Medicaid Trends & HHR 2026 Session Outlook

November 21, 2025

Outline

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3. Managed Care Overview
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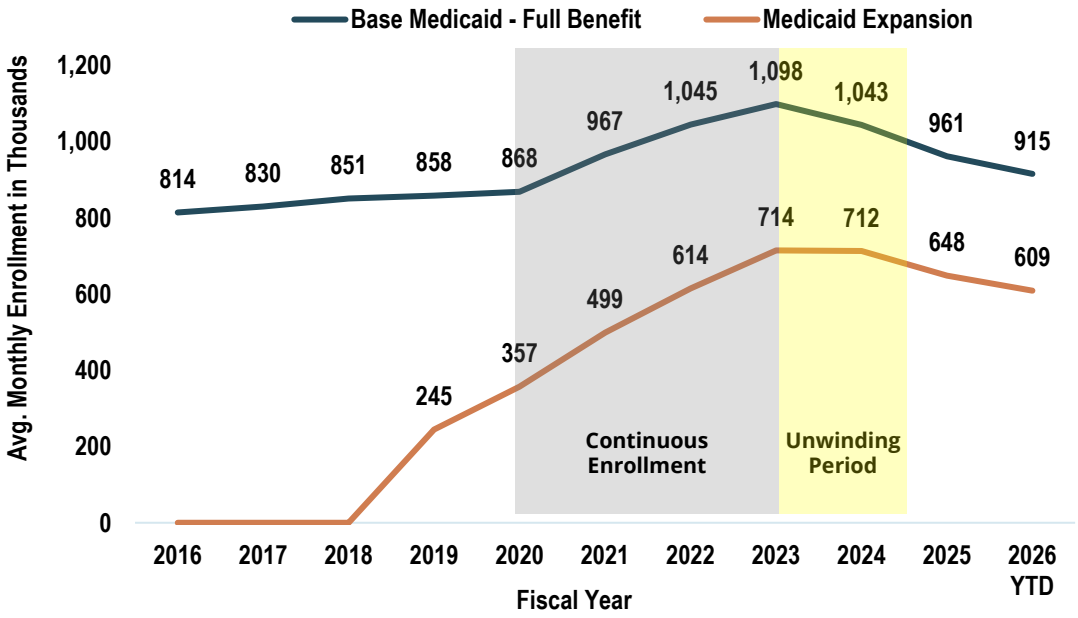
Virginia Medicaid Trends

Medicaid Enrollment Continues to Decline; Base Medicaid Nearly Back to Pre-Pandemic Level

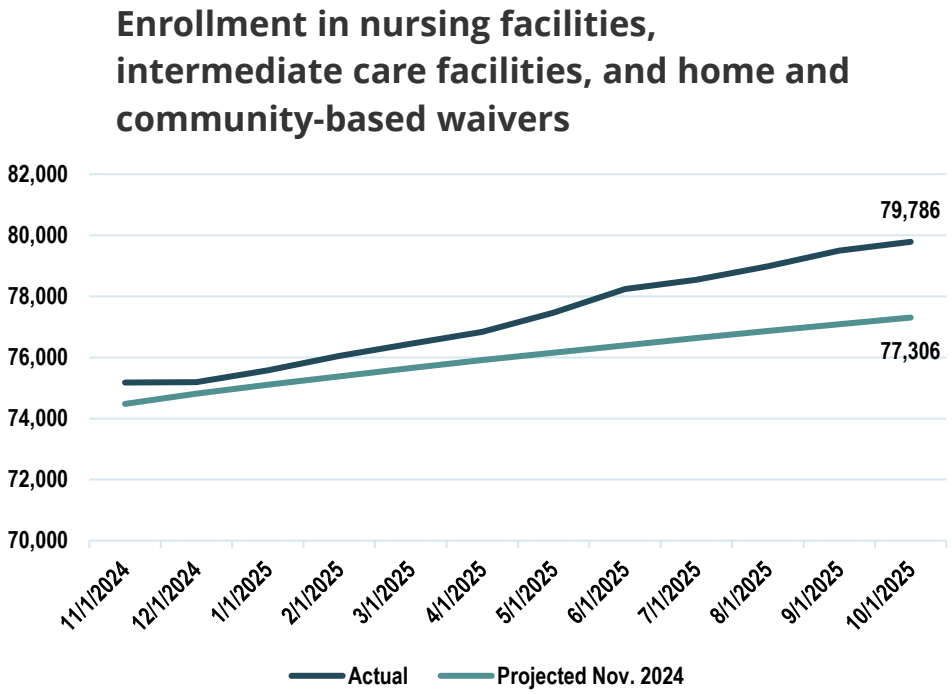
Medicaid Enrollment peaked in FY 2023 and continues to decline even after unwinding ended in March 2024.



- During the pandemic, federal law required continuous enrollment, prohibiting most members from being disenrolled.
  - That requirement ended on March 31, 2023, beginning a period of "unwinding," allowing states to disenroll individuals that were no longer eligible.
- In FY 2025, Base Medicaid (Full Benefit) enrollment declined 7.8 percent and Expansion enrollment declined 9.0 percent over FY 2024.
- For FY 2026, enrollment is continuing to decline at a slower pace.

Source: DMAS monthly enrollment report for November 2025 (numbers reflect average monthly enrollment).

High-Cost Populations are Increasing - Partially Offsetting Any Savings From the Enrollment Decline

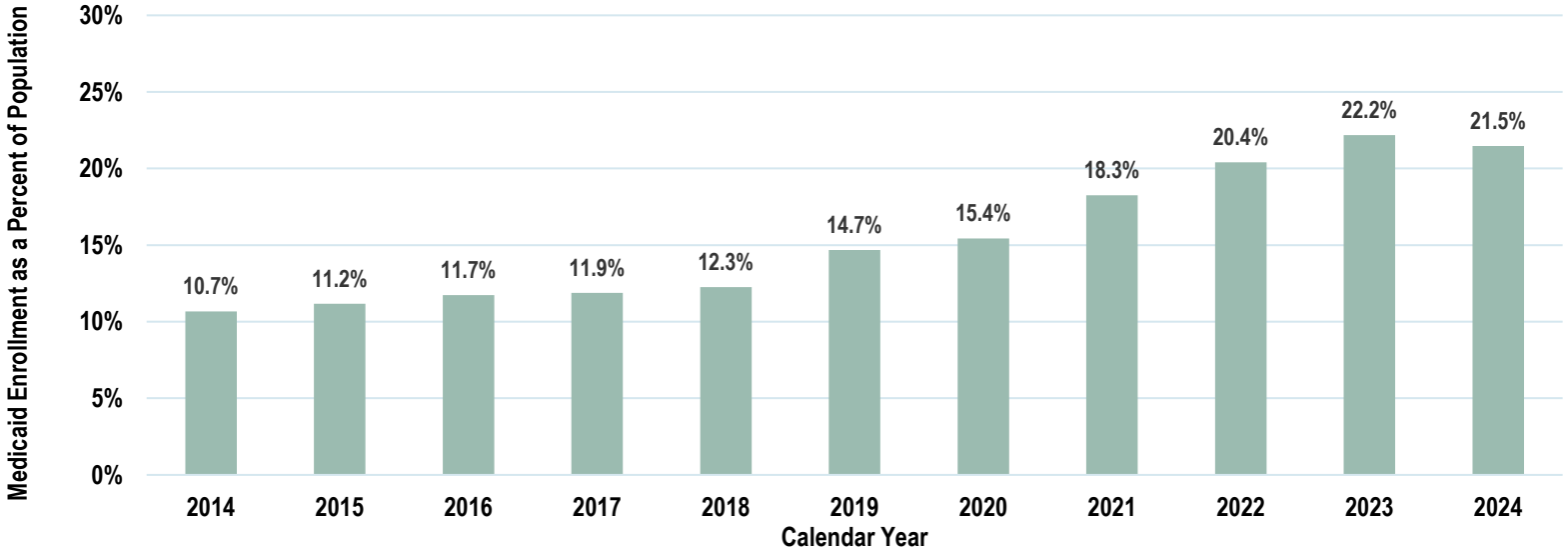


- Higher-cost populations continue to increase despite the overall drop in Medicaid enrollment.
  - Enrollment declines mainly represent children and adults, which are lower cost populations.
  - To illustrate an example, 500 additional nursing facility members would increase the annual total funds cost by $31.8 million ($63,588 annual cost per person).
  - The annual cost of each nursing facility member is equal to the cost of 19 children in the program.
- This also includes the 3,440 developmental disability waiver slots that are being phased in through June 2026, which contributes to the growth in high-cost populations.

