



Addressing Variability and Preparing for the Future

Strategic steps for Healthcare Organizations in response to the One Big Beautiful Bill Act.

JULY 2025

The One Big Beautiful Bill Act (H.R. 1, or Public Law 119-21), hereafter referred to as OBBBA, will bring a number of changes that will impact healthcare payors, providers and others in the ecosystem. Responding to these changes requires a proactive and nuanced approach. The landscape of healthcare is being reshaped, and it is imperative that leaders in this sector not only understand these shifts but also strategically respond to them. This document outlines:

1. Key healthcare impacts of OBBBA; and
2. What healthcare organizations should be doing now, with a focus on planning, adapting, and future-proofing their operations.

This document does not represent a position or opinion of KPMG or an endorsement of any individual,

party, or policy. This piece will focus on outlining the OBBBA and other related public comments made by Executive Branch and Congressional leadership, and/or reported by third party sources. The nature of this content is rapidly changing- please note date of publication.

Healthcare impacts of OBBBA

On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act (H.R. 1, hereafter 'OBBBA'), which passed with a narrow majority in both the House and Senate.

There are many provisions impacting the healthcare industry. Note- the source for this section, unless otherwise stated, is the text of Public Law No: 119-21 and the Congressional Research Service Summary of the law, accessed at <https://www.congress.gov/bill/119th-congress/house-bill/1>.

Medicaid – including work/community engagement requirements for most adult beneficiaries without disabilities, doubling frequency of eligibility checks, restrictions on the ability of states to use provider

taxes to fund Medicaid, cost sharing (copays) for some recipients, and a moratorium on 2024 rules related to streamlined enrollment and auto-renewal of enrollment.

Medicare – including a moratorium on a Biden-era rule designed to ease enrollment into Medicare savings programs, and a one-off increase in the Medicare physician fee conversion factor by 2.5% for 2026.

Affordable Care Act (ACA) – including requiring annual re-verification of premium tax credit eligibility and limiting the number of lawfully-present residents who are eligible for the premium tax credit.

Other – \$10B per annum fund over five years for states to support rural health transformation plans.

Healthcare impacts of OBBBA continued

Other changes that had been proposed by members of Congress or identified by the media, including per capita caps or Federal Medical Assistance Percentage (FMAP) reductions for Medicaid, were not included. This may be in part due to the narrow majorities in both the House and Senate and the need to alleviate concerns about more significant cuts by some Republicans e.g. as expressed in the letter of April 14, 2025 from 12 house members (*Source- Letter of April*

14, 2025, available at website of Rep Lawler (lawler.house.gov)).

One item notably not included in OBBBA was a renewal of enhanced premium tax credit subsidies for ACA Marketplace plans. These will expire at the end of 2025 unless extended by a vote of Congress. The legislation also did not address Disproportionate Share Hospital (DSH) payments that are due to be cut by \$8B by October 1 if not otherwise decided by Congress.

Medicaid

OBBBA did not include some of the larger impacts that some had expected- for example, there were no direct reductions in Federal Medical Assistance Percentage (FMAP) and no per capita caps.

However, there were a number of Medicaid provisions in the act that combined are likely to have significant impacts on recipients, healthcare providers, and states, including, among other things:

- **Work/community engagement requirements** for most adults without disabilities or children under 14 (From the start of 2027, but states can apply for exemption through the end of 2028 if they show good faith compliance).
- **A reduction in the cap on provider tax rates** in expansion states, starting from 2028, from the current 6% of provider net patient service revenues to 3.5% by 2032. Any new and modified provider taxes are prohibited immediately for all states.
- **Increased frequency of eligibility checks**, increasing from once to twice annually by the end of 2026.
- **Requirement by 2029 for cost-sharing** (copay) of up to \$35 for certain members of the Medicaid expansion population for certain services (notably excluding primary care and mental health care).
- **Increased obligation – and funding –** for the states to improve prevention of dual enrollment between Medicaid and CHIP across multiple states.
- **Moratorium on 2024 rules** related to streamlined enrollment and auto-renewals.
- **New caps and limits on state-directed Medicaid** managed care payments, with grandfathering of the impact on most current programs until 2028.

