
The Medicaid Cliff

Preparing for the 2027 Work Requirements

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New federal Medicaid work requirements are coming in 2027

- The One Big Beautiful Bill Act (OBBBA) includes work requirements that take effect January 1, 2027
- State outreach must begin by July, August, or September 2026, depending on each state's chosen look-back window
- 80 hours/month of work or other qualifying activity, reported to the state
- Redetermination every six months, doubled from annual
- 30 days to respond to a noncompliance notice before disenrollment
- Exemptions include disability, pregnancy, caregiving, tribal affiliation
- Primary target is the ACA Expansion population

Uncompensated care will increase significantly as Medicaid enrollment drops

200,000

Medicaid enrollees projected to lose coverage due to work requirements (projection from Gov. Hobbs)

- **Uninsured patients will still seek care.** Hospitals, health systems, and FQHCs will absorb the cost as **uncompensated care.**

Rural Arizona is the most exposed to uncompensated care increases

Arizona is #1 in the nation for rural adult Medicaid reliance:

- 36% of working-age adults in rural Arizona rely on Medicaid, more than **double** the 17% urban rate

Modeled 2027 impact on 8 rural AZ hospitals

including Winslow, Globe, Nogales, and others

Uncompensated care cost

\$15M → \$22M

+47%

Medicaid revenue

\$133M → \$118M

-11%

Operating margin

4.3% → 3.4%

-0.9 pp

Most enrollees who fall off in early 2027 will remain uninsured

- To regain coverage, enrollees must satisfy a lookback window (1-3 months depending on their state's choice)
- Example: Someone who lost coverage after a job loss would need to find work and document 80 hours/month for 1-3 consecutive months before reapplying. They would be **uninsured** the entire time.
- The law bars people disenrolled under work requirements from receiving Marketplace premium tax credits, so there is no fallback: **enrollees who lose Medicaid coverage will become uninsured**

This is the Medicaid Cliff

11%

of people who lost coverage in Arkansas in 2018 had regained it the next year

Arkansas had no lookback at re-application; reenrollment is harder under OBBBA

In Arkansas, most people who lost coverage were supposed to keep it

12%

of the targeted population
lost coverage in six months

< 5%

of the targeted population were
actually non-compliant, per NEJM

- More than twice as many people lost coverage as were truly non-compliant

The cause was administrative burden, not failure to work

- KFF found that people didn't understand the notices, couldn't navigate the reporting portal, and couldn't reach a live person for help
- When Arkansas reviewed individual non-compliance findings, 76% of the cases it overturned were people who had met the requirements but failed to report it

The 2023 national unwinding confirmed this is a systemic pattern

During COVID, states had to keep nearly everyone enrolled in Medicaid in exchange for enhanced federal funding. When that requirement ended in 2023, states had to process the backlog of unreviewed renewals.

20M+

coverage terminations during the unwinding

69%

were procedural (e.g. failure to file paperwork),
not due to actual ineligibility

- States with proactive outreach retained more eligible enrollees
- Routine annual renewal already produces procedural churn; OBBBA adds recurring verification on top

Non-English speakers face compounding barriers

25%

of states don't offer
Spanish-language
Medicaid applications

5.3x

the odds of losing
coverage at
redetermination for
Limited English Proficiency
enrollees

2x

as likely for Hispanic
enrollees to lose coverage
for procedural reasons
during the unwinding

Proactive outreach works, but scaling is the biggest challenge

- Even a single phone call improves renewal and enrollment outcomes, across multiple studies
- Multi-channel contact compounds the effect: phone+email was more effective than phone alone
- But with millions projected to lose coverage, hiring and training enough case managers to help the at-risk population before the cliff is not realistic

AI-driven outreach can reach every at-risk enrollee at scale

- AI voice agents can hold human-quality two-way phone calls with thousands of enrollees simultaneously
- Fluent in Spanish, with multi-channel follow-up across phone and SMS
- Integrates with enrollee data, triages intelligently, and remembers each enrollee's situation across calls
- Handles the bulk of the caseload, freeing up human case managers' time for the most complex cases
- Doesn't require an app or portal; works over the phone

Sky Island AI is working with multiple major health systems to deploy our Virtual Case Manager across Southern and Central Arizona before the cliff.

The cliff is coming, and the time to prepare is now

State outreach begins this summer

Work requirements take effect January 1, 2027

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