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OPPORTUNITY: EXPANDING SCHOOL-BASED MEDICAID PROGRAMS THROUGH THE “FREE CARE” RULE

Many states are in the process of (or are considering) expanding school-based Medicaid programs to include all Medicaid-enrolled students—and to add additional covered services and provider types. This presents a tremendous opportunity to expand access to and resources for school health services.

The History of the “Free Care” Rule

In 2014, the Centers for Medicare and Medicaid Services (CMS) issued a [letter to state Medicaid directors](#) that clarified which services can be reimbursed by Medicaid in a school-based setting.¹⁴ This guidance allows school districts to expand their school-based Medicaid programs to cover more students and potentially bring in additional, sustainable federal funding for states.

Known as the “free care” policy reversal, the letter clarified CMS policy that prohibited reimbursement for services provided to Medicaid-enrolled students if those services were provided free of charge to all students. There were some exceptions: Services could be submitted for Medicaid reimbursement if they were included in a student’s Individual Education Plan (IEP) or Individualized Family Service Plan (IFSP) or delivered through the Maternal and Child Health Block grant.

The CMS letter clarifies that schools can seek reimbursement for covered services provided to all students enrolled in Medicaid—not just those with IEPs and IFSPs. It states that the “goal of this new guidance is to facilitate and improve access to quality healthcare services and improve the health of communities.”

Some states have used this policy to expand their school-based Medicaid programs, with more following suit. It presents an important opportunity for states to: 1) support school districts, or local educational agencies (LEAs), in drawing down additional Medicaid funding for school health services; and 2) increase access to school health services.

This policy has also opened the door to broader conversations about what school-based Medicaid programs could look like. Many states are considering how to get Medicaid to recognize the role of additional providers who are delivering services in schools—and to increase the types of school-based physical and behavioral health services that are reimbursed by Medicaid.

States now must make policy decisions about what their school-based Medicaid program will include. Will LEAs be allowed to bill for services delivered to all Medicaid-enrolled students, or just for services included in IEPs or IFSPs? Will more states expand the types of covered services—or the list of providers qualified to seek reimbursement for school-based services?

Expanding billing for more students—as well as expanding the types of services and providers being reimbursed—could mean more federal revenue to the state and more reimbursement to districts. And since most schools already deliver some

14. Dec. 15, 2014 CMS letter on Medicaid Payment for Services Provided without Charge (Free Care): <https://www.medic-aid.gov/federal-policy-guidance/downloads/smd-medic-aid-payment-for-services-provided-without-charge-free-care.pdf>

of these services (and pay for them with education dollars), bringing in federal reimbursement can replace scarce education money and help stretch resources further.

As a result, this can help ensure ongoing investment in and support for the delivery of school health services to students enrolled in Medicaid. And it could also ultimately help schools expand the staffing needed to provide physical and behavioral health services to students.

BILLING MEDICAID

What does an expanded school-based Medicaid program mean for the process of billing Medicaid? For the most part, states will continue to bill using the same CMS-approved structures as before. In states that use a fee-for-service model, LEAs will continue to bill on a fee-for-service basis. In states that use a cost-settlement model, LEAs will continue to use the random moment in time sampling methodology to apply their costs. But in each environment, more students will be included. There will need to be more LEA and provider training to ensure services are billed correctly.

Federal funds can be used to supplement education funds to increase provider capacity, add additional services, or plug budget holes to keep school health services strong. The “free care” policy reversal helps increase health equity across schools by targeting reimbursement to schools that have higher percentages of Medicaid-enrolled students.

Moving forward with a plan to expand school-based Medicaid takes time and coordination. But there are potentially huge benefits. Some states will need to pursue a formal state plan amendment (SPA) with CMS, while other states may be able to make the change at the state level. This will depend on the existing language in each state’s Medicaid plan.

Many [state Medicaid plans codified](#) the pre-2014 CMS policy by explicitly stating that school districts may only seek Medicaid reimbursement for health services delivered under a student’s IEP.¹⁵ In order to bill for covered health services delivered to all students enrolled in Medicaid, those states will need to submit a SPA to expand that definition and to make changes to the types of eligible services and providers.

