



H.R. 1 “Disabling Mental Disorder” Exemption



The Issue: Unclear Community Engagement Requirement Exemption

In July 2025, Congress passed its budget reconciliation package H.R. 1 (*One Big Beautiful Bill Act*), which negatively affected Medicaid financing and eligibility by prohibiting new provider taxes and lowering the cap on existing provider taxes; restricting the maximum value of state-directed payments; and imposing work/ community engagement requirements on recipients. Exempted from these work/ community engagement requirements are Medicaid recipients with “disabling mental disorders.” This term should be limited to describe recipients with serious mental illness.

NABH is concerned that the term *disabling mental disorder* could imply the need for a disability determination to qualify for this exemption to work/community engagement requirements, which would be a massive bureaucratic hurdle for applicants.



Background

Medicaid Coverage of Behavioral Healthcare Services

Medicaid covers generally covers these services, with some variation across states:

- Inpatient and Outpatient Care
- Medication Management Crisis Intervention
- Rehabilitation of skills required for independence
- Partial Hospitalization with Intensive Outpatient Care
- Substance Use Disorder Services
- Psychotropic medications Psychosocial and recovery support services
- Children’s Early and Periodic Screening, Diagnostic and Treatment
- Home and Community-Based Services

What Work Requirements Could Mean for People in Treatment

People with behavioral health conditions face substantial barriers to obtaining and sustaining employment. For some people, symptoms directly interfere with their ability to complete work tasks, while others are involved in treatment programs that preclude them from working. Meanwhile, in severe cases, behavioral health conditions lead to cognitive impairment and challenging life circumstances (e.g., homelessness), which make it extremely difficult to engage in a treatment program or work.

Due to their behavioral health conditions, some Medicaid beneficiaries would be unable to satisfy a work requirement, which could result in a loss of coverage. Among Medicaid beneficiaries with substance use disorders, for example, researchers estimate that more than 4.5 million could be disenrolled. However, with treatment and recovery supports, there is significant potential for them to participate in the workforce.



Legislative Request

We urge Congress to replace the existing exemption for people with “disabling mental disorders” to people with “serious mental illness.”

- ***The term “disabling” could suggest that people must receive a formal disability determination, a complex and potentially yearslong process that often does not capture those with even the most debilitating mental disorders. Using “serious mental illness,” a term more commonly used in both clinical practice and policy to describe disorders that substantially interfere with major life functions, would align with the intent of the existing exemption while eliminating unnecessary red tape.***