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MTF Bulletin

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Fiscal Year 2026 Budget: A Closer Look

Health Care Funding and Policy in the Governor's Budget

On January 22nd, the Healey-Driscoll administration filed its budget proposal for Fiscal Year (FY) 2026. The $62.07 billion spending plan increases spending over the FY 2025 General Appropriations Act (GAA) by $4.3 billion (7.4 percent) and over the administration's estimated spending level of $60.26 billion by $1.8 billion (2.1 percent).

Health care makes up the largest share of spending in the annual budget – accounting for 46 percent of all spending in the FY 2025 budget signed by Governor Healey last July. Unsurprisingly, health care accounts for the majority of all spending growth in Governor Healey's FY 2026 proposal – increasing by $2.8 billion over the prior year's budget. Health care cost increases also account for the significant difference between spending in the FY 2025 GAA and the administration's estimate for actual spending in the current fiscal year; the administration expects the state's Medicaid program (MassHealth) to grow by $1.5 billion (gross – not net of federal revenues) over the amount that was appropriated at the start of the year.

Health Care Budget Spending, FY 2024 to FY 2026

	FY 2024 GAA	FY 2025 GAA	FY 2025 Est. Spending	FY 2026 - Governor
Total MassHealth Spending	$19,817	$20,070	$21,559	$22,599
Other Health Care Spending	$6,482	$6,754	$6,923	$6,843
Total Spending	$56,063	$57,782	$60,647	$62,075
Health Care Spending as % of Total	**46.9%**	**46.4%**	**47.0%**	**47.4%**

$ in millions

In addition to the major impact that health care spending will have on the FY 2026 budget, health care policy proposals will be a major topic of debate in both the House and Senate. Each branch will consider a number of policy proposals put forward by the Healey-Driscoll administration, as well as those offered by their own members.

Finally, the FY 2026 budget process will have to contend with significant uncertainties related to federal support for health care as Congress is likely to consider major changes to federal Medicaid support. While the scope and timeline for any federal change is uncertain, it will require budget makers to closely monitor proposals in Washington.

This brief will examine major health care issues impacting the budget development process. It will assess how the lasting impacts of the pandemic and the Steward hospital crisis are affecting health care spending trends in the state, and examine how decisions made in the FY 2025 budget are affecting next year's health care spending plan. It will then look at proposals from the Healey-Driscoll administration to manage cost growth in FY 2026, as well as health care policy initiatives that could play a part in future budget deliberations.

MassHealth in FY 2026 – Cost Pressures

Governor Healey's FY 2026 budget proposes $22.6 billion for MassHealth, a $2.5 billion (12.6 percent) increase over the budget signed last July. To put this in perspective, all other non-surtax spending in Governor Healey's budget grows by 3.5 percent. This significant increase is a function of several factors: program underfunding in the FY 2025 budget, member enrollment and acuity trends, and cost increases related to utilization, labor, and policy changes.

The Changing FY 2025 Picture

The administration projects that MassHealth will cost $21.6 billion (gross) in FY 2025, an increase of almost $1.5 billion over the funding level included in the conference report sent to Governor Healey last summer. From the start of the fiscal year, it was apparent that FY 2025 appropriations likely underfunded the program by several hundred million dollars.

The FY 2025 conference budget included $252 million less for MassHealth than the level initially proposed by the administration. Further, the conference report prohibited MassHealth from implementing changes to the state's PCA program associated with about $100 million in reduced spending and $57 million in net savings; and at the same time, it included $43 million more in nursing home rates than the Governor's proposal. Combined, these three factors resulted in an FY 2025 GAA that underfunded MassHealth by about $400 million in gross spending.

FY 2025 GAA MassHealth Underfunding

	Amount
Funding below Gov's Budget	-$252
Impact of PCA change prohibition	-$100
Offset for additional spending	-$43
Estimated underfunding (gross)	**-$395**

$ in millions

Combined with the enrollment, acuity, and cost changes detailed below, the initial underfunding of MassHealth results in $950 million in additional MassHealth spending growth in FY 2025 over originally appropriated levels.