15. Medicaid’s “Free Care Policy:” Results from Review of State Medicaid Plans, National Health Law Program (2016): <https://healthyschoolscampaign.org/wp-content/uploads/2017/07/MedicaidFreePolicyCare.rev10.20.pdf>

It is also important to note that a small number of states codified the restrictive policy in state law as well as in their state Medicaid plan. For example, Florida and Maryland have state laws that limit LEAs to billing only for school health services included in a student's IEP. While state law can present a barrier to the implementation of the revised CMS policy, it can also serve as an important tool for catalyzing action.

WHAT IS A STATE PLAN AMENDMENT (SPA)?

The Medicaid state plan is the formal, written agreement between the state Medicaid program and CMS that outlines the operational and policy decisions that determine who is eligible for Medicaid, what services and providers are covered, and how payments are set.

The state plan can be amended as needed to reflect changes in state policy and federal law and regulation. Changes or updates to the state plan are made through a state plan amendment (SPA). States can choose to submit SPAs on a variety of different policies, and CMS must formally approve the SPA before it can be implemented.

The Medicaid and CHIP Payment and Access Commission (MACPAC) has [excellent information](#) about Medicaid state plans and the SPA process.

States that do not need to pursue a SPA are able to leverage the “free care” policy reversal to expand their school-based Medicaid programs without engaging CMS. In those cases, state policy and program decisions would determine the LEA's opportunity to begin billing for additional populations.

Every state has its own process for moving a SPA forward, but it's worth noting that state Medicaid departments change state plans regularly—and Medicaid officials can advise on the formal process for pursuing a SPA. In general, a state submits paperwork to CMS requesting the policy change and then works with CMS to iron out the details, with other stakeholders joining in as needed. While there are time clocks on how quickly the SPA process should move, CMS can start and stop the clock.

As of March 2022, 17 states—Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Kentucky, Louisiana, Massachusetts, Michigan, Minnesota, Missouri, Nevada, New Hampshire, North Carolina and South Carolina—have successfully expanded their school-based Medicaid programs. There are a number of other states

where there is momentum for expanding the school-based Medicaid program, including Illinois, Indiana, New Mexico and Virginia.

The states that have expanded their programs each took a slightly different approach. A common feature among them is they all leveraged this unique opportunity to expand access to covered services and providers for all Medicaid-enrolled students. Here's how some of those states accomplished this.

Colorado

In 2020, [CMS approved](#) a change to the Colorado state plan to allow school districts to bill for services delivered to all Medicaid-enrolled students, not just those with IEPs. In addition, the expanded school Medicaid program recognizes applied behavior analysts, speech language pathologist assistants and school psychologists as Medicaid-eligible providers.

Louisiana

In 2015, [CMS approved a change](#) to the Louisiana state plan to remove the IEP requirement and to allow school districts to bill for school-based nursing services delivered to all Medicaid-enrolled students. Louisiana's first SPA was fairly narrow in that it was a limited expansion for school-based nursing. It did not add additional providers or services to the school-based Medicaid program.

Unofficial estimates from the state suggest that school-based Medicaid revenue has, over three years, dramatically increased as a direct result of this policy change, as has the number of school nurses statewide.

In 2020, CMS [approved an additional change](#) to the Louisiana state plan that allows school districts to bill for all medically necessary services delivered to all Medicaid-enrolled students. This expands Louisiana's school Medicaid program to include services delivered by all Medicaid-eligible school health providers, not just school nurses.

Massachusetts

In 2017, [CMS approved a change](#) to the Massachusetts state plan to allow school districts to bill for all Medicaid-enrolled students and to allow billing for additional services and providers types. The state then spent time on building the necessary infrastructure for implementation. This expanded Medicaid program change went into effect in the 2019-2020 school year (billing is not retroactive back to 2016).

Massachusetts did have to apply for a SPA to make these changes to its school Medicaid program. Notably, CMS approved a new methodology that allowed the state to settle costs for IEP and non-IEP services separately. Under the expansion,

separate calculations will be done based on a provider's time spent delivering either IEP or non-IEP services, as well as Medicaid eligibility rates for IEP services and non-IEP services. This important development helped the state ensure appropriate reimbursement for each set of students.

