

TO: Interested Parties
FROM: Plymouth Union Public Research
SUBJECT: Extending Enhanced Premium Tax Credits – A Market-Based Off Ramp for Medicaid Recipients
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Congressional Republicans are on the verge of passing a massive legislative package that includes over \$5 trillion in tax cuts, funding to protect the southern border, domestic energy expansion, and defense budget increases. To offset some of the costs of this important legislation, Congressional Leaders are looking for \$2 trillion in spending reductions.

In order to achieve their goals, Republicans have focused on Medicaid as a major target of reforms and cuts. The Congressional budget resolution included instructions for House Committees to cut Medicaid by as much as \$880 billion over the next ten years. The proposal to preserve Medicaid with reforms to make it more efficient has merit, but these massive cuts are already producing consternation and division among Members of Congress.

The following policy brief explores a simple solution that would allow Congress to reduce spending on Medicaid without hurting low-income Americans by giving them access to private market insurance plans through an extension of the premium tax credits that help working families pay for their health care.

KEY TAKEAWAYS

- Medicaid participation has skyrocketed in recent years and now 78 million Americans depend on a program that was meant for temporary assistance.
- Republicans in Congress are hoping to make reforms that will reduce costs.
- Lawmakers will consider options to reduce Medicaid by up to \$880 billion, including limiting overpayments and applying new work requirements.
- Cutting Medicaid is unpopular, could jeopardize the GOP's chances in the midterms, and could derail President Trump's agenda during his final two years in office.
- There is an easy, market-based alternative to Medicaid that already exists.
- Extending existing tax credits for low- and middle-income Americans provides a free-market alternative to Medicaid at a fraction of the cost.

REPUBLICANS ARE RIGHT TO TACKLE MEDICAID REFORM

There are 78.532 million people enrolled in Medicaid today.¹ That means that 23% of Americans depend on Medicaid for their health coverage. That staggering number makes Medicaid the largest coverage market in the United States.²

Even though the Medicaid program was meant to be a temporary safeguard for struggling Americans during their time of need, the program has become a de facto insurance plan for almost a quarter of all Americans. This is not how the system was designed, and costs are running rampant. Medicaid's annual spending is now projected to surge over the next decade, growing by 51% from \$616 billion in 2023 to \$933 billion in 2034.³



Given its sheer size, it is not a surprise that the Medicaid program faces inefficiencies and challenges, including wasteful spending and improper payments.⁴ Republicans in Congress are right to want to reform the program and save money.

The Concurrent Budget Resolution for FY 2025 set the spending parameters for the upcoming reconciliation bill in Congress. That budget included instructions for the House Energy and Commerce Committee – which oversees health care programs – to reduce spending by \$880 billion.⁵ Reports indicate that the committee could find most if not all of that savings within the Medicaid program.⁶

Medicaid has grown beyond its original purpose as a temporary safety net for the unemployed. In order to control the rapid growth of program costs, Republicans are exploring several policy options under reconciliation. According to reports, those Medicaid reforms may include:

- Reducing wasteful overpayments in the program.
- Cracking down on Medicaid abuse by tightening eligibility standards.
- Increasing penalties for Medicaid fraud.
- Expanding work requirements for childless adults in the program.
- Creating a per capita cap on the number of individuals covered by Medicaid expansion.
- Reducing the 90% federal match rate for Medicaid expansion.

All of these provisions have merit and would significantly help bend Medicaid’s cost curve. However, without alternative health coverage options for low-income Americans, these cuts could have a significant impact on public health and Republican political fortunes.

CUTTING MEDICAID WITHOUT AN ALTERNATIVE IS POLITICALLY UNSUSTAINABLE

The potential cuts to the Medicaid program are likely to be significant. The budget’s target of \$880 billion in savings derived from the Energy and Commerce Committee’s jurisdiction would be equivalent to an 11% cut to Medicaid spending over the next ten years. In terms of the total Medicaid population, that would be a reduction of 8.6 million Americans without health coverage.

These massive coverage cuts have caused consternation among Republicans on Capitol Hill and have resulted in a delay in unveiling the details of the bill. Without offering the potential 8.6 million Americans a viable alternative to find health coverage, Republicans could spur a public health crisis with significant political consequences.

Medicaid’s popularity with Americans has made it a third rail in politics, to the extent that the potential of cutting Medicaid during reconciliation spurred 12 Republican Members to sign a letter addressed to Speaker Mike Johnson and other Republican leaders vowing not to “support a final reconciliation bill that includes any reduction in Medicaid coverage for vulnerable populations.”⁷

President Trump’s own pollster, Republican strategist Tony Fabrizio, recently released a poll outlining the political dangers of making major cuts to Medicaid. The April 2025 survey found that an overwhelming 74% of voters had a favorable opinion of Medicaid, including 61% of Trump voters. It is no wonder that President Trump warned against haphazard Medicaid cuts and plainly said in May 2025, “But we’re not cutting Medicaid.”⁸

With extremely tight margins in both chambers, Republicans looking to pass a reconciliation bill must be



careful in how they approach Medicaid lest they lose votes within the caucus. In the House, Republicans hold 220 seats and need 218 votes for a majority, while in the Senate Republicans hold a thin 53-47 majority.

