



H.R. 1 (Public Law 119-21) Changes to Minnesota's Public Health Care Programs

Health & Human Services Finance and Policy Committee
February 26, 2026

Overview

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H.R. 1

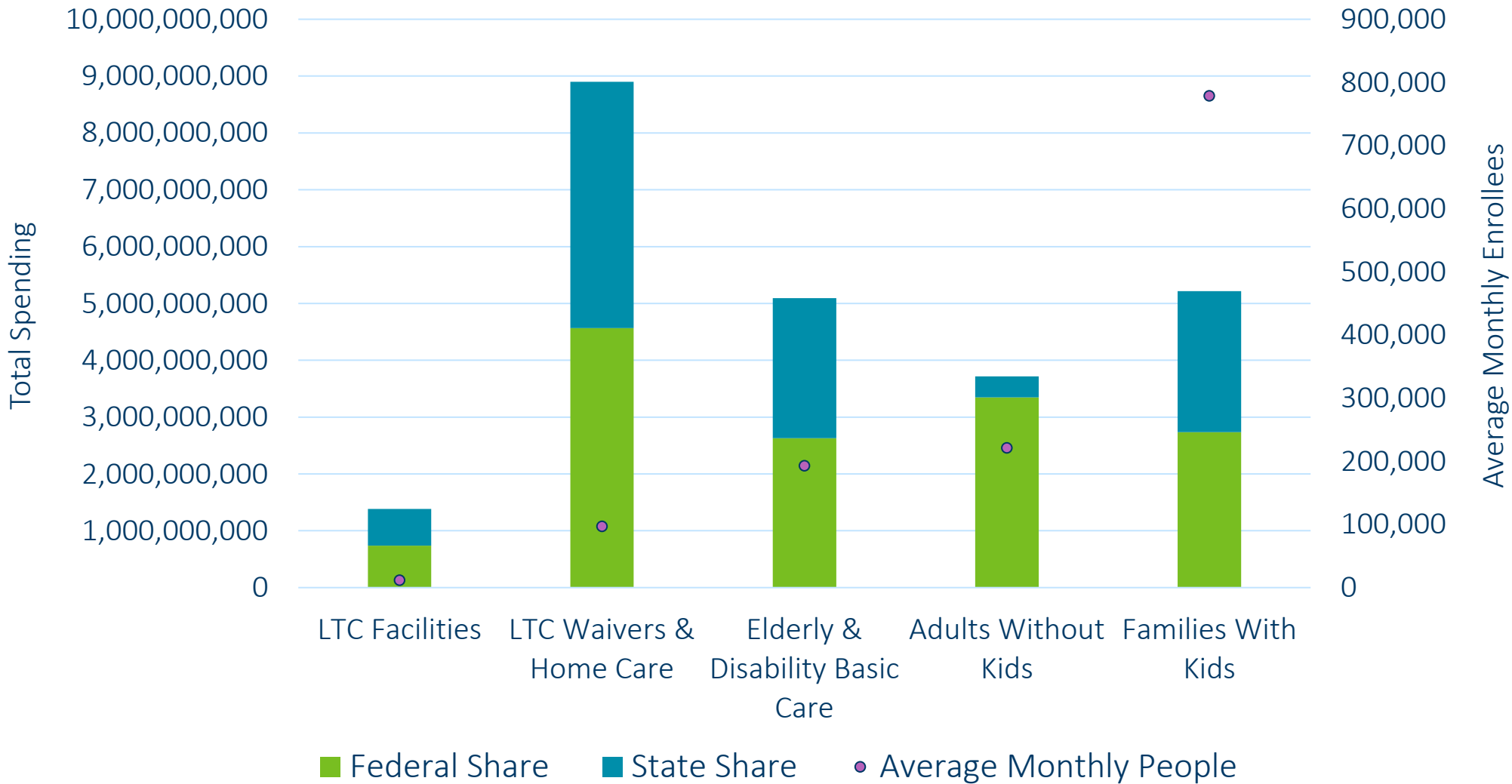
On July 4, 2025, Congress passed H.R. 1 which made sweeping changes to Medicaid.

