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MTF Bulletin

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Fiscal Year 2027 Budget: A Closer Look

Understanding MassHealth and Healthcare in the Governor’s Budget

On January 28th, the Healey-Driscoll administration filed its budget proposal for Fiscal Year (FY) 2027. The \$63.36 billion plan increases spending over the FY 2026 General Appropriations Act (GAA) by \$2.3 billion (3.8 percent) and over the administration’s estimated spending level for FY 2026 by \$668 million (1.1 percent).

On the same day that the budget was filed, MTF published its [comprehensive analysis](#) of the Governor’s spending plan. Over the next several weeks, that report has been supplemented by a series of **FY 2027 Budget “Deep Dive” Briefs**. Each report delves deeper into specific aspects of the Governor’s budget, including funding and policy proposals related to the surtax, healthcare, education, workforce and transportation.

This brief will look at healthcare spending and policy in the Governor’s budget. Healthcare makes up the largest share of spending in the state budget and is driven primarily by the state’s Medicaid program, MassHealth. In any recent state budget, understanding healthcare spending and policy decisions is essential to understanding the budget as a whole. Healthcare’s central role to the state’s fiscal position has been even more pronounced since cost growth in that area has made up the vast majority of new spending. As the Healey administration developed their FY 2027 budget, keeping the rate of healthcare spending growth down was a key priority.

Healthcare Spending in the FY 2027 Governor’s Budget

	FY 2025 GAA	FY 2026 GAA	FY 2027 - Governor
Total MassHealth Spending	\$20,070	\$22,128	\$22,701
Other Healthcare Spending	\$6,075	\$6,409	\$6,923
Total Spending	\$57,781	\$61,046	\$63,362
Health Care Spending as % of Total	45.2%	46.7%	46.7%

\$ in millions

To provide context for the Healey administration’s FY 2027 budget proposal for healthcare, this brief first looks at healthcare spending in the FY 2026 budget and how recent federal actions affect the Massachusetts healthcare landscape. It then examines the choices the Healey administration made to keep proposed healthcare spending growth under 3 percent in the FY 2027 budget and how those decisions affect ongoing healthcare cost trends. Finally, this brief identifies the key healthcare questions that House and Senate

budget writers will have to answer as they respond to the administration’s proposal and build their own spending plans.

Background: MassHealth Cost Growth and a Changing Federal Picture

Two major healthcare issues faced Governor Healey as she developed her budget: first, cost growth in MassHealth had grown at more than 10 percent in FY 2026 and a similar level of spending growth simply could not be supported with ongoing revenues in FY 2027. Second, the federal One Big Beautiful Bill Act (OB3) put in place Medicaid program changes which will make major changes to the state program beginning in FY 2027. Understanding these two factors is essential for understanding healthcare spending in FY 2027.

A Shaky Foundation for FY 2027

MassHealth spending in the FY 2026 budget totaled \$22.1 billion, \$2 billion (10.3 percent) more than the amount appropriated in the FY 2025 budget. The \$2 billion in new spending for FY 2026 had a smaller net state cost, about \$700 million once federal reimbursements are accounted for, but the fact remained that more than 60 percent of all new spending in the budget signed by the Governor went to MassHealth. This spending growth occurred as rising healthcare costs are putting significant pressure on commercial insurers and Medicaid programs across the country.

Even with this significant growth, actual MassHealth costs are likely to exceed GAA appropriations in FY 2026 by more than \$900 million due to initial budget underfunding and a continuation of elevated utilization and cost trends.

Estimated MassHealth Costs in FY 2026

FY 2026 GAA Spend	\$22,128
Estimated GAA Underfunding	\$496
Utilization & Non-Discretionary Increases	\$393
Total FY 2026 Estimated Cost	\$23,018

\$ in millions

Despite the staggering level of MassHealth cost growth in the FY 2026 budget signed by the Governor, the program started at a sizable deficit. The budget sent to the Governor provided \$496 million less for MassHealth than administration cost estimates, but did not propose new savings initiatives or enhanced tools to control costs. Given that FY 2027 program estimates are built on actual spending needs from the prior year, this initial underfunding meant that, without any action, FY 2027 costs would need to grow by at least \$496 million over the FY 2026 budget even before accounting for new estimates for utilization, acuity, and cost growth.

Additionally, underlying program cost trends in FY 2026 continue to grow at rates well above sustainable levels. In FY 2026, the administration estimates that actual MassHealth costs will exceed initial expectations by a further \$393 million. This increase is largely driven by new Managed Care Organization (MCO) and Accountable Care Organization (ACO) rates that went into effect in January 2026. MassHealth contracts with MCOs to provide coverage for members not served in a fee for service model where MassHealth simply pays

providers directly for covered services. The concept of MCOs is that they can provide more appropriate and cost effective care by better coordinating how members receive health services. However, MCO rates must be actuarially sound and so as MassHealth member acuity and utilization has increased, the new set of MCO rates increased sharply. This has contributed to additional costs in FY 2026 but also has implications for the FY 2027 budget as these rates will be annualized over a full year.

The increase of MCO rates and the underlying growth in the MassHealth budget is a function of cost and service increases that are significantly elevated compared to before the pandemic. Essentially, MassHealth members are utilizing services more often and the per-member costs of several service areas, specifically pharmaceuticals, behavioral health services, and Longterm Support Services, are rising at double digit rates. This combination of members needing more care and the cost of that care growing sharply is at the heart of MassHealth cost growth of greater than 10 percent in the FY 2026 GAA and is a factor that the administration had to address in the FY 2027 budget.

OB3 Brings MassHealth Disruption

Days after the House and Senate finished their work on the FY 2026 budget, President Trump signed OB3, a tax and domestic policy bill that made major cuts to Medicaid and other federal healthcare supports. Using CBO estimates, MTF estimates that the bill will cost the Massachusetts healthcare sector more than \$3 billion per year when implemented and the majority of those federal changes will impact MassHealth.

The bill reduces Medicaid costs largely by adding new hurdles for members to stay enrolled in the program. OB3 adds new work requirements that will primarily affect non-disabled adults – members for whom the state typically receives 90 percent federal reimbursement. In addition, the bill doubles the frequency of required eligibility assessments that will increase member churn and reduce the number of those enrolled.

Barring a federal pause, the work requirements go into effect at the start of 2027, meaning that the FY 2027 budget will need to accommodate these changes. In the short-term, these federal changes may bring some budget relief, as MassHealth will cover fewer members, but the increase in the state's uninsured population will have major impacts on the state budget and the health care sector. In addition, OB3 will also increase administrative spending for the state in order to operationalize the new federal requirements.

As MTF noted in its [summary of healthcare policy](#) changes in OB3, the combination of Medicaid and state health exchange eligibility changes could reduce subsidized insurance uptake by 255,000 people or more. While some of these people will be able to access other insurance, it will increase the state's uninsured population whose healthcare is financed through the state's Health Safety Net Trust Fund (HSN). The HSN has been operating with an increasing shortfall in recent years, where the cost of eligible claims exceeds ongoing financing by about \$300 million. Each additional 50,000 users of HSN services increases that shortfall by a further \$100 million.

While the direct state finance impacts of healthcare changes in OB3 will primarily materialize in FY 2028 and beyond, the FY 2027 budget is the first opportunity to demonstrate how the state plans to mitigate those impacts.

MassHealth Funding in the Governor’s Budget

MassHealth spending in Governor Healey’s budget totals \$22.7 billion, a \$573 million (2.6 percent) increase over the FY 2026 GAA funding level. This spending is supported by \$13.4 billion in anticipated federal reimbursements and other non-federal revenue sources, meaning the administration expects the state’s share of MassHealth to be \$9.29 billion, a 7.5 percent increase from the FY 2026 GAA net cost of \$8.6 billion.

MassHealth Spending & Federal Revenues

	FY 2026 GAA	FY 2026 Est. Spending	FY 2027 - Governor	v. FY 2026 GAA	v. FY 2026 Est. Spending
Total MassHealth	\$22,128	\$23,018	\$22,701	2.6%	-1.4%
Federal Reimbursement & Other Revenue Sources	\$13,475	\$13,677	\$13,402	-0.5%	-2%
State Share	\$8,653	\$9,341	\$9,299	7.5%	-0.45%

\$ in millions

The 2.6 percent increase in gross state spending on MassHealth is notably less than the increases experienced in FY 2026. To understand how the Healey administration is able to constrain MassHealth cost growth in FY 2027 to less than 3 percent, it is first necessary to understand projected MassHealth spending prior to the implementation of any savings initiatives.

Primarily due to increased utilization, higher per-member costs, as well as the expiration of several one-time revenue sources used to support MassHealth spending in FY 2026, maintenance spending for the program in FY 2027 was initially projected to reach \$25.3 billion gross (\$10.5 billion net). This would have represented an increase of more than 14 percent in gross state spending over the FY 2026 GAA.