Massachusetts also provides an example of a state that used its SPA to expand the types of services and providers covered by the school-based Medicaid program. The SPA makes clear that coverage applies to all medically necessary services covered by MassHealth (the state's Medicaid program) and provided in a school-based setting to Medicaid-enrolled students. It also stipulates that the LEA may seek reimbursement for those services. Additional details are available in [this brief](#) prepared by Community Catalyst, Healthy Schools Campaign and the National Health Law Program.

Michigan

In 2019, [CMS approved](#) Michigan's SPA to allow districts to bill for school-based services provided to both IEP and non-IEP students. Michigan's approach greatly simplified the SPA for by covering all medically necessary services included in Medicaid's comprehensive Early, Periodic, Screening, Diagnosis and Treatment (EPSDT) benefit.

The SPA also enhances and clarifies the list of qualified providers in the Medicaid state plan who can claim for services provided to Medicaid-enrolled students. The newly added providers include nurse practitioners, physician assistants, clinical nurse specialists, marriage and family therapists, behavior analysts and assistant behavior analysts, school social workers and school psychologists.

Missouri

In 2018, Missouri expanded its school-based Medicaid program to allow billing for behavioral health services for all Medicaid-enrolled students, not just those with IEPs. Medicaid will now reimburse for services delivered in a school by district-employed providers or by external (i.e., not district-employed) providers who are permitted to practice in the school.

Missouri did not need to apply to CMS for a SPA to make this change because of the way its state plan was written; instead, Missouri executed these changes through [state rulemaking](#).

After consultation with a range of stakeholders, the state expanded its program to behavioral health services, as this was deemed the greatest student need. The state wanted to offer school districts the ability to bring in more revenue for services delivered by district-employed providers and address workforce shortages by allowing

community-based providers to deliver services in schools.

Missouri's expansion was unique for its emphasis on encouraging partnerships with community-based providers, including community mental health centers. Many Missouri school districts do not participate in the school-based Medicaid program, or have concerns about their bandwidth to do additional billing. At the same time, some school districts have strong relationships with community-based providers that can expand the available workforce. To encourage these partnerships, Missouri clarified that any qualified Medicaid provider can deliver services in schools.

North Carolina

In January 2019, [CMS approved a change](#) to the North Carolina state plan, allowing school districts to bill for nursing, counseling, occupational therapy, speech language therapy and physical therapy services for all Medicaid-enrolled students. The school-based Medicaid program also now allows billing for vision screening and clarifies the definition of hearing services. The state did need a SPA to make the policy change to expand billing for all Medicaid-enrolled students and to expand services and provider types.

In many ways, the North Carolina SPA is similar to the Massachusetts SPA. One key difference is that North Carolina does not cover all medically necessary services provided in schools in the same way that Massachusetts does. North Carolina's school-based Medicaid program is limited to the specific services outlined in the plan. Additional details are available [in this analysis](#) prepared by Community Catalyst.

South Carolina

In 2016, South Carolina started permitting districts to bill for eligible services delivered to all Medicaid-enrolled students. There were no restrictions in South Carolina's state Medicaid plan that precluded it from taking full advantage of CMS policy. As a result, the state did not need to submit a SPA, nor did it need approval from CMS.

A particular focus for expansion has been nursing services provided by the school districts and behavioral health provided in collaboration with the state's Department of Mental Health.

COLORADO'S SCHOOL-BASED MEDICAID DEMONSTRATION PROJECT

The demand for school health services—and in particular, mental health services—is increasing. Unfortunately, meeting that demand has been a challenge for schools and school districts. Local education agencies (LEAs) and state budgets are already stretched thin. Schools need new resources to increase access to critical services.

In 2020, the Centers for Medicare and Medicaid Services (CMS) approved an amendment to Colorado's Medicaid state plan that will bring new federal resources to help meet this need.

In advance of pursuing the state plan amendment (SPA), Colorado conducted a rigorous pilot study to better understand the financial impact of expanding its school Medicaid program and to make data-informed decisions about how best to move forward.

With the participation of eight districts—including large, small, urban and rural districts—the study looked at Medicaid eligibility, time study response and notification time, existing Medicaid-eligible providers, and potential eligible provider groups.

