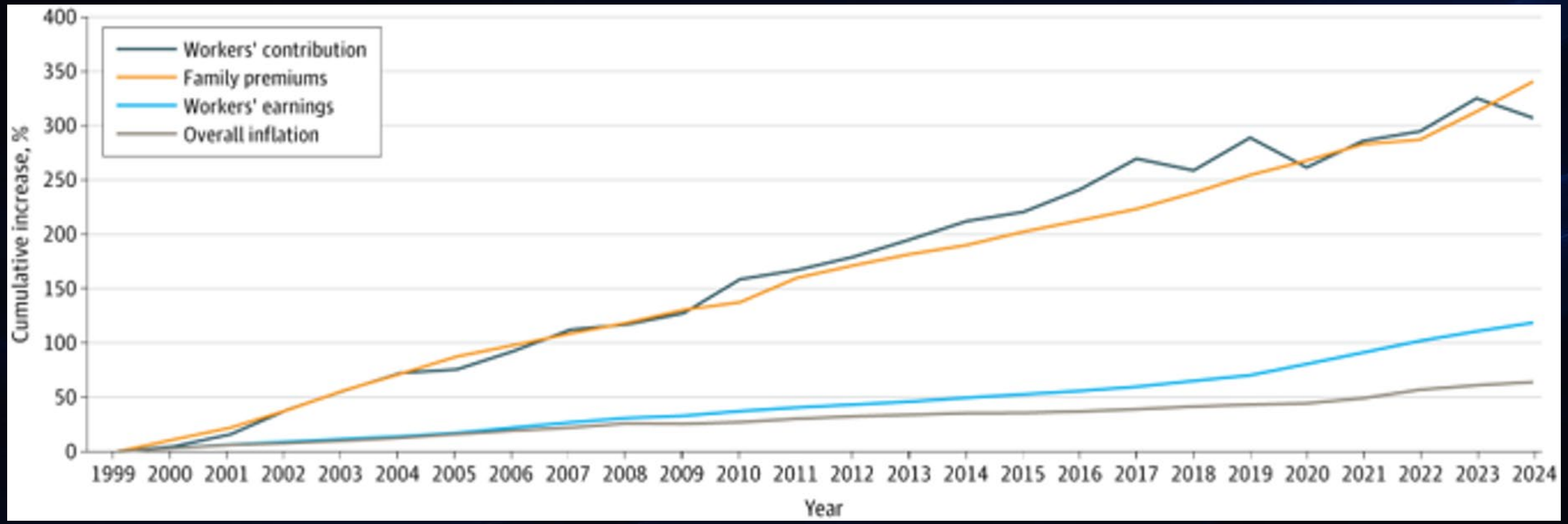
Financing Medicaid Through Provider Taxes on Hospitals: Spillover Effects on Employment-Based Coverage Premiums

Eden Volkov, PhD | HHS Office of the Assistant Secretary for Planning and Evaluation | October 20, 2026

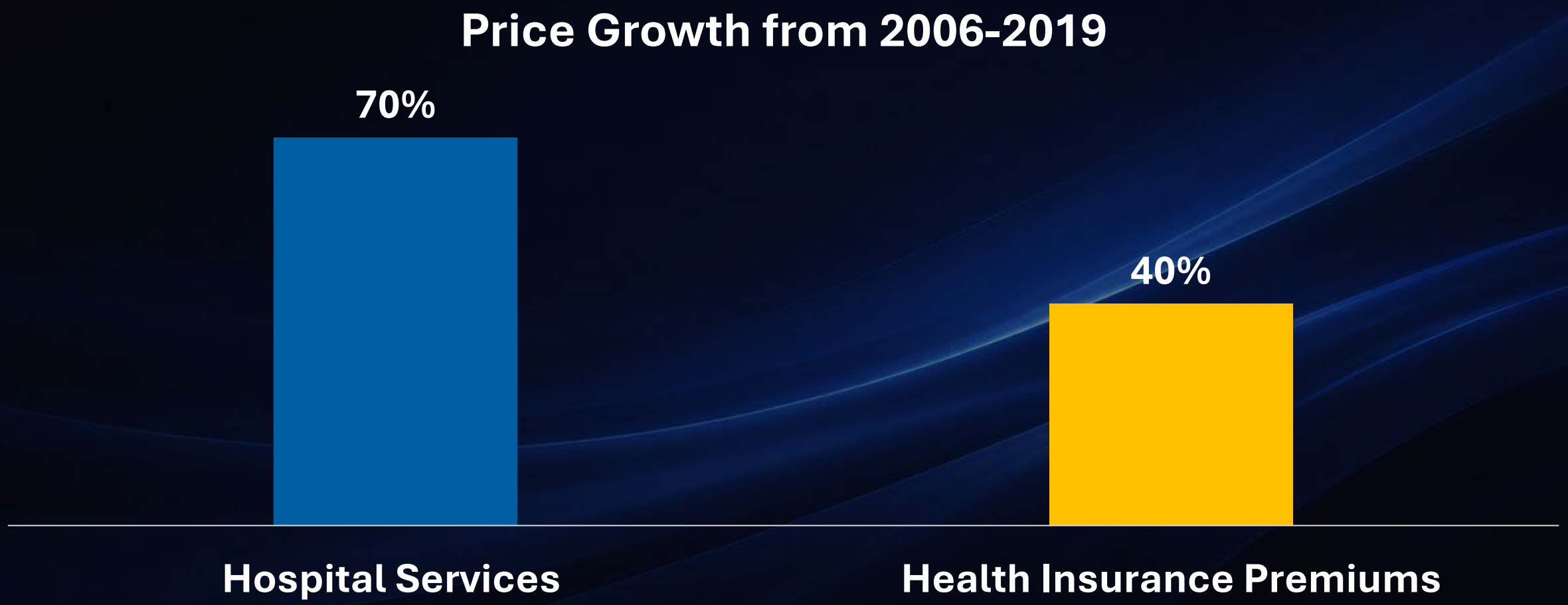
The Main Policy Question: Do Medicaid Hospital Provider Taxes Increase Commercial Prices?