These changes will:

- Result in loss of health care coverage
- Increase uncompensated care for providers, particularly for hospitals
- Increase complexity in accessing and administering MA
- Reduce federal funding to states
- Require careful planning and systems changes to implement by federally required deadlines

Changes include, but are not limited to:

- Work requirements
- 6-month renewals
- Cost sharing requirements
- Changes to retroactive coverage
- Changes to eligible lawful immigration statuses
- Changes to federal funding
- Limitations on health care taxes



1.2 million average monthly enrollees

\$24 billion total dollars

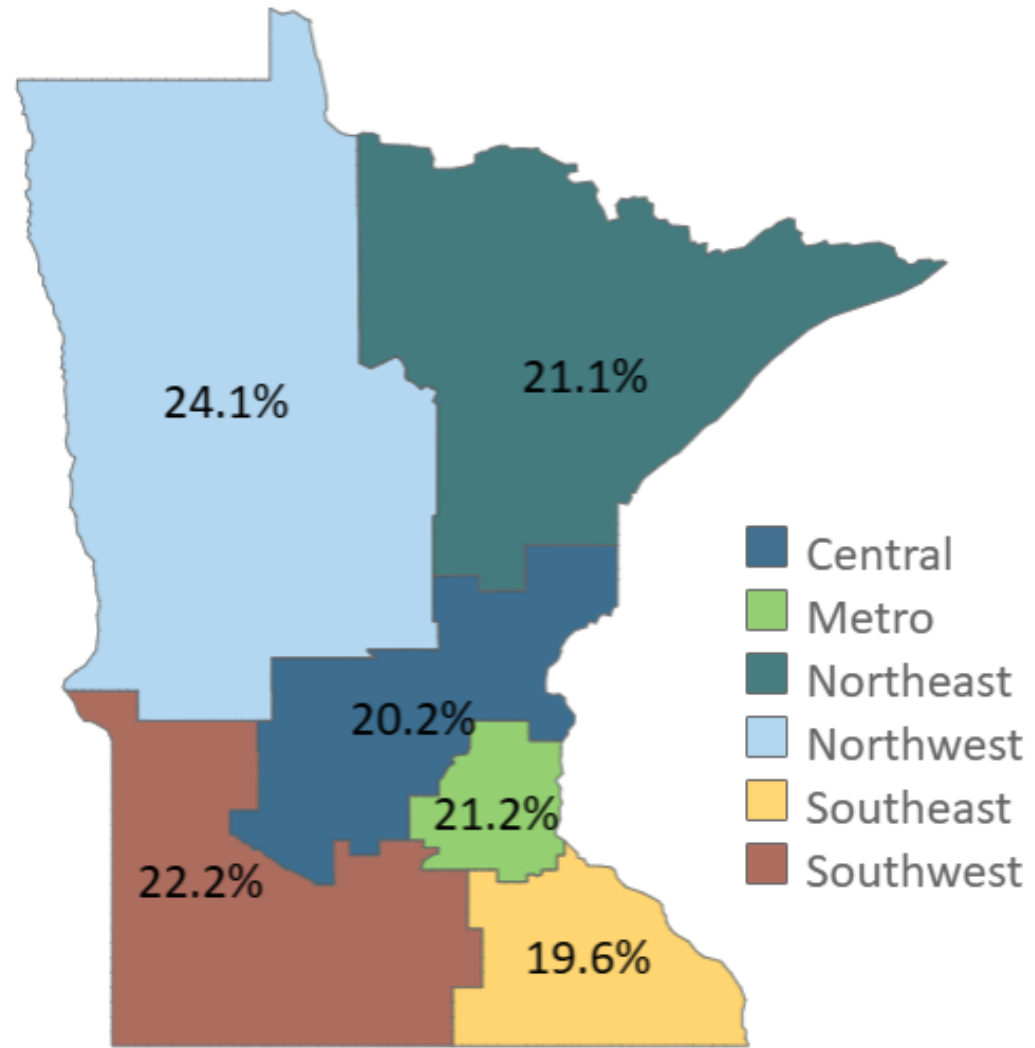
57% of spending funded by Federal Funds

Snapshot of Minnesota's Medicaid Program (FY26 – Nov. 2025 Forecast)

Minnesota's Adult Expansion Group

In Minnesota, the adult expansion population refers to Medical Assistance enrollees aged 21 to 64 who do not have dependent children, are not pregnant, and are not receiving MA based on a disability.

| MA Coverage Category | Adult Expansion Group? |
|---|------------------------|
| Pregnant | No |
| Child born to a person enrolled in Medicaid | No |
| Infant | No |
| Child, age 2-18 | No |
| Child, age 19 & 20 | No |
| Parent/Caretaker | No |
| Former Foster Care Youth | No |
| Age 65 or older | No |
| Blind | No |
| Disability | No |
| Adult, age 21 through 64 | Yes |



Population Served by Medicaid (FY24)

