Making Health Care and Insurance Affordable

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Health care is one of the largest and fastest-growing expenses for households, employers, and governments alike. In Massachusetts, commercial insurance premiums are increasing by an average of approximately 11.5 percent in 2026, with even steeper increases approaching 20 percent in other parts of the country.[1] Rising health care costs continue to place pressures on state health care programs and employee benefits.

Affordability and predictability have been further threatened by recent federal actions, including the failure to extend healthcare subsidies that impact the Massachusetts Health Connector insurance marketplace and cuts totaling approximately $3.5 billion annually to federal funding that supports Medicaid- and Connector-eligible residents.[2] These changes increasingly shift the burden of health care costs onto moderate income households. Similar pressures are arising in the state budget: in FY25, the Group Insurance Commission required $240 million in supplemental funding to address unexpected health care cost growth for state employees, and cost trends across Fiscal Year 2026 (FY26) and into FY27 remain challenging.[3]

Without intervention, health care costs will continue to grow unsustainably for individuals, families, businesses, and state budgets. The Healey-Driscoll Administration is taking urgent steps to address this affordability crisis while also establishing a Health Care Affordability Working Group to advance longer-term system-wide strategies to reduce health care costs for patients, families, and employers. For more information on how the administration is responding to changes at the federal level, see the **Navigating Federal Funding Cuts** brief.

MassHealth

MassHealth spending is driven by many of the same sector-wide trends as commercial health insurance and is, therefore, growing at a similarly unsustainable rate. From FY22 to FY25, MassHealth total spending is on track to have grown by $2.3 billion. This costs state taxpayers $1.6 billion net of federal revenues because the federal government partially reimburses states for Medicaid services at a rate known as the Federal Medical Assistance Percentage. In other words, the General Fund contributed $1.6 billion more to fund MassHealth in FY25 than it did three years before. This 7.1% compound annual growth rate in net spending would have been even higher had MassHealth not successfully

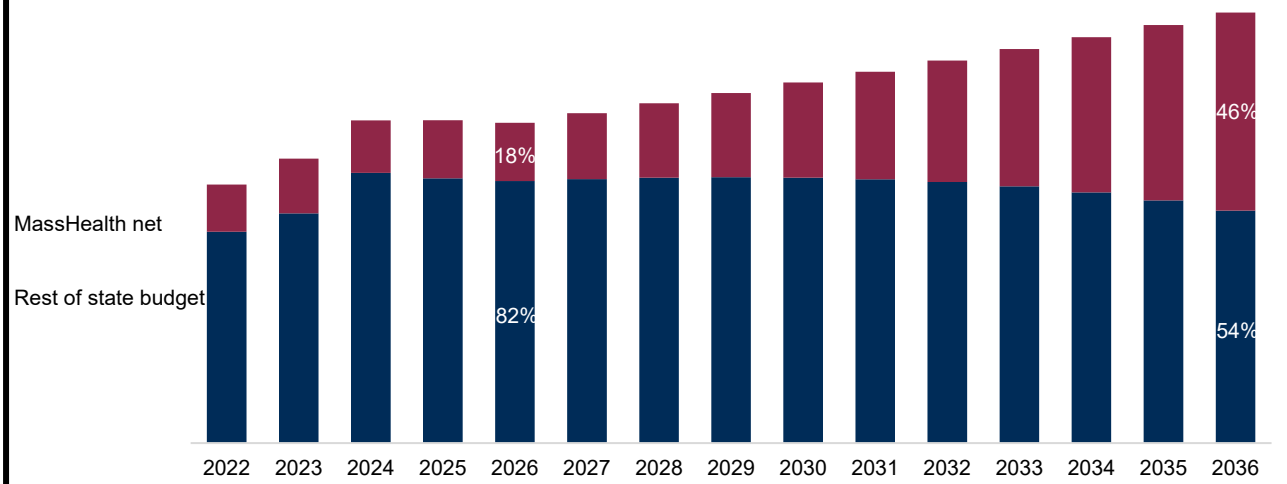
[1] **Massachusetts Division of Insurance.** ***2026 Health Insurance Rates.***; **Peterson-KFF Health System Tracker.** ***How much and why premiums are going up for small businesses in 2026.***
[2] **GBH.** ***Expiring subsidies could increase health premiums for 400,000 Massachusetts residents.***
[3] ***Massachusetts Legislature. Massachusetts Senate Passes Health Insurance Funding For State Employees.***

negotiated over $500 million in supplemental rebates from drug companies, pulled down hundreds of millions of dollars in additional federal revenue through its renegotiated Section 1115 Waiver, and executed on several new program integrity initiatives.

In recent years, spending growth has been driven by a sharp increase in the cost per individual MassHealth member. Most recently, the three largest contributors to spending growth are prescription drugs, behavioral health services, and long-term services and supports for the state's aging population. Comparing 2025 to 2024:[4]

- **Prescription drug** spending increased by 18 percent, representing 26 percent of the total growth in per-member spending at MassHealth. GLP-1 drugs like Mounjaro and Zepbound accounted for under half of the growth in drug spending.
- **Outpatient behavioral health** spending increased by 18 percent, representing 17 percent of the total growth in per-member spending at MassHealth. One notable driver was Applied Behavior Analysis, which has grown 29 percent year-over-year, after already growing by 25 percent the previous year as well.
- **Long-term services and supports** spending increased by 13 percent, representing 35 percent of the total growth in per-member spending at MassHealth. Home and community-based services (HCBS) accounted for 81 percent of the LTSS spending increase with institutional services accounting for the remaining 19 percent.

MassHealth Projected 10-Year Growth Percentage if No Action Taken to Constrain Cost Trends
$ billions, by fiscal year



These trends pose a long-term threat to the Commonwealth's budget. As an illustration, if state revenues grow at 3 percent annually and MassHealth spending grows at 13 percent annually, MassHealth would consume nearly half of all state spending in ten years, and spending on housing, transportation, education, and more, would need to decrease to accommodate that growth. This 10-year projection, demonstrating MassHealth spending

[4] Actual spending January - June 2025 vs. January - June 2024.

relative to the total state budget if no action is taken to constrain cost growth, is illustrated by the figure below. MassHealth would need to identify cuts of ~$2.2 billion gross per year in order to bring spending growth back in line with revenue growth, cuts that would affect provider rates, benefits, and member eligibility.

The administration is committed to making MassHealth more affordable, especially given the severe cuts by President Trump and Republicans in Congress that take funding away from Massachusetts. The current rate of spending growth is not sustainable in the long term but now is also not the time to further destabilize the health care system by implementing blunt cuts that do not get to the root causes of this cost growth.

Therefore, the Governor's FY27 budget proposes necessary, but measured, initial steps to put MassHealth on more sustainable footing. MassHealth's budget is filed at $22.701 billion in total spending, or a cost of $9.299 billion to state taxpayers. This is a 7 percent net increase above the FY26 GAA, compared to the double-digit growth MassHealth would experience without the proposed actions. Notable drivers of FY27 spending include:

- An increase in estimated per-member-per-month spending: $1.46 billion in total spending, or $670 million in net General Fund spending. This captures all categories of service; such as prescription drugs, behavioral health, and long-term services and supports
- Non-discretionary spending: $400 million in total spending, or $190 million in net cost to state taxpayers. This includes items such as MassHealth paying higher Medicare premiums for qualified seniors compared to previous years, and spending on Behavioral Health service expansions that were previously funded via an off-budget trust, etc.

Notably, the number of members enrolled in MassHealth is *not* expected to be a driver of FY27 spending. MassHealth member enrollment is projected to stay flat or slightly decrease throughout FY27. Some members are expected to be disenrolled as MassHealth comes into compliance with new federal law on work requirements and more frequent eligibility checks for certain members. Due to implementation timing, these rules will only have partial impact in FY27. However, MassHealth will need to spend considerable administrative efforts and dollars (estimated at $30 million in total spending) to implement these federal changes; those costs are reflected in the FY27 proposal.

