ABHW

ISSUE BRIEF

Medicaid Institutions for Mental Diseases (IMDs)

Updated June 2025

Background

Mental health (MH) and substance use disorders (SUDs) account for about one in eight emergency department (ED) visits for U.S. adults.[i] Due to a lack of inpatient psychiatric beds, individuals experiencing an MH or SUD crisis often leave EDs without appropriate follow-up care. This can lead to poor outcomes for many vulnerable individuals and their communities.[ii]

SUDs affect 48.5 million Americans ages 12 and older.[iii] According to the Centers for Disease Control and Prevention (CDC), in 2024, over 80,674 overdose deaths occurred in the U.S.[iv] Nearly one in four adults had a mental illness in the past year.[v] **Medicaid is the largest payer for MH services and continues to play a significant role in payment for SUD services.**[vi] More than one in three adults ages 18-64 enrolled in Medicaid have a mental illness (35%), including 10% with a serious mental illness.[vii] [viii] People experiencing MH and SUDs need a range of available treatment options that vary from community-based care to more acute, inpatient treatment.

Institutions for Mental Diseases

An institution for mental diseases (IMD) is defined as "a 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."[ix] **Since Medicaid was enacted in 1965, IMDs for adults ages 21-64 have been excluded from Medicaid coverage**, known as the "IMD exclusion."[x] The antiquated Medicaid rule was designed to disincentivize the treatment of individuals with mental illness in large institutions and shift the costs for psychiatric treatment from the federal government onto the state. According to the Congressional Budget Office's 2023 report, eliminating the IMD exclusion would cost the federal government approximately $4 billion annually.[xi] These costs are minimal compared to the $14 billion per year the U.S. spends to keep people with severe mental illness (SMI) in inpatient, emergency rooms, and long-term care.[xii]

This policy exclusion discriminates against individuals with MH and SUD and limits Medicaid beneficiaries' access to inpatient care when demand for such services is skyrocketing. In addition, the exclusion goes against the intent of the Mental Health Parity and Addiction Equity Act (MHPAEA), which is to have a general equivalence between medical/surgical benefits and MH/SUD benefits, as there are no similar restrictions placed on reimbursement for physical health inpatient visits.

Qualified Residential Treatment Programs

From 2011 to 2020, pediatric MH–related visits increased from 4.8 million (7.7% of all pediatric ED visits) to 7.5 million (13.1% of all ED visits).[xiii] From March 2020 to October 2020, MH-related ED visits increased by 24% for children ages five to 11 and 31% for children ages 12 to 17.[xiv] Emergency visits could be mitigated with more widespread outpatient care, but even before the pandemic, children often had to wait months for appointments.[xv]

A Qualified Residential Treatment Program (QRTP) is a non-family-based placement that provides treatment to children using a trauma-informed model. QRTPs must be accredited, facilitate outreach to the family, have registered or licensed clinical staff, and provide follow-up support for at least six months. QRTPs with more than 16 beds may meet the Medicaid definition of an IMD even though the IMD exclusion does not include children 21 and under. The Centers for Medicare and Medicaid Services (CMS) has stated that QRTPs are unlikely to be excluded from the definition of an IMD even though they may provide treatment to beneficiaries under 21.[xvi] QRTPs were never intended to be considered IMDs under the Family First Prevention Services Act of 2018[xvii], as many high-quality, licensed, and accredited residential providers have over 16 beds. **Without a change in the law clarifying that QRTPs are not IMDs, many children who require high-quality residential interventions will not have access to Medicaid coverage for services provided in QRTPs.** Thousands of vulnerable children in foster care will be pushed into more restrictive settings or non-therapeutic shelters that cannot address their needs.

Federal and State Action

States have some ability to cover services in IMDs; for example, the current statute includes exemptions for adults ages 65 and older and individuals under 21. However, flexibility is needed to cover adults ages 21-64 and those under 21 in QRTPs. In the past few years, federal legislative activity and regulatory guidance paved the way for additional opportunities, including short IMD stays under Medicaid managed care coverage. Large legislative packages like the 21st Century Cures Act and the Substance Use-Disorder Prevention that Promotes Opioid Recovery and Treatment for Patients and Communities (SUPPORT) Act expanded guidance on 1115 waivers for MH and SUD services in IMDs, including a new state plan option. This option covers "no more than a period of 30 days (whether consecutive or not) during a 12-month period"[xviii].

