National Association for Behavioral Healthcare

Access. Care. Recovery.

H.R.1: Reduced State-Directed Payments

The Issue: Reduced State Directed Payments Would Cut Access to Behavioral Healthcare Services

In July 2025, Congress narrowly passed the budget reconciliation package, H.R. 1, the *One Big Beautiful Bill Act*, which included major cuts to Medicaid spending. The Congressional Budget Office (CBO) estimates the package will reduce federal Medicaid spending by $911 billion and leave about 10 million people without health insurance. Included in the cuts to Medicaid are provisions restricting state-directed payments (SDPs), prohibiting new and lowering caps on existing provider taxes, and imposing work/community engagement requirements.

Specifically, the bill phases down state-directed payments to 100% of Medicare rates for Medicaid expansion states and 110% for non-expansion states beginning in 2028. The bill expands "grandfathered" SDP programs to include those that have not been approved to date but where a "pre-print" has been submitted to the secretary of the U.S. Health and Human Services Department (HHS) by the date of enactment. It also gives the HHS secretary discretion in defining equivalent "Medicare" rates based on current or future regulations.

NABH is concerned that the reduction in SDPs will result in limited access to critical behavioral healthcare.

Background

What Is Medicaid State-directed Payments?

The primary purpose of SDPs is to close the gaps in payment between Medicaid and other payers, as Medicaid reimbursement rates have historically been much lower than Medicare and commercial insurance rates.

State-directed payments, most of which require approval by the Centers for Medicare & Medicaid Services, direct Medicaid managed care organizations to make specified expenditures under their contract with the state. SDPs, which are often partially funded by **provider taxes**, comprise a significant and growing proportion of Medicaid managed care spending nationwide., A December 2023 Government Accountability Office found SDPs had grown to at least $38.5 billion in 2022. SDPs may implement uniform increases, minimum or maximum payment requirements for certain providers, or require large additional payments to providers.

Many states use this approach to increase access to behavioral healthcare and other services. Consequently, material cuts to SDPs will negatively affect behavioral healthcare services, including the SDP case examples below and other mental health SDPs listed in CMS' online directory.

Legislative Request

We urge Members of Congress introduce legislation that would roll back changes made to state-directed payments, as doing so would reduce provider payments and, ultimately, Medicaid enrollment.