The pilot found that expanding Medicaid to allow claiming for all Medicaid-enrolled students and to allow claiming and reimbursement for several new provider types, including school psychologists, would result in an increase in federal Medicaid revenue.

Based on the results of the expansion study, the state moved forward with submitting a SPA.

For a detailed analysis of Colorado's pilot study and its financial analysis, more information is available in the case study: [Understanding the Financial Impact of Expanding Medicaid Funded School Health Services in Colorado](#)

POSITIVE FINANCIAL IMPACT OF EXPANDING SCHOOL-BASED MEDICAID

Expanding school-based Medicaid programs to allow claiming for all students, as well as for more services and providers, makes financial sense for states. Estimates suggest that states can expect to see significant increases in new federal resources.

- Louisiana was the first state to expand its program and did so just for school nursing services. A follow-up [financial analysis](#) shows a 35% increase in Medicaid revenue since implementation of the expansion. The program was such a financial success that the state did a second expansion to include all eligible providers and services.
- Colorado ran a pilot project to better understand the financial impact of expanding its program. Based on this analysis, the state estimated that expanding school Medicaid would lead to an increase of around \$8 million. The statewide net reimbursement for FY 2017-18 was \$44 million, so this is a significant increase.
- Voices for Georgia's Children [did an analysis](#) that estimated Georgia's expansion to allow claiming and reimbursement just for school nurses would bring in an additional \$48.6 million in federal revenue.
- Michigan expanded its program to allow claiming for all Medicaid-enrolled students and added a number of additional providers, including master's-level school psychologists and behavioral health analysts. Just from billing for school psychologists, the state projects an [increase of \\$14 million](#). The overall projections estimate an increase of around 250% once the expanded program is fully implemented.
- North Carolina's expansion allows districts to access reimbursement for a wide range of services. In the first school year following expansion (2019-20), the state saw a **35% increase in Medicaid reimbursements** with *no* financial outlay for the state Medicaid agency.

Seizing the Opportunity

There is now a significant amount of activity around school-based Medicaid. Many states are considering expanding the program to include billing for all Medicaid-enrolled students—and to add additional services and provider types to the list of covered benefits and services. A significant number of states have expressed interest in expanding their programs to increase access to behavioral health services to address unmet mental health needs.

As a result, many states already have—or are planning to—submit SPAs. Community Catalyst and Healthy Schools Campaign regularly update a state activity brief pertaining to school-based Medicaid expansion: bit.ly/freecareupdate

Now is the time to engage in the conversation. Some issues and questions to consider include:

- **My state is pursuing opportunities to expand school-based Medicaid, and I want to be at the table.** *Who is convening the stakeholders in my state?*
- **I see students whose needs aren't being met in school or in the community.** *How can my LEA expand school-based health services? Can we leverage CMS policy to increase the types of services and providers that are reimbursed by Medicaid?*
- **It looks like my state is interested in submitting a SPA.** *What are the details? Which students does it affect? Does the SPA expand school-based Medicaid to cover additional providers or services?*
- **I want to increase mental and behavioral health services in schools.** *Does CMS policy present an opportunity to increase funding for my state to expand access to these services?*
- **I really want to get engaged but have no idea how to participate.** *Who is working on expanding school-based Medicaid in my state? Is my LEA's Medicaid coordinator involved? What about children's advocacy groups?*

Does your state...	Read more about...
Need a SPA to expand services?	LA, MA, MI, NC, NV
Seem prepared to expand without a SPA?	SC, MO
Want to expand reimbursement to a single provider type (e.g., school nurse)?	LA (2015 SPA)
Want to expand reimbursement for a range of providers?	MI, CO
Want to expand reimbursement for all medically necessary services provided to Medicaid-enrolled students?	CO, MA, MI, NV
Want to understand the impact of the methodology used to separate billing for students with IEPs and students without IEPs?	CO, MA, MI, NC
Interested in expanding reimbursement for a specific set of services?	NC
Interested in expanding reimbursement for behavioral or mental health services?	MI, CO
Need to make legislative changes to clarify what can be covered by Medicaid in schools?	FL