Specific and Documented Impacts on Medicare, Medicaid, and Social Security Under the Proposed U.S. Federal Budget (FY2026)

I. Introduction

The U.S. federal budget proposal for Fiscal Year (FY) 2026, as unveiled by the White House on May 20, 2025, represents a significant shift in federal spending priorities. This initial release, often referred to as a "skinny budget," provides top-line numbers and broad objectives, with a more comprehensive budget expected later in May or June.[1] The proposal outlines substantial reductions in non-defense discretionary spending, totaling $163 billion, which is a 22.6 percent decrease from current-year spending levels.[1] Concurrently, the budget proposes unprecedented increases in defense and border security, with a 13 percent increase for defense to $1.01 trillion and a historic $175 billion investment for Homeland Security.[3] A portion of these increases, specifically $325 billion, is anticipated to be provided through reconciliation, a legislative process that allows a bill to pass the Senate with a simple majority of 51 votes, bypassing the usual 60-vote threshold.[3]

The purpose of this report is to detail the specific and documented impacts of this federal budget proposal on three critical social safety net programs: Medicare, Medicaid, and Social Security. The analysis will focus on projected budget cuts, funding changes, and the broader implications for beneficiaries and the healthcare system, drawing upon available Congressional Budget Office (CBO) estimates and expert analyses as of May 20, 2025.

II. Documented Impacts on Medicare

The proposed FY2026 budget outlines significant shifts in funding for the Department of Health and Human Services (HHS), which oversees Medicare. The overall discretionary budget for HHS is slated for a substantial cut of $33.3 billion, representing a 26.2 percent decrease from FY2025 levels.[1] Within this, the Centers for Medicare & Medicaid Services (CMS) Program Management budget is proposed to receive a $674 million cut, a 16 percent reduction.[1] While the administration has stated that these cuts are not expected to directly impact Medicare or Medicaid benefits [2], a deeper examination reveals potential widespread effects, particularly through the Statutory Pay-As-You-Go (PAYGO) Act of 2010.

Direct Budgetary Changes and Potential Sequestration

The reconciliation bill, a key component of the overall budget strategy, is projected by

the CBO to increase the federal deficit by at least $2.3 trillion over the next decade.[7] This substantial increase in the deficit, if not offset or waived by Congress, would trigger mandatory across-the-board cuts under the Statutory PAYGO Act.[7] Unlike Social Security and certain low-income programs, Medicare is not exempt from these automatic cuts.[7]

The CBO estimates that this trigger could lead to over $500 billion in Medicare cuts between 2026 and 2034.[7] Specifically for FY2026, an estimated $45 billion in Medicare cuts could be triggered.[9] These cuts would manifest as an automatic 4 percent reduction to most Medicare spending, affecting payments to hospitals, physicians, other healthcare providers, Medicare Advantage plans, and standalone prescription drug plans.[7]

It is important to note that while the PAYGO law mandates these cuts, Congress has historically acted to prevent their full implementation by either excluding their effects from the "scorecard" or delaying them.[7] However, waiving these effects requires a 60-vote supermajority in the Senate, a higher legislative hurdle than the simple majority needed for the reconciliation bill itself.[7] The potential for these automatic cuts, even if historically averted, introduces significant fiscal uncertainty for Medicare.

Policy-Specific Changes

Beyond the broad budgetary implications, the proposed budget and associated reconciliation bill include specific policy changes affecting Medicare:

- **Medicare Physician Fee Schedule (MPFS) Updates:** The proposal would replace the current schedule of annual statutory increases to the Physician Fee Schedule conversion factor with increases tied to the Medicare Economic Index (MEI), a measure of inflation in medical practice costs. In 2026, the conversion factor would increase by 75 percent of the projected MEI, and by 10 percent of the MEI in subsequent years.[11] This change is projected to add $9 billion in new spending to the MPFS over 10 years.[12]
- **Advanced Alternative Payment Models (A-APMs):** The budget includes provisions for financial incentives for Medicare physicians and clinicians participating in qualified A-APMs, which are scheduled to receive higher annual increases to the Physician Fee Schedule conversion factor (0.75% vs. 0.25% for others) starting in 2026.[11]
- **Health Savings Account (HSA) Expansions:** The proposal would allow individuals aged 65 or older who are enrolled in Medicare Part A only to continue contributing to an individual HSA, a change from current law.[11]
- **Repeal of Nursing Home Minimum Staffing Rule:** The "One Big Beautiful Bill

