



# NCDHHS

## NC Medicaid Division of Health Benefit



## Understanding the Impact of Cuts to the NC Medicaid Budget

[Versión en español \(/about-nc-medicaid/understanding-impact-cuts-nc-medicaid-budget/comprender-el-impacto-de-los-recortes-en-el-presupuesto-de-nc-medicaid\)](#)

NC Medicaid provides health coverage for people with lower incomes. It pays for doctor visits, yearly check-ups, emergency care, mental health care and most health services.

The NC General Assembly has not provided enough funding to cover the cost of NC Medicaid for this year.

NC Medicaid must operate based on the budget that becomes law. No state government agency is allowed to ignore the enacted budget and decide to spend what it wants instead.

### Who is covered by NC Medicaid?

Medicaid provides health coverage to 1 in 4 North Carolinians—that's more than 3 million children, pregnant women, older adults, people with disabilities and working North Carolinians.

- 50% of all births in North Carolina are covered by NC Medicaid.

- 21% of people covered by NC Medicaid are older adults and people with disabilities.
- 67% of North Carolina nursing home residents rely on NC Medicaid to help with the cost of their long-term care.
- Rural communities rely on NC Medicaid. In many rural counties, more than half of the population has health coverage through NC Medicaid.

## How does NC Medicaid benefit North Carolina?

- Makes people healthier
- Saves lives and increases access to behavioral health and substance use treatment
- Provides a major source of funding for the state’s rural hospitals, many of which are struggling financially
- Supports North Carolina’s workforce, including workers in child care, construction, hospitality, home health care and other essential industries

## Who pays for Medicaid?

Medicaid is funded with state and federal dollars. The amount each pay is based on a formula set by the United States Congress. In North Carolina, federal dollars generally cover between 65% to 90% of the cost, depending on the service. North Carolina finances its share of funding through general revenues, taxes on insurers and health care providers and other mechanisms. 98% of NC Medicaid dollars go to services and providers across the state.

## Why are Medicaid costs increasing?

Health care is more expensive everywhere, not just Medicaid, for reasons that affect all of us:

- **Inflation:** Everything in healthcare—supplies, wages, services—costs more.
- **New, expensive drugs:** New treatments for conditions like obesity, diabetes, cancer and genetic diseases can prevent serious complications and improve quality of life, but they raise costs in the short term.
- **Increased demand for behavioral health services:** More people are using mental health and autism services.
- **Federal policy changes:** When the federal government changes the rules it can add costs. For example, the “One Big Beautiful Bill Act” passed by Congress and signed into law by President

Trump significantly increases paperwork. It requires states to confirm that each person is eligible for Medicaid twice a year instead of annually. That means it costs more to run the program.

Even with these pressures, North Carolina's Medicaid program has been managing costs better than the national average, with costs growing slower per year than other states.

## Why isn't there enough money for NC Medicaid this year?

The NC General Assembly did not provide enough money to keep up with rising costs that are outside of the state's control. NC Medicaid must operate based on the budget that becomes law. No state government agency is allowed to ignore a passed budget and just spend what it wants.

NC Medicaid first alerted the General Assembly's Fiscal Research Division on May 9, 2025, that more money would be needed. Since that time, [NC Medicaid has consistently provided updates to the General Assembly](#) [\(/media/15720/download?attachment\)](#) regarding projected funding needs. These efforts have included sharing detailed documentation and hosting informational briefings to outline the potential effects of insufficient funding.

Both the House and Senate introduced proposals aimed at fully funding Medicaid, however, no final agreement was reached. NC Medicaid also presented the option of utilizing the [Medicaid Contingency Reserve](#) ([https://www.ncleg.gov/EnactedLegislation/Statutes/PDF/BySection/Chapter\\_143C/GS\\_143C-4-11.pdf](https://www.ncleg.gov/EnactedLegislation/Statutes/PDF/BySection/Chapter_143C/GS_143C-4-11.pdf)) for consideration.

## Can this be fixed?

Yes, NC Medicaid remains strong and committed to serving people. It continues to perform better than national trends — but keeping it sustainable will take teamwork. Increasing health care costs, inflation and new federal requirements are a reality. While the federal government pays most of the cost, state lawmakers need to make up for the shortfall so providers can be paid and services that help keep people healthy are still available.

## Why were provider rates cut on October 1 and then put back on December 10?

Payment rates were cut on October 1 because state lawmakers did not provide enough money for Medicaid. Without a full budget or an agreement to add the missing funds, the program had to reduce payments to stay within its limited budget.

