

2025 Federal Reconciliation Bill

In July of 2025, the One Big Beautiful Bill Act (OBBBA) was signed into law. The bill includes major changes to how the federal government supports low-income families through healthcare and nutrition programs. These changes are aimed at reducing federal spending and tightening eligibility rules. Below is a breakdown of how each of the provisions of the bill impact Iowa's health and human services system, and how they could impact the Iowa HHS state budget.

SNAP (Food Assistance Program)



Cuts to Administrative Funding:

- ▶ The bill reduces funding to states for running the Supplemental Nutrition Assistance Program (SNAP), also known as food stamps.
- ▶ This means states will have fewer resources for processing applications, conducting outreach, and assisting families.



Error Rate Penalties:

- ▶ States will face stricter financial penalties if they are found to have high "error rates" in who receives benefits—even if those errors don't involve fraud.



Performance Metrics Tied to Funding:

- ▶ Some federal SNAP funding will now depend on states meeting new efficiency and compliance benchmarks.

Medicaid and Medicaid Eligibility



Stricter Eligibility and Renewals:

- ▶ States must check residency more frequently utilizing federal and other data sources monthly.
- ▶ States must review certain Medicaid recipients more frequently (every six months compared to the current 12 months) to retain coverage.



Work Requirements:

- ▶ Certain adults without dependents under age 13 must now meet work, job-training, or community engagement requirements to stay on Medicaid.
- ▶ This will primarily affect non-disabled, low-income adults between ages 19–64.



Cap on Federal Funding Growth:

- ▶ The bill limits how quickly federal Medicaid funding can grow each year, even if healthcare costs rise.
- ▶ Over time, states may have to cover more of the cost or reduce benefits/services.



Projected Coverage Losses:

- ▶ Federal analysts estimate that 10 to 12 million Americans will lose Medicaid coverage over the next 10 years under this law.

Potential Financial Impacts to Iowa

SNAP Payment Error Rate

The U.S. Department of Agriculture's Food and Nutrition Service (FNS) measures improper benefit payments through the Payment Error Rate (PER) process.

Under the PER process, FNS:

- ▶ Obtains a subsample of cases reviewed by state's Quality Control unit and validates the state's findings
- ▶ Disregards individual case errors of \$57 or less (referred to as "tolerance errors" which are not included in the PER)
- ▶ Determines the state's PER

The PER is determined by:

- ▶ Adding together overpayments (too much given) and underpayments (too little given) in the sample and then,

- ▶ Dividing the sum of overpayments and underpayments by the total amount of benefits issued in the sample and multiplying 100.

total amount of payment
errors in the sample



$$12,500 \div 250,000 \times 100 = 5\% \text{ PER}$$



total allotments
issued in the sample

- ▶ The PER is determined every year. Today, states with error rates at or above 6% must complete a Corrective Action Plan. States with error rates above the national average for 2 consecutive years also incur a financial liability. The FFY24 national PER rate is 10.93%.