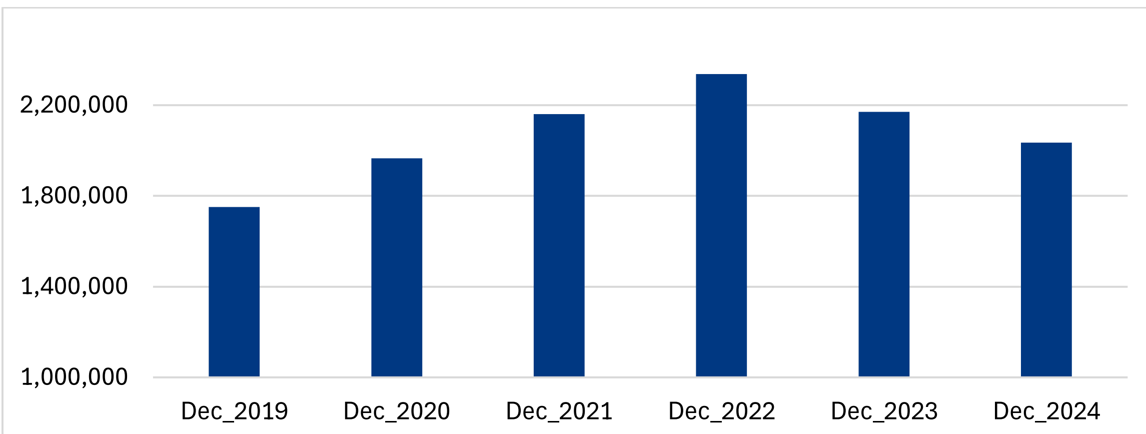
Furthermore, costs associated with the Steward crisis will add additional health care costs to the final FY 2025 budget. In the fall, the state implemented a $791 million plan to transfer five former Steward Hospitals to new owners. While the majority of that outlay occurs in FY 2025, it is projected to increase gross FY 2026 spending by $137.5 million. The administration expects the majority of this cost ($107.3 million) to be offset by additional federal revenues, but it does contribute to FY 2026 spending growth.

MassHealth Enrollment

MassHealth provides some form of insurance to more than 2 million state residents. To put this in context, that is more than double the number of K-12 school students funded by the state's Chapter 70 education aid formula. MassHealth enrollment has grown significantly since the pandemic began, increasing the cost pressure the program puts on the rest of the budget.

As MTF has [detailed previously](), the pandemic brought major changes to MassHealth enrollment. Beginning in 2020, the state paused reassessing the continued eligibility of MassHealth members for three years, as part of a federal effort to maximize health insurance coverage during the federal Public Health Emergency (PHE). Due to this policy decision, MassHealth enrollment soared, from 1.76 million members in February of 2020 to 2.4 million members by the spring of 2023. Member redeterminations restarted in early 2023 and since then enrollment has declined, but remains more than 16 percent higher than prior to the pandemic.

MassHealth Enrollment – December 2019 to December 2024



While MassHealth enrollment remains well above pre-pandemic levels, the federal government is no longer providing enhanced reimbursements for Medicaid spending. During the pandemic, federal reimbursement rates were increased by 6 percentage points to help states manage the costs of enrollment growth related to the pause of eligibility redeterminations. The loss of enhanced federal revenue, which concluded in FY 2024, costs Massachusetts about $1 billion a year.

The Healey-Driscoll administration expects to end FY 2025 with an average enrollment of about 2.1 million MassHealth members – about 80,000 members higher than projections made during the FY 2025 budget process. Assuming each additional member costs about $8,000 per year, this alone increases costs by between $500 and $600 million. After accounting for federal reimbursement, the net cost of this enrollment change is between $200 and $225 million, but this difference in enrollment explains a large share of escalating MassHealth costs reflected in FY 2025 estimated spending levels. The Governor's budget further assumes that MassHealth enrollment will grow by 1 percent – about 21,000 members – in FY 2026, which adds about $200 million in gross spending increases.

Acuity & Cost of Care is on the Rise While New Laws Add Cost

In addition to enrollment, the Executive Office of Health & Human Services (EOHHS) has also noted that member acuity – a measure of health need – has increased, while cost of care is also on the rise. This means that the average MassHealth member has a greater need for health care services that cost more, therefore increasing the overall cost of the program.

