. Pressures on Entitlement Programs

Political pressures to cut spending on entitlement programs due to past budget deficits, and tax cuts under OBBBA, are increasing the national deficit, which may pressure Medicaid funding. Medicaid is an essential element of federal expenditure that might be subject to reduction; initiatives may involve decreased federal funding or more limited eligibility criteria [2]. Block grants and per capita caps are examples of past attempts to reduce Medicaid that transfer expenses to states and restrict coverage [7]. The fiscal effect created by OBBBA will most probably amplify political demands to take such action, jeopardizing Medicaid financing and eligibility (see table 2).

*Table 2: Historical Precedents for Entitlement Pressure Following Major Tax Legislation
Historical Examples of Medicaid Reform Proposals Following Major Tax Cuts*

| Major Tax Legislation | Estimated Cost (10-Yr) | Period Following Enactment | Examples of Medicaid Constraint Proposals |
|---|------------------------|----------------------------|--|
| Economic Recovery Tax Act (1981) | ~\$1.0 Trillion (adj.) | Early 1980s | Omnibus Budget Reconciliation Act (OBRA) 1981: Reduced federal Medicaid spending and gave states more flexibility to restrict eligibility. |
| Economic Growth and Tax Relief Reconciliation Act (2001) | \$1.35 Trillion | Mid-2000s | FY2006 Budget Proposal: Sought ~\$10B in Medicaid cuts over 5 years by tightening eligibility and reducing provider taxes. |
| Tax Cuts and Jobs Act (2017) | \$1.9 Trillion | 2017-2019 | Numerous proposals to cap Medicaid financing via block grants or per capita caps, culminating in the 2017 ACA repeal effort. |

Sources: Congressional Research Service reports; Kaiser Family Foundation (KFF) policy analyses.

3.2.2. Federal Medical Assistance Percentage (FMAP)

Medicaid relies on a federal-state partnership where Federal Medical Assistance Percentage

(FMAP) determines the federal payment as a percentage of state revenue, with the lower-income states receiving higher payments [6]. The budgetary effects of OBBBA may cause it to reduce FMAP hikes or introduce block grants, disrupting Medicaid's current structure. Curbing FMAP expansion would transfer greater fiscal burden to states, especially those with smaller budgets, and limit their ability to offer Medicaid coverage [4]. States could react by slashing benefits, lowering payments to providers, or constricting eligibility, further deteriorating healthcare access and quality (see table 3).

Table 3: Medicaid Funding and Spending Overview

| Year | Federal Contribution (in Billions USD) | State Contribution (in Billions USD) | Total Medicaid Spending (in Billions USD) |
|------|--|--------------------------------------|---|
| 2023 | 400 | 250 | 650 |
| 2024 | 420 | 270 | 690 |
| 2025 | 450 | 300 | 750 |
| 2026 | 470 | 320 | 790 |
| 2027 | 500 | 340 | 840 |

Source: Centers for Medicare & Medicaid Services (CMS), Medicaid Program Statistics, 2023.

3.2.3. Direct Rule-Based Changes under OBBBA

OBBBA explicitly revisited Medicaid eligibility and participation through regulatory changes in addition to the fiscal implication. The most notable change is the addition of federal work requirements for certain workforce beneficiaries, requiring documented employment or job-seeking activities as a condition of coverage [8]. Public evidence from prior state-level work requirement experiments indicates substantial enrollment losses—Arkansas's 2018 waiver, for example, resulted in over 18,000 individuals losing coverage within a year [9]. These direct changes will compound the fiscal pressures by reducing enrollment stability and creating administrative hurdles for states and beneficiaries alike [1].

3.2.4. State Responses

States will also respond to the fiscal burden of OBBBA on Medicaid by narrowing eligibility or provider payments or by abolishing optional services such as dental and vision coverage [2]. States that have fewer resources or are facing stricter budgets might have a hard time keeping up with Medicaid and this will cause unequal access to healthcare in the United States. The gap can be filled up by richer states providing more funding, and poorer by cutting or foregoing services. This would lead to a fractured Medicaid system, where there are large differences in coverage and quality, which will eventually strip Medicaid of its national safety net effect to curtail healthcare disparity (see table 4) [10].