Medicare

- Medicare provisions in the OBBBA include a moratorium on a 2023 rule designed to ease enrollment into Medicare savings programs, removing orphan drugs from the Medicare Drug Negotiation Program, and a one-time 2.5% increase under the Medicare Physician Fee Schedule for 2026.

- The Congressional Budget Office reported (*“Potential Statutory Pay-As-You-Go Effects of a bill to provide Reconciliation Pursuant to H. Con. Res. 14, the One Big Beautiful Bill Act”*, May 20, 2025) that Medicare may be impacted due to an increased budget deficit because of the OBBBA triggering the Pay as You go Act, requiring spending to be offset by automatic cuts including up to 4% to Medicare. Congress has various levers to waive these requirements, however, Loren Adler at the Brookings Institute noted “The odds are pretty high that neither party will want ... cuts to happen”.
(*MarketWatch, May 21, 2025*)

Affordable Care Act

- The OBBBA includes provisions related to the premium tax credit eligibility, including changes to which immigrant residents are eligible for premium tax credits (removing eligibility for many refugees and asylees from Jan 2027), removing the cap on the recapture of excess advance payments of the premium tax credit, and required pre-enrollment verification of eligibility which effectively ends automatic re-enrollment.
- Outside of OBBBA, a number of other changes to the Affordable Care Act will be made through the [Marketplace Program Integrity Rule](#) including a shorter open enrollment period and removing eligibility for Deferred Action for Childhood Arrivals recipients.
- More significantly, the current enhanced premium tax credit subsidies for Marketplace plans in their entirety will expire at the end of 2025 and will only be extended by a vote of Congress. This was not included in the OBBBA. This is expected to lead to a net premium increase of 75% on average (*KFF, Inflation Reduction Act Health Insurance Subsidies: What is Their Impact and What Would Happen if They Expire?*, July 26 2024).
- Beckers reported that a number of insurers are asking for double digit ACA rate increases for 2026 due to expiry of the credits, as well as rising costs (*“Payers seek double-digit exchange hikes for 2026”*, June 18, 2025).

How should healthcare organizations respond?

State-Specific Strategic Planning

Legislative changes will impact states differently, and the executive and legislative branches in each state are actively working to quantify these impacts and formulate appropriate responses. This state-specific variability necessitates a tailored approach. Healthcare organizations should engage in state-by-state planning in every state where they have members, patients, or operations, taking into account the unique legislative environment and timelines of each state.

States have varying degrees of flexibility concerning the implementation of certain provisions. For example, some states may choose to implement work requirements either sooner or later (provided that they make good faith efforts to meet the requirements of the OBBA) than the identified deadline of January 2027. This flexibility means that healthcare organizations must stay informed about the specific timelines and requirements in each state and plan their operations accordingly.

Moreover, some states may opt to provide additional state or local-level funding to mitigate the impacts of federal-level changes, albeit many states may have limited funding available. Healthcare organizations should work closely with stakeholders at a state and local level to be aware of these funding opportunities and work to leverage them effectively. Additionally, for initiatives such as the rural health transformation plan, organizations should engage with state authorities to highlight the specific challenges faced by rural members and patients. By doing so, they can advocate for federal funding that addresses these issues and supports the sustainability of rural healthcare services and ensures that rural health plan members continue to have access to care.

Proactive Adaptation to Financial Pressures

The ongoing legislative changes could serve as a catalyst for health systems and health insurers to accelerate their transformations aimed at increasing revenues or reducing costs. Now is the time for organizations to take decisive actions to counteract potential revenue decreases or cost increases.

One of the key areas to address is the reduction of administrative costs. Streamlining administrative processes and eliminating inefficiencies can lead to significant cost savings. Healthcare organizations should also focus on modernizing their back-office systems and processes to better manage variability and improve overall operational efficiency.

Another strategic move is to release or exit non-productive or non-strategic assets or markets. This approach can free up capital that can be redirected towards more productive investments. By focusing on elevating the return on fixed assets and labor, healthcare organizations can enhance their financial stability and resilience.

Healthcare organizations should also redefine their real estate plans and reconsider their strategic alliances. By optimizing real estate usage and forging partnerships that align with their strategic goals, organizations can better position themselves to navigate the evolving healthcare landscape.

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How should healthcare organizations respond? continued

Practical Considerations to respond to or mitigate the impact of OBBBA, or to harness potential upsides.