H.R. 1 Changes to Medicaid

Work reporting requirements

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|--------------------------|--|
| H.R. 1 Change: | MA applicants and enrollees who are ages 21-64, who do not have children, are not pregnant and not seeking MA based on disability, also known as Minnesota's expansion population, will be subject to work/community engagement requirements if they do not meet an exemption. |
| Effective Date: | January 1, 2027 |
| CMS Guidance: | CMS has released preliminary guidance, additional guidance and rulemaking is expected. |
| State Law Change: | Required for compliance. |
| Impact to MN: | Will result in loss of coverage and complexity in navigating eligibility for MA. Administrative complexity in eligibility determinations. |
| Fiscal Impact: | Reduced programmatic costs in MA for individuals losing coverage. Increased programmatic costs for individuals switching eligibility categories. Increased administrative costs for systems and eligibility processing. |

Work reporting requirements: Qualifying Activities

To meet new requirements a person must be engaged in one of the following:

- Employment for not less than 80 hours in a month
- Community service for not less than 80 hours in a month
- Work program participation for long less than 80 hours in a month (including any program that qualifies as a SNAP work program)
- Enrollment in an educational program at least half-time as defined by the institution of higher education or career/technical education program
- Monthly income equivalent to at least 80 hours at federal minimum wage (\$580 per month)
- Average monthly income over 6 months equivalent to 80 hours at federal minimum wage and is a seasonal worker

Work reporting requirements: Mandatory Exceptions

HR1 specifies which enrollees covered under Medicaid expansion are mandatorily exempted from work requirements. As noted earlier, many of these populations are already not considered part of Minnesota's expansion population:

- Individuals under age 19
- Pregnant individuals entitled to or enrolled in Medicare Part A or B benefits
- Foster youth
- Individuals enrolled in the Parents and Other Caretaker Relatives eligibility group
- Individuals eligible for a mandatory eligibility group (e.g., non-MAGI individuals)
- Individuals recently incarcerated in the previous three months

Work reporting requirements: Specified Excluded Individuals

HR1 provides a list of exempted populations from work requirements:

- American Indians, Alaska Natives, and California Indians
- Parents, guardians, or caregivers of dependent children 13 years or younger or disabled individuals
- Veterans with total disability ratings
- Former foster care youth under age 26
- Medically frail individuals or those with special medical needs
- Individuals complying with Temporary Assistance for Needy Families (TANF) work requirements
- Members of a household that is in receipt of Supplemental Nutrition Assistance Program (SNAP) and not exempt from SNAP work requirements
- Individuals participating in a drug addiction or alcohol treatment and rehabilitation program
- Inmates of public institutions
- Pregnant individuals or those receiving postpartum coverage

Work reporting requirements: Optional Exemptions

States are allowed at their discretion to offer other exemptions for a given month from a defined list of optional exemptions including the following:

- A person who received inpatient care at a hospital, nursing facility, or intermediate care facility,
- A person who lives in a county where there was an emergency or disaster declared by the President,
- A person who lives in a county that has an unemployment rate of 8% or 1.5 times the national unemployment rate (whichever is lower), or
- A person who had to travel outside of their community for an extended period of time to receive medical services to treat a serious or complex medical condition.

Six-Month Renewals

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| Current State: | Annual renewals for Medicaid occur every 12 months. |
| H.R. 1 Change: | States must conduct eligibility redeterminations every six months for adult expansion enrollees who are not American Indian/Alaska Natives. |
| Effective Date: | January 1, 2027 |
| CMS Guidance: | CMS published an informational bulletin; formal guidance is expected. |
| State Law Change: | Required for compliance. |
| Fiscal Impact: | Increased administrative costs for determining eligibility. |

Retroactive Medicaid Eligibility

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| Current State: | Medicaid applicants may qualify for up to three months of retroactive coverage prior to the month of application. |
| H.R. 1 Change: | Retroactive Medicaid coverage is limited to one month before the date of application for the adult expansion population and two months for all other Medicaid eligibility groups. |
| Effective Date: | Jan. 1, 2027 |
| CMS Guidance: | CMS published an informational bulletin; formal guidance is expected; additional guidance and revised rulemaking is expected. |
| State Law Change: | Absent a future state law change, retroactive coverage beyond the federal retroactive coverage period will be paid for with all state funds. |
| Impact to People: | Narrowing the period of retroactive coverage will lead to more uncompensated care for hospitals and providers and medical debt for low-income Minnesotans. |
| Fiscal Impact: | \$12m in FY26/27 and \$80m in FY28/29 (November 2025 forecast) |

Cost sharing in MA expansion population

Requires states to impose cost sharing on Medicaid expansion adults with incomes over 100% percent of the federal poverty level.