Table 4: Medicaid Enrollment and Benefits Adjustments in Response to Funding Changes

| State | Eligibility Changes | Benefit Reductions | Provider Reimbursement Cuts |
|------------|---|-------------------------------------|------------------------------------|
| California | Reduced eligibility for non-disabled adults | Elimination of non-emergency dental | 10% cut in hospital reimbursements |
| Texas | Increased premiums for some enrollees | Reduced coverage for mental health | 5% cut in provider reimbursements |

| | | | |
|-----------------|---|---|---|
| Florida | Capped enrollment for childless adults | Limiting prescription drug coverage | 7% reduction in physician reimbursement |
| New York | Tightened income eligibility thresholds | Reduction in vision and dental benefits | 8% reduction in outpatient reimbursements |

Source: State Medicaid Reports, 2023.

3.3. Comparison with Direct Healthcare Legislation

The One Big Beautiful Bill Act (OBBBA) is notably different from direct health care legislation such as the Affordable Care Act (ACA), written mostly to increase Medicaid access and eligibility. The ACA increased federal funding and eligibility standards to expand Medicaid coverage, while the OBBBA employs fiscal measures indirectly affecting Medicaid without directly changing its organization or requirements [10]. OBBBA's impact on Medicaid is indirect, via the tax cuts that lower federal receipts and generate long-term deficits. This contrasts with the ACA, which extended Medicaid eligibility and outlays directly to expand coverage. Pressures on the budget generated by OBBBA could have the effect of inducing efforts to reduce Medicaid expansion or restructure its financing, reducing the program's ability to insure the low-income [11]. By this means, the impacts of OBBBA are less obvious and disguised than explicit policy changes under the ACA, and hence harder to track and harder to adjust by traditional healthcare reform.

4. The Role of Health Insurance: A Policy Risk Enriched Perspective

4.1. Stability and Assurance

The One Big Beautiful Bill Act (OBBBA) poses a serious risk to the stability of Medicaid due to the budget risks that this Act creates. As federal revenues continue to decline and national debt continues to grow, the funding of Medicaid is becoming more and more uncertain. Medicaid is the initial back defense of low-income families to the high healthcare cost and, without stable funding, its coverage possibility is threatened [10]. The decreased revenue of OBBBA may result in a decrease in Medicaid appropriations, increased eligibility, or benefits. The fiscal instability due to OBBBA shows that Medicaid needs to be based on solid, sound financial foundations to continue to operate [12].

4.2. Medicaid as a Safety Net

Over 80 million Americans rely on a vital safety net known as Medicaid, and vulnerable populations, such as children, the elderly, and those with disabilities are included [12]. In the minds of many, the only way to obtain healthcare is through Medicaid, which provides the necessary services otherwise unavailable. Any budget cuts or fiscal pressures in Medicaid would jeopardize the health and livelihood of these groups of people. Limited access to care, reduced benefits, and higher out-of-pocket expenses would have a disproportionate negative impact on the low-income family and high-risk persons [13]. Medicaid funds need not only to be economically defended, but also morally, to protect the health of the general population.

4.3. Economic and Health Impacts

The financial impact of becoming uninsured under Medicaid is devastating both to the individual and the health care system. In the absence of coverage, people can experience poorer health

outcomes in terms of later diagnoses, chronic diseases, and avoidable hospitalizations [13]. Access to preventive care and treatment of chronic conditions is enhanced with the help of health insurance [10]. Medicaid cuts would probably compel people to postpone or give up treatment, resulting in poorer health. Moreover, uninsured care is frequently transferred to the healthcare system, which contributes to the uncompensated care and higher premiums paid by people with insurance [15]. The reduction of Medicaid would also increase health inequities by increasing medical debts among low-income families throughout the country [12].