Unfortunately, the SUPPORT Act expired on September 30, 2023. Some states also use disproportionate share hospital (DSH) payments to pay for IMDs.

While these policies have progressed, there remains a need to permanently remove the IMD exclusion to increase access to inpatient care when it is medically necessary.

There is inconsistent regulatory guidance on whether QRTPs are considered IMDs.[1] Legislation has been introduced in previous Congresses, clarifying that QRTPs are not IMDs.[xix]

Recommendations

- **ABHW supports permanently eliminating the IMD exclusion to allow people who rely on Medicaid access to MH and SUD treatment delivered in IMDs.** People with mental illness and SUDs should have access to a full range of treatment options, and inpatient psychiatric care may be an essential component of their treatment. We recommend the reintroduction of the Increasing Behavioral Health Treatment Act (118th H.R. 1201), which would eliminate the IMD exclusion. We also support the reintroduction of the Michelle Alyssa Go Act (118th H.R. 8575), which would increase the number of federal Medicaid-eligible inpatient psychiatric beds from 16 to 36 for IMDs.

- **ABHW supports exempting QRTPs from the IMD exclusion.** QRTP support and services are necessary for some children and youth in the foster care system and were not intended to be considered IMDs. Applying the IMD exclusion to QRTPs unnecessarily limits the access of Medicaid beneficiaries to inpatient care. We recommend the reintroduction of the Ensuring Medicaid Continuity for Children in Foster Care Act of 2023 (118th H.R. 4056/S. 3196), which would clarify in statute that QRTPs are not IMDs.

[i] https://hcup-us.ahrq.gov/reports/statbriefs/sb216-Mental-Substance-Use-Disorder-ED-Visit-Trends.pdf

[1] For example, a CMS regional office in July 2019 notified Kentucky that QRTPs over 16 beds are IMDs. However, in September 2019, CMS issued a Frequently Asked Questions document clarifying that QRTPs are not categorically IMDs and that IMD status is a state-by-state, facility-by-facility determination. CMS also stated that there was no cross-reference to the Medicaid statute that would allow QRTPs to be considered an exception to the IMD exclusion. Additionally, CMS most recently informed states about an 1115 waiver that would allow a QRTP that is an IMD to receive coverage for longer than the current demonstration model allows. The CMS document reiterated that a QRTP with over 16 beds might be considered an IMD.

[ii] https://hcup-us.ahrq.gov/reports/statbriefs/sb216-Mental-Substance-Use-Disorder-ED-Visit-Trends.pdf
[iii] https://www.samhsa.gov/data/sites/default/files/reports/rpt47096/2023-nsduh-companion-report.pdf
[iv] https://www.cdc.gov/nchs/nvss/vsrr/drug-overdose-data.htm
[v] https://www.samhsa.gov/data/sites/default/files/reports/rpt47096/2023-nsduh-companion-report.pdf
[vi] https://www.medicaid.gov/medicaid/benefits/behavioral-health-services/index.html
[vii] https://www.kff.org/mental-health/issue-brief/5-key-facts-about-medicaid-coverage-for-adults-with-mental-illness/
[viii] https://www.kff.org/medicaid/issue-brief/demographics-and-health-insurance-coverage-of-nonelderly-adults-with-mental-illness-and-substance-use-disorders-in-2020/
[ix] https://www.ssa.gov/OP_Home/ssact/title19/1905.htm ; 42 CFR §435.1009
[x] https://www.healthaffairs.org/do/10.1377/hblog20190401.155500/full/
[xi] https://www.cbo.gov/publication/59071
[xii] https://www.cbo.gov/publication/59071
[xiii] https://pmc.ncbi.nlm.nih.gov/articles/PMC10155071/
[xiv] https://www.apa.org/monitor/2022/01/special-childrens-mental-health
[xv] *Id.*
[xvi] https://togetherthevoice.org/wp-content/uploads/2020/02/9.20.19_cms_faq_qrtps_002.pdf
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