

## Close the health coverage gap: Enact policies to save lives in Alabama

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No one should have to choose between going to the doctor and putting food on the table. But for more than a decade, Alabama lawmakers have turned down the opportunity to expand Medicaid to cover adults with low incomes. This choice has cost lives, weakened our health care system and left billions of federal dollars unused.

Alabama still urgently needs Medicaid expansion to help more people get care and to keep hospitals and clinics open across the state. Unfortunately, while expansion remains essential, HR 1, the so-called One Big Beautiful Bill Act, has made financing more challenging and has increased the need for sustainable funding solutions.

### Federal policy changes are reshaping Medicaid financing

Alabama remains one of only 10 states yet to expand Medicaid. As a result, hundreds of thousands of Alabamians are caught in the state's coverage gap, earning too much to qualify for Medicaid but too little to afford Marketplace insurance subsidies.

HR 1 eliminated a two-year increase in the federal Medicaid match rate that would have

brought Alabama an estimated \$619 million in exchange for expanding coverage. This incentive would have been enough to cover at least the first two years of Medicaid expansion. Without it, expansion will cost more and will require identifying new, sustainable financing sources.

### Provider tax changes create more budget constraints

HR 1 also restricts how states can use provider taxes to finance Medicaid. Under the law, Alabama would be required to reduce provider tax collections if it expanded Medicaid. This could result in the loss of more than \$100 million annually in health care revenue. Alabama Arise will continue making the case that lawmakers should not pit current Medicaid enrollees against people who need coverage but cannot afford it.

### Healthcare.gov enrollees face higher costs after the end of enhanced tax credits

Congress allowed enhanced Premium Tax Credits (ePTCs) for Marketplace coverage under the Affordable Care Act to expire on Dec. 31. This

lapse left nearly 500,000 Alabamians facing steep increases in their monthly premiums. Early 2026 enrollment data from CMS shows that 20,000 fewer people selected Marketplace plans this year. We will not know the full number of people who have lost coverage until July, but the growing affordability crisis makes Medicaid expansion even more critical.

## Persistent gaps in health coverage and outcomes

Nearly 200,000 adults remain stuck in Alabama's coverage gap, and that number is expected to grow. Alabama also continues to rank poorly on key health outcomes, including maternal health and infant mortality. These harsh realities underscore the need for comprehensive coverage solutions.

## Sustainable revenue options to fund Medicaid expansion

Even with the loss of the federal incentive, Alabama has multiple viable revenue options that can fully fund Medicaid expansion and strengthen the state's long-term fiscal stability. Earlier revenue analysis provides several pathways. These include:

### 1. Remove the state deduction for federal income taxes

Removing the state deduction for federal income tax (FIT) payments would generate **\$1.26 billion per year**. Alabama is the only state that still allows a full FIT deduction. Eliminating it would modernize the tax code and generate enough revenue to:

- Fully fund Medicaid expansion.
- Pay the state share of costs for SNAP food assistance benefits.

- Remove the remaining state sales tax on groceries.

### 2. Remove the state deduction for FICA payroll taxes

Removing the state deduction for FICA payroll taxes would generate \$387 million in revenue per year. Alabama is one of the only states offering a full FICA deduction. Ending it would broaden the tax base and provide stable, recurring revenue for Medicaid and other essential services.

### 3. Other revenue options

- Increase the cigarette tax.
- Adopt a tax on sugar-sweetened beverages.
- Close corporate tax loopholes, including adopting combined reporting.
- Ensure large landowners pay a fairer share of property taxes.

These measures would diversify Alabama's revenue streams and help the state meet long-term health care needs.

## Bottom line

Alabama can no longer afford the cost of inaction. Health coverage gaps are widening, health outcomes are worsening and federal policy changes have made delay even more expensive. The state has clear, achievable revenue options to fund Medicaid expansion sustainably and to strengthen our entire health care system. Medicaid expansion is a choice for healthier families, stronger communities and a more resilient future for Alabama.