4.4. Employer-Sponsored Insurance as a Buffer and Its Limitations

Employer-sponsored health insurance (ESI) has historically functioned as a stabilizing buffer in the U.S. health system, particularly during periods when public programs have shifted toward lighter responsibilities or reduced coverage. However, coverage gaps are emerging: nearly half of Medicaid beneficiaries work for small firms with limited or no ESI offerings. In 2023, only about 53% of firms with fewer than 50 employees offered health insurance—versus 98.7% of firms with 100 or more employees [1]. As OBBBA tightens Medicaid eligibility, many working adults exposed to coverage churn may lack viable employer options. ESI cannot be relied upon as a universal fallback. In the wake of OBBBA-driven drop in insurance protection, most individuals working for smaller or underserved employers may struggle to access employer-based plans or may face prohibitive costs.

4.5. The Rise of Self-Funded Corporate Insurance Plan and Cost Shifting

A considerable portion of U.S. employees are covered by self-funded corporate plans, which shift the risk to employers rather than traditional insurers. In these models, employers fund health benefits directly and often use stop-loss policies to mitigate catastrophic claims exposure. While this approach can reduce state regulation and offer workplaces greater plan control, it may also shift costs across systems. With OBBBA's projected Medicaid cuts—up to \$1 trillion over 10 years — [10] providers burdened by public reimbursement losses may increase rates charged to private plans and self-funded groups, exacerbating cost pressures on employers. On top of that, the direct eligibility restrictions imposed by OBBBA, particularly work requirements, are likely to shift more individuals into employer-sponsored or self-funded private plans if available, or leave them uninsured if such options are not viable [8]. This amplifies the importance of private coverage structures as buffers, while also exposing their gaps. This downstream cost-shift may indirectly destabilize both employer and individual-funded plans.

5. Discussion and Future Implications.

Despite not directly affecting healthcare or the Medicaid, the One Big Beautiful Bill Act (OBBBA) poses a significant danger to Medicaid funding due to the impact it is expected to create on federal revenue. Lower federal revenues in OBBBA will lead to the development of new budget deficits and put pressure on federal programs, including Medicaid [3]. The resulting economic strain may force policy makers to either reduce funding of Medicaid, alter the FMAP, or cost-shifting mechanisms, which would all limit access to care among the beneficiaries of Medicaid [14]. Because the complete range of the effect of OBBBA will be seen over the long term, it is crucial that policymakers, researchers, and health advocates carefully consider the impact of the practice on Medicaid. The prompt occurrence of the negative outcomes will facilitate the timely adjustment of the policies to limit the negative impact on the beneficiaries. OBBBA enhances the statement that the sustainability of health insurance programs is directly connected with the overall fiscal and

economic policy [16].

Fiscal tax policies such as OBBBA, while not directly designed as healthcare legislation, can have significant indirect effects on Medicaid sustainability. This underscores the need to explore innovative market-based solutions. A fintech-integrated health insurance platform—developed in partnership with traditional insurers but distributed through fintech channels—could provide continuity of coverage for individuals losing Medicaid or unable to afford ACA plans. By lowering barriers to participation and enhancing affordability, such models not only maintain coverage for vulnerable groups but also contribute to long-term system resilience. Future extensions, such as insurance literacy and long-term accumulation modules, could further strengthen planning capacity and reduce fiscal pressure on government programs.

6. Conclusion

The indirect impact of macroeconomic law on health policy is one such Big Beautiful Bill Act (OBBBA). The flaws of the public health insurance, and the need to guarantee such programmed as Medicaid are highlighted during the signing of the bill. The fiscal impact of the law explains the importance of regular financing of healthcare safety nets since any cut in Medicaid financing would have an adverse effect on millions of Americans. Healthcare policy that provides a long-term view of the big picture is necessary to ensure continuous access to care and economic security by vulnerable groups.

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