FY 2027 MassHealth Maintenance Spending

	Gross	Net
FY 2026 Estimated Spending	\$23,018	\$9,341
<i>FY 2026 One-Time Funding</i>	\$535	\$340
<i>Utilization</i>	\$1,455	\$669
<i>FY 2027 One-Time Increases¹</i>	\$364	\$114
<i>Other</i>	-\$85	\$79
FY 2027 Maintenance Spending	\$25,286	\$10,543
H.2 MassHealth Spending	\$22,701	\$9,299
FY 2027 MassHealth Budget Gap	\$2,585	\$1,244

\$ in millions

In addition, the administration anticipated having to pay \$1.25 billion gross (\$581 million net) in risk corridor payments in FY 2027 to Managed Care Organizations (MCOs) to offset the high cost of healthcare in previous

¹ FY 2027 one-time increases include costs related to the implementation of the Behavioral Health Roadmap previously covered by other trust funds, as well as administrative costs associated with the phasing-in of OB3.

years. When those payments are added to projected maintenance costs, total spending in FY 2027 was expected to reach \$26.5 billion gross (\$11.1 billion net).

To bring MassHealth spending in the FY 2027 budget down by more than \$2.5 billion gross (\$1.2 billion net), the administration’s budget employs three general strategies to limit FY 2027 costs: savings that can be achieved without impacting benefits and care, programmatic savings, and cash management strategies.

MassHealth Savings Strategies in FY 2027

Assumption	Gross Impact	Net Impact
Administrative	\$408	\$207
Programmatic	\$583	\$240
Cash Management	\$1,594	\$797
Total	\$2,585	\$1,244

\$ in millions

Administrative Savings Initiatives

The administration’s budget pursues a number of administrative changes to generate \$207 million in additional net savings in FY 2027 which can be implemented without the need for explicit outside section language or policy changes and which generally do not affect provision of benefits. Two of these changes carry the largest fiscal impact in FY 2027.

- MassHealth Revenue Initiatives and Program Integrity (\$109 million gross/\$129 million net revenue and savings)** – The Governor’s budget estimates \$129 million (\$109 million gross) in savings through a combination of one-time revenue initiatives and incremental program integrity measures above baseline. The administration plans include pursuing lower cost vendor contracts and will also likely entail attempts to recoup or control overpayments and managing appropriate delivery of services and eligibility. Use of one-time revenue initiatives to balance the budget has been common in recent fiscal years – previous budgets have used existing revenues, such as spending down the Substance Use Disorder Federal Reinvestment Trust Fund and the Behavioral Health Access and Crisis Intervention Trust Fund.
- OB3 Eligibility Requirements (\$210 million gross/\$32 million net savings)** – As noted above, OB3 implemented a slate of new hurdles for members to stay enrolled in MassHealth. Beginning January 1, 2027, some members will be required to complete at least 80 hours per month of qualifying activities, including, but not limited to, paid employment, job training, educational programs, and community service. Because these work requirements do not take effect until the start of 2027, the administration assumes one fiscal quarter of net savings in the amount of \$32 million (\$210 million gross).

Programmatic Savings Initiatives

In addition to the administrative savings initiatives highlighted above, the administration's budget pursues a combination of programmatic changes to generate \$240 million in net savings, the majority of which do not require additional outside section language. Three of these programmatic changes generate a majority of the savings assumed by the administration.

- **GLP-1 Coverage Reduction (\$100 million gross/\$15 million net savings)** – The Governor's budget assumes \$15 million in additional net savings (\$100 million gross) by removing coverage for GLP-1s specifically related to weight loss. The use of GLP-1s, like Wegovy and Ozempic, has grown more popular both nationally and in Massachusetts in recent years to assist with weight loss. MassHealth members will still receive coverage for GLP-1s prescribed to treat cardiovascular and other chronic conditions, however, the administration's budget follows similar actions by states like California and Pennsylvania to reel in costs by limiting coverage of GLP-1s for members. This change can be accomplished without explicit authorization in budget language.
- **Cap on Adult Dental Coverage (\$120 million gross/\$60 million net savings)** – The Governor's budget includes a policy section that would enable MassHealth to limit adult dental benefits and assumes a cap on adult dental coverage at \$1,000 per member per year. The administration's budget assumes \$60 million (\$120 million gross) in additional net savings from establishing this cap. Under the proposal, the cap would not apply to pediatric dental benefits or members receiving services through the Department of Developmental Services.
- **PCA Working Group Savings Initiatives (\$100 million gross/\$50 million net savings)** – Created in the FY 2025 budget and extended in the FY 2026 budget, the Personal Care Attendant (PCA) Working Group was tasked with making recommendations for the long-term sustainability and cost containment of the PCA program by examining a number of factors. The working group has filed two reports with recommendations to reduce costs of the program, including: (i) reducing the overtime cap from 66 to 60 hours; (ii) establishing a limit of 7 hours for meal prep support; (iii) eliminating certain paperwork and administrative requirements for certain members; and (iv) establishing a flexible cost growth benchmark for the program that allows for increases driven by growing needs. The Governor's budget assumes \$16 million in net savings (\$32 million gross) from full implementation of consensus recommendations made by the working group – reducing the overtime cap to 60 hours and establishing an upper limit for meal prep support. The remaining \$34 million in net savings (\$68 million gross) included in the administration's budget proposal relies on additional savings initiatives that will be recommended by the PCA working group.