The rates were put back to their September 30 levels on December 10 because court decisions and legal challenges made it no longer workable to keep the cuts in place.

## **What will happen to NC Medicaid if the General Assembly does not provide the funding it needs?**

If lawmakers do not close the funding gap, Medicaid is expected to run out of money before the fiscal year ends. This would put health care at risk for more than 3 million North Carolinians who depend on Medicaid.

Without action from the General Assembly, there will be major cuts and disruptions to people's ability to get care.

## **Are there other funds that can be used to cover the shortfall from the General Assembly?**

No. In the past, there were sometimes funds that were unspent at the end of a fiscal year. But these funds are not available to fill the shortfall in Medicaid funding from the General Assembly. That's because reverted funds are returned to the state at the end of the fiscal year. The General Assembly determines how they can be spent.

Carryforward funds aren't usable either because they're already legally committed to paying bills from previous years that haven't been paid yet. State law limits them to those past expenses only, not to any new costs.

## **What has NC Medicaid done to reduce costs?**

NC Medicaid initially explored rate reductions as a tool to control spending when faced with limited legislative funding, but court rulings and legal challenges later removed that option. In addition, NC Medicaid reduced administrative expenses, strengthened cost recovery, and carefully evaluated major investments while continuing to meet required obligations. The agency reviewed all federally

and state-required duties and reduced spending in areas not required by law, including reducing temporary staff and contractors, ending certain contracts, pausing some quality improvement projects, and scaling back compliance and oversight activities to lower administrative costs. NC Medicaid also chose not to move forward with certain technology upgrades that would have qualified for a 90/10 federal match.

NC Medicaid strengthened efforts to ensure Medicaid is the payer of last resort. Through the Third-Party Liability (TPL) Come Behind Program, the State pursues reimbursement from other responsible parties after managed care plans complete their recovery efforts, helping ensure no recovery dollars are left uncollected.

## **What about lapsed salary? Can that be used for Medicaid?**

Lapsed salary is not a realistic or appropriate way to cover the Medicaid rebase or other recurring budget needs. Money saved when positions go unfilled (called lapsed salary) should not be used to pay for Medicaid services or to cover the Medicaid budget gap.

There are two reasons why:

- State law requires that it has to be used in the same year it's saved. Lapsed salary dollars can't be carried over to cover other costs later.
- A lot of that money comes from federal funds. Federal dollars from other grants can't be used for the state's required share of Medicaid costs.

## **Why does Medicaid need administrative funding?**

Medicaid is a \$36 billion program that can't run without administrative support. NC Medicaid has a very low (only 2-3%) overall administrative cost. This work includes things like processing applications and checking eligibility for Medicaid, enrolling doctors and other providers, preventing fraud and billing errors, maintaining IT systems and paying claims, and overseeing the managed care plans.

NC Medicaid reviewed all federally and legislatively required duties and made administrative reductions in areas not required by law. This meant reducing temporary staff and contractors who support core operations, ending certain contracts, pausing quality improvement projects, and scaling back compliance and quality oversight.

# Resources

- Provider Bulletin - [Update on NC Medicaid Rate Reductions - Dec. 10, 2025](https://medicaid.ncdhhs.gov/blog/2025/12/10/update-nc-medicaid-rate-reductions-dec-10-2025)  
(<https://medicaid.ncdhhs.gov/blog/2025/12/10/update-nc-medicaid-rate-reductions-dec-10-2025>).

## Archive



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- [NC Medicaid Covered Codes and Fee Schedules Portal](https://ncdhhs.servicenowservices.com/fee_schedules)  
([https://ncdhhs.servicenowservices.com/fee\\_schedules](https://ncdhhs.servicenowservices.com/fee_schedules)).
  - [Frequently Asked Questions – NC Medicaid Provider Rate Reductions](/providers/claims-and-billing/october-1-2025-nc-medicaid-rate-reduction-questions-and-answers) (</providers/claims-and-billing/october-1-2025-nc-medicaid-rate-reduction-questions-and-answers>).
  - Provider Bulletin - [NC Medicaid Rate Reductions – Effective Oct. 1, 2025](/blog/2025/09/25/nc-medicaid-rate-reductions-effective-oct-1-2025)  
(</blog/2025/09/25/nc-medicaid-rate-reductions-effective-oct-1-2025>).

This page was last modified on 03/03/2026