The High Cost of Healthcare is a Major Affordability Problem: Employer Sponsored Insurance Premiums Have Risen Faster than Inflation and Worker Earnings.



Source: Kanimian S, Ho V. US Medical Prices and Health Insurance Premiums, 1999-2024. JAMA Network Open. 2025 Dec 8;8(12):e2547462.

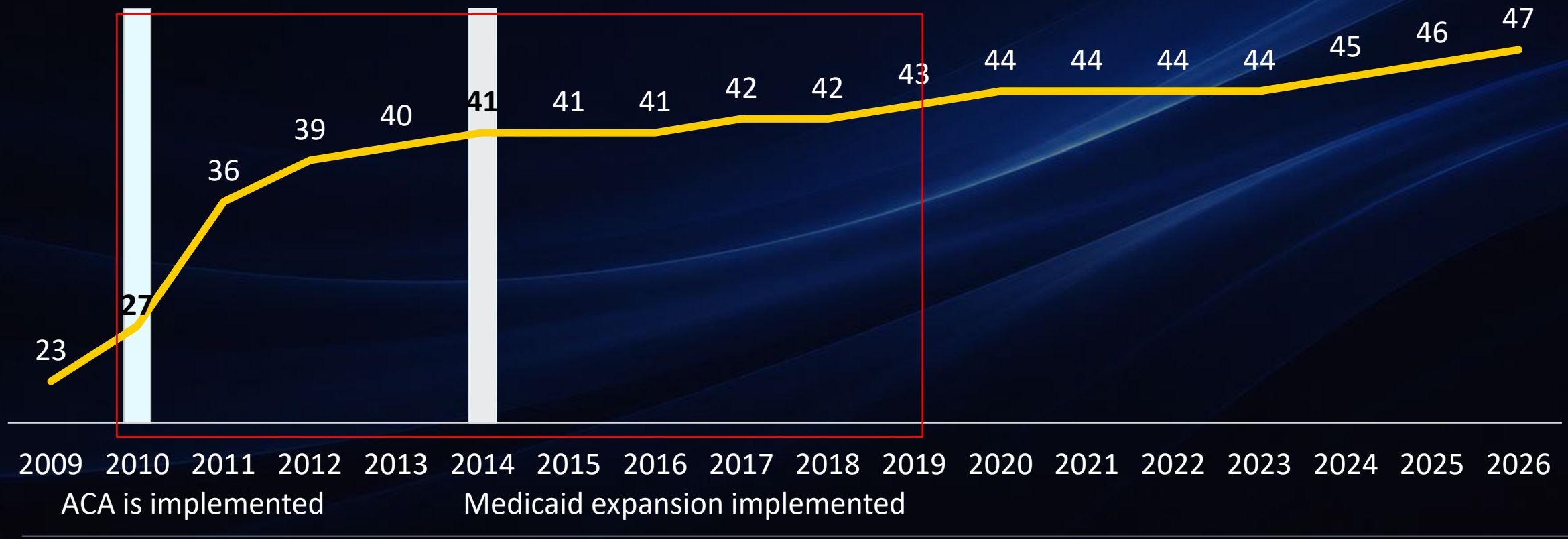
Hospital Service Price Growth is a Major Contributor to Premium Growth



Source: Kanimian S, Ho V. US Medical Prices and Health Insurance Premiums, 1999-2024. JAMA Network Open. 2025 Dec 8;8(12):e2547462.

Medicaid Provider Taxes on Hospitals Could Be a Contributor to Hospital Service Price Growth

- From 2010-2026, **24 states** implemented a Medicaid hospital provider tax, with tax rates typically < 3.5% but growing over time.
- The median tax rate at implementation was about 1.7% of patient net revenue.
- By 2026, 33 of 47 states impose a tax > 3.5% net patient revenue.



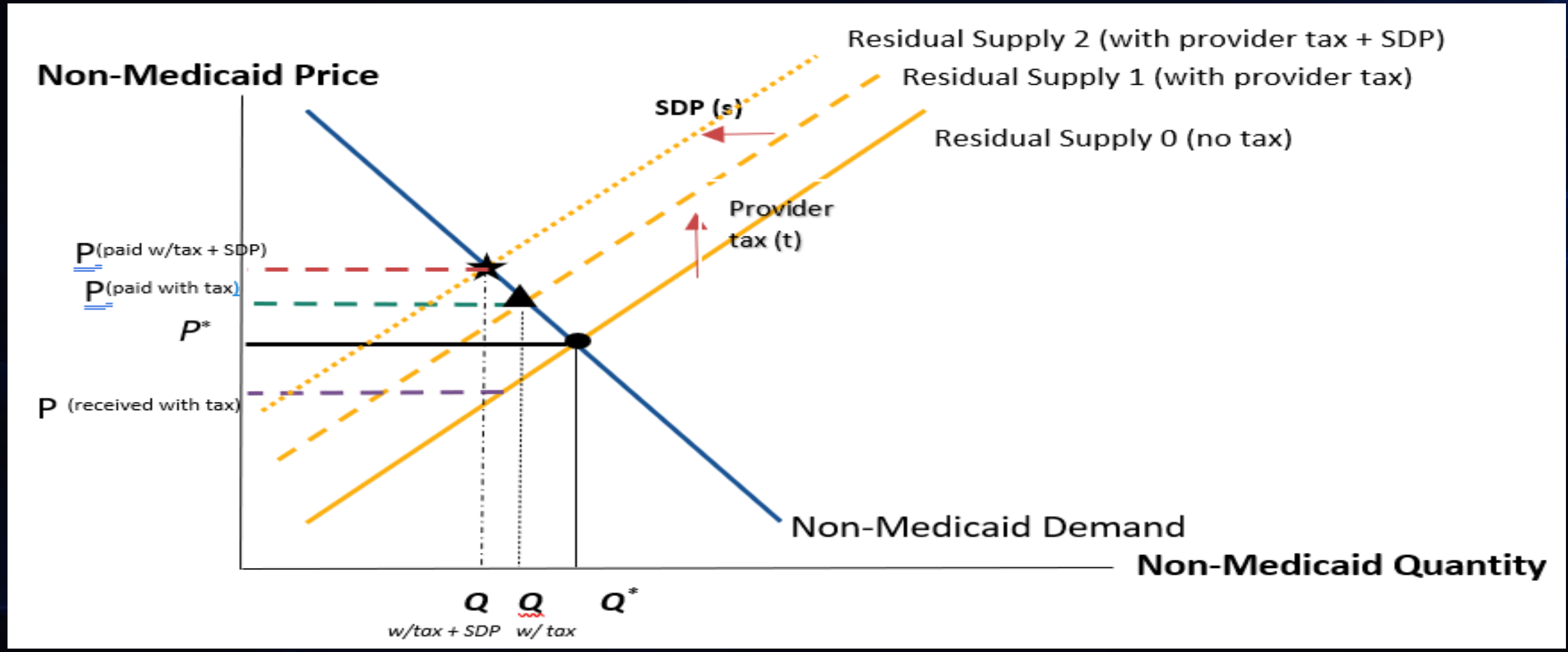
How Could Medicaid Provider Taxes Affect Commercial Prices/Premiums?

Accounting View: They Don't. Whatever a hospital pays in taxes they get that and more in state directed (for MCOs) or supplemental (for FFS plans) payments.