To bring FY27 spending down to proposed levels, the administration will:

1. Continue to aggressively expand program integrity initiatives
2. Institute a moratorium on all provider rate increases or program expansions not required by federal law
3. Make targeted benefit reductions that bring MassHealth in line with peer states and commercial payors
4. Implement one-time measures that bridge to FY28, allowing time for policy development and stakeholder engagement over the next 18 months

House 2 proposes making targeted reductions modeled after peer programs, including:

- Removing coverage for weight-loss GLP1s. This mirrors actions taken by California, Connecticut, New Hampshire, and several other states.
- Capping adult dental spending at $1,000 per member per year. Several states, such as Connecticut and Vermont, both cap adult dental. There will continue to be no cap on pediatric dental benefits nor on members who are also on the Department of Developmental Services caseload.
- Reducing funding for care management and eliminating the requirement that ACOs contract with Community Partner organizations. By aligning care management enrollment levels with peer states (approximately 8 percent of members per year, versus nearly 16 percent today), ACOs will tailor these high-value programs to the greatest clinical need.

Additionally, MassHealth anticipates deploying several one-time administrative measures to balance the budget in FY27. These measures are temporary and do not address the underlying spending levels. However, they do provide time for the administration to partner with stakeholders in developing new approaches to providing coverage to MassHealth members at a sustainable rate of spending growth. Ahead of the FY28 budget development process, the administration will work collaboratively with stakeholders in the following venues to set the program on a more sustainable path:

- Build on and continue the personal care attendant (PCA) workgroup to identify additional savings. The FY27 budget assumes that MassHealth fully implements consensus recommendations made by the working group to date and that the group identifies an additional $68 million in total savings, or $34 million in net.
- Convene a new Adult Day Health (ADH) workgroup and Adult Foster Care (AFC) workgroup. These programs have, and will continue to, experience significant spending increases given the state's aging population. These groups will be asked to identify solutions to reduce annual ADH spending by $30 million in total savings ($15 million net to General Fund) and annual AFC spending by $70 million in total savings ($35 million net).
- Convene a workgroup to discuss carving out pharmacy benefits from health plan management, which would simplify operations and generate savings

These FY27 budget decisions are difficult but necessary initial steps to slow down spending growth and preserve funding for other critical state services. FY28 will be even more challenging as health care cost trends are expected to continue to compound and the state absorbs the impact of President Trump's cuts. Over the coming year, MassHealth will engage with partners on a dual mandate: maintain coverage and benefits for those who need it most, while ensuring that Massachusetts can continue to afford the MassHealth program in the long term.

Health Connector

The Health Connector, established in 2006 as a nation leading program, provides access to high-quality health care for roughly 365,000 Massachusetts residents. ConnectorCare,

Massachusetts's flagship health insurance subsidy program for low-to-moderate income residents, offers comprehensive plan options in the Connector's marketplace at an affordable cost through federal and state subsidies.

Recent federal inaction on the extension of Enhanced Premium Tax Credits under the *Affordable Care Act* threatened to significantly raise premiums for Massachusetts ConnectorCare enrollees. Due to the design of ConnectorCare, the lapse in enhanced federal subsidies led to an additional draw of $250 million from the ConnectorCare Trust Fund to maintain affordability levels for enrollees. Because of the Healey-Driscoll Administration's support for this additional investment in 2026, approximately 270,000 customers enrolled in ConnectorCare and making below 400 percent of the federal poverty level ($62,600 for an individual or $128,600 for a family of four) will see little to no premium increases because of the expiring federal credits, while also lowering other out-of-pocket costs like co-pays and deductibles.

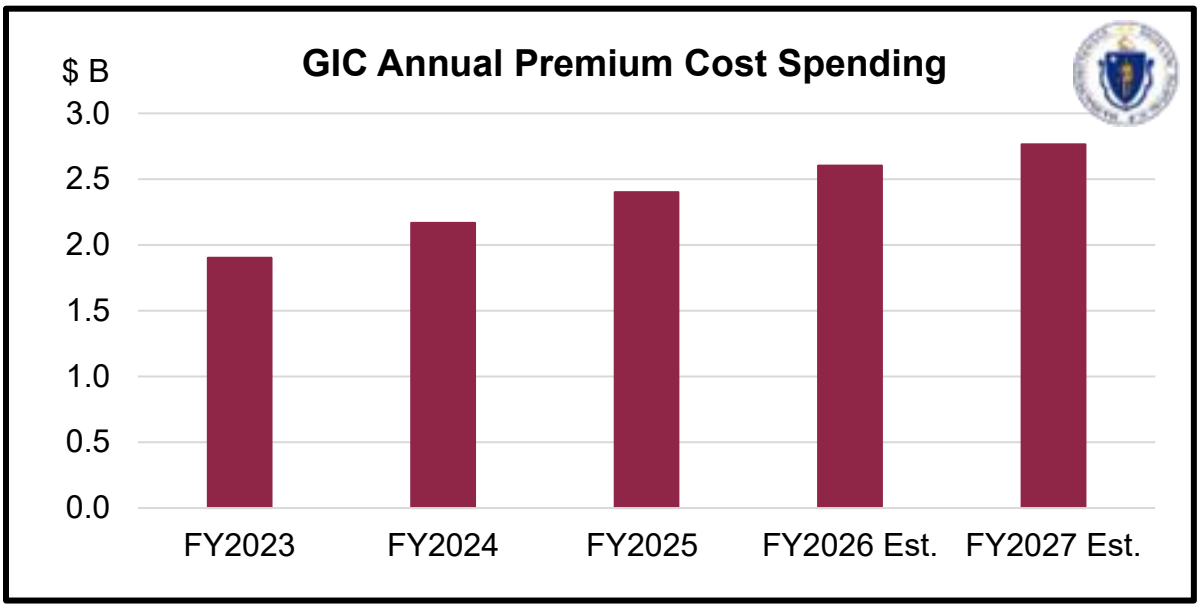
House 2 proposes extending a pilot program that expands ConnectorCare eligibility to people earning between 300 and 400 percent of the Federal Poverty Level (FPL) – $46,951 to $62,600 for individuals. This pilot, first authorized in the FY24 budget, is currently scheduled to run through December 2026; House 2 extends it for one additional year, through December 2027. As a result of additional available federal reimbursement for these services, extending expanded eligibility for ConnectorCare has no impact to the General Fund. This will allow approximately 49,000 residents to continue accessing more affordable health insurance through the Health Connector.

Participants in this pilot save significantly on premiums, helping working individuals and families maintain stable, affordable coverage. The pilot is intended to extended subsidies to individuals up to 500 percent FPL, however, due to recent federal changes, individuals between 400 and 500 percent of the FPL are no longer eligible. The proposed extension preserves the cap at 500 percent so that in the event the federal government reverses course, it will be easy to adapt and expand enrollment again.

Group Insurance Commission

The Group Insurance Commission (GIC) provides health insurance coverage to approximately 467,000 state employees, retirees, and their dependents, as well as municipal employees across the Commonwealth. As one of the largest purchasers of health care in Massachusetts, GIC's spending has a significant impact on the state's overall fiscal picture, municipal budgets, and the affordability of coverage for members.

Over the past two fiscal years, GIC premium costs have grown by approximately 10 percent annually. If current trends persist, benefit costs are projected to increase by 10.9 percent in FY27 – representing a net increase of $300.9 million to the state budget, raising concerns about long-term affordability for the Commonwealth, GIC members, and participating municipalities.



The primary drivers of recent cost growth include:

- Pharmacy cost: Pharmacy spending accounts for a significant amount of total cost growth, driven largely by increased utilization of GLP-1 medications and other specialty drugs
- Provider unit prices: As is also the case in the commercial insurance market, rising unit prices charged by hospital and physician systems well above the state's health care cost growth benchmark continue to be a steady inflationary pressure

Based on projected spending, the administration is asking the Commission to reduce GIC's FY27 budget growth by approximately $100.5 million net, limiting growth to $200.4 million. This measure can help avoid another year of, on average, double-digit premium increases, achieve budget balance, and stabilize costs now while the state pursues more meaningful, long-term solutions through a broader health care affordability effort.

Controlling long-term costs through a Health Care Affordability Working Group

In January 2026, Governor Maura Healey announced a Health Care Affordability Working Group to advance longer-term system-wide strategies to reduce health care costs for patients, families, and employers. The Working Group will bring together leaders from government, health care, business, and labor to address key cost drivers – including administrative waste, pricing practices, and system inefficiencies – building on immediate actions such as eliminating prior authorization requirements for many routine and essential services. The goal of this group is to reduce reliance on cost-shifting, tackle the underlying costs drivers in our system and position the Commonwealth for more sustainable health care cost growth in FY28 and beyond.