



Options for States to Control Health Care Costs Through Hospital Global Budgets



States are facing growing pressure to improve health outcomes and constrain health care spending amid fiscal uncertainty and evolving federal policy. At a time when states need to do more with less, ensuring health care pillars, like hospitals, are paid in a way that incentivizes population health improvements is paramount.

THE ISSUE: Currently, most payers (e.g., Medicaid, Medicare, and commercial insurers) reimburse hospitals in a way that rewards volume rather than value. This can drive up costs without commensurate benefits to patients or their health outcomes. Tying payment to volume also exposes certain hospitals to more financial uncertainty, especially rural and safety-net hospitals with low or unpredictable volume.

THE SOLUTION: States can leverage hospital global budgets to realign incentives, improve financial predictability for hospitals, and slow spending growth. Rather than being paid for each service after it's delivered, hospitals operating under a global budget receive a prospective annual budget to cover services. These annual budgets help put downward pressure on total hospital spending while encouraging hospitals to invest in prevention and care coordination.

Global budgets can be particularly valuable for rural and safety-net hospitals. These providers often experience volume fluctuations and operate with tight margins. A fixed, annual budget can provide greater financial predictability while allowing hospitals to design care delivery in a way that is responsive to their community's health needs.

Hospital global budgets (HGBs) can be pursued more narrowly or can be broadened into multi-payer initiatives depending on a state's policy goals, legal authority, and stakeholder readiness.

INCREMENTAL APPROACHES

States may choose to explore global budgets by starting with Medicaid-only or Medicaid + state employee health approaches for a subset of hospitals in their states (e.g., rural and safety-net) as a precursor to broader, multi-payer global budgets. This first step allows a state to test hospital payment reform, build stakeholder support, and gain experience with the approach before expanding.

- **Medicaid-only:** States can adopt Medicaid-only HGBs, in which Medicaid pays hospitals a fixed annual budget (either via their managed care contractors or directly as the state). This narrower global budget approach may be attractive for states looking for administrative opportunities to constrain their Medicaid hospital spending growth.
- **Medicaid + state employee health plan:** States can also extend this approach to include their state employee health plan, which would increase the savings potential. Like Medicaid-only HGBs, an HGB applied to both state employee health plans and Medicaid could be implemented administratively.

State Examples: [Oregon](#) is currently developing a Medicaid-only HGB to provide greater predictability for its rural hospitals. [New York](#) previously implemented Medicaid-only global budgets for eight rural hospitals, demonstrating cost containment success.



MULTI-PAYER APPROACHES

By aligning Medicaid, Medicare, and commercial payers around shared benchmarks, multi-payer HGBs enable states to cast a wider net across the health system — improving population health for a much larger segment of their population, reducing chronic disease burden, and decreasing health care spending. For states interested in broad, multi-payer reform, there are opportunities to partner with the federal government to obtain the authority needed to implement that approach.

- **Achieving Healthcare Efficiency through Accountable Design (AHEAD) model:** AHEAD is a Centers for Medicare and Medicaid Services (CMS) initiative that includes hospital global budgets across Medicare, Medicaid, and commercial insurers.
 - › It embeds multi-payer HGBs within a broader statewide health system accountability and transformation strategy, including enhanced primary care investment and accountable care organizations.
 - › Compared to more incremental global budgets, AHEAD creates stronger incentives for hospitals to reduce avoidable utilization and spending because a larger share of hospital revenue is included in the approach.
 - › Hospitals, in turn, benefit from a more predictable revenue stream, allowing them to focus on delivering comprehensive, coordinated care rather than maximizing service volume.
- **Medicaid + state employee health plan:** States can also extend this approach to include their state employee health plan, which would increase the savings potential. Like Medicaid-only HGBs, an HGB applied to both state employee health plans and Medicaid could be implemented administratively.

State Example: Maryland has experimented with several different multi-payer reform approaches, and ultimately, the AHEAD model was designed based on lessons learned from Maryland's innovations. Maryland's [All Payer Model](#), their first statewide hospital global budget test, saved nearly [\\$1 billion over a 4.5-year period](#). The expanded version of that model, [Maryland Total Cost of Care](#) (MDTCOC), reduced total Medicare spending relative to national trends by [\\$689 million](#) and reduced acute care hospital admissions by more than 16% for the Medicare and commercially insured population. Building on the success of MDTCOC, Maryland transitioned to AHEAD in 2026, demonstrating how states can evolve from hospital-focused reform toward broader accountability for cost, quality, and population health.

INTERESTED IN LEARNING HOW YOUR STATE CAN ENGAGE IN PAYMENT REFORM?

AV and our partners have a network of resources for states interested in engaging in payment reform. The [National Academy for State Health Policy](#) (NASHP) partners with states to develop innovative policies and strategies for systemic, multi-payer reforms to improve value over volume. Similarly, the [Medicaid Primary Care Population-Based Learning Collaborative](#), led by the Center for Health Care Strategies, offers support to state Medicaid agencies in transitioning primary care away from fee-for-service to enable greater flexibility in care delivery.

If your state is interested in learning more or connecting with one of the organizations mentioned above, please reach out to Arnold Ventures's Vice President of Medicare Sustainability and Provider Payment Incentives, Josh Gordon (jgordon@arnoldventures.org).

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