As healthcare organizations embark on these strategic initiatives to respond to this time of change, there are several key considerations to keep in mind. All these considerations are applicable for health systems, payors, and physician groups and practices

Engagement with State Authorities: Active engagement with state authorities is crucial. Healthcare organizations should participate in discussions and provide input on state-level decisions that impact their operations. By staying informed and involved, organizations can better anticipate changes and adapt their strategies accordingly.

Continuous Monitoring and Evaluation: The healthcare landscape is dynamic, and continuous monitoring and evaluation are essential. Organizations should establish mechanisms for regularly assessing the impact of legislative changes and adjusting their strategies as needed. If healthcare organizations do not have a federal, state, and local legislation tracking mechanism, they should put one in place.

Scenario Planning and Forecast Refinement: An essential part of this continuing monitoring is financial forecasting, scenario planning, and sensitivity analysis. The exact impact of the OBBBA is still uncertain. Organizations should run and refine scenarios in terms of enrollment numbers, patient volumes, revenues (whether premiums for payors or patient service revenue for providers), and costs. It is essential to reevaluate and update the five-year scenario analysis, using available data to gauge the potential impact on covered lives and patients. Conducting forecasts under varied scenarios will provide a comprehensive understanding and identify potential mitigations. Additionally, forecasting should consider prospective legislative changes that are currently anticipated.

Stakeholder Communication: Effective communication with stakeholders, including customers, employees, and partners, is vital. Healthcare organizations should ensure that their stakeholders are informed about the changes and the steps being taken to address them. For payors, helping to educate and navigate members on the additional requirements is critical. For example, increased frequency of eligibility checks or work requirements are likely to require additional paperwork and action on the part of Medicaid members – failure to do so may result in that member losing coverage leading to more uncompensated care for providers, and fewer members for payors. Helping them to

navigate these requirements will reduce membership attrition and improve customer experience and loyalty. Transparent communication builds trust and supports the successful implementation of strategic initiatives.

Non-profit health systems, or the foundation arms of public health plans, can provide opportunities for work, education, or community engagement, which has the triple benefit of keeping members on their health plans; adding value to the organizations; and demonstrating the community impact of organizations.

Investment in Technology and Innovation:

Technology and innovation play a critical role in adapting to legislative changes. Healthcare organizations should prioritize technologies that enhance operational efficiency, improve customer care, and support data-driven decision-making. Embracing innovation can provide a competitive edge and drive long-term success.

Mitigation Planning: Organizations should contemplate a strategic reset aligned with their priorities. Exploring alternate revenue streams such as treasury and strategic investments can offer substantial benefits for the top line as well as for ‘future proofing’ the organization. Identifying innovative opportunities to engage communities can transform customer experience, and working with foundations to foster philanthropy can unlock new revenue streams to counteract any reduction in federal funding. Revising the risk management plan to incorporate risk drivers from the OBBBA and other legislative agendas and aligning capital defenses accordingly will bolster organizational resilience.

Use this opportunity to work closer together across the ecosystem. Customers want a more joined-up healthcare system. The changes from the OBBBA will impact both payors and providers. By closer collaboration and accelerating a journey to interoperability, payors and providers can work in partnership to mitigate the downside of the OBBBA while using it as an opportunity to bring a better customer experience for members and patients.

While addressing the OBBBA, it is vital not to overlook the effects of ACA premium tax subsidies and DSH cuts, which require congressional action to extend beyond their respective deadlines of December 31 and October 1. Continued monitoring of congressional activities is necessary. There will be future legislative inflection points that are worth watching for any potential adjustments to the new law. For example, FY 2026 appropriations.



Conclusion

These legislative changes present additional pressures to a healthcare ecosystem already dealing with significant economic, market, and political change. This will require healthcare organizations to pivot, but payors and providers have already proven their ability to do this again and again through responding to the Affordable Care Act, Medicaid Expansion, COVID-19, and the 'great resignation' among many other disruptors.

By engaging in state-specific strategic planning, proactively adapting to financial pressures, and using this opportunity to take practical steps to improve their organization, such as implementing dynamic forecasting and technological advancements, healthcare organizations can navigate this evolving landscape and emerge stronger. One should not wait until 2027 or 2028 to respond to these changes - the time to act is now, and with a thoughtful and proactive approach, healthcare organizations can help ensure their sustainability and success in the face of change.

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