Act" (OBBBA) effectively repeals the Nursing Home Minimum Staffing Rule, which could endanger thousands of Medicare beneficiaries due to inadequate staffing.[10]
- **Medicare Eligibility for Immigrants:** A significant departure from current policy, the OBBBA would terminate Medicare coverage for many individuals with lawful immigration status who have worked and paid taxes in the U.S. for decades.[10] This would also cut off their access to Affordable Care Act (ACA) tax credits, making private health insurance potentially unaffordable.[10]

Impact on Beneficiaries and Providers

The combined effect of potential PAYGO cuts and specific policy changes could have profound impacts:

- **Reduced Access to Care:** Across-the-board cuts to provider payments could limit access to healthcare services for Medicare beneficiaries, as providers may face financial strain.[9]
- **Weakened Program Integrity:** Ironically, one of the first areas to feel the impact of past Medicare cuts has been fraud and waste-fighting efforts. The proposed cuts could weaken the administration's stated priority to root out fraud and waste within Medicare.[9]
- **Impact on Low-Income Dually Eligible Individuals:** The bill would stop the Streamlining Medicaid Eligibility & Enrollment Rules, which had modernized policies to make it easier for older adults and people with disabilities to enroll in and keep Medicaid and Medicare Savings Programs (MSPs).[10] The CBO projects that without these rules, fewer eligible individuals would enroll. This could result in nearly 1.4 million low-income people with Medicare, representing over 10 percent of the dually eligible population, losing critical cost-sharing assistance that covers Medicare Part B premiums and helps afford needed care.[10] Such losses would place severe financial strain on these individuals, potentially forcing them to choose between healthcare and other basic necessities like food and housing.[10]

III. Documented Impacts on Medicaid

Medicaid, the joint federal-state health insurance program serving over 70 million low-income Americans, faces the most extensive and direct proposed changes under the current budget proposal and the reconciliation bill.

Overall Proposed Cuts and Coverage Loss

The House Republican budget plan calls for at least $600 billion in cuts to Medicaid and the Children's Health Insurance Program (CHIP), with the vast majority targeting Medicaid.[13] This represents the largest cuts to the Medicaid program in history.[13] The

House Energy and Commerce Committee, which oversees Medicare and Medicaid, was directed to identify at least $880 billion in savings over 10 years as part of the reconciliation package.[14] Given that Medicaid accounts for 93 percent of non-Medicare mandatory spending under this committee's jurisdiction, deep cuts to Medicaid are anticipated.[14]

The CBO estimates that these changes could result in 7.6 million to 10.3 million Americans losing their health insurance coverage.[13] A significant aspect of these cuts involves shifting costs to states, leaving them responsible for a larger portion of program funding.[13] This shift could force states to make painful cuts to other essential programs, such as education and public safety, particularly during economic downturns when state revenues decline but Medicaid needs increase.[13]

Key Policy Changes and Their Consequences

The reconciliation bill proposes fundamental structural changes to Medicaid, as summarized in Table 1 below:

Table 1: Key Medicaid Policy Changes and Projected Consequences

Policy Change	Description of Change	Effective Date/Timeline	Projected Human/Systemic Impact	Key Source(s)
Mandatory Work Requirements	Conditions Medicaid eligibility (ages 19-64, ACA expansion group) on working or participating in qualifying activities for at least 80 hours per month. Includes verification requirements and mandates states to exempt certain adults.	Potentially as early as 2026 (negotiations to offset SALT deduction)	Kicking millions off insurance due to "reporting" requirements; barring non-compliant individuals from ACA marketplace financial help.	[13]

Federal Medical Assistance Percentage (FMAP) Reductions	Eliminates temporary ARPA incentive for new expansion states. Reduces expansion match rate from 90% to 80% for states covering non-lawfully residing individuals. Ends 5% FMAP increase for Medicaid expansion states.	Jan 1, 2026 (ARPA incentive); Oct 1, 2027 (non-lawfully residing); Jan 2026 (5% FMAP end)	Strain on state budgets, potential cuts to services/provider payments, reduced incentive for non-expansion states. Federal savings of $626 billion over a decade if states assume more costs.	14
Increased Beneficiary Cost-Sharing	Requires states to impose cost-sharing up to $35 per service on expansion adults (100-138% FPL). Maintains 5% family income cap. Eliminates enrollment fees/premiums for expansion adults.	Oct 1, 2028	Punitive way to reduce spending, limiting access to needed care even with coverage.	13
Eligibility and Enrollment Process Changes	Eliminates "reasonable opportunity period" for immigrants (no federal matching funds during this period). Limits retroactive coverage from three months to	Oct 1, 2026 (immigrants, retroactive coverage)	Increased barriers to enrollment, slower enrollment, potential disenrollment, reduced access to care for vulnerable populations.	10

