News
Analysis



The chief executive of Phoenix Children's, a pediatric hospital system, says President Donald Trump's cuts to Medicaid will impact coverage and care for children in Arizona. (AP/Ross Franklin)

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September 11, 2025

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Republicans insist that President Donald Trump's cuts to Medicaid were aimed at reducing fraud and getting more of its adult beneficiaries into jobs. But the side effects may include less care for sick kids.

Some children's hospitals collectively stand to lose billions of dollars in revenue once Trump's wide-ranging tax and spending law, which Republicans called the "One Big Beautiful Bill," is fully enacted, according to the Children's Hospital Association. Kids account for nearly half of enrollees in Medicaid, the state and federally financed health program for low-income and disabled people, and its related Children's Health Insurance Program.

The law will cut federal Medicaid spending by about $900 billion over a decade.

The reduction "cannot be achieved without directly affecting coverage and care for Arizona's kids, especially the most vulnerable among them," said Robert Meyer, chief executive of Phoenix Children's, a pediatric hospital system. About half of the system's revenue comes from Medicaid.

Trump's law locks into place much of his domestic agenda, including a massive expansion of immigration enforcement and an extension of tax cuts that largely benefit the wealthiest Americans. The cuts to Medicaid are expected to partially offset the cost of the president's priorities, which will add more than $3 trillion to the nation's deficit, according to the Congressional Budget Office. About 7.5 million Americans will lose Medicaid coverage by 2034 as a result, the CBO estimates.

Throughout debates over the measure, Republicans insisted the Medicaid cuts would affect only nondisabled adults enrolled in the program who don't work and immigrants living in the U.S. without legal status. "Our legislation preserves Medicaid, strengthens Medicaid for the people who actually need it and deserve it," House Speaker Mike Johnson said June 1 on NBC News' "Meet the Press." "And we're going to get rid of the fraud, waste, and abuse."

Meyer, though, warned that unless some cuts are reversed, Phoenix Children's would lose about $172 million a year in payments that supplement the health system's regular Medicaid revenue, for treating low-income children covered by the program. Medicaid typically pays lower rates for care than commercial insurance or

Medicare, the federal program for people age 65 and older.

The supplemental payments, known as state-directed payments, are financed largely by federal taxpayers through complicated tax arrangements adopted by nearly all states. The payments have helped the Phoenix system open additional pediatric clinics, increase mental health staffing, and screen children for abuse and other trauma, Meyer said.

A provision of Trump's law would cap the amount of directed payments states could make to any hospital, including those for children. But the cap, which doesn't take effect until 2028, will be phased in over a decade — and hospitals are already lobbying to ensure that never happens. Days after voting for Trump's law, Sen. Josh Hawley (R-Mo.) introduced legislation that would eliminate provisions of the measure cutting Medicaid payments to hospitals.

If the law isn't changed, at least 29 states would need to reduce their payments, according to an analysis by KFF, a health information nonprofit that includes KFF Health News.

The extra Medicaid funds, on average, make up more than a third of children's hospitals' total Medicaid revenue and about 14% of their operating revenue overall, according to the Children's Hospital Association.

Richard Park, a director at Fitch Ratings, a credit rating agency, said the Medicaid funding cuts present a "long-term headwind" for children's hospitals. Hospital officials say that if the payments are cut and states don't replace the funding, they could be forced to cut staff and services.

"Services the hospitals provide that require longer admissions or bring in less revenue are going to be in the crosshairs, for sure," Park said.

Children's hospitals are especially vulnerable to changes in Medicaid because they count on the program for about half their revenue — a much higher proportion than general acute-care hospitals do.

Most children's hospitals are in good financial condition, however, because they face little competition — there are seldom more than one or two in a metropolitan area — and strong philanthropic support. And the funding cuts won't affect all the nation's approximately 200 children's hospitals.

In 2023, Phoenix Children's had a $163 million surplus on nearly $1.5 billion in revenue, according to its 2023 IRS tax return.

Under the law, the extra payments in the District of Columbia and 40 states that expanded Medicaid under the Affordable Care Act would be capped at Medicare payment rates. The 10 states that didn't expand would be able to pay up to 110% of Medicare rates.

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The Biden administration had allowed states to pay up to their average commercial insurance rates. That's generally about 2.5 times the Medicare rate, according to KFF.

Medicaid's traditionally low fees to health providers can make doctors, dentists, and other specialists reluctant to treat patients in the program.

Brian Blase, president of the conservative Paragon Health Institute and a key architect of Medicaid changes in the new law, said cutting state-directed payments is justified because states should not pay hospitals more to treat Medicaid patients than they do for Medicare patients. Unlike regular Medicaid payments for specific health services, hospitals are not always held accountable for how they spend the extra money, he said.

He said state-directed payments to children's hospitals and other facilities amount to "corporate welfare," often helping financially strong institutions get richer.

Blase said states have little incentive to pay hospitals less because the money from state-directed payments comes mostly from federal taxpayers.

In Norfolk, Virginia, Children's Hospital of The King's Daughters depends on more than $11 million annually in state-directed payments to make up for what it says is a shortfall between Medicaid's low reimbursement rates and the cost of advanced care.

The cuts to Medicaid in Trump's law "will have serious and far-reaching consequences to our services, programs, and patients," spokesperson Alice Warchol told KFF Health News. "Medicaid supplemental funding helps us pay for the highly

specialized pediatric medical, surgical, and psychiatric physicians that are needed to care for every child who needs our services."

In fiscal 2023, King's Daughters had a $24 million surplus on $646 million in revenue, according to its federal tax return.

King's Daughters has used the extra Medicaid money to expand treatment for abused and neglected children and mental health services, Warchol said.

How states account for the extra payments made to hospitals varies. For instance, Utah Medicaid Director Jennifer Strohecker said her state does not track how the money gets spent.

Other states, such as Texas, use the money as an incentive for hospitals to improve their performance in treating patients. They track how well the facilities do each year and publish the findings in public reports.

Matthew Cook, president and chief executive of the Children's Hospital Association, said that even with the extra funding, Medicaid doesn't cover the full cost of treatment for its patients.

While some children's hospitals have strong balance sheets, boosted by philanthropy, that is not the case for all, Cook said. And the Medicaid funding cuts come on top of reductions in other federal payments, including for training doctors and research, he said.

At Phoenix Children's, Meyer said, the loss of extra funding would curtail expansions of care for children and growth of the hospital's workforce. The hospital hopes Congress delays or reverses the cuts — but it's not counting on it, he said.

"We see this grace period as a godsend to get ourselves ready to close the funding gap," he said.

This story appears in the **Trump's Second Term** feature series. View the full series.