

Michigan Medicaid

Medicaid is a health care program that provides comprehensive health care services, primarily to low-income adults and children.

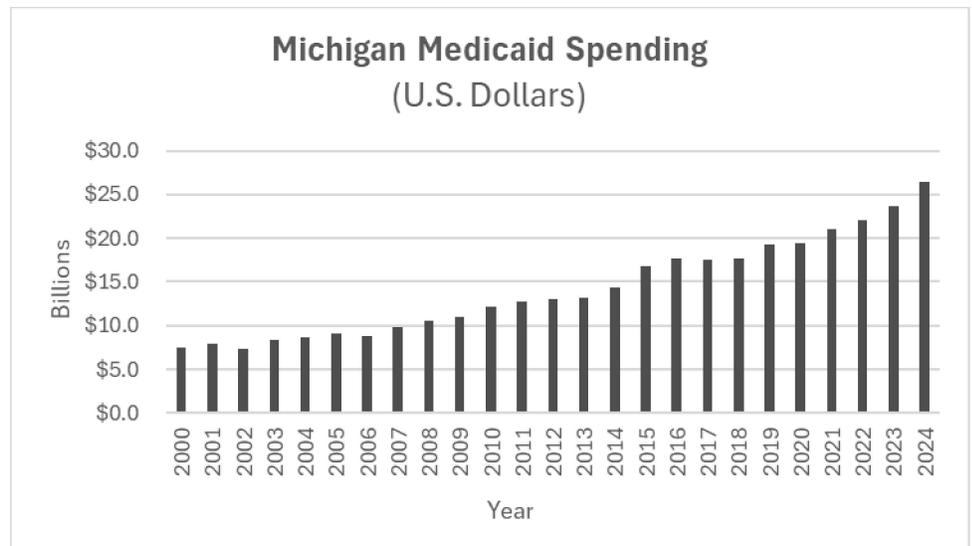
Approximately 2.5 million Michiganders are enrolled in Medicaid, the majority of whom are children, seniors, and people living with disabilities. In 2024, approximately half of Michigan’s children received Medicaid health care coverage at some point during the year. Medicaid has been associated with improved health outcomes and higher educational attainment for children.¹

Health care is also Michigan’s largest industry, generating nearly \$80 billion in economic impact each year and supporting thousands of jobs across hospitals, clinics, pharmacies, and nursing homes.² Nationally, 64% of Medicaid recipients aged 19-64 are the working poor.³

Rising Costs

Health care costs have steadily increased across the nation, driven primarily by health care inflation, utilization, and recent policy changes. These drivers, combined with changes at the federal level, have resulted in growing pressure on the health care system and on state budgets.

Mirroring national trends, Michigan health care spending has increased in recent years. Between 1970 and 2020, Michigan’s total personal health care expenditures per capita increased approximately ten fold⁴, with personal spending for Michiganders averaging \$10,183 per person in 2022.⁵ Michigan’s rural areas also face geographic and provider capacity-related barriers to accessing care. These cost and capacity barriers will likely continue, as Michigan’s aging population is expected to grow over the coming years and providers



Source: Michigan Department of Health and Human Services

¹ 2025-3 Executive Directive, Michigan Department of Health and Human Services

² Healthcare Makes 100+ Billion Impact to Michigan’s Economy, Michigan Health and Hospital Association

³ FY25 Understanding the Intersection of Medicaid and Work: An Update, Kaiser Family Foundation

⁴ Health Care Costs and Affordability, Kaiser Family Foundation, 10/8/25

⁵ State Health Spending Trends, 2019-2022, Altarum

struggle under the weight of federal changes intended to curb federal Medicaid cost increases.

Michigan's FY25 Medicaid budget was approximately \$27.8 billion, representing 34% of the state's overall budget. Primary Medicaid cost drivers in Michigan include behavioral health and community-based services, as well as prescription drugs⁶.

At the federal level, H.R. 1 has been cited as an effort to contain Medicaid costs. The U.S. Congressional Budget Office estimates that provisions of the law, primarily focused on cost shifts to states and stricter eligibility, will reduce Medicaid spending by nearly \$911 billion over the next decade.⁷ However, analyses indicate that changes due to H.R. 1 may result in significant coverage losses, increased state budget pressures, and additional strain on providers.⁸ Here in Michigan, the Michigan Department of Health and Human Services (MDHHS) estimates roughly 200,000 individuals will lose coverage over the next few years. For more information on H.R. 1 and its impacts on the state budget, please see H.R. 1 Implementation.

It will be increasingly important, especially in the current fiscal environment, that the state explore new and innovative solutions to ensure the long-term sustainability of the Michigan Medicaid Program for the one in four Michiganders who rely on it. In light of this reality, and with the backdrop of a less bullish revenue picture than enjoyed in recent years, this year's Executive Budget necessarily seeks to optimize Michigan Medicaid operations and services, while protecting access to care. Exploring new revenue and working with stakeholders to identify opportunities for efficiencies will be critical to sustaining this life-saving program.

Closing the Funding Gap

The Executive Budget utilizes the following new and expanded revenues to support the Michigan Medicaid program in the coming years:

Tobacco Tax Increase

Michigan's excise tax on cigarettes has been at \$2.00 per pack of 20 cigarettes for more than 20 years. In the Great Lakes region, Michigan has the second lowest tax rate, with only Ohio having a lower tax.

Higher cigarette taxes have long been associated with declines in smoking behavior, primarily by discouraging teenagers from beginning to smoke, lower intensity of tobacco use, and higher rates of smoking cessation. Tobacco use is one driver behind the significant rise in health care costs as it increases preventable diseases, and contributes to lost productivity within the greater workforce. A higher tax on tobacco will ultimately lead to better health outcomes for the state.

The Governor's Recommendation raises the tax on cigarettes to \$3.00 per pack of 20 cigarettes. At this rate, Michigan's tax would be approximately the same as the tax in Minnesota, Indiana, and Illinois, excluding the Chicago area, where city and county taxes push the combined rate to \$7.16 per pack. In addition, the Recommendation raises the tax on other tobacco products, such as pipe tobacco, moist smokeless tobacco, and snuff, from 32% of the wholesale price to 57%.

These increased tobacco taxes would raise an estimated \$232 million in FY27, and \$202 million in FY28 and begin on Oct. 1, 2026. All of the increased revenues would be directed to the Medicaid Benefits Trust Fund to support the health and wellness of Michigan residents.

New Vape Tax

⁶ [Managed Care Pharmacy Expenditures & Rebates Single PDL \(Pre/Post\) and Future Projections, 7/15/24](#)

⁷ [Allocating CBO's Estimates of Federal Medicaid Spending Reductions Across the States: Enacted Reconciliation Package, Kaiser Family Foundation, 7/23/25](#)

⁸ [Health Provisions in the 2025 Federal Budget Reconciliation Bill, Kaiser Family Foundation, 7/8/2026](#)