There is strong bipartisan agreement on protecting Medicaid funding, with 76% of people opposing major cuts in federal funding for Medicaid.⁹ Notably, 55% of Republicans and 49% of MAGA supporters oppose cutting Medicaid, meaning that even the traditional constituencies that would otherwise be in favor of cutting federal spending are largely predisposed against sizable cuts to the program. Democrats – sensing an opening to align their arguments with public sentiment – have already begun messaging on a “Fight to Save Medicaid” Month of Action targeting four vulnerable Republicans on their potential vote to enact cuts for Medicaid.¹⁰

Moderate Republicans in the House remember 2018 all too well and are determined not to repeat the mistakes that were made last time the GOP had full control of Congress. In 2018, moderate Republicans were forced to vote multiple times on bills to repeal Obamacare without offering a viable solution for those that would have lost their coverage.

Advancing a reconciliation bill that contains large cuts to Medicaid without offering an alternative plan – thereby putting vulnerable populations at risk of losing health care coverage – could lead to the same disastrous political outcome that the GOP faced in 2018. Democrats will surely use the dynamic to put Republicans on defense for limiting access to health care and GOP majorities in both chambers will be at risk.

If Republicans suffer massive losses in the midterms, President Trump’s second term agenda will be endangered, and he will likely face a slew of investigations from the Democrats. Therefore, the best way to ensure that conservatives continue to advance their priorities and President Trump’s second term remains free of Democrat obstruction is for Republicans to find a way to reform Medicaid without causing significant losses in health coverage.

A Market-Based Alternative Already Exists

Fortunately for lawmakers struggling with how to make reforms to Medicaid, a market-based solution has emerged in recent years. In 2021, Congress passed legislation that provided enhanced tax credits that allowed more Americans to buy private insurance in the individual marketplace.¹¹ The main goal of the credits was to allow more working Americans to buy private insurance with the assistance of a federal tax credit.

The program was an immense success. From 2020 to 2024, enrollment in private market plans using tax credits increased from 11.4 million to 23.6 million.¹² That means in just four years of enhanced tax credits, 12.2 million more Americans were able to get coverage using private health care plans in an open and competitive marketplace. This trend will continue to increase competition, encourage employment, and keep cost inflation down.

Unlike Medicaid, these Americans are not enrolled in a massive government program. Instead, the tax credits allow individuals to buy private insurance coverage that fits their needs and is purchased in a competitive marketplace, giving them far more choice than they would have with Medicaid. According to the Congressional Budget Office, extending enhanced tax credits would help 3.4 million more Americans get private health coverage.¹³

The enhanced tax credits serve as an important transitional tool to help people move off of Medicaid, which was designed as a last resort. Together, enhanced tax credits and Medicaid provide options for low-income



Americans, and many people rely on both programs through different life phases. For example, someone between jobs may enroll in Medicaid and later become eligible for tax credits if they become employed and their employer doesn't offer health coverage.

Without the enhanced tax credits – which are set to expire at the end of this year – people losing Medicaid would not be able to afford Marketplace premiums or would only be able to afford coverage with deductibles that could be prohibitively high. Most Medicaid enrollees, especially the adult expansion population, are working Americans. Enhanced tax credits would make it possible for workers with hourly jobs, unpredictable income, or seasonal jobs to enroll in private coverage.

Extending these tax credits would also be a major political win for Republicans, as Mr. Fabrizio found in an additional survey that 80% of voters in swing congressional districts support doing so.¹⁴

EXTENDING TAX CREDITS COSTS LESS THAN MEDICAID

Medicaid's \$618 billion cost in 2024 made it one of the largest single programs within the federal government.¹⁵ In fact, only Social Security (\$1.45 trillion), defense (\$850 billion), and Medicare (\$865 billion) were more expensive.¹⁶ By comparison, enhanced tax credits for private coverage in exchanges are small, totaling \$107 billion.¹⁷

According to the Congressional Budget Office, extending the enhanced tax credits that have helped 24 million Americans access private health care plans without the proposed program integrity provisions would cost a total of \$335 billion over the next decade. If that policy were included in budget reconciliation with the proposed Medicaid reforms, it would result in a net spending reduction of \$545 billion.

The size of Medicaid makes it a popular target for reform even if the political cost of those reforms could be significant. Indiscriminate caps and Medicaid eligibility cuts will save money but do nothing to address the underlying problems of dependence on federal entitlements. Helping more low-income enrollees move from Medicaid to private insurance, however, would yield significant long-term savings from the current payment structure and provide patients with health care plans of their choice.

Conclusion – Extending Enhanced Tax Credits Provides a Free-Market Off Ramp for Medicaid Enrollees at a Fraction of the Cost

Republicans in the House are on the verge of making major reductions to Medicaid. While reforms are undoubtedly necessary, it could result in millions of low-income Americans losing their free health care coverage. Lawmakers must tread carefully when making changes to a project that is supported by two-thirds of voters. The political headwinds resulting from people losing health care coverage could threaten Republican majorities in both chambers of Congress, which would lead to endless investigations of President Trump and give Democrats fuel to obstruct his agenda in his second term. The best way to ensure the President has four full years to enact conservative policies is to reform Medicaid without taking away health coverage from those who need it.

If changes to Medicaid result in Americans losing coverage, a strong individual market and the continued availability of enhanced tax credits will help consumers maintain access to coverage.

Extending the enhanced tax credits is a free-market policy position and will save billions if paired with



tailored Medicaid reforms. Congress should use the same reconciliation process to extend the enhanced tax credit. The combined policy will save over \$500 billion while providing millions of low-income and working Americans with access to preventive care and critical health care services. Extending the credits while reforming Medicaid is a win for individuals, the budget, and Republicans.



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