Source: DMAS monthly enrollment report for November 2025 (numbers reflect average monthly enrollment).

Medicaid Covered Individuals Increased Due to Medicaid Expansion and COVID-19

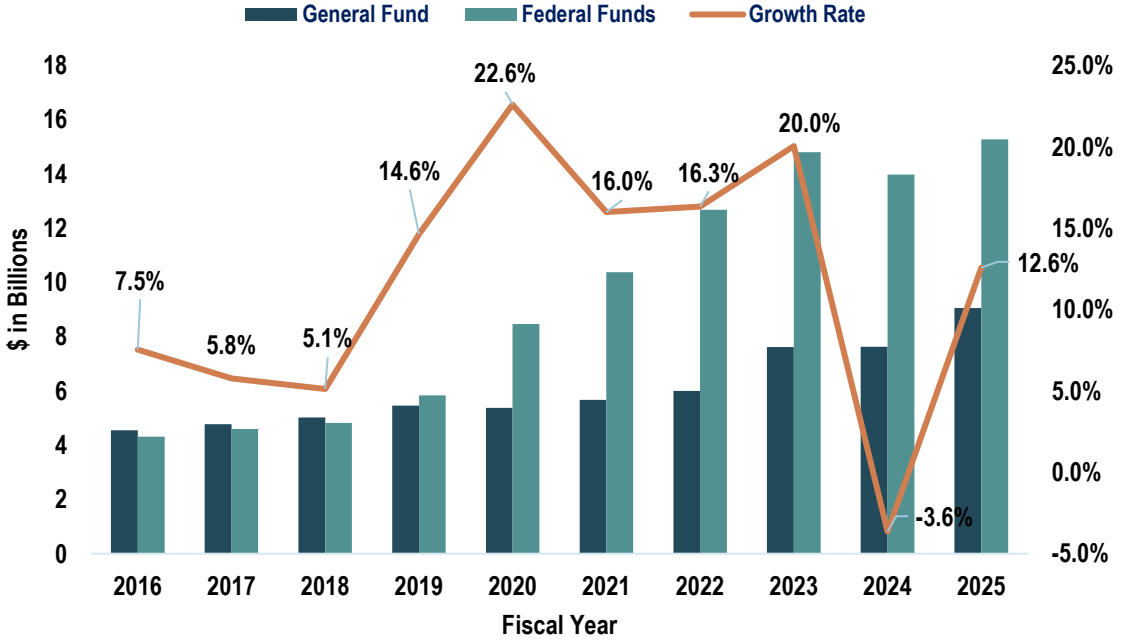
Prior to Medicaid Expansion (January 1, 2019) about 12.0 percent of Virginians were covered by Medicaid, which then increased due to Expansion and the COVID-19 Pandemic to a peak of 22.2 percent in 2023.



Source: Population data from Weldon Cooper Center and November 2025 Medicaid Enrollment Report.

Medicaid's Expenditure Growth is Again Increasing Rapidly Post-Expansion & Post-Pandemic Without the Enhanced Federal Funding

Medicaid spending increased an average of 6.1 percent a year from 2016 to 2018 and since 2019 is averaging 14.1 percent each year.

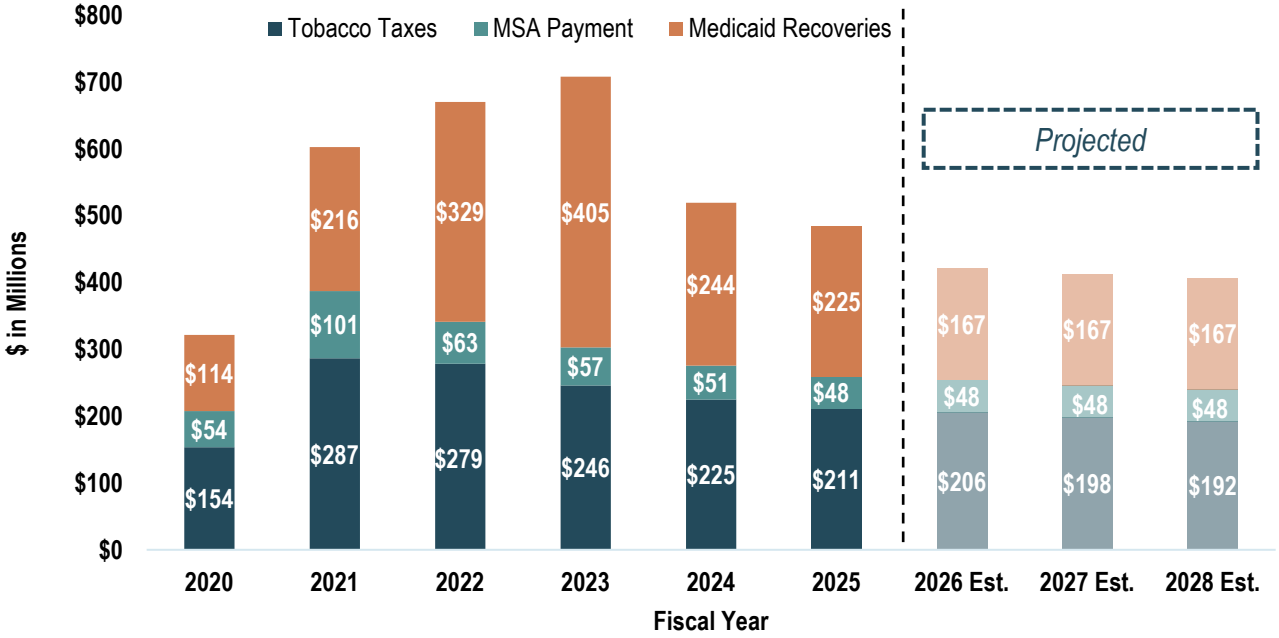


Source: DPB's Expendwise database of Cardinal accounting data. The FY 2024 decrease in funding was due to payments being advanced into FY 2023 to maximize federal funding due to federal match rate changes.

- Total spending has increased from $8.9 billion in FY 2016 to $24.3 billion in FY 2025.
- Federal funds make up nearly 63.0 percent of all Virginia Medicaid spending.
  - Prior to Medicaid Expansion, federal funds were closer to 50.0 percent.
- Since 2019, spending has reflected the expansion of Medicaid and the increased enrollment during the pandemic.
  - Medicaid Expansion spending was $7.7 billion in FY 2025; 32.0 percent of total Medicaid spending.
  - **The state share of Medicaid Expansion is 10.0 percent and paid by an assessment on private hospitals.**

Health Care Fund Supports the State Match for Medicaid and is Expected to Decline, Requiring More GF Support

Managed care repayments during the pandemic have ended. Revenue is more stable, although tobacco taxes continue to decline.



