H.R. 1 Medicaid Resource Guide

RCPA
REHABILITATION & COMMUNITY PROVIDERS ASSOCIATION

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Introduction

On July 4, 2025, Congress passed H. R. 1, which contains provisions to drastically change the Medicaid landscape and has the potential to remove nearly 300,000 Pennsylvanians from their healthcare coverage. RCPA has designed this H.R. 1 guide to educate providers, advocates, and stakeholders on the impacts that the resolution will have on the state's most vulnerable population.

Key H.R. 1 Medicaid Provisions

Provider Taxes: The legislation prohibits states from creating new provider taxes, which States use to finance their share of Medicaid program costs. H.R. 1 will also reduce current provider taxes from the current 6% threshold to 3.5% by requiring states to reduce any provider taxes over that threshold by 0.5% beginning in 2027.

State-Directed Payments: H.R. 1 will lower the maximum rate of state-directed payments to 100% of the equivalent Medicare published payment rate for relevant services for expansion states, which includes Pennsylvania.

Community Engagement/Work Requirements: New requirements for states to make Medicaid eligibility for adults ages 19–64 in the expansion population (or waiver population) are contingent on completing at least 80 hours per month of work or another qualified activity. This provision includes exemptions for mental health and substance use disorders, though clear definitions for those exemptions have not been released.

6-Month Eligibility Redeterminations: Beginning on January 1, 2027, Medicaid expansion enrollees will need to have their Medicaid eligibility checked every six months to maintain coverage as opposed to the current annual requirement.

Cost Sharing: There will be new cost sharing requirements for the expansion population, which will require states to charge expansion adults with incomes between 100–138% of the Federal Poverty Level cost sharing of up to $35 per service. Exemptions include primary care, mental health, and substance use disorder services, and prescription drug cost sharing is capped at low levels. There are also exemptions for CCBHCs, FQHCs, and RHCs, among other clinic types.

Retroactive Coverage: Under current law, states are required to cover Medicaid-eligible medical expenses up to 90 days before an individual applies for coverage. H.R. 1 reduces that retroactive coverage period to one month for expansion enrollees and two months for non-expansion enrollees.

Implementation Timeline

July 4, 2025

- **Replacement of Revenue Threshold Cap:** Replacement of the current 6% cap ("safe harbor threshold") for existing provider taxes with the applicable percentage of net patient revenue attributable to the taxed class as in effect on July 4, 2025.
- **Moratorium on CMS Rules:** Delays implementation of three finalized CMS rules intended to streamline enrollment processes and impose new verification requirements for enrollees.
- **Prohibition to Entities That Provide Abortion Services:** Bars Medicaid participation by certain providers of abortion services for one year.
- **Prohibition on New Provider Taxes:** States will no longer be able to establish new provider taxes or increase existing rates.

July 31, 2026

- **Comment Deadline for CMS IFR:** Comments for the Community Engagement Interim Final Rule (IFR) can be submitted, but CMS does not have to publicly address these comments in revised rules.
- **CER IFR Effective:** The rules for the community engagement requirements (CER) will be considered final.

October 1, 2026

- **Non-Citizen Eligibility Changes:** Refugees, humanitarian parolees, asylum grantees, certain abused spouses and children, trafficking victims, and other non-citizens will no longer be considered qualified aliens for purposes of Medicaid and CHIP.
- **FMAP Reduction for Emergency Medicaid:** States will only receive the base Federal Medical Assistance Percentage (FMAP) for Emergency Medicaid Services.

January 1, 2027

- **Work Requirements Begin for Medicaid Expansion Population:** States will be required to implement community engagement requirements for Medicaid Expansion and in waivers that provide minimum essential coverage.
- **Semiannual Eligibility Renewals for Medicaid Expansion:** States will be required to redetermine eligibility for the Medicaid Expansion population every six months, which will impact approximately 750,000 Pennsylvanians.
- **Retroactive Coverage Reduction:** Retroactive coverage period for Medicaid will be reduced from three months to one month for expansion enrollees and two months for all other Medicaid applicants.

October 1, 2027

- **Provider Tax Limit Reduction:** The provider tax limit will reduce by 0.5% each year until reaching a 3.5% cap in FY 2032. This has the potential to remove $20 billion from Pennsylvania's Medicaid program over the next 10 years.

Janaury 1, 2028

- **State-Directed Payment Limits:** Any existing state-directed payments that are not in compliance with the allowable rate (100% of the Medicare rate in Pennsylvania) are reduced by 10%.
- **SDP Proposals:** CMS has proposed to eliminate uniform increases as a permissible type of SDP for rating periods, with a limited exception for grandfathered SDPs effective January 1, 2028. They have also proposed to permit states to adopt minimum or maximum fee schedules that are no greater than the applicable payment rate limit without CMS' prior approval for rating periods beginning on or after January 1, 2028. These currently remain proposals and have not been finalized.

Community Engagement Requirements

Community Engