



The One Big Beautiful Bill Act & Tennessee's Medicaid Program

Most of the biggest changes under the One Big Beautiful Bill Act (OBBBA) target states that expanded Medicaid. As a non-expansion state, Tennessee will avoid the steepest impacts (e.g., work and eligibility requirements), but the law will still significantly affect the state's patients, providers, and payers.

Retroactive Coverage

For Medicaid (TennCare) and Children's Health Insurance Program (CHIP) applications filed on or after January 1, 2027, OBBBA will shorten the retroactive coverage period for pregnant people and children under 21 years old from 3 months to 2 months. Non-pregnant adults will continue to receive 1 month of retroactive coverage.

This change will have a particularly significant impact on maternity care and pediatric hospital admissions. It is expected to increase uncompensated care costs for some hospitals as more bills fall outside the shortened period.

Eligibility

Beginning October 1, 2026, the following groups will be ineligible for Medicaid and CHIP:

- **Lawful Permanent Residents (LPR)**
- **Asylees**
- **Refugees**
- **Trafficking Survivors**
- **Humanitarian Parolees**
- **Certain Cuban and Haitian Entrants**

Tennessee will no longer be able to claim federal matching funds for these excluded humanitarian groups through TennCare or CHIP.

Provider Taxes and State-Directed Payment Programs

The OBBBA makes significant changes to Medicaid funding with provider taxes and state-directed payment (SDP) programs. The changes begin in FY 2028 and will be phased in over 10 years.

Provider Tax: Tennessee relies on provider assessments, including a hospital coverage assessment that already sits at the federal 6% "safe harbor" limit on net patient revenue, to help finance TennCare.

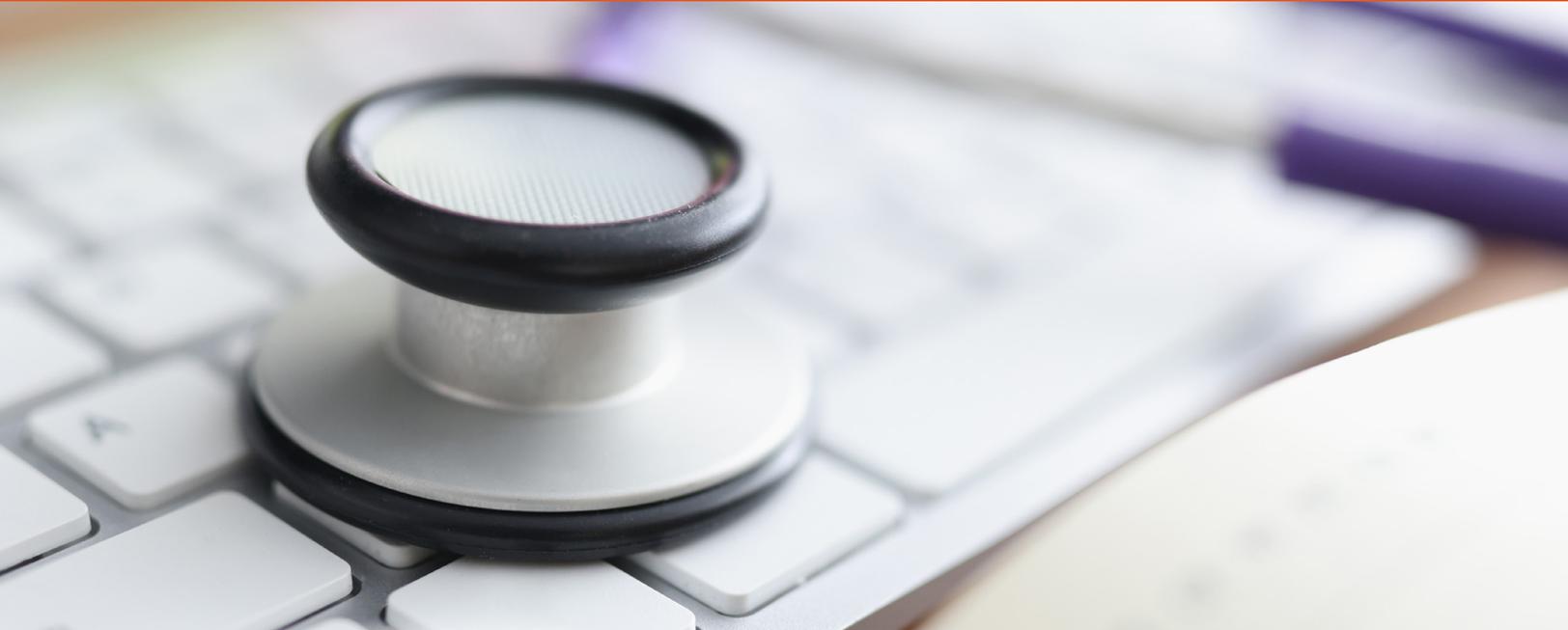
Under OBBBA, non-expansion states, such as Tennessee, retain the existing 6% federal safe-harbor threshold for current provider taxes. However, the law sets the hold-harmless threshold for new provider taxes at 0%, preventing the creation of new provider tax classes to draw down additional federal matching funds.

SDPs: In non-expansion states, SDPs can go up to 110% of Medicare rates. Beginning in 2028, amounts above the cap must phase down by 10 percentage points per year until they reach the cap.

Tennessee has pursued an extensive, hospital-focused directed payment program to support its non-expansion TennCare network and improve Medicaid base rates, which currently cover only about half of hospitals' costs. The new caps and phase-down will reduce federal dollars available to support those payments.



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Federal Payments to Prohibited Entities

For one year following enactment (July 4, 2025 – July 4, 2026), federal Medicaid funds may not be paid to certain nonprofit family planning providers that offer abortion services and deliver family planning or reproductive health services to Medicaid members.

In Tennessee, abortion has been banned since 2022, and Planned Parenthood clinics stopped providing abortion care at that time, so the direct impact of this provision is more limited than in states where these providers still perform abortions.

Rural Health Funding

OBBBA creates a **\$50 billion Rural Health Transformation Program** to support rural healthcare access, infrastructure, and workforce. The program provides \$10 billion annually from FY 2026 through FY 2030, distributed to states with approved rural health transformation plans. States that applied are expected to receive about \$100 million per year in baseline funding, with the potential for additional competitive dollars based on rural needs and the strength of each state's plan.

Tennessee has submitted its plan to CMS and is expected to receive an award notice by December 31, 2025. If approved, Tennessee plans to invest in prevention and chronic disease management programs, technology upgrades and telehealth expansion, and rural workforce recruitment and retention to help stabilize hospitals, clinics, and other providers that serve rural TennCare members.