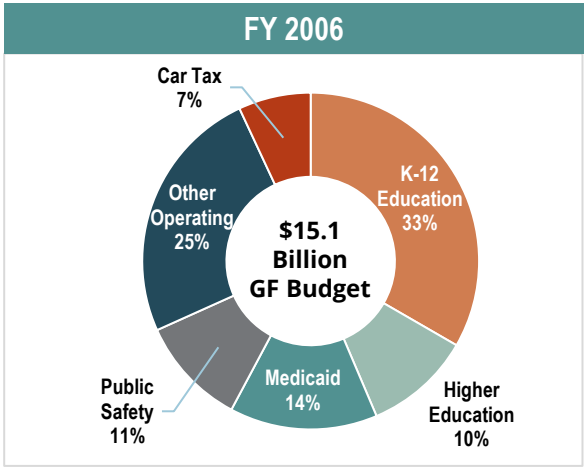
Source: DPB's Expendwise system. Staff estimate of revenues for FY 2026 through FY 2027.

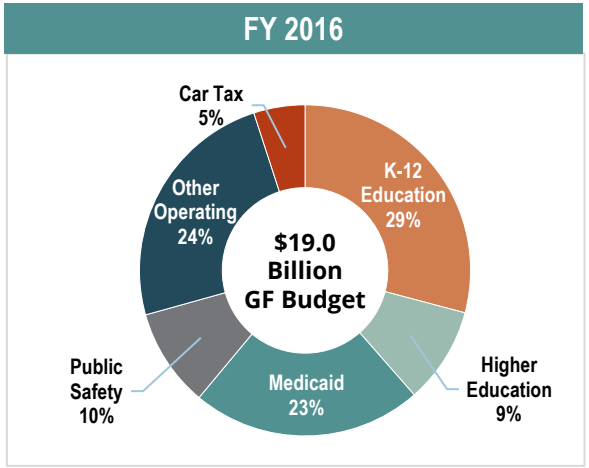
- Health Care Fund revenues include tobacco taxes, the Master Settlement Agreement (MSA) with tobacco companies, and Medicaid Recoveries (repayments from providers).
- Pharmacy rebates and one-time managed care repayments (exceeded profit caps during Pandemic) drove the FY 2021 through FY 2023 increases in total revenues.
- These declines will require potential adjustments in the 2026 Session and are estimated by staff to require additional GF funding amounts of:

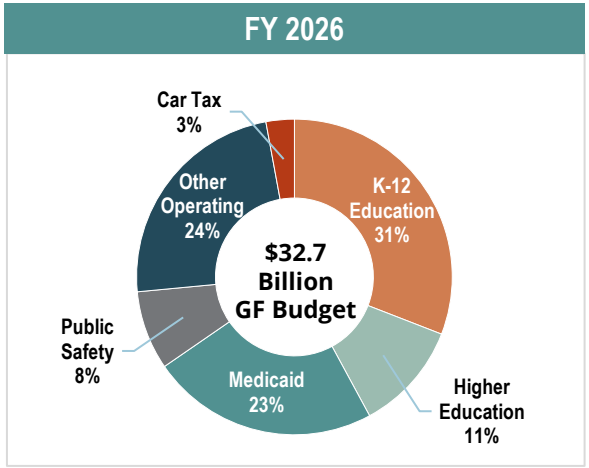
  FY 2026 = $22.0 million GF

  2026-2028 = $61.2 million GF

Medicaid Continues to Consume a Large Share of the General Fund Budget





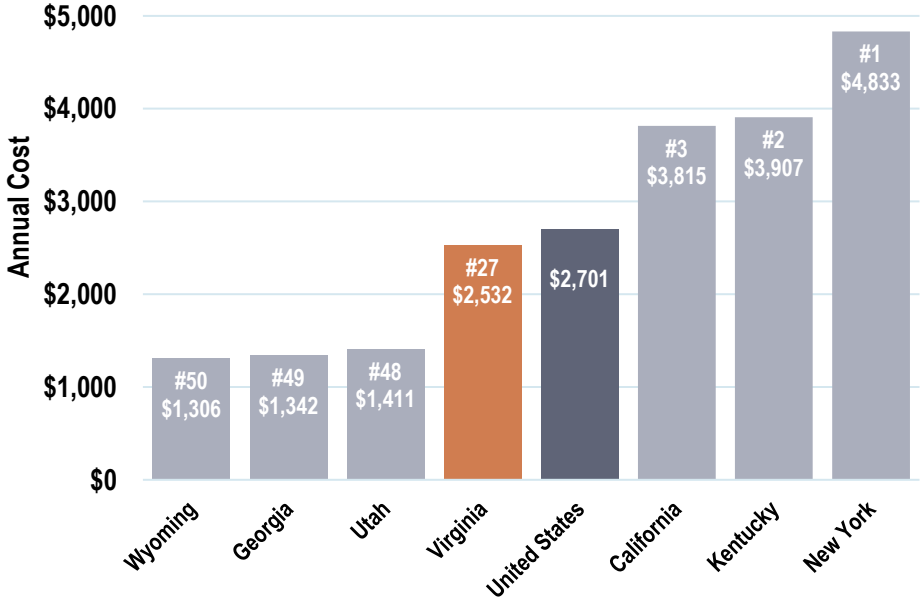


- Medicaid's growth rate has outpaced growth in GF revenue over the last two decades, increasing its share of the overall budget.
- During the pandemic, Medicaid's share declined temporarily to about 19.0 percent due to enhanced federal funding but has since increased back up to 23.3 percent of the GF budget in FY 2026.
- With the projected increases in the most recent Medicaid Forecast, the program's expected share of the GF budget will likely rise above the current percentage level.

Source: Chapter 725, 2025 Acts of Assembly and prior Appropriation Acts.

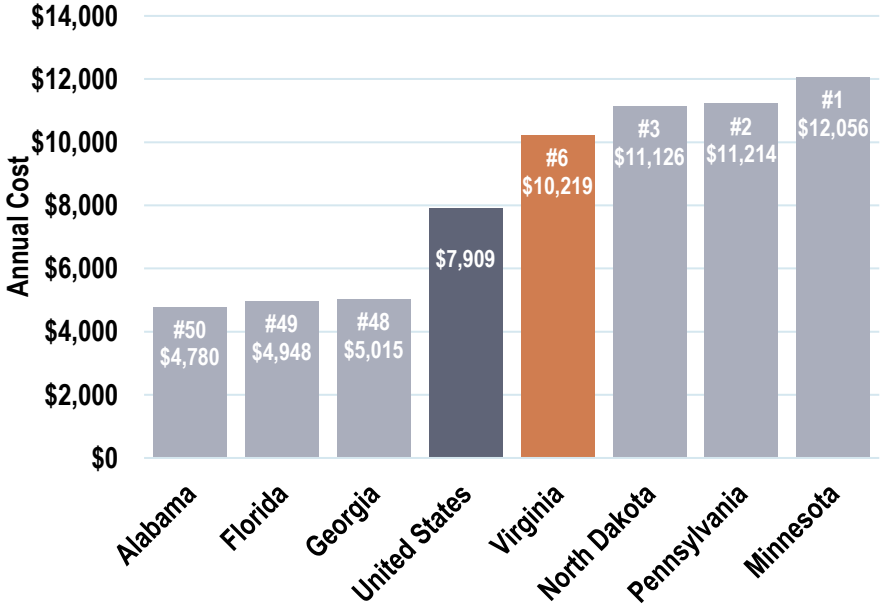
Compared to Other States, Virginia's Medicaid Per Capita Spending Ranks in the Middle, Whereas Medicaid Per Enrollee Spending Ranks Much Higher

Federal FY 2024
Per Capita Medicaid Spending



Source: Kaiser Family Foundation analysis Estimates based on data downloaded from CMS (Form 64), as of September 2025.