MassHealth identifies the increasing costs of prescriptions and long-term support services as other drivers of cost growth in FY 2025 and FY 2026. According to materials released with the Governor's budget, per member drug costs grew by 16 percent in FY 2024 and continue to rise, while more members are seeking more expensive care. Since FY 2023, the share of MassHealth members using Long-Term Support Services (LTSS) has grown by 11 percent. These types of utilization trends increase per-member spending and contribute to FY 2026 cost growth; in CY 2025 Managed Care Organization rates are $600 million more than MassHealth's original projections, adding to cost in both FY 2025 and FY 2026.

Recently signed legislation also impacts the MassHealth budget in FY 2026 and future fiscal years. *An Act to Improve Quality and Oversight of Long-Term Care*, which became law in September, changes the MassHealth rate calculation for skilled nursing facilities. Under the new law, the base cost year, used to develop MassHealth nursing home rates must be within two years of the current year. Historically the base cost year has lagged further than two years – in the FY 2025 budget, the base cost year is defined as 2019. This new cost calculation would increase payments to nursing homes, and is projected to increase MassHealth costs by more than $200 million over the FY 2025 GAA level.

MassHealth in FY 2026 – Savings Initiatives in the Governor's Budget

As noted above, gross MassHealth spending in Governor Healey's budget totals $22.6 billion, 12.6 percent growth over the prior year GAA. This spending is supported by $14.2 billion in anticipated federal reimbursements, meaning that the administration expects the state share of MassHealth to be $8.4 billion, growth of 9.5 percent from the projected FY 2025 GAA net cost of $7.7 billion.

MassHealth Spending & Federal Revenues

	FY 2025 GAA	FY 2025 Est. Spending	FY 2026 - Governor	v. FY 2025 GAA	v. FY 2025 Est. Spending
Total MassHealth	$20,070	$21,559	$22,599	12.6%	4.8%
Federal Reimbursement	$12,410	$13,303	$14,212	14.5%	6.8%
State Share	$7,660	$8,256	$8,387	9.5%	1.6%

$ in millions

In spite of the significant amount of MassHealth spending growth over the FY 2025 GAA, the administration's maintenance spending estimate for the program – the cost of sustaining the program in FY 2026 without any policy changes – would have increased the state's share of the cost by about $900 million more than the Governor's proposal. In order to generate that $900 million in net savings, the administration's budget pursues four general strategies to limit FY 2026 net costs.

Administration MassHealth Savings Strategies in FY 2026

Assumption	Net Impact
Cash Management	$100
Revenue Enhancements	$265
Program Integrity	$182
Programmatic	$339
Total	**$886**

$ in millions

Three of these strategies – cash management, revenue enhancement, and program integrity – can be pursued without the need for explicit budget language or policy changes:

- Cash management refers to EOHHS' ability to alter the timing of payments to either pull FY 2026 costs into the prior year or push payments into FY 2027.
- Revenue enhancements are efforts undertaken by EOHHS to claim federal reimbursement for prior claims, seek reimbursement for services previously not claimed, or aggressively pursue non-federal revenues, like enhanced pharmaceutical rebates, or third party liability payments from other carriers.
- Program integrity means attempts to recoup or control overpayments, and manage appropriate delivery of services and eligibility.

Combined, the administration is relying on these three strategies to provide $547 million in net savings and revenue in FY 2026.

Programmatic Savings Initiatives

The administration is also pursuing six programmatic changes to generate $339 million in additional net savings and revenues in FY 2026. Of these six changes, all relate to outside sections proposed in the Governor's budget.

- ***Nursing facility assessment cap & rate increase ($89 million net revenue)*** – The Governor's budget proposes maintaining a nursing home rate year of 2019, delaying a rebasing called for in the long-term care bill noted above, and eliminating existing language that prevents nursing home assessments from exceeding $240 million. At the same time, the administration is proposing a $102 million increase in nursing home rates. Combined, the administration estimates that delaying the implementation of a new rate year, increasing the assessment, and providing increased rates will generate $89 million in net savings to the budget.
- ***Pharmacy assessment ($75 million net revenue)*** – The administration proposes imposing a new per-prescription assessment on pharmacies, expected to generate $145 million. At the same time, the administration is proposing to increase MassHealth pharmacy rates by $165 million. The rate payments would be eligible for federal reimbursement. The net impact of the assessment, the

increase in rates, and the additional federal reimbursement would provide about $75 million in additional revenues to the Commonwealth.

