



**Section 1115 Waiver for Medicaid
Coverage of Services in Institutions for
Mental Disease
Florida Implementation Plan**

Report to the Florida Legislature

March 2025



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Introduction

The 2024-2025 Florida General Appropriations Act included proviso language directing the Agency for Health Care Administration (Agency) to seek waiver approval from the federal Centers for Medicare and Medicaid Services to expand federal financial participation for services provided to Medicaid-eligible individuals residing in an institution for mental disease (IMD) and to develop an implementation plan with estimated fiscal impact. The implementation plan must be delivered to the Governor, President of the Senate, and Speaker of the House of Representatives by March 1, 2025. Specifically, the proviso language states,

The Agency for Health Care Administration shall seek federal waiver approval from the federal Centers for Medicare and Medicaid Services to expand federal financial participation for services provided to Medicaid-eligible individuals residing in an institution for mental disease (IMD). The agency shall coordinate with the Department of Children and Families to design additional services to be included in the waiver that will reduce the need for IMD services. The agency shall submit an implementation plan and estimated fiscal impact to the Governor, President of the Senate, and Speaker of the House of Representatives no later than March 1, 2025.¹

IMD Coverage and Exclusions

The Social Security Act defines an IMD as any “hospital, nursing facility, or other institution of more than 16 beds that is primarily engaged in providing diagnosis, treatment, or care of persons with mental diseases, including medical attention, nursing care, and related services.” The federal government typically excludes federal financial participation (FFP, federal match) for Medicaid services delivered in an IMD. This “IMD exclusion” prohibits payments with respect to care or services for any individual who has not attained 65 years of age and who is a patient in an institution for mental diseases except for “inpatient psychiatric hospital services for individuals under age 21.” In addition to the “over 65” and “under 21” exemptions, other federal exemptions to the IMD exclusion that states can apply are: (a) limited Medicaid IMD coverage specifically for states with Medicaid managed care programs and (b) optional state Medicaid IMD coverage in response to the national opioid epidemic that allows states to offer IMD services to pregnant and post-partum women diagnosed with a substance use disorder (SUD) for up to 60 days.

¹ Florida [General Appropriations Act for Fiscal Year 2023-2024](#), page 65.

Florida Medicaid currently covers IMD services allowed by both of these federal exemptions to the IMD exclusion as well as the standard IMD coverage options for children under 21 and adults over 64. Specifically, Florida Medicaid covers services in an IMD for:

- Recipients who are less than 21 years old through the Statewide Inpatient Psychiatric Program (SIPP). SIPP services provide extended residential psychiatric treatment to children under 21 with the goal of facilitating the recipient’s successful return to treatment in a community-based setting. These services are covered in both the fee-for-service (FFS) and Statewide Medicaid Managed Care (SMMC) delivery systems.
- Recipients who are more than 64 years old through the State Mental Health services coverage policy. State mental health hospital services provide long-term, inpatient psychiatric and medical services with the goal of facilitating the recipient’s successful return to treatment in a community-based setting. These services are covered in both the FFS and SMMC delivery systems.
- Pregnant and post-partum women diagnosed with and receiving treatment for SUD in an IMD for up to 60 days. These services are covered in both the FFS and SMMC delivery systems.
- Recipients who are 21-64 years old may receive IMD services as an optional managed care in lieu of service (ILOS).² This alternative ILOS benefit allows the state to receive FFS for IMD services “in-lieu” of state plan inpatient treatment services for up to 15 days per month (federal limit) for eligible recipients enrolled in a Medicaid managed care plan. The health plan may choose to cover more than the covered 15 days per month. However, the plans do not receive further compensation from the Agency if they choose to provide additional coverage. IMD services as an ILOS is available only to recipients who are enrolled in managed care and is not available in FFS. All nine of the new 2025 SMMC plans offer the proposed IMD Waiver services as an ILOS.

Table 1 summarizes current Florida Medicaid IMD coverage.