Cost Sharing Requirements:

H.R. 1 Change:

- May not exceed 5% of the individual's income or \$35 per service
- Exempt services: primary care, mental health, and substance use disorder services, as well as services provided by federally qualified health centers, behavioral health clinics, and rural health clinics
- American Indians and Alaska Natives are exempt.

Effective Date:

October 1, 2028

CMS Guidance:

CMS published an informational bulletin; formal guidance and revised rulemaking is expected.

State Law Change:

Required for compliance.

Impact to MN:

Increased out of pocket costs for enrollees; increased uncompensated care for providers

Legal Noncitizen MA Eligibility Changes

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|--------------------------|---|
| Current State: | Currently, legal noncitizens are eligible for Medicaid coverage. |
| H.R. 1 Change: | Legal noncitizens age 21 or older who are not pregnant must have one of the following immigration statuses to qualify for Medical Assistance: Lawful permanent resident (LPR), Cuban or Haitian Entrant, or Compact of Free Association (COFA) Migrant. |
| Impacted People: | People losing Medicaid coverage include refugees, humanitarian parolees, asylum grantees, certain abused spouses and children, and victims of human trafficking. In MN, people may be eligible for state-funded MinnesotaCare. |
| Effective Date: | Oct. 1, 2026 |
| CMS Guidance: | CMS released preliminary guidance regarding this change, further guidance and revised rulemaking expected. |
| State Law Change: | Technical change recommended. |
| Fiscal Impact: | Nov 2025 Forecast: <ul style="list-style-type: none">• GF: -\$12m in FY26/27 and -\$34m in FY28/29• HCAF: \$36m in FY26/27 and \$103m in FY28/29 |

Provider Taxes: Changes to Safe Harbor Limit & Limits to New Taxes

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|------------------------|---|
| Current State: | Regulations permit states to tax health care providers up to 6% of taxable revenue. |
| H.R. 1 Changes: | <p>Restrictions on Taxes: Starting October 1, 2026, states cannot impose new or increased provider taxes that were not enacted or in effect as of July 4, 2025.</p> <p>Safe Harbor Limit Phasedown: For Medicaid expansion states like Minnesota, the hold-harmless threshold for provider taxes will decrease by 0.5 percentage points annually, starting in fiscal year 2028, reaching 3.5% in 2032. This provision does not apply to not apply to nursing facilities and intermediate care facilities for persons with developmental disabilities.</p> |
| Effective Date: | Prohibition of new taxes became effective upon enactment, July 4, 2025. The safe harbor limit for provider taxes begins to phases down on Oct. 1, 2028. |

Provider Taxes: Changes to Safe Harbor Limit & Limits to New Taxes (cont.)

CMS Guidance: CMS published an informational bulletin; formal guidance and revised rulemaking is expected.

State Law Change: Future law changes may be needed.

Impacts to MN: Minnesota passed an inpatient and outpatient directed payment in 2025. This tax waiver, if approved, will not be allowable after October 2026. This will reduce expected funding to hospitals.

In 2025, Minnesota also increased surcharges, along with a corresponding rate increase, for nursing homes. If approved, this will not be allowable after October 2026 and will impact the amount of federal funding received by the State.

Additionally, once the hold harmless limit begins to drop in 2028, the state may have to lower current tax rates and potentially reduce payments to hospitals that are financed by a portion of the hospital taxes.

Provider Taxes: Statistical Test

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|------------------------|---|
| Current State: | Current regulations describe a statistical test that states must pass to be granted a waiver of nonuniform provider taxes. The test fails to control for certain tax programs that collect Medicaid revenues disproportionately relative to other payers. |
| H.R. 1 Change: | This legislation added requirements that must be met to qualify for a waiver. Tax programs that assess a rate on Medicaid revenues that is higher than other payers will not be allowed, even if the tax program passes the statistical test. |
| Effective Date: | This new requirement became effective with the enactment of the federal law. |
| Impact to MN: | Prohibits federal approval of a new managed care tax enacted by the legislature in 2025. |

State-Directed Payments

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| Background: | State-directed payments (SDPs) are provider payment arrangements through managed care. |
| Current State: | Medicaid rules allow states to establish SDPs for hospitals, nursing facilities, and academic medical centers up to the average commercial rate. |
| H.R. 1 Change: | This provision lowers the federal limit on SDPs to these providers to: <ul style="list-style-type: none">• Expansion states are limited to paying 100% of Medicare rate• Non-expansion states limited to paying 110% of Medicare rate |
| Effective Date: | The new limits were effective upon enactment, July 4, 2025, for new payments. However, existing approved payments and those payments currently under review by CMS must phase down the payments by 10 percentage points annually starting in 2028 until the SDP is equal to the new limit. |
| CMS Guidance: | CMS has released preliminary guidance, and additional guidance is expected. |
| State Law Change: | Required for compliance |
| Fiscal Impact: | Pending CMS review of outstanding requests and actuarial analysis |

Reduced funding for Emergency Medical Assistance

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| Background: | Emergency Medical Assistance (EMA) covers emergency care services for people who meet financial and other requirements for Medical Assistance but are ineligible for coverage because of their immigration status. |
| Current State: | Currently, the state receives a federal match of 90% for the Adults with Children population. |
| H.R. 1 Change: | Reduces the match rate to a state's base Federal Medical Assistance Percentage amount (in Minnesota this is just over 50%). |
| Effective Date: | Oct. 1, 2026 |
| CMS Guidance: | CMS has released preliminary guidance. |
| State Law Change: | Not required for compliance. |
| Fiscal Impact: | \$10m in FY26/27 and \$39m in FY28/29 (Nov. 2025 forecast) |

Reduced funding related to Medicaid payment errors

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| Current State: | Section 1903(u) of the Social Security Act requires each state to report the ratio of its erroneous excess payments under the state plan to its total Medicaid payments. Payments for people ineligible for the program or overpayments for eligible people in excess of the 3%-error threshold during the fiscal year are considered overpayments. CMS may waive penalties where states demonstrate a good faith effort to correct payment errors. |
| H.R. 1 Change: | HR1 limits CMS' authority to waive penalties for eligibility errors in excess of the threshold and allows CMS to apply penalties to additional audits with findings related to errors. |
| Effective Date: | October 1, 2029 |
| CMS Guidance: | States have not received guidance to date. CMS is expected to publish detailed guidance on this provision in the future. |
| State Law Change: | Not required for compliance. Administrative appropriation needed to mitigate errors. |
| Fiscal Impact: | Administrative costs anticipated. Programmatic impacts TBD. |

Effective Dates



Implementation Efforts

Guiding Principles for Implementation

Maintain coverage for eligible enrollees

Comply with federal and state requirements

Minimize burden on workforce

Simplify process and align where possible

Robust communications with impacted communities

Uphold fiscal responsibility

Implementation

- To implement most of the HR1 provisions, DHS requires legislative authority, legislative appropriations, and additional guidance from CMS.
- Implementation is challenged by tight timelines to achieve federally required effective dates and competing priorities.
- Implementation requires changes to multiple systems, updating policy bulletins, updating worker procedures and training, and solidifying additional communications and outreach plans prior to implementation effective dates.

Implementation Timeline for Provisions with Large Systems Updates

| Provision | Federal Effective Date | Systems Work Timeline |
|--|------------------------|------------------------------|
| Noncitizen eligibility changes | October 1, 2026 | December 2025 - October 2026 |
| Work reporting/community engagement requirements | January 1, 2027 | December 2025 – October 2026 |
| Six-month renewals | January 1, 2027 | December 2025 - October 2026 |
| Retroactive eligibility changes | January 1, 2027 | April 2026 - December 2026 |
| Reinstate cost sharing | October 1, 2028 | TBD |

Engagement Strategies



Leveraging Existing Engagement Structures

Engage stakeholders through existing communication and governance structures to support timely awareness and readiness while maintaining alignment with federal implementation timelines.



Aligning Stakeholder Engagement to Federal Implementation Dates

Create targeted and meaningful engagement opportunities with partners to share information as quickly as possible and gather feedback without introducing delays to implementation.



Standardizing messaging to Promote Consistent Understanding Across Partners

Ensure that information sharing and engagement are aligned and coordinated so to not introduce confusion.

Recipient and Enrollee Outreach

DHS is using strategies from the end of the COVID-19 Public Health Emergency including:

- Collaboration and information sharing with impacted partners, including County and Tribal governments
- Mailings and text messages to impacted enrollees
- Centralized webpage of changes and actions needed
- Partner toolkits:
 - One pagers and informational fliers
 - Call center scripts
 - Fact sheets
 - Material for text messages and social media

Risks of Non-Compliance

Lack of compliance puts federal financial participation at risk.

- State law changes are required for compliance with new federal requirements.
- CMS is monitoring state's implementation of these new requirements.
- H.R.1 changed improper payment audit calculations, lowering the threshold of error to avoid federal recoupment penalties.

Thank You

[Federal Changes Summary](#)

[Medicaid by the Numbers](#)

[Medicaid data by region](#)