POLICY BRIEF

Medicaid Financing for Behavioral Health Services: The Use of Flexibilities and Authorities

SCHOOL OF PUBLIC HEALTH
BEHAVIORAL HEALTH WORKFORCE RESEARCH CENTER
UNIVERSITY OF MICHIGAN

Project Team

Kyle Grazier, MS, MPH, DrPH
Amanda Mauri, MPH
Cory Page, MPH, MPP

Background

Medicaid is the primary source of funding for behavioral health (BH) services. States operate their Medicaid programs within Federal standards in exchange for matching funds that are based on a federal formula that generates the Federal Medical Assistance Percentage (FMAP). States rely on these matching funds for necessary and appropriate care to Medicaid beneficiaries.

Federal restrictions on use of Medicaid funds for BH services provided in "institutions for mental disease" (IMDs) have been in place for decades, and currently restrict access to inpatient BH services for adult Medicaid enrollees aged 18–64 years. States have 4 options to receive the Federal Medical Assistance Percentage to cover IMD behavioral health services for nonelderly adults through Medicaid: (1) Section 1115 demonstration waivers, (2) disproportionate share hospital (DSH) payments, (3) managed care "in lieu of" authority, and (4) the state plan option in the Substance Use Disorder Prevention that Promotes Opioid Recovery and Treatment for Patients and Communities Act of 2018 (SUPPORT Act). This study's focus is on Section 1115 demonstration waivers and, to a lesser extent, DSH payments to IMDs.

Medicaid's history of innovation, state budget constraints, and the importance of BH waivers to BH inpatient care led to this exploration of how states use available statutory and regulatory flexibilities to meet service, budget, and quality of care goals.

Methods

The Kaiser Family Foundation Medicaid Waiver Tracker (2020) tracks pending and approved Section 1115 waivers, including all waivers with BH provisions, and organizes these by pre-specified information.[1] The study used these data to create a typology of the BH components embedded within Section 1115 demonstration waivers. The most recently approved waiver applications from the Medicaid.gov State Waivers List on March 6, 2020 were reviewed.[2] To locate the BH provisions within each waiver, keyword searches used the terms "behavioral health," "mental health," and "substance use," leading to detailed outlines for each waiver with descriptions of all provisions. Upon completion, the common provisions became the typology components. The team then organized the waivers using the typological classification system.

As the project's primary aim focused on state financing mechanisms to expand services delivered in an IMD for nonelderly adults, additional data from approved versions of Section 1115 waiver applications with the IMD-relevant provision were collected. Specifically, researchers collected the approval date, implementation date, and expiration date for the provision permitting the use of federal Medicaid matching funds to reimburse for BH services delivered in an IMD.

To analyze the use of DSH payments to IMDs, data were collected for fiscal years 2015 and 2018 from publicly available Congressional Research Services reports from 2016 and 2020.[3] State-specific data included total DSH payments to IMDs and DSH payments as a percentage of Medical Assistance Expenditures.

Key Findings

Thirty currently approved Section 1115 demonstration waivers contained BH provisions. The waiver review revealed 3 BH-related characteristics of Section 1115 waivers: (1) benefit expansion, (2) eligibility expansion, and (3) and BH integration.

In terms of geographic distribution, the District of Columbia (31.2 per 100,000 population under 18), Rhode Island (23.5), and Massachusetts (21.1) had the highest concentrations of clinical child and adolescent psychologists, while Mississippi (1.0), Louisiana (1.1), and West Virginia (1.6) had the lowest. The majority of counties (80.1%) in the United States had no clinical child and adolescent psychologists. A total of 37 states and the District of Columbia had one or more board-certified clinical child and adolescent psychologists. There were no board-certified clinical child and adolescent psychologists in the remaining 13 states.