Cash Management Initiatives

The largest component of the administration's proposal to control MassHealth costs in FY 2027 is a cash management strategy to achieve approximately \$800 million net savings by spreading \$1.6 billion in FY 2027 payments into FY 2026 and FY 2028. This type of strategy—sometimes referred to as “pre” or “push-payments”—has been used in the past to smooth spending pressures at the state level without negatively impacting providers due to the timing differences between state and hospital fiscal years. The specifics of the administration's payment plan include pre-paying approximately \$970 million (\$375 million net) in risk

corridor payments in FY 2026 to MCOs that would otherwise be attributable to FY 2027 and pushing approximately \$845 million (\$420 million net) in other anticipated payments into FY 2028.

Closing the Remaining Gap

As detailed above, the Governor's budget pursues a combination of cash management, administrative changes, and programmatic savings initiatives to generate approximately \$1.2 billion in net savings. Despite significant savings efforts, there is as much as \$500 million in one-time budgetary risks in FY 2027 that the administration will need to address. It is unclear whether the administration intends to employ additional savings initiatives or cash management strategies to address these costs in FY 2027, however, it is not uncommon for programs, such as MassHealth, to require supplemental funding to close the books on the fiscal year. In the FY 2025 closeout supplemental budget, MassHealth received an additional \$303 million (\$1.7 billion gross) as a result of increased costs associated with higher levels of utilization and acuity by MassHealth members. The use of additional funding in a later supplemental budget is another avenue the administration may pursue in bridging the remaining gap.

Other Healthcare Spending

Group Insurance Commission (GIC)

Another area of healthcare spending in the Governor's budget is the Group Insurance Commission (GIC). The GIC provides and administers health insurance and other benefits to over 460,000 members, comprised of public employees, retirees, and their dependents. The administration's budget proposes funding the GIC at \$3.2 billion for FY 2027, a \$344 million (12 percent) increase over the FY 2026 GAA funding of \$2.8 billion. Earlier this year, the GIC eliminated coverage for GLP-1s for weight loss and approved an average premium increase of 7.5 percent for FY 2027. The GIC rejected plans to increase member copays and deductibles; these member cost increases were assumed in House 2.

Healthcare Policy Proposals

Typically, the Governor's budget has contained a myriad of outside policy sections related to healthcare initiatives targeted at increasing revenue, such as the hospital and managed care organizations assessments in FY 2023 and FY 2025, or related to eligibility for certain services like the changes made to Senior Care Options and One Care in FY 2026. Unlike in recent years, the administration's FY 2027 budget contains relatively few healthcare policy sections and instead focuses on employing a number of savings initiatives to balance the budget. Of the healthcare policy sections included in the Governor's proposal, a few are of note:

- **Direct Negotiations on Drugs and Non-Drug Products** - The Governor's budget proposes expanding MassHealth's authority to pursue enhanced rebates from drug and medical device companies. Enhanced drug rebate language was included in the FY 2020 budget. Since then, the Baker and Healey administrations, as well as the Senate, have consistently proposed expanding the program.
- **Health Connector Pilot Extension** – The FY 2024 budget included a new pilot at the Health Connector to expand insurance subsidies to those with incomes of up to 500 percent of the federal poverty level. The FY 2026 budget extended the pilot program through December 2026 and the administration's budget proposes extending the pilot an additional year through December 2027. The

administration does not project the pilot to bring additional state cost, because additional federal reimbursement can be claimed through the state's 1115 waiver.

- **MassHealth Overpayment Recovery** – The Governor's budget establishes a six-year statute of limitations for MassHealth to recover overpayments to providers and asserts MassHealth's right to recoup overpayments for six years.
- **Bureau of Substance Abuse Services Payer of Last Resort** – The Governor's budget allows the state's Bureau of Substance Abuse Services (BSAS) to pay medical costs of BSAS clients in a treatment facility, subject to appropriation. Current law requires BSAS to pay any maintenance and treatment costs unmet by the client or other available sources at private facilities.