- ***Provider Rates ($60 million in net savings)*** **–** The Governor's budget assumes that most provider rates will be maintained at FY 2025 levels, while initial maintenance estimates assumed $34 million in net rate increases. In addition, the budget includes a section that eliminates a current requirement that MassHealth ambulance rates meet Medicare levels. The budget also assumes a reduction in adult day health rates and $7 million in additional rate savings to be realized from several areas under consideration.
- ***Behavioral Health Trust Use ($50 million in net revenue)*** **–** The Governor's budget includes a policy section that would enable the Behavioral Health Access & Crisis Intervention Trust, which was created in the FY 2023 budget, to be used for a wider array of behavioral health services. Under the proposal, resources in the fund could be used to support crisis follow-up services and other treatments on the behavioral health continuum of care. At the same time, the Governor's budget uses $50 million in unexpended resources currently in the fund to support the FY 2026 budget.
- ***Eligibility proposals ($43 million in net savings)*** **–** The Medicaid program is pursuing four different eligibility initiatives they expect to provide $43 million in savings in the coming fiscal year. Three of these changes do not require statutory language, including enhancing eligibility checks prior to accessing long-term care services, increasing requirements for dual eligible Medicare enrollment, and increasing MassHealth premiums for certain members. In addition, the Governor's budget includes a policy section to limit the state's Senior Care Options program to MassHealth members also enrolled in Medicare.
- ***OneCare ($22 million in savings)*** **–** The administration estimates $22 million in savings from One Care, which is a program offered to Medicaid/Medicare dual eligibles. The proposal entails seeking greater Medicare revenues, thereby reducing the need for MassHealth cross subsidization.

There are eight sections in Governor Healey's budget that relate to their programmatic savings initiatives. Other changes do not require budget language, though changes can be delayed or prevented through budget language.

Other Health Care Policy Proposals

In addition to the budget language necessary to effectuate MassHealth revenue and savings initiatives, the Healey-Driscoll budget includes several other notable health care policy provisions that are now under consideration by the House and Senate.

For MassHealth, the administration includes a budget section designed to tackle escalating costs in the Personal Care Attendant (PCA) program. The section, which is not associated with any FY 2026 savings, directs EOHHS to develop a strategy to keep PCA cost growth within the state's health care cost benchmark. In FY 2025, the administration proposed making several changes to PCA reimbursement policies to control cost in light of recent growth. That proposal was rejected and this section is an effort to develop long-term savings strategies that can be implemented moving forward.

The Governor's budget also proposes expanding MassHealth's authority to pursue enhanced rebates from drug and medical device companies. Enhanced drug rebate language was included in the FY 2020 budget.

Since then, the Baker and Healey administrations, as well as the Senate, have consistently proposed expanding the program.

The rebate section is not the only Baker-era pharmaceutical cost provision once again included in the Healey-Driscoll budget. The budget includes a drug cost penalty proposal that would levy a penalty on manufacturers whose drug costs grow by greater than the rate of inflation. Like the Baker administration, the penalty would be 80 percent of any difference between allowable costs and actual costs.

Outside of MassHealth and pharmaceuticals, the Governor's budget also:

- Eliminates language in the Group Insurance Commission line-item requiring that state employees hired before a certain date pay a 20 percent share of premiums. State employees hired more recently pay a 25 percent share of premiums.
- Increases the fee for the Determination of Need application – the current fee for all DON applications is capped at 0.2 percent of capital expenditures proposed in the project. Under the proposed language, the cap would be increased to 0.7 percent.
- Extends the state's Connector Pilot Program – the FY 2024 budget included a new pilot at the Health Connector to expand insurance subsidies to those with incomes of up to 500 percent of the federal poverty level. The pilot is currently set to conclude at the end of 2025. The proposal extends the pilot to the end of 2026.

Uncertain Federal Context

As MassHealth looks to be a major cost driver in the FY 2026 budget, there is growing risk of federal changes that may reduce financial support or require major programmatic changes. Federal risks take two forms – potential Congressional action through the Federal Fiscal Year (FFY) 2026 budget and Center for Medicare and Medicaid (CMS) policy changes made by the Trump administration.