² An ILOS is a SMMC benefit that offers Medicaid recipients alternative services in place of state plan services. Annual aggregate ILOS expenditure must be less than the expenditure would have been for the corresponding services. In the case of IMD services, the corresponding state plan service it replaces is inpatient general hospital care.

Table 1. Current Florida Medicaid Coverage of IMD Services

	Current Medicaid IMD Services	State Plan FFS Benefit	SMMC (Managed Care) Benefit
1	Recipients under 21 years old, no day limit	Yes	Yes
2	Recipients 21 – 64 years old, up to 15 days (*see line 4)	No	Yes, ILOS covered as a reimbursable Medicaid benefit
3	Recipients 21 – 64 years old, 16 – 30 days (*see line 4)	No	Yes, ILOS (Funded by the plan, not covered as a reimbursable Medicaid benefit)
5	Pregnant and post-partum women diagnosed with substance use disorder, up to 60 days	Yes	Yes
4	Recipients over 64 years old (no day limit)	Yes	Yes

IMD Section 1115 Waiver Opportunities

The Centers for Medicare and Medicaid Services (CMS) issued State Medicaid Director Letters (SMDLs) from 2015 to 2019 that outlined Section 1115 waiver options for states to receive FFP for IMD services to treat eligible recipients diagnosed with a substance use disorder (SUD) and/or serious mental illness (adults, SMI) or serious emotional disturbance (children, SED). These options allow Medicaid reimbursement for IMD services at the states' standard FFP rates outside of the previously established parameters.

SUD Waiver - CMS issued SMDL #17-003 (2017)³ which updates a 2015 SMDL and describes an opportunity to receive FFP for the continuum of services to treat addiction to opioids or other substances, including services provided to Medicaid enrollees residing in residential treatment facilities. This letter indicates that federal match is available through a Section 1115 Waiver for residential detoxification in IMDs as part of a strategy for states to test new or existing ways to deliver and pay for health care services aimed at reducing opioid-related deaths, treatment retention, or reductions in emergency and inpatient utilization. In other words, this waiver opportunity allows Medicaid programs to cover substance abuse treatment for additional Medicaid recipients in residential facilities that qualify as an IMD – a facility with more than 16 beds – which is otherwise disallowed by the federal government except as described above.

³ <https://www.medicaid.gov/federal-policy-guidance/downloads/smd17003.pdf>

SMI/SED Waiver - CMS issued a 2018 SMDL (SMDL #18-011⁴) in response to the 2016 21st Century Cures Act, which outlines another Section 1115 Waiver opportunity to extend IMD coverage to adults diagnosed with an SMI and children diagnosed with an SED. This SMI/SED demonstration opportunity allows states, upon CMS approval, to receive federal match for services furnished to Medicaid beneficiaries during short term stays for acute care in psychiatric hospitals or residential treatment settings that qualify as IMDs if those states are also implementing strategies to improve the state's mental health continuum, meaning the state must show they cover other community mental health services to recipients who would be eligible for facility-based IMD services. This waiver opportunity allows states to cover IMD services not otherwise covered or limited by federal rules, such as IMD services for non-pregnant adults ages 21-64 years old. However, the waiver requires states to demonstrate how the state will enhance community-based service coverage and support the treatment of individuals transitioning out of an IMD to a community setting.

The SUD Waiver and SMI/SED Waiver opportunities are similar in their scope, benefits, and requirements, the primary difference being the provision of substance use focused services (i.e., SUD waiver) versus mental health focused services (i.e., SMI/SED waiver). The SUD Waiver demonstration provides services to treat addiction to opioids or other substances with residential detoxification services provided in an IMD. The SMI/SED demonstration provides services to adults diagnosed with an SMI and children diagnosed with an SED during short term stays for acute care in psychiatric hospitals or residential treatment facilities that qualify as IMDs under federal law (e.g., more than 16 beds). Other key demonstration characteristics that are the same for both Section 1115 waiver demonstrations include:

- Five-year demonstration period
- Federal budget neutrality must be met during the demonstration period.
- IMD services reimbursement is limited to 60-day lengths of stay, though states must average 30 days per length of stay across the demonstration period. This would increase FFP from the current 15 days allowed as an ILOS to up to 60 days as a waiver service.
- States must demonstrate a full continuum of care is available to Medicaid recipients for the treatment of substance use disorders or mental health care in both an IMD and

⁴ <https://www.medicaid.gov/federal-policy-guidance/downloads/smd18011.pdf>

community settings; in the case of the SUD Waiver, the care must align with the American Society of Addiction Medicine (ASAM) criteria or similar nationally recognized guidelines.

- Demonstrations must highlight the use of evidence-based practices to address CMS defined goals and objectives.
- States must conduct a program evaluation and submit CMS-required deliverables including performance measure data.

In summary, SUD and SMI/SED Waivers must emphasize improvement to available services as demonstrated through service array, increased access, and improved outcomes. The waivers require states to demonstrate how inpatient and residential care will supplement and coordinate with community-based care in a robust continuum of care. States must commit to a community-based continuum of care, which requires Florida Medicaid to examine its continuum of care of evidence-based practices and potentially cover additional community mental health and substance use disorder services.

Florida Medicaid Planned Waiver Design

Florida Medicaid plans to submit an IMD waiver request to expand SMI/SED and SUD services through the SMMC program. These services include facility-based services to address crisis and short-term recovery needs, as well as an expansion of community-based services intended to decrease the need for institutional care by improving care before the individual needs an institutional level of care and improving follow-up care. The Agency will leverage SMMC case management and care coordination requirements to coordinate care among community organizations and providers, as well as links between community and facility providers. The Florida Medicaid proposed IMD 1115 demonstration waiver includes the following services:

- Residential services:
 - Psychiatric residential care for adults (ages 21-64 years old) diagnosed with a serious mental illness⁵ - 24-hour residential treatment for serious mental illness, such as schizophrenia or bipolar disorder. Coverage would supplement the current ILOS coverage limit of 15 days by extending IMD coverage for up to 60 days.
 - Addiction receiving facility services for children and adults diagnosed with a moderate to severe substance use disorder – 24-hour medically supervised

⁵ Children and youth diagnosed with SED or SMI are currently covered by the Florida Medicaid Statewide Inpatient Psychiatric Program (SIPP).

substance detoxification treatment and stabilization. Coverage would supplement the 15-day ILOS coverage limit of 15 days by extending IMD coverage for up to 60 days.

- Short-term residential treatment facility services for children and adults diagnosed with a moderate to severe substance use disorder – 24-hour residential treatment for substance abuse recovery. Coverage would supplement the 15-day ILOS coverage limit of 15 days by extending IMD coverage for up to 60 days.
- Community-based services will be added to strengthen the continuum of behavioral health care by offering the following services as fully covered Medicaid services rather than optional ILOSs:
 - Early intervention services – services include patient education and at-risk screening for early identification of mental health and substance use related issues.
 - Ambulatory detoxification services – an outpatient service of medically supervised evaluation, detoxification and referral services according to a pre- determined schedule for individuals diagnosed with a substance use disorder.
 - Partial hospitalization services – an intensive outpatient treatment program for individuals with mental health disorders and/or substance abuse disorders who do not require 24-hour supervision but need treatment on a daily basis.
 - Peer support services – informal outpatient individual or group services provided by peers with similar experiences to help individuals achieve personal change; peer support services can help people with mental health conditions and/or substance use disorders.

Table 2 summarizes current Florida Medicaid coverage and the additional coverage proposed be included in the new Section 1115 Demonstration waiver.