Key Questions for the House and Senate

MTF raises the following questions and offers several recommendations for policymakers to consider as they work to craft a balanced budget for FY 2027:

- **Will the legislature move forward with planned budget savings that affect services and benefits?**
The Administration's FY 2027 MassHealth plan relies heavily on cash management and non-member facing savings efforts, but it does propose a new statutory limitation on adult dental benefits and assumes limits on GLP-1 coverage and several other changes. In recent years, the Legislature has proactively prohibited MassHealth from moving forward savings in areas like Personal Care Attendants after the negative reaction by affected members and workers. Benefit reductions are never easy and have negative impacts. However, benefit provision has to be a part of the solution to controlling MassHealth costs. This means giving the program the ability to identify areas in which the current MassHealth benefit is an outlier and to take action to manage unexpected cost growth areas. While requiring MassHealth to keep lawmakers informed of benefit changes before they occur makes sense, outright prohibition makes it even more challenging to keep MassHealth costs sustainable.
- **Can the working group model provide a constructive means to address long-term budget busters?**
As part of the PCA reform proposal from the FY 2025 budget, the budget created a working group to assess potential ways to reduce cost and increase efficiency in the program. The Governor's budget builds on that working group savings model. First, the MassHealth proposal relies on \$100 million in savings from PCA working group recommendations. In addition, the Governor's proposal creates a working group to identify potential savings in the adult foster care and adult day health programs and assumes a further \$50 million in savings from their work.

Given the challenges to building consensus around savings initiatives in MassHealth, this working group model is a promising approach to implement meaningful reforms on a medium and long-term basis. Unfortunately, the nature of this work is that it will take time to identify and pursue areas for savings and initiative. However, given experiences where savings initiatives have not moved forward at all due to lack of stakeholder buy-in, it makes sense to create ongoing working groups to both define opportunities and work in collaboration with implementation.

- **How can the state mitigate enrollment impacts brought by OB3?**

MTF has estimated that around 255,000 people may lose MassHealth or Connector insurance due to changes made in OB3. Some of those changes – for example, elimination of eligibility for federal subsidies based on residency or immigration status – are beyond state control, but the impact of other changes could be mitigated with a strong state strategy.

OB3 requires many adult members to meet monthly work or civic engagement requirements to maintain coverage and MTF estimates the potential enrollment loss of this change at up to 200,000 members. Experience in other states shows that the loss of enrollment from these changes is significantly increased due to inefficient data sharing and verification methods. It is critical that MassHealth work with stakeholders in government and in the healthcare, employer, and education communities to build a smart and efficient method to verify compliance and to ensure that members are aware of eligible activities.

- **Will steps be taken to manage GIC cost growth?**

Group Insurance Commission costs have risen sharply in recent years – with premium and plan cost spending growing by more than 25 percent between FY 2023 and FY 2025. The Governor’s budget includes almost \$400 million more for the GIC appropriation than was included in the FY 2026 GAA. Even that increase in the Governor’s budget was predicated on several program cost savings initiatives, including limitation on GLP-1 coverage and increases to member copays and deductibles. While GLP-1 limits will go into effect for FY 2027, increased member costs were deferred. The decision to raise costs on state employees and retirees is a challenging one, however, the current rate of program cost growth is simply unsustainable. As with MassHealth, a strategic effort to identify and build some level of consensus around cost savings could be a good approach to change the cost trajectory of the GIC.

- **How can the temporary savings solutions proposed by the Governor’s budget translate into long-term healthcare cost savings?**

MassHealth costs grow by less than 3 percent in the Governor’s budget, but that rate of growth is a function of plans to shift costs into FY 2026 and FY 2028 and to identify further savings later in the year. The underlying cost pressures that saw the MassHealth appropriation increase by more than 10 percent in FY 2026 remain. At the same time, the impacts of OB3 related enrollment changes will reduce MassHealth enrollment heading into FY 2028, but will do so at the cost of increased demand on the state’s Health Safety Net, which is already operating at a deficit. As noted earlier, there are no easy solutions to reducing cost growth, but creating groups focused on addressing high cost areas that also build consensus for implementation make sense. At the same time, the Governor’s Health Care Affordability Working Group launched recently to identify systemwide initiatives to make the health care system more fiscally sustainable. Directing the work of these groups to create tangible recommendations for the short and long-term is essential for managing the FY 2028 budget and the health of the state’s fiscal future.