PUBLIC SECTOR SERVICES

Federal Policy Shifts on Medicaid HRSN Coverage

Medicaid coverage of services that address Health-Related Social Needs (HRSNs) can help improve participant health and reduce use of acute hospital care and long-term care placements. States that long struggled with how to best meet the HRSNs of Medicaid beneficiaries are now seeing positive outcomes from using Medicaid dollars to help with housing, transportation, nutrition, employment and more.

In recent years, the Centers for Medicare and Medicaid Services (CMS) and their federal partners made it easier for states to incorporate HRSNs into their service array. However, on March 4, 2025, a Center for Medicaid and CHIP Services (CMCS) Informational Bulletin rescinded previous guidance related to Section 1115 HRSN authorities and committed to consider new state applications on a case-by-case basis only. The only new guidance offered is that states should focus on how any proposed demonstration advances the objectives of Title XIX. This leaves states uncertain on how to use Medicaid to address these needs.

Whether or not CMCS will grant new 1115 waivers pertaining to coverage of HRSN services, there are still several options to provide coverage for HRSNs under Medicaid:

- In lieu of services (ILOS) through managed care organization (MCO) contracts
- State plan amendments (SPAs) or new program waivers under Sections 1915(i), (j) and (k)
- Home and community-based services (HCBS) waivers under Section 1915(c)

States starting the process or amending existing 1115 authorities should be ready to pivot and create a compelling rationale that clearly speaks to the potential for cost savings along with improvement in beneficiaries' well-being. Showing that HRSN services will help people move off Medicaid altogether will no doubt be welcomed.

HRSN framework related to §1115 demonstrations was replaced by guidance for case-by-case review of applications, which should focus on aligning with the objectives of Title XIX.

Decision Factors in Pursuing Approval of HRSN Coverage

States seeking to initiate or enhance coverage of HRSNs must consider a variety of factors that may point to strategic trade-offs when implementing these programs. Below is an illustration of some key considerations and the implications for flexibility in state policy options.

Securing coverage for HRSNs may now be more expedient outside of §1115 demonstrations, although this pathway still remains open to states with robust planning and justification.

Consideration	Implications
What is the target budget for the program?	1915(c), (i), (j) and (k) authorities generally offer the most flexibility, with no limit on the overall budget ILOS authority is limited to 5 percent of total capitation budget within Medicaid (<1.5 percent does not require CMS approval) *Under previous CMS guidance, 1115 authority was limited to 3 percent of total Medicaid spend (including infrastructure investments, which was further limited to 15 percent of total HRSN spend); future applications will be considered on a case-by-case basis in terms of the potential to advance the objectives of Title XIX*
Which populations is the program meant to target?	ILOS and 1115 authorities offer flexibility for targeting specific populations based on their needs and specific localities (i.e., less than statewide) 1915(c) and (j) authorities also offer flexibility for targeting specific populations (although individuals must meet institutional level of care) and specific localities 1915(i) authority offers flexibility for targeting specific populations (although individuals must meet predefined level of care, i.e., institutional or lower at state's option) and must provide statewide coverage 1915(k) authority does not allow for targeting of specific populations (although individuals still must meet institutional level of care) and must provide statewide coverage
Which services do the target populations need?	*Under previous CMS guidance, only 1115 authority allowed coverage for room and board for up to six months (i.e., rent and utilities, three meals a day); future applications will be considered on a case-by-case basis in terms of the potential to advance the objectives of Title XIX* 1115 authority is subject to maintenance of effort for existing federal, state and local housing and nutrition supports while other authorities may be subject to limitations on duplication of efforts ILOS can cover housing supports like transition services (including first month's rent) and navigation services as well as home-delivered meals/pantry stocking tailored to medical needs 1915(c), (i), (j) and (k) authorities generally cover HCBS, with all but 1915(c) authorities offering options for individuals to self-direct services HCBS do not include room and board, but can include residential habilitation, day habilitation, vocational (re)habilitation, home modifications, etc.
Which providers will offer these services?	ILOS and 1115 typically involve nontraditional providers with limited experience operating under Medicaid rules; opportunities may exist to delegate some network development, quality oversight and payment integrity requirements to MCOs 1915(i), (j) and (k) authorities (specifically, the self-directed elements) may involve nontraditional providers having limited experience operating under Medicaid rules; states must consider the role of intermediaries in service delivery and financing For 1915(c) authority, HCBS represent a well-defined universe of services, and most states have established providers for these services accustomed to Medicaid oversight; while less flexible in some ways, this can ease approval and successful implementation of new programs

Avenues Remain Open, Navigation Is More Complex

Section 1115 demonstrations are just one tool among many for states to use in supporting the social needs of the most vulnerable participants in their Medicaid programs. While awaiting new federal guidance, states need to continue to consider combining 1115 demonstrations with SPAs, 1915 waiver authorities, and options like ILOS contracts.

If a state believes an HRSN-focused 1115 demonstration remains its best option to close a gap in the continuum, moving forward with design, approval and implementation will require creativity and adroit navigation of the federal approval process.

Alvarez & Marsal is ready to help states meet these challenges. Our Public Sector team has hands-on experience in helping states develop applications for novel 1115 demonstration benefits and identifying ways to meet unique needs via programmatic authorities. Further, our team of operators has the experience to help your team implement the HRSN initiative once approved.

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