Table 2. Florida Medicaid Coverage of Current IMD Services and Proposed Waiver Services

IMD Services		State Plan FFS Benefit	SMMC Benefit	1115 Waiver SMMC Benefit
1	Recipients under 21 years old, no day limit	Yes	Yes	Continue as covered
2	Recipients 21 – 64 years old – mental health care	No	ILOS up to 15 days funded, up to 30 days unfunded	Up to 60 days funded
3	No age limit – addiction receiving facility	No	ILOS up to 15 days funded, up to 30 days unfunded	Up to 60 days funded

4	No age limit – short-term residential treatment	No	ILOS up to 15 days funded, up to 30 days unfunded	Up to 60 days funded
5	Pregnant and post-partum women diagnosed with substance use disorder, up 60 days	Yes	Yes	Continue as covered
6	Recipients over 64 years old (no day limit)	Yes	Yes	Continue as covered
Community-based Services		State Plan FFS Benefit	SMMC Benefit	1115 Waiver SMMC Benefit
A	Early Intervention	Substance Abuse Screening	Substance Abuse Screening	Continue as covered; Patient education
B	Ambulatory Detoxification	No	ILOS	Full coverage*
C	Partial Hospitalization	No	ILOS	Full coverage*
D	Peer Services	No	ILOS	Full coverage*

* Full coverage instead of an ILOS means it does have to be available as an alternative service and it will have a base rate determined by the Agency.

The Agency will continue to evaluate the services to be covered under the waiver as the waiver is prepared for submission, including the potential addition of alternative residential treatment services for children.

Fiscal Impact

The fiscal impact is estimated in collaboration with the Department of Children and Families (DCF) and the Agency’s actuarial services vendor. While the program will incur increased costs related to the increased utilization of both community-based and institutional services, the benefits of the community-based services are expected to decrease the need, over time, of institutional services. The demonstration project must result in budget neutrality for the federal government by the end of the five-year demonstration period.

Budget Neutrality

Budget neutrality for each demonstration project is determined as one key component of CMS and state negotiations over the specific terms and conditions of the demonstration project. To assess budget neutrality, CMS currently subjects each demonstration to a budget neutrality test, which results in limits that are placed on the amount of federal Medicaid funding the state may receive over the course of the demonstration approval period. In practice, budget neutrality generally means that the total computable (i.e., both state and federal) costs for approved demonstration expenditures are limited to a certain amount for the demonstration approval period.

This limit is called the budget neutrality expenditure limit, and it is based on a projection of the Medicaid expenditures that could have occurred absent the demonstration.

Fiscal Impact

The fiscal impact analysis of the services covered by the waiver as listed in Table 2 is based on three data sources:

1. DCF utilization and expenditures – DCF cost data for psychiatric residential facilities, addiction receiving facilities, and short-term residential facilities for Medicaid-enrolled Floridians. While utilization is known for historical periods, it is not known how many of these providers would enroll in Medicaid should the services be covered by Medicaid in the future.
2. Medicaid utilization data – most of these services are already covered as part of the SMMC ILOS program, but future utilization as a Medicaid waiver service can only be estimated.
3. Other state comparative data – available data from other states is used to project future utilization when Florida data is incomplete. Community-based expenses related to the proposed IMD 1115 waiver are estimated as five percent of non-hospital behavioral health expenses based on experience from similar programs in other states.

Low and high estimates of average annual costs are provided in Table 3 (next page). The 5-year average annual budget estimates reflect the average annual expenses from October 1, 2025, through September 30, 2030. Both estimates include a three percent annual cost increase. The low estimate adds a five percent utilization increase and the high estimate adds a ten percent utilization increase. Overall estimated annual utilization and costs do not consider any explicit reductions to residential/hospital IMD services as a result of increased community-based services.

Since the community-based services (i.e., Early Intervention, Ambulatory Detoxification, Partial Hospitalization, and Peer Services) are not currently fully covered Medicaid services, and representative utilization data is not available, the expenses for these services are estimated as 5% of Florida Medicaid non-hospital behavioral health expenses,⁶ which is an assumption based

⁶ Total non-hospital behavioral health expenses are estimated at approximately \$541 million based on capitation rates for the SMMM program effective February 2025 - September 2025.

on data from similar programs in other states. The residential and hospital IMD cost estimates include ILOS stays over the 15-day limit,⁷ and DCF costs for adult psychiatric residential stays, addiction receiving facility stays, and short-term residential stays for individuals who are enrolled in Medicaid. The DCF reduction amount is the estimated savings to DCF if the DCF-paid services included in the waiver are paid for by Medicaid rather than by DCF.

As indicated in Table 3, the projected Medicaid 5-year average expenditure is estimated to be \$114.9M to \$127.3M annually. Florida's share of that annual expenditure, separating the federal financial participation, is \$49.2M to \$54.5M annually. It is estimated that these expenditures would replace \$68.3M in DCF expenditures resulting in annual state savings of \$13.8M to \$19.1M.

Table 3. IMD Waiver Budget Impact Analysis – 5-year Average Annual Budget Projection (\$millions)

	Low Estimate			High Estimate		
	Community-Based	Residential/Hospital IMD	Composite	Community-Based	Residential/Hospital IMD	Composite
Expenditure						
State and Federal Medicaid Total	\$34.4	\$80.5	\$114.9	\$38.1	\$89.2	\$127.3
Federal Medicaid Subtotal	\$19.7	\$46.0	\$65.7	\$21.8	\$51.0	\$72.8
State Medicaid Subtotal*	\$14.7	\$34.5	\$49.20	\$16.3	\$38.2	\$54.5
Budget						
State (AHCA)	\$14.7	\$ 34.50	\$ 49.2	\$16.3	\$38.2	\$54.5
State Reduction (DCF)	-	\$(68.3)	\$(68.3)	-	\$(68.3)	\$(68.3)
Net State Change	\$14.7	\$(33.8)	\$(19.1)	\$16.3	\$(30.1)	\$(13.8)

* State percent of expenses were developed from federal matching percentages referenced on December 27, 2024 from the following website: <https://www.kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>

⁷ Residential/Hospital IMD expenses related to Medicaid claims with IMD stays greater than 15 days are estimated from survey information from the Medicaid MCOs.

Timeline

Table 4 lists IMD Waiver implementation tasks, milestones, and responsibilities to initiate IMD services coverage and reimbursement for a planned effective date June 30, 2027. The actual effective date will be dependent on CMS approval.

Table 4. Implementation schedule and responsibilities

Objectives	Action Steps	Responsible Party	Anticipated Completion Date
Implementation Report	Deliver IMD Waiver Implementation Report to the Florida Legislature	AHCA	March 1, 2025
State Authority	Receive legislative authorization to submit waiver	Florida Legislature	May 30, 2025
State Authority	Receive legislative budget allocation for wavier services	Florida Legislature	March 15, 2027
Federal Authority	Complete waiver	AHCA	August 29, 2025
Federal Authority	State 30-day public comment period	AHCA	September 1-30, 2025
Federal Authority	Hold two public meetings	AHCA	September 1-30, 2025
Federal Authority	Submit Waiver to Centers for Medicare and Medicaid Services (CMS)	AHCA	October 15, 2025
Federal Authority	15-Day Completeness Review	CMS	October 15, 2025 – October 29, 2025
Federal Authority	Federal 30-day public comment period	CMS	October 30, 2025 – November 28, 2025
Federal Authority	Work with CMS to address CMS inquiries, and revise the waiver as necessary	AHCA	November 29, 2025 – June 30, 2026
SMMC Coverage	Amend SMMC contracts and conduct plan readiness activities	AHCA	January 1, 2026 – August 1, 2026
Federal Authority	Receive CMS approval	CMS	July 1, 2026
Program implementation	Update FMMIS to accommodate new codes	AHCA	July 1, 2026 – June 30, 2027
State Authority	Promulgate associated service rules (coverage policies)	AHCA	July 1, 2026 – June 30, 2027
Program Initiation	Initiate implementation of waiver program	AHCA	June 30, 2027