Benefit expansion provisions add additional services to the Medicaid benefit package that are otherwise ineligible for federal financial participation. The 3 subcategories include: IMD-Mental Health, IMD-Substance Use Disorder, and Other. Section 1115 demonstration waivers that contain provisions that fall under the category IMD-Mental Health provisions authorize the state to use federal Medicaid matching funds to reimburse for inpatient and residential mental health treatment services delivered in an IMD for nonelderly adults under certain conditions. IMD-Substance Use Disorder provisions similarly allow federal Medicaid matching funds to be used to pay for IMD-delivered services to nonelderly adults but for substance use disorder care instead of mental health care. At the time of this review, Indiana and Vermont were the only states to use the Section 1115 demonstration authority to permit federal Medicaid matching dollars to be used for mental health care delivered in an IMD. By contrast, 25 states authorized payment for IMD-delivered substance use disorder care through a Section 1115 demonstration waiver. The Other category includes provisions that expand Medicaid benefits to BH services beyond those delivered in an IMD.

Behavioral health eligibility expansions refer to provisions that expand Medicaid eligibility to a population with a BH condition otherwise ineligible for Medicaid under federal or state law. **Behavioral health integration** includes provisions that impact the coordination of BH and physical health services. Under this category, 2 subcategories were identified: (1) new delivery model and (2) payment reform.

Significant variation existed in the amount of DSH payments paid to IMDs in 2015 and 2018 by state, ranging from no DSH funds used for IMD services to $610.8 million in 2015 and $537.8 million in 2018 paid for IMD services by New York. Variations in DSH funds for IMD services showed no consistent pattern for IMD services among states with a Section 1115 demonstration waiver that contained the IMD payment exemption approved before December 31, 2018.

Conclusions & Policy Considerations

Of the 4 avenues available to states to receive federal Medicaid funds for IMD services, the Section 1115 waiver program dominates. The Section 1115 demonstration waiver program offers innovation and flexibility to states seeking federal financial participation in Medicaid BH expenditures in IMDs for specific populations, facilities, and services.

State Medicaid administrators are charged with understanding and implementing policies that meet guidelines and adhere to statute while increasing access and improving outcomes. Real-time data systems on funding mechanisms, legislative changes, and mechanisms for financing, as well as program performance

and beneficiary outcomes, could streamline complex decision processes to help support evidence-based processes and improve outcomes.

Future research can also provide insight into the interactions between financing mechanisms by systematically comparing how states use the variety of authorities available to enhance access to BH care. For instance, this review revealed no study that directly compared how state agencies make decisions about which financing mechanism to pursue to fund BH services delivered in IMDs for nonelderly adults through Medicaid. Do states use multiple financing mechanisms, or do they prefer a specific financing approach over others? Does the interaction between financing mechanism vary by demand for BH services or other aspects of the Medicaid program? Answers to these questions will help federal policymakers design and implement policy that align with state agency preferences and priorities, while also providing state officials with useful guidance on available financing approaches and how they relate to one another.

Acknowledgements

This project was supported by the Health Resources and Services Administration (HRSA) of the U.S. Department of Health and Human Services (HHS) as part of an award totaling $900,000. The contents are those of the author and do not necessarily represent the official views of, nor an endorsement, by HRSA, HHS, or the U.S. Government. For more information, please visit HRSA.gov.

References

1. Kaiser Family Foundation. Medicaid Waiver Tracker: Approved and Pending Section 1115 Waivers by State. Oct 21, 2020. https://www.kff.org/medicaid/issue-brief/medicaid-waiver-tracker-approved-and-pending-section-1115-waivers-by-state/#note-3-4.
2. CMS. Medicaid.gov. State Waivers List. https://www.medicaid.gov/medicaid/section-1115-demo/demonstration-and-waiver-list/index.html. Accessed March 6, 2020.
3. Congressional Research Service. Mitchell, A. June 17, 2016. Medicaid Disproportionate Share Hospital Payments. https://fas.org/sgp/crs/misc/R42865.pdf. Accessed September 23, 2020.