Milbank Memorial Fund

MEDICAID SECTION 1115 BUDGET NEUTRALITY

Why Include Medicare Savings?

The Missed Opportunity

Currently, **only Medicaid savings** associated with state Section 1115 demonstration projects to test innovations count toward the required budget neutrality. This means that there is **no incentive** for state Medicaid programs to propose projects that lower overall federal medical costs, including Medicare.

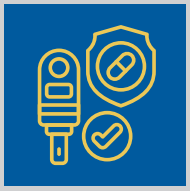
Making the Case for Extension

Medicare and Medicaid are closely **interconnected** programs that share statutory foundations, complementary goals of expanding health coverage and access, overlapping federal oversight, and eligibility pathways that link beneficiaries across the two programs.

EXAMPLES

Fall Prevention

Medicaid is the primary payer of long-term care services, and falls are the leading cause of injuries among older adults. Nonfatal fall injuries cost Medicare roughly **$29 billion annually**, and Medicaid about **$9 billion**. Medicaid-funded long-term care improvements could contribute to greater savings for both programs.



Diabetes Prevention

The Medicare Diabetes Prevention Program (DPP) offers services for at-risk Medicare beneficiaries to prevent the onset of diabetes. While a large number of Medicaid beneficiaries aged 44-64 would also be eligible for DPP, current Medicaid DPPs are quite limited in scope and size. Innovations to increase participation could delay the onset of Type 2 diabetes and **reduce overall health care costs**.

Policy Change

This policy change will require **modification of the limitations imposed by Section 71118 of the One Big Beautiful Bill Act**, which codified stricter federal budget neutrality requirements for Section 1115 demonstrations beginning in 2027.

Ku L. Missed Opportunities: Using Medicaid Section 1115 Projects to Improve the Health of Medicaid and Medicare Beneficiaries. Milbank Q. 2026;104(SI):0524. https://doi.org/10.1111/1468-0009.70092