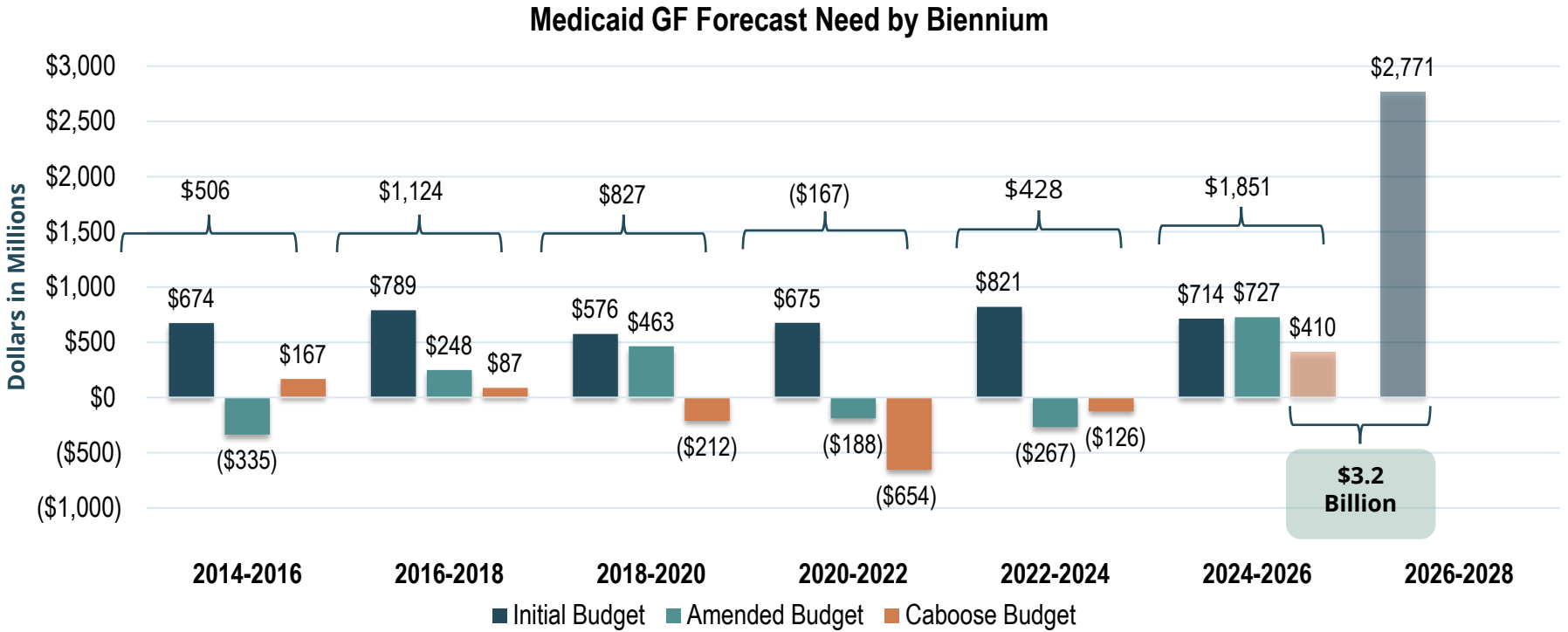
Calendar Year 2023
Per Enrollee Medicaid Spending



Source: Kaiser Family Foundation analysis of the T-MSIS Research Identifiable Files, 2023 (Preliminary).

FY 2026 Update and 2026-2028 Medicaid Forecast

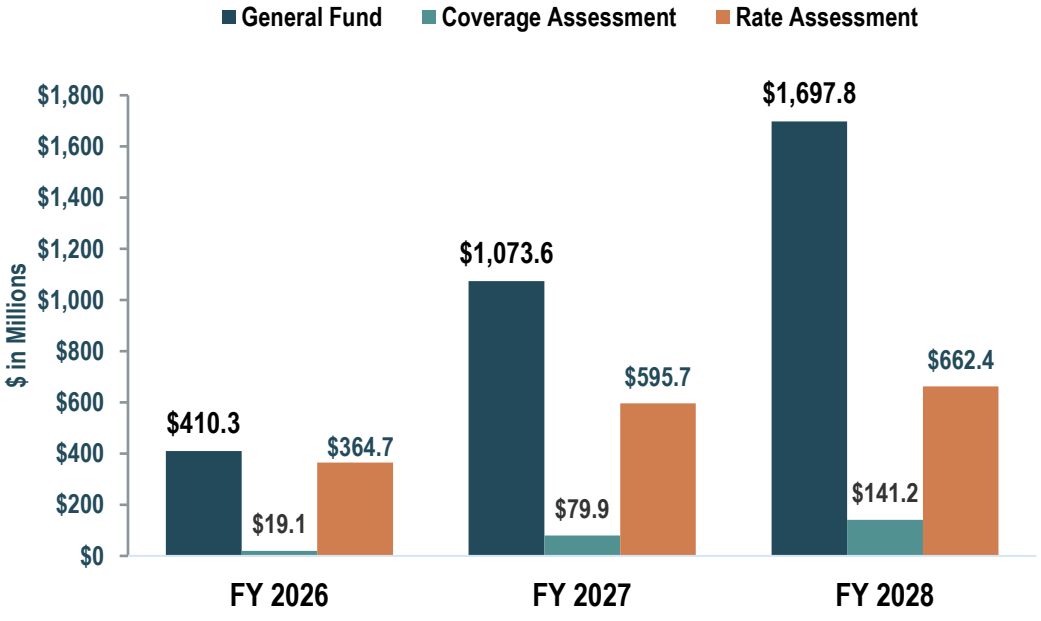
2025 Medicaid Forecast has a $3.2 Billion GF Forecast Need and Reflects Growth in the Base Appropriation to Fund the Program



Source: Current and prior DMAS Official Medicaid Forecasts.

Medicaid Forecast Reflects Higher GF Need in FY 2026 and a Significant Increase for the 2026-2028 Biennium

Forecast projects a GF need of $410.3 million in FY 2026 and $2.8 billion over the 2026-2028 biennium.



- Enrollment is projected to decrease but will not offset GF need due to higher utilization.
- **Continued increases in managed care rates are the primary driver of costs in the forecast.**
- The FY 2026 need is **$410.3 million GF** and is predominantly due to managed care rates and a payment delay.
- The need for the **2026–2028 biennium is $2.8 billion GF** and reflects managed care rates and ongoing program costs.
- **Growth rates (all funds) are 15.0% in FY 2026, 7.9% in FY 2027, and 6.6% in FY 2028.**

Source: 2025 DMAS November 1, 2025, Official Medicaid Forecast.

FY 2026 GF Budget Need is Mainly a Result of Higher Managed Care Rates and a Payment Delay for FY 2025

- FY 2026 spending is projected to have an additional need of **$410.3 million GF**.
- Higher managed care rates are the main driver of the need.
- FY 2026 includes $49.9 million GF in payments delayed from FY 2025 due to insufficient appropriation.
- **$324.6 million GF** reflects ongoing costs that are also carried into the 2026-2028 biennial GF need.

Major Cost Factor	GF Need ($ in Millions)
Ongoing Items	
Managed Care Rates / Enrollment	$287.5
Fee-for-Service Claims	26.8
Supplemental Hospital Payments	10.3
One-Time Items	
FY 2025 Delayed Medicare Payments*	$49.9
VCU and UVA Multi-Settlements	27.8
Non-Emergency Transportation Payment Lag	8.0

Note: Table highlights main drivers of the forecast and may not total exactly to the net Medicaid Forecast estimate.
*Payments for Medicare, where Medicaid pays the member's cost share.

Source: November 2025 DMAS Official November 1, 2025, Medicaid Forecast.

FY 2026-2028 Biennial General Fund Need Reflects Continued Growth in the Program

- The GF budget need for the 2026 – 2028 Biennium is **$2.8 billion GF.**
- The growth is mainly due to managed care rate increases, fee for service costs, lump sum payments to hospitals, the federal match rate change, and the full cost to implement the Developmental Disability waivers authorized in the 2024 Session.

Major Cost Factor	GF Need ($ in Millions)
Managed Care Rates / Enrollment	$2,022.0
Developmental Disability Waivers*	288.0
Fee for Service / Other	246.6
Federal Match Rate Decrease	167.0
Supplemental Hospital Payments	47.6

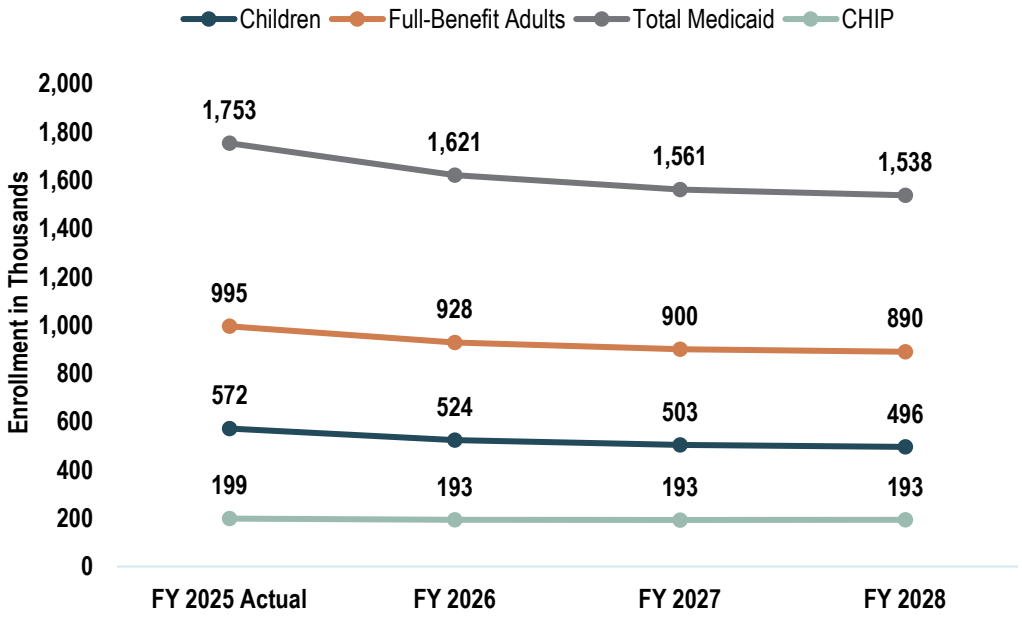
Note: Table highlights main drivers of the forecast and may not total exactly to the net Medicaid Forecast estimate.

* 3,440 Developmental Disability Waiver slots were authorized in the 2024 Session to eliminate the Priority One waitlist.

Source: November 2025 DMAS Official November 1, 2025, Medicaid Forecast.

Despite the Increase in GF Need, Forecast Projects Enrollment for Medicaid to Continue to Decline and the Children's Health Insurance Program (CHIP) to Stabilize

After unwinding the higher enrollment in the pandemic, enrollment in Medicaid is expected to continue declining through FY 2028.



Source: 2025 DMAS November 1, 2025, Official Medicaid Forecast.

Enrollment in Thousands			
Category	March 2020 (Actual)	Oct. 2025 (Actual)	June 2028 (Proj.)
Children	522	531	494
Adults	712	938	885
Total Medicaid	1,364	1,641	1,530
CHIP	152	193	193

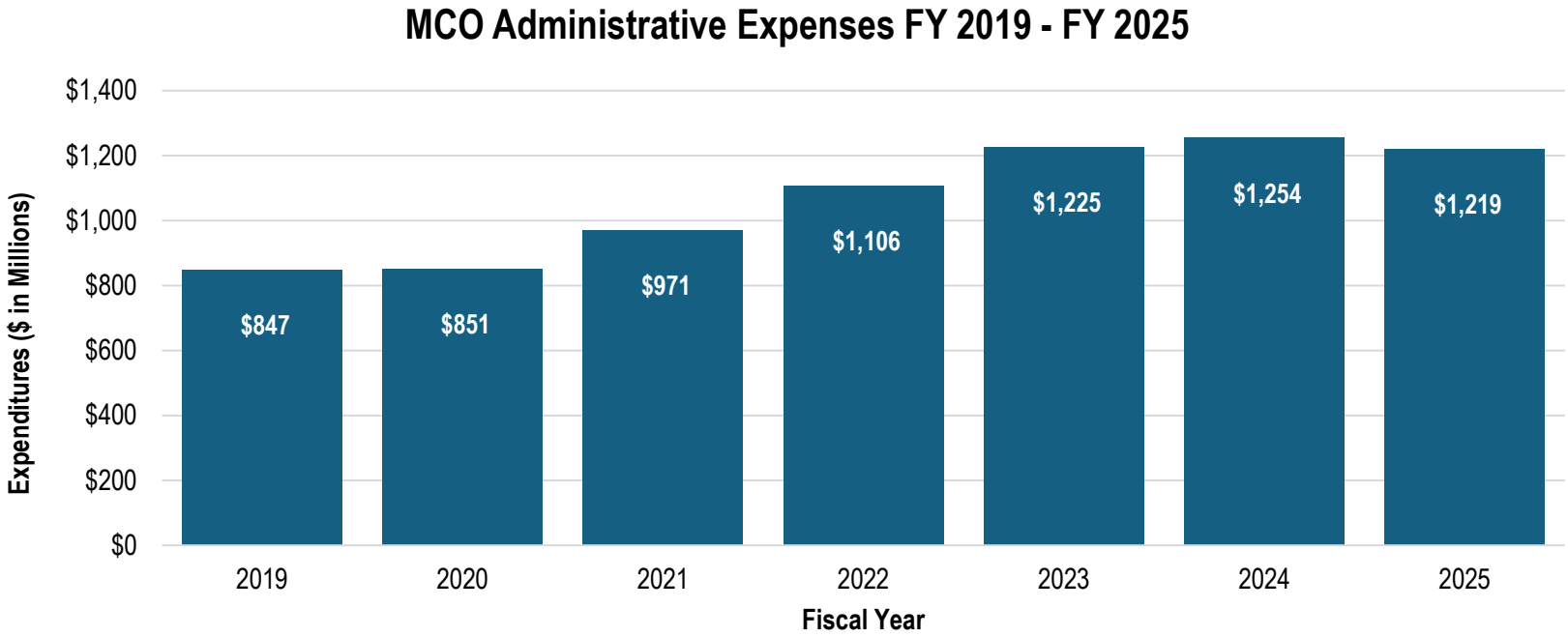
- Children's enrollment is projected by June 2028 to be below the pre-pandemic levels of March 2020.
  - Whether this trend continues is unclear and presents a risk to the forecast if enrollment levels off or begins to increase.

Managed Care Overview

Managed Care is the Primary Delivery System for Virginia Medicaid

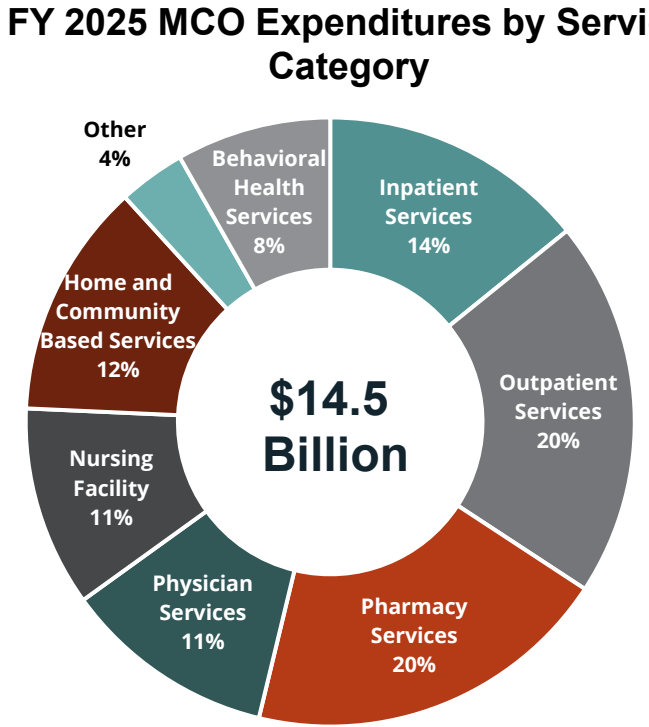
- In a managed care system, the state contracts with private insurers known as managed care organizations (MCOs).
- The MCOs manage the care of Medicaid members enrolled in their plan (89.0 percent of enrollees receive covered services through MCOs).
- MCOs are paid a monthly capitated rate, based on an actuarial analysis of past claims experience.
  - The monthly capitated rate includes payment for their administrative costs.
- The MCOs manage the care of their members and therefore typically make a profit, within limits.
  - During the COVID-19 pandemic, the reduction in health care utilization resulted in excess profits which the MCOs returned to the Commonwealth.
- MCOs are at risk during each plan year, so if the cost of care exceeds the capitated payments paid to the plan, the MCO absorbs the loss.

Virginia Also Pays MCO Administrative Costs of Over $1.0 Billion Annually



Source: DMAS MCO Financials Data as of November 3, 2025.
DMAS Financial Audits of Managed Care Plans as of November 3, 2025.

MCOs Pay for Most Medicaid Services; MCOs Experienced Substantial Losses in FY 2025



- In FY 2025, the net loss of the five MCOs totaled $990 million.
  - Such losses are unusual in the program as the MCOs typically have net gains each year.
  - Losses are mainly due to a population utilizing more services than projected in the rates and due to higher administrative costs.

Source: DMAS MCO Expenditures and MCO Financials Data Dashboards, accessed November 3, 2025.
Note: Dental and Developmental Disability Waiver services are excluded from managed care.

Managed Care Rates for the Program are Higher Than Budgeted in FY 2026 and Projected to Remain Higher Than Average Going Forward

- While enrollment is a factor, managed care rates are the current key pressure in estimating Medicaid costs.
  - In FY 2026, $16.2 billion in Medicaid spending is projected for managed care payments, which is 72.0 percent of Medicaid spending (excluding hospital rate payments).
- Managed care rates are set by a contracted actuary and required by federal policy to be actuarially sound.
- The Medicaid Forecast includes an assumption on how much the rates will increase each year, but the rates are not finalized until May of each year prior the fiscal year beginning, which can result in an unfunded budget need if the rates are higher than assumed.
  - Actual FY 2026 rates were double what was assumed in the current Appropriation Act, creating an additional GF need in FY 2026.
- FY 2027 and FY 2028 rates are estimated to remain elevated based on expected utilization increases across most health care services and increasing pharmacy costs.

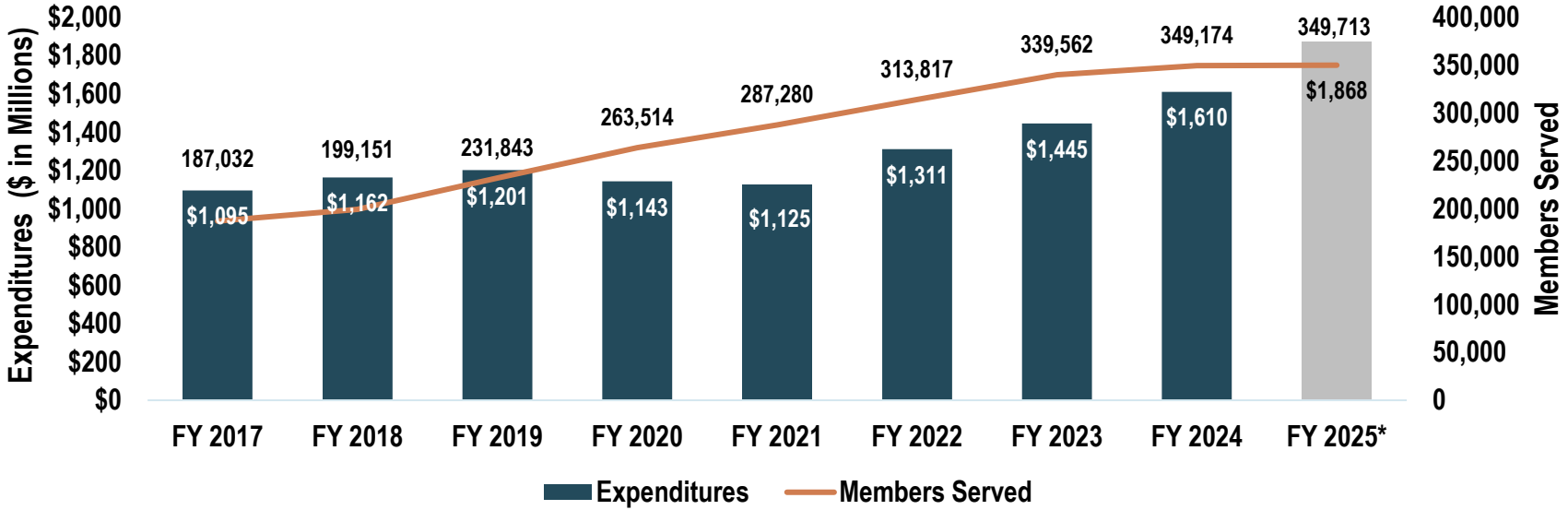
Managed Care Program	FY 2026 (Last Year Est.)	FY 2026 (Actual)	FY 2027 (Estimate)	FY 2026 (Estimate)
Base Medicaid	4.5%	**8.2%**	**7.1%**	**7.0%**
Medicaid Expansion	5.8%	**15.0%**	**10.6%**	**10.6%**
Total Managed Care	5.0%	**10.6%**	**8.2%**	**8.2%**

Source: November 2025 and November 2024 DMAS Official Medicaid Forecasts.

Cost Driver: Behavioral Health Services in Medicaid

Medicaid is a Significant Payer for Behavioral Health Services and Costs have Grown Rapidly

Medicaid expenditures for Behavioral Health (all funds) have increased 71.0% since FY 2017, due to increased utilization. Average cost per member has declined slightly from $5,857 to $5,342 over the same period.



Source: DMAS Behavioral Health Service Utilization and Expenditures Dashboard accessed November 6, 2025.
* FY 2025 year-to-date as of claims submitted by November 2, 2025.

Medicaid has a Unique Set of Community-Based Behavioral Health Services

Legacy Services

- Mental Health Skill Building*
- Intensive In-Home*
- Therapeutic Day Treatment*
- Psychosocial Rehabilitation*
- Mental Health Case Management

** Plan is to phase out these services and replace them with newly redesigned services on July 1, 2026.*

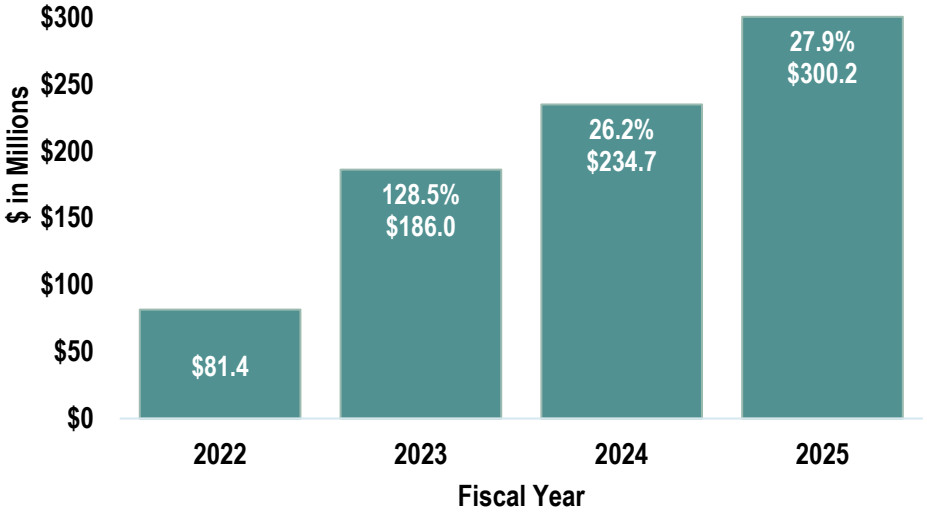
New Services on December 1, 2021

- Multisystemic Therapy
- Functional Family Therapy
- Mobile Crisis Response
- Community Stabilization
- 23-Hour Crisis Stabilization
- Residential Crisis Stabilization Unit
- Assertive Community Treatment
- Mental Health Partial Hospitalization Program
- Mental Health Intensive Outpatient
- Applied Behavioral Analysis (not part of the redesigned services, but took effect at the same time).

Source: Department of Medical Assistance Services Provider Manual.

Applied Behavior Analysis (ABA) has Rapidly Become the Largest Behavioral Health Service

Since its inception in 2022, ABA has grown rapidly to $300.2 million in FY 2025.

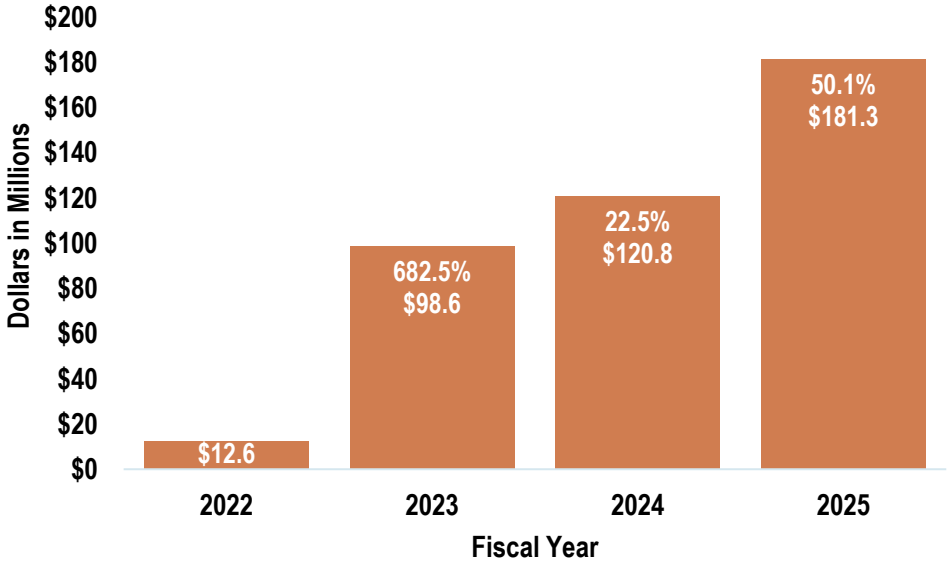


Source: DMAS Behavioral Health Service Utilization and Expenditures Dashboard accessed November 6, 2025. Note: FY 2025 year-to-date as of November 2, 2025.

- ABA is a behavioral therapy for people with autism and other developmental disorders.
  - The goal is to improve social interactions by increasing positive behaviors through reward.
  - Virginia started covering ABA services on December 1, 2021.
- The number of members served has increased from 5,472 in FY 2022 to 9,821 in FY 2025.
- Average cost per member has increased from $14,884 in FY 2022 to $30,565 in FY 2025.
- According to DMAS, other states are grappling with the rapid increase in costs for ABA services.

Mobile Crisis Response has Also Rapidly Increased

Since its inception in FY 2022, Mobile Crisis Response has grown rapidly from $12.6 million in FY 2022 to $181.3 million in FY 2025.

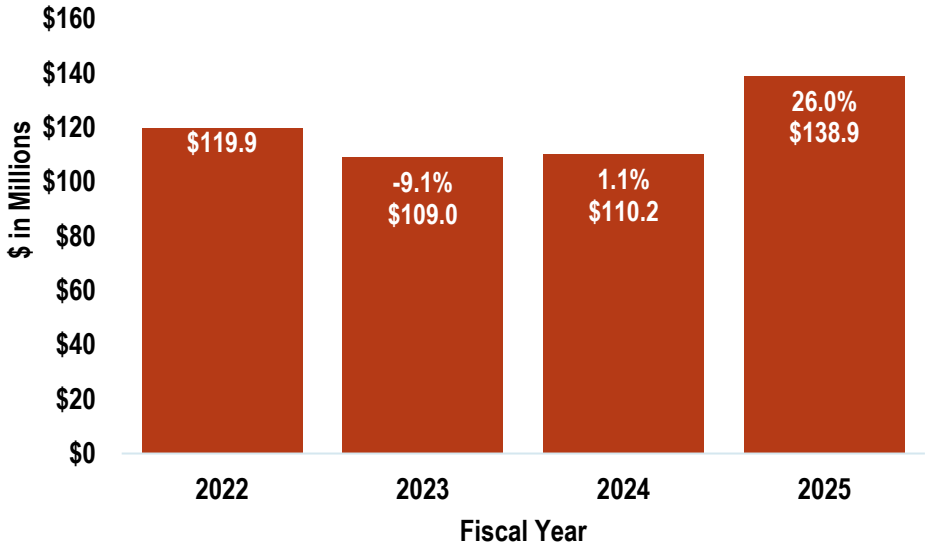


Source: DMAS Behavioral Health Service Utilization and Expenditures Dashboard accessed November 6, 2025.
Note: FY 2025 year-to-date as of November 2, 2025.

- Mobile Crisis Response provides rapid response, assessment and early intervention to individuals experiencing a behavioral health crisis.
  - Virginia started covering Mobile Crisis Response on December 1, 2021.
  - The number of members served has increased from 8,725 in FY 2022 to 24,713 in FY 2025.
  - Average cost per member has increased from $1,449 in FY 2022 to $7,336 in FY 2025.
- In November 2024, Virginia required that the service be accessed through the 988 call centers rather than the providers to better control utilization.

Community Stabilization was the First Service that Grew Rapidly after the 2021 Redesign was Implemented

After implementation in FY 2022, Community Stabilization costs were $119.9 million in seven months.



- Virginia started covering Community Stabilization on December 1, 2021.
  - A much higher than expected utilization in this service resulted in service limitations.
- The number of members served has increased from 10,842 in FY 2022 to 14,707 in FY 2025.
- Average cost per member has decreased from $11,061 in FY 2022 to $9,447 in FY 2025.

Source: DMAS Behavioral Health Service Utilization and Expenditures Dashboard accessed November 6, 2025.
Note: FY 2025 year-to-date as of November 2, 2025.

Additional Oversight of Behavioral Health Services is Needed to Ensure Appropriate Utilization

- Medicaid's community-based behavioral health services grew rapidly until they were transitioned into managed care in FY 2020.
- The first phase of new services was introduced in FY 2022 with the goal to redesign them into evidence-based services.
  - However, inadequate utilization controls on certain services and limits on managed care's ability to respond resulted in significant cost growth.
  - ABA was also added and has quickly become the largest service.
- The final phase to redesign behavioral health services is supposed to take effect July 1, 2026; however, the General Assembly may need to determine in the 2026 Session if the next phase should be delayed to allow for more implementation time.
- Additional oversight and improved utilization controls are necessary to ensure appropriate use and therapeutic outcomes for members in need of these services.
  - Such changes could limit the rapid growth trend that currently exists.

Key Takeaways and 2026 Session Outlook for Health and Human Resources

2026 Session Outlook: Summary of HHR Budget Requests by Agency

Agency (GF $ in Millions)	FY 2026	FY 2027	FY 2028
Children's Services Act	$0.0	$56.9	$121.3
Department for Aging and Rehabilitative Services	0.1	9.1	8.8
Department for the Blind and Vision Impaired	-	0.1	0.1
Department for Deaf and Hard-of-Hearing	-	0.2	0.2
Department of Behavioral Health and Developmental Services	-	27.1	38.1
Department of Health	3.7	54.6	56.5
Department of Medical Assistance Services	-	50.6	56.2
Department of Social Services	4.8	105.6	343.2
Grants to Localities	-	(7.7)	(6.5)
Intellectual Disabilities Training & Mental Health Treatment Centers	0.0	0.6	0.6
Total for Health and Human Resource Agencies	**$8.6**	**$297.2**	**$618.5**

Source: Department of Planning and Budget, Operating Requests, accessed October 31, 2025. Note: Totals may not add due to rounding.

2026 Session Outlook - Summary of HHR Budget Pressures

Budget Item (GF $ in Millions)	FY 2026	FY 2027	FY 2028
Medicaid Forecast	$410.3	$1,073.6	$1,697.8
SNAP Benefits Match (H.R. 1)	-	-	211.0
SNAP Administrative Match (H.R. 1)	-	65.5	87.3
Medicaid Community Engagement Costs (H.R. 1)	-	TBD	TBD
Health Care Fund (Used as State Match for Medicaid)	22.0	27.6	33.6
Children's Services Act	-	59.9	121.3
Children's Health Insurance Program	7.3	29.6	55.2
Child Welfare Forecast	(4.9)	(2.2)	(2.5)
Total Mandatory Items	**$434.7**	**$1,254.0**	**$2,203.7**

Note: Totals may not add due to rounding.

- **Total HHR budget pressures across the three years total $3.9 billion GF.**

Key Takeaways for Health and Human Resources

- Medicaid enrollment continues to decline, except in higher cost populations. Enrollment savings are not offsetting the growth in costs for those higher need individuals.
- The Medicaid Forecast requires an additional **$410.3 million GF** in FY 2026, and **$2.8 billion GF** over the 2026-2028 Biennium.
  - Higher enrollment in high-cost populations, managed care rates, increasing utilization of health care services, and fully funding the 3,440 DD waiver slots authorized in the 2024 Session are all driving Medicaid's expenditure growth.
  - Increasing utilization of certain services, such as in behavioral health, are also contributing to growth in the program. The General Assembly may need to delay the next phase of redesign to ensure the services are ready for implementation.
- Virginia's managed care system is the primary way services are delivered to manage costs, but recent MCO losses add a spotlight on why the managed care rates have increased and will continue to remain high due to increased acuity.
  - Additional oversight and partnerships with the managed care organizations are necessary to address cost drivers in the program.
- Total Health and Human Resources budget pressures are projected to require **$434.7 million GF** in FY 2026 and **$3.5 billion GF** over the 2026-2028 Biennium.

Appendix

Overview of Medicaid Behavioral Health Services

Multisystemic Therapy (Youth)	Intensive, evidence-based treatment program provided in home and community settings for youth with significant clinical impairment in disruptive behavior, mood, and/or substance use.
Functional Family Therapy (Youth)	Evidence-based family-focused treatment program for youth by addressing risk and protective factors that impact the adaptive development of youth who have behavioral or emotional problems.
Applied Behavior Analysis (Youth)	Behavioral therapy for people with autism and other developmental disorders aiming to improve social interactions by increasing positive behaviors through reward.
Assertive Community Treatment	Coordinated set of services offered by a group of medical, behavioral health, peer recovery support providers and rehabilitation professionals who work as a team to meet the complex needs of individuals with severe and persistent mental illness.
Mental Health Intensive Outpatient	Structured program of skilled treatment services for adults and youth focused on maintaining and improving functional abilities through a time-limited, interdisciplinary approach to treatment.
Mental Health Partial Hospitalization Program	Highly structured, short-term, non-residential clinical programs designed to provide an intensive combination of interventions and services like an inpatient program, but available on a less than 24-hour basis.
Mobile Crisis Response	Available 24 hours a day, seven days a week, to provide for rapid response, assessment and early intervention to individuals experiencing a behavioral health crisis in real-time to the location of the individual.
23-Hour Crisis Stabilization	Short-term assessment, observation and crisis intervention services for individuals experiencing a behavioral health crisis who require a safe environment for initial assessment and intervention.
Residential Crisis Stabilization Unit	Short-term, 24/7, residential psychiatric and substance related assessment and brief intervention services.
Community Stabilization	Available 24 hours a day, seven days a week, to provide for short-term assessment, crisis intervention, and care coordination to individuals who have recently experienced a behavioral health crisis.
Intensive In-Home	Intensive therapeutic interventions provided in the youth's residence to improve family functioning, and impairments in major life activities that have occurred due to the youth's mental, behavioral or emotional illness.
Therapeutic Day Treatment	Medically necessary, individualized, and structured therapeutic interventions to youth with mental, emotional, or behavioral illnesses whose symptoms are causing significant functional impairments in major life.
Psychosocial Rehabilitation	Program of two or more consecutive hours per day provided to groups of individuals in a community, nonresidential setting who require a reduction of impairments due to a mental illness and restoration to the best possible functional level to maintain community tenure.
Mental Health Skill-Building Services	Goal directed training and supports to enable restoration of an individual to the highest level of baseline functioning and achieve and maintain community stability and independence in the most appropriate, least restrictive environment.
Mental Health Peer Support Services	Strategies and activities that include person centered, strength-based planning to promote the development of self advocacy skills; empowering the individual to take a proactive role in the development of their plan of care.
Mental Health Family Support Partners	Caregivers of individuals under age 21 receiving Peer Support Services may also receive family support partners as a peer recovery support service when the service is directed exclusively toward the benefit of the individual.

Source: Medicaid Provider Manual for Mental Health Services.