Possible Congressional Changes

Congress is beginning deliberations for its 2026 budget and part of those deliberations relate to Republican goals to extend, and potentially expand, tax cuts passed in 2017. Any extension would necessitate significant federal spending cuts over the next ten years. Given public statements indicating that Social Security and Medicare cuts are not being contemplated, cuts to Medicaid, the next largest federal spending program, are much more likely.

In February, the House passed a preliminary budget reconciliation document which called for more than $800 billion in cuts from the Energy and Commerce Committee, which oversees Medicaid. While no specific Medicaid policy changes are proposed in that document, several major changes to Medicaid have been discussed since the new Congress began. These include:

- Turning Medicaid into a block grant program, where federal support would no longer be based on state borne cost;
- Eliminating enhanced reimbursement for populations made eligible for Medicaid under the Affordable Care Act;
- Limiting the use of provider taxes to support Medicaid costs;

- Introducing work requirements for Medicaid participation;
- Reducing the minimum share of federal reimbursements below 50 percent.

The impact on Massachusetts of any of these changes depends on the details, but any would significantly reduce federal revenues received by the state. For example, if reimbursements for ACA populations were reduced to 50 percent in FY 2025, it would decrease state revenues by about $1.3 billion.

Possible Administration Proposals

The state's Medicaid program operates under several waivers negotiated with CMS. While the state's major Medicaid waiver is in effect until 2027, it is possible that the Trump administration will alter compliance expectations and requirements from the Biden administration's CMS. Furthermore, the Trump administration has released a number of Executive Orders and memos requiring entities receiving federal funds or using taxpayer dollars to adhere to administration policies related to topics like immigration, gender-affirming care, and diversity, equity, and inclusion programming. It is unclear if any current or future administration directives will affect the state's Medicaid waiver or the program more generally, but it is a distinct possibility.

Key Questions for the House and Senate

Will they adhere to the administration's MassHealth spending plan and savings initiatives?

There are more than $300 million in savings initiatives utilized in the Governor's budget that require budget language. The House and Senate will now assess whether or not they want to adopt, jettison or alter those proposals. In recent years, the Legislature has generally gone along with Baker and Healey administration plans to increase provider assessments and update programs to provide savings, but have been less likely to advance plans to alter eligibility or eliminate or cap reimbursable services.

It is likely that the majority of the administration's savings initiatives will be included or assumed by the House and Senate, but provisions related to nursing homes, pharmacies, and ambulances could draw special attention.

As House and Senate budget writers develop their health care spending plans, it is critical that they appropriately account for the cost of any policies they do or do not pursue. As discussed earlier in this brief, initial underfunding of MassHealth in FY 2025 created about a $400 million gross shortfall to start the fiscal year; which contributes to budget pressures in FY 2026. Avoiding MassHealth underfunding in the FY 2026 budget is essential to maintaining a balanced budget throughout the fiscal year.

Will there be further unanticipated costs related to the Steward crisis?

As MTF has detailed in an earlier brief, the state's initial $791 million plan for Steward comes at a net cost of $316 million. Central to that plan is the fact that essentially the entire net state cost – the amount that will not be repaid by providers or offset by reimbursement – will apply in FY 2025. If those assumptions prove faulty and additional resources are necessary, it will add to the health care spending challenges in FY 2026.

What's the new normal for MassHealth enrollment and utilization?

The Governor's FY 2026 budget essentially assumes that, following post-pandemic MassHealth redeterminations, the program's enrollment leveled out at about 2.1 million and will now grow by about 1 percent annually. That baseline is about 80,000 more members than originally anticipated when redeterminations began, which adds several hundred million dollars to the underlying state cost of MassHealth. Should enrollment grow faster than the 1 percent assumption, it will result in a major program shortfall. At the same time, it is possible that federal changes could reduce enrollment, but with it the state would lose federal resources as well.

What's the best strategy to adapt to federal policy changes?

Any clarity on Congressional Medicaid changes in unlikely to emerge prior to House and Senate budget action. Therefore, preemptive program or financing changes are premature given that we do not know if or how the program will be adjusted. However, given the ten year savings target of $800 billion that the House has assigned to the Committee governing Medicaid, it makes sense to avoid any program expansions or major new financing approaches based on the status quo. At the same time, the Legislature and administration should work together to develop contingency and adaptation plans for some of the program changes discussed to date.