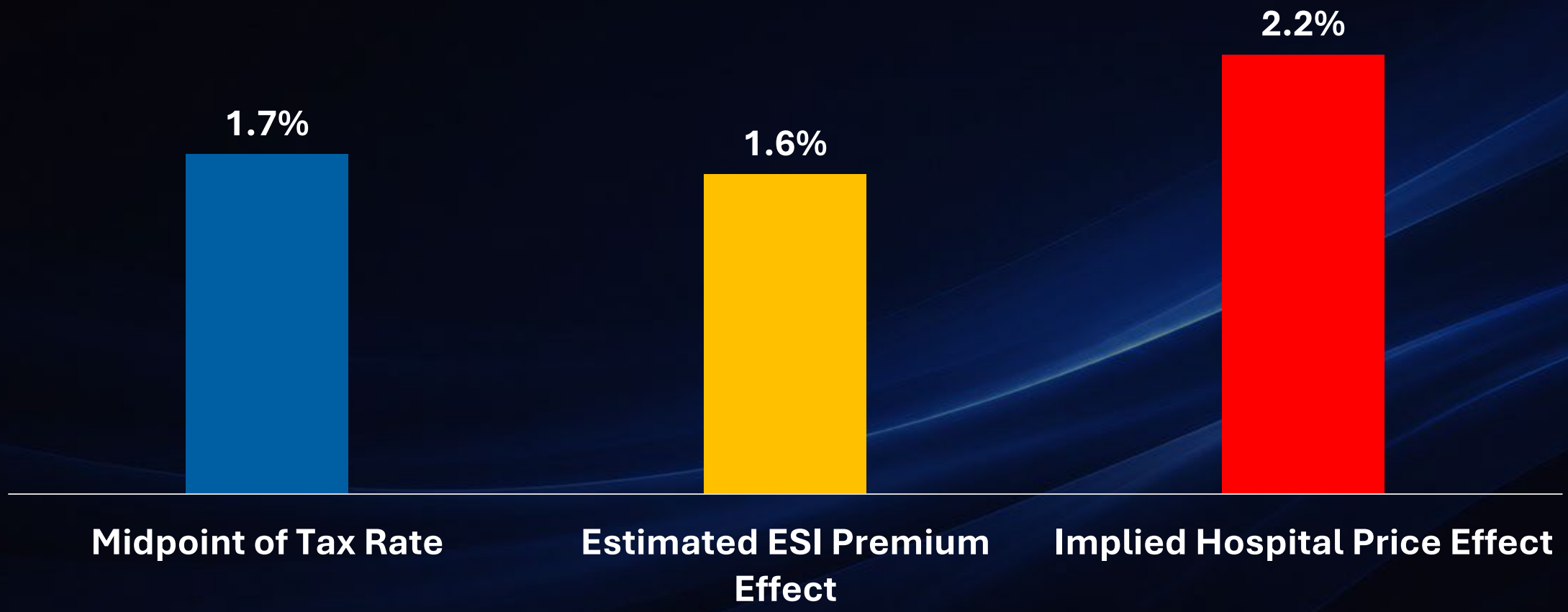
Therefore, they are not a traditional tax, so commercial prices/premiums should be unaffected.

6

Economics: Taxes *reduce* non-Medicaid supply + Medicaid payments reduce non-Medicaid supply further ⟶ Higher Non- Medicaid prices/premiums



Using a Staggered Differences in Differences study design, We Find:



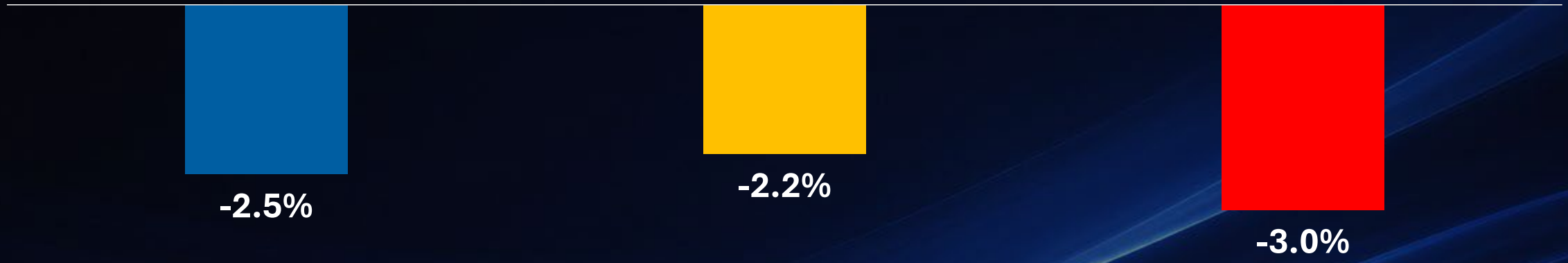
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2025 WFTC Legislation Provider Tax Reforms:

- Lowers the maximum allowable provider tax rate (“safe harbor threshold”) to 3.5 percent (from 6 percent) in Medicaid expansion states (phased in over time)

- Also places limits on SDP spending in all states- likely causing non-expansion states to also reduce provider taxes.

Extrapolating from our estimates from the phase in, we expect:



***Implies at least a $630 in yearly earnings**

Thank you

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U.S. Department of Health and Human Services

10