	one month prior to application. Repeals rules that streamlined enrollment and reduced barriers for MSPs.			
Provider Tax Restrictions	Prohibits states from expanding provider tax rate or changing who is taxed after bill enactment. Revises conditions for broad-based/uniform taxes. Prohibits taxing Medicaid entities higher than privately insured.	Upon enactment	Limits state flexibility in financing Medicaid, potentially leading to cuts in provider payments or services if states cannot offset costs.	[16]
Other Changes	More frequent eligibility checks (at least twice per year for MAGI enrollees). Disincentives for states to cover unauthorized migrant children. Medicaid state directed payments (SDP) to MCOs/PIHPs/PAHPs cannot exceed Medicare published rate. Undermining long-term care (LTC) by shifting	Various, including 2027, 2029 (eligibility checks); Oct 2026 (non-citizens); upon enactment (SDP)	Increased administrative burden for states and beneficiaries, reduced access to care for non-citizens, potential for reduced quality of managed care, and significant impacts on long-term care access and funding.	[10]

	costs to states, making it harder to qualify, and impacting Home- and Community-Based Services (HCBS).			

Broader Implications for Healthcare System

The proposed changes to Medicaid extend beyond individual beneficiaries to impact the broader healthcare infrastructure. The substantial cuts and cost shifts to states could threaten the viability of hospitals, nursing homes, and safety-net providers nationwide, particularly in rural and underserved areas that heavily rely on Medicaid funding.[14] When hospitals close, it affects all constituents, regardless of their healthcare coverage.[14]

Furthermore, the projected increase in the uninsured rate, with millions losing Medicaid coverage, has serious public health implications. Studies indicate that individuals who lose Medicaid, and with it, critical subsidies like the Medicare Part D Low-Income Subsidy (LIS), experience a higher mortality risk.[10] The increased administrative burden on states to manage a more complex and restrictive program, coupled with reduced federal support, could strain state resources and lead to a decline in the quality and accessibility of care.

IV. Documented Impacts on Social Security

In contrast to Medicare and Medicaid, the current U.S. federal budget proposal, specifically the "skinny budget" released by the White House, contains limited direct budgetary changes or cuts to Social Security.

Limited Direct Budgetary Changes in the Current Proposal

The White House's FY2026 discretionary budget request primarily focuses on discretionary spending, which is subject to annual congressional appropriations.[1] Social Security, however, is a mandatory spending program, meaning its funding is determined by existing law rather than annual appropriations, and thus is not directly addressed in this discretionary budget request.[1]

The budget proposal explicitly states its intent to protect funding for "seniors".[3] Furthermore, it includes specific allocations for the Social Security Administration (SSA) aimed at improving its operational efficiency and customer service. These

investments include expanding and improving online services, reducing customer wait times in field offices and on the phone, and enhancing program integrity efforts to reduce fraud and abuse.[5] The budget also proposes investments in artificial intelligence to increase employee productivity and automate routine workloads within the SSA.[5]

Indirect Impacts and Broader Context

Despite the absence of direct cuts in the current proposal, the broader fiscal context warrants consideration. House Speaker Mike Johnson has publicly stated that "Social Security, Medicare, Medicaid will not take a hit".[14] This political commitment aims to reassure the public that these essential safety net programs will be preserved.

While the reconciliation bill's overall deficit increase triggers the Statutory PAYGO Act, leading to potential Medicare cuts, Social Security is explicitly exempt from these particular automatic reductions.[7] Therefore, the immediate threat of automatic cuts from this specific legislative mechanism does not extend to Social Security benefits.

However, the "One Big Beautiful Bill Act," which encompasses the reconciliation efforts, is a sweeping piece of legislation touching various aspects of American life, including tax cuts and the national debt.[18] While the provided information does not detail specific cuts to Social Security benefits within this bill, the overall increase in the national debt and the focus on reducing federal spending could, in the long term, create pressure on all entitlement programs, including Social Security, as policymakers seek to address fiscal sustainability. For the immediate FY2026 proposal, the documented impacts on Social Security are primarily focused on administrative improvements rather than benefit reductions.

V. Overall Implications and Interconnections

The U.S. federal budget proposal for FY2026, coupled with the ongoing reconciliation efforts, signifies a profound reorientation of federal fiscal priorities. The emphasis on substantial increases for defense and border security, alongside deep proposed cuts to non-defense discretionary spending and structural changes to mandatory health programs, represents a strategic shift in government resource allocation.[3]

The legislative vehicle of reconciliation, allowing passage with a simple majority in the Senate, underscores a partisan approach to enacting these fiscal changes.[6] This mechanism enables significant program restructuring without requiring broader bipartisan consensus, which could lead to more rapid and fundamental alterations to

federal programs.

The proposed cuts to Medicaid, projected to be the largest in history, and the potential for automatic Medicare cuts triggered by the PAYGO Act, highlight a strategy to reduce federal spending that carries significant implications for vulnerable populations.[9] These changes could disproportionately affect low-income individuals, older adults, and people with disabilities, potentially increasing the uninsured rate and exacerbating existing health disparities.

A critical consequence of the Medicaid proposals is the substantial shift of financial burden to states. By reducing federal matching funds and imposing new requirements like work mandates and cost-sharing, the federal government aims to reduce its outlays.[13] However, this could strain state budgets, particularly during economic downturns, forcing difficult choices between maintaining healthcare services and funding other essential state programs like education and public safety.[13] This decentralization of financial responsibility could lead to a fragmented system of coverage and services across states.

While the administration has publicly committed to protecting Social Security and has included provisions for its administrative improvements, the broader fiscal environment created by the budget's projected deficit increase could place future pressure on all entitlement programs.[5] The tension between stated protections for "seniors" and veterans and the deep cuts proposed for HHS, which encompasses Medicare and Medicaid, reveals a complex and potentially contradictory policy landscape.[2] The long-term fiscal trajectory of the nation, influenced by such budget proposals, will inevitably impact the sustainability and scope of all federal social safety net programs.

VI. Conclusion

The U.S. federal budget proposal for FY2026, as of May 20, 2025, presents a complex and multifaceted approach to federal spending, with specific and documented impacts on Medicare, Medicaid, and Social Security. While the "skinny budget" initially focuses on discretionary spending, the accompanying reconciliation bill outlines significant structural changes to mandatory programs.

For **Medicare**, the primary documented impact stems from the potential triggering of the Statutory PAYGO Act, which could result in over $500 billion in automatic cuts between 2026 and 2034, including an estimated $45 billion in FY2026 alone. These cuts would manifest as a 4 percent reduction to most Medicare payments, affecting providers and plans. Beyond this, specific policy changes include adjustments to

physician payment updates, expansions of HSAs, and the effective repeal of the Nursing Home Minimum Staffing Rule. Critically, the proposal also includes provisions that could terminate Medicare eligibility for some lawfully present immigrants and reduce cost-sharing assistance for 1.4 million low-income dually eligible individuals, significantly impacting their access to care and financial stability.

Medicaid faces the most direct and substantial documented impacts, with proposed cuts of at least $600 billion. These cuts are projected to lead to 7.6 million to 10.3 million Americans losing health insurance coverage. The mechanisms for these reductions include mandatory work requirements, significant reductions in federal matching funds (FMAP) for states, increased beneficiary cost-sharing, and changes to eligibility and enrollment processes. These policy shifts are designed to reduce federal outlays but are expected to place immense financial strain on states, potentially forcing cuts to services and threatening the viability of healthcare providers, especially in rural areas.

Social Security, as a mandatory spending program, is largely protected from direct cuts in the discretionary budget proposal. The administration has explicitly stated its commitment to protecting Social Security benefits and has allocated funds for administrative improvements within the Social Security Administration, focusing on customer service and program integrity. While the broader reconciliation bill contributes to a significant deficit increase, Social Security is exempt from the automatic PAYGO cuts that could affect Medicare.

In summary, the FY2026 budget proposal represents a dual strategy: direct discretionary spending cuts combined with structural reforms to mandatory health programs. The documented impacts indicate a trajectory towards reduced federal spending on healthcare safety nets, a significant shift of financial responsibility to states, and potential increases in the uninsured population and financial burdens for vulnerable Americans. The long-term consequences for the accessibility, affordability, and quality of healthcare services, particularly for low-income individuals and older adults, warrant continued monitoring and analysis.

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