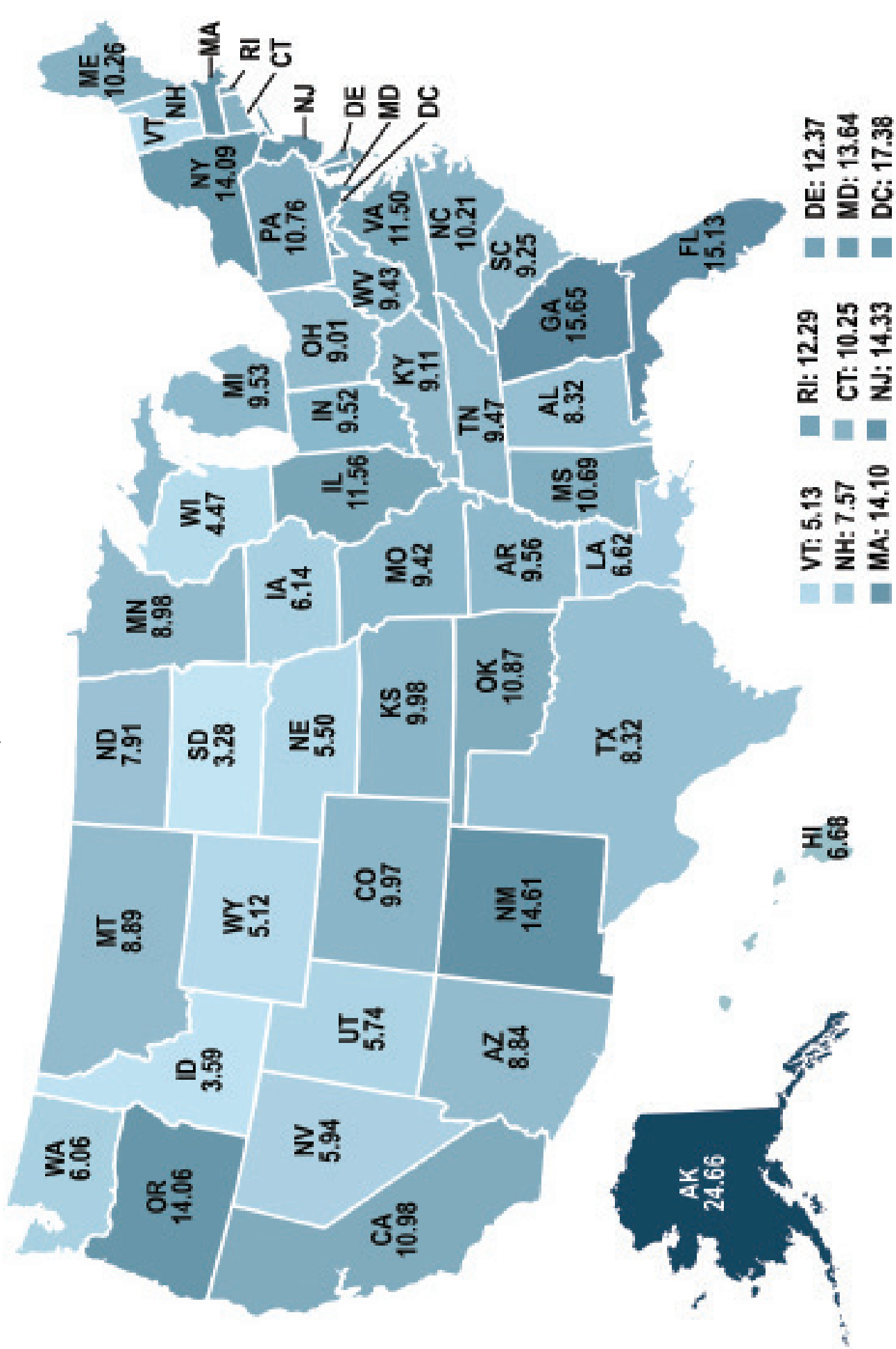
FFY	SNAP Error Rate	Total SNAP Allotment	Cost Share %	State Responsibility Would've Been
2024	6.14%	\$529M	5%	\$26.5M
2023	5.19%	\$509M	0%	0%
2022	8.6%	\$596.8M	10%	\$59.7M
2019	12.47%	\$429.3M	15%	\$64.4M
2018	10.02%	\$446.2M	15%	\$66.9M

*2020 & 2021 didn't have QC error rates due to COVID.



Projected Snap Error Rate for FFY 2025 is 5.9%
(Based on 5/12 months of data)

SNAP: Payment Error Rates Fiscal Year 2024





Potential Financial Impacts to Iowa

Medicaid Payment Error Rate

The Centers for Medicare & Medicaid Services (CMS) measures Medicaid and CHIP improper payments through the Payment Error Rate Measurement (PERM) program.

