# *State Options*

## TO REDUCE SPENDING AND GENERATE REVENUE WITHOUT ADDITIONAL CUTS TO PEOPLE'S HEALTH CARE

States work in tough fiscal environments to provide essential services for residents. While state budgets often face constraints, the enactment of the One Big Beautiful Bill Act (OBBBA) in 2025 changed federal funding for states in consequential ways. In addition, people and employers' budgets are facing constraints due to high health care costs through unaffordable premiums and out-of-pocket costs. This dynamic means states will need to identify opportunities for both savings and increased revenue in order to balance their budgets while avoiding additional cuts to residents' health coverage and care.

Here, we outline options states should consider to secure state savings or increase revenue without adding additional threats to residents' access to health care in this new federal landscape. It includes options to directly rein in health care prices and other health care costs and distribute funding to health care programs — along with more general approaches to generate revenue and savings in state budgets so states can continue to support residents' health care needs. Many of these policies serve dual purposes--providing state budget relief and addressing the skyrocketing health care prices people are experiencing.

## SAVING AND REPURPOSING HEALTH CARE DOLLARS

While the enactment of OBBBA has ramifications across state budgets, states will specifically face more pressure than ever within their health care budgets. In looking to release this pressure, states can assess where they can find health care budget savings and revenue generators that do not place additional restrictions on health care eligibility or benefits for residents, but can instead be repurposed to support continued coverage eligibility and access to care. Examples of such savings and revenue options include:

- ❑ Implementing reference-based pricing to contain hospital costs in state employee health plans (see Oregon and Washington or examples from other states);
- ❑ Instituting caps on the growth of hospital prices for state employee health plans and other payers over time (see Maine's proposed legislation);
- ❑ Increasing or redistributing taxes on commercial health insurance companies (see Iowa and New Mexico);
- ❑ Determining if there are savings to be found within the Medicaid program that don't reduce enrollee eligibility or benefits, such as requiring site neutral payments, reviewing the use of Medicaid Managed Care Organizations (MCOs), and instituting or improving a MCOs' medical loss ratio (see New York's proposed legislation or Connecticut transition from a MCO to an Administrative Service Organization);
- ❑ Limiting tax loopholes and/or eliminating deductions for certain health care entities, such as certain non-profit, tax-exempt hospitals or pharmaceutical companies that receive deductions for advertising (see Indiana or Maryland SB987, under consideration); and

- Reining in prescription drug and other related costs for the state by:
  - Implementing a prescription drug affordability board (see Colorado);
  - Creating subscription-based models for prescription drugs in state-run coverage (see Louisiana);
  - Utilizing Medicare's negotiated prescription drug rates within state-run coverage programs (see Virginia or proposed legislation in Nevada)
  - Increasing use of generics and biosimilars in state-run coverage (state employee plan, Medicaid, etc) (see examples from multiple states);
  - Reviewing pharmacy benefit manager costs and policies to identify savings for state-run coverage (see New Jersey and Ohio); and/or
  - Implementing state purchasing pools/ volume-based purchasing for drugs, which can save money for employers and within state coverage programs (see Oregon and Washington).

## NON-HEALTH CARE **SAVINGS AND REVENUE GENERATORS**

Health care is a significant share of state budgets and a high priority for investment among many state leaders. Therefore, states may want to look beyond health care budgets to generate savings or revenue that can help support continued coverage and care for residents and relieve budget pressure. States can explore the following broader options to support financing for health care programs:

- Increasing tax revenue to support coverage and care, such as through policies that:
  - Increase or impose taxes aligned with public health goals, such on the purchase of tobacco/ nicotine products, alcohol, cannabis products and on online (and/or in-person) gambling/ prediction market transactions (see Indiana and proposal in Michigan); and
  - Close tax loopholes or impose additional taxes, such as taxes on data collection, personal income, or professional services, such as legal and banking (see Maryland, Ohio, or examples of personal income taxes from multiple states).
- Protect against automatic tax cuts by delinking state policy from select federal OBBBA tax provisions; and/or
- Leverage competitive bidding for services the state procures—such as PBM contracts, call center vendors, and MCO contracts—including by using a "reverse auction" to identify the most cost-effective vendors, (see Minnesota).

## CONCLUSION

State budgetary decisions have significant implications for residents' health and wellbeing. By identifying and implementing revenue savers and generators that protect people's access to coverage and care, states can achieve their budget goals while supporting their residents' needs.