Under PERM, reviews are conducted in three main types of payment areas:

- **Fee-For-Service [FFS]:** Direct payments made to doctors, hospitals, and other providers
- **Managed Care Payments:** Monthly capitation payments paid to the MCOs
- **Eligibility:** Whether the person receiving benefits was truly qualified at the time of the payment

The results of these reviews are used to produce national program improper payment rates, as well as state-specific program improper payment rates.

There are three types of error rates that PERM tracks:

- **Eligibility error rate:** whether the individual was eligible for Medicaid/CHIP.
- **Claims error rate:** whether the payment for a service was correct (either FFS claim amounts or Capitation Payment amounts to MCOs)
- **Payment error rate:** the combined effect of both above

The PERM program uses a 17-state, three-year rotation cycle for measuring improper payments, so every state is measured once every three years. Iowa is a Cycle 3 state, measured in Reporting Year (RY) 2024, and will be measured again in RY 2027.

Medicaid Improper Payment Rate (RY24)

	Lower Confidence Interval (95%)	Current Penalty	Scenario Threshold	Threshold	Potential Penalty*	Year-Potential Penalty would be enforced
Overall	-0.17%	0%	5%	3%	\$102,086,498	SFY28
Fee-for-service	-0.04%	0%	5%	3%		
Managed Care		0%	5%	3%		
Eligibility	-0.24%	0%	5%	3%	\$97,721,884	SFY28

Total Potential Penalty: **\$199,808,382**

CHIP Improper Payment Rate (RY24)

	Lower Confidence Interval (95%)	Current Penalty	Scenario Threshold	Threshold	Potential Penalty*	Year- Potential Penalty would be enforced
Overall	0.25%	0%	5%	3%	\$3,129,045	SFY28
Fee-for-service	0.26%	0%	5%	3%		
Managed Care		0%	5%	3%		
Eligibility	0.19%	0%	5%	3%	\$2,462,447	SFY28

Total Potential Penalty: **\$5,591,492**

- Based on RY24 results, Iowa's Medicaid and CHIP error rates (lower confidence interval) are currently all below 3%.
- Assuming Iowa had a 5% error rate for payments and eligibility, the potential financial penalty for erroneous payments is based on the variance to the national average (3%) times our current Medicaid grant and is estimated at \$102M.
- The financial penalty for eligibility is based on the variance to the national average times our current federal expenditures.



Assuming Iowa had a 5% error rate for payments and eligibility, the potential financial penalty for erroneous payments is based on the variance to the national average (3%) times our current Medicaid grant and is estimated at **\$102 million.**

PERM cycle Review Year (RY)	Dates of Service Reviewed	Fiscal Impact to State for Potential Penalty*
RY 24	7/1/22 - 6/30/23	SFY25
RY27	7/1/25 - 6/30/26	SFY28

Iowa Considerations

Current Status

- ▶ Iowa has been working on significantly improving error rates since 2019.
- ▶ Any additional pressures on the system will increase error rates.
- ▶ In the past 5 years, the PHE unwind, the downturn in the economy, natural disasters and regulatory changes from both the state and federal government have all put significant pressure on the accuracy and timeliness of our work.

IT Investments Reduce Payment Error Rates

Strain on Workforce = Higher Risk of Errors

- ▶ Current staff are working significant overtime, often with pressure to prioritize quantity over quality. This leads to concerns about accuracy.

IT Modernization = Prevention + Efficiency

- ▶ Investing in automated verifications, smarter workflows, and eligibility system upgrades can prevent errors before they happen, rather than relying on costly post-enrollment fixes or reinstatements.

Rework and Corrective Processing is Costly

- ▶ Many eligibility actions must be reprocessed or corrected, leading to duplicative work and higher costs.

Staying Ahead of Risk is Key

Proactive Investment > Correction

- ▶ It is more efficient to invest now in accurate initial eligibility determinations than to fix avoidable errors down the road.

Modern Eligibility Operations Protect the Budget

- ▶ Modernizing IT and eligibility workflows helps ensure that public funds are used appropriately, eligible Iowans are accurately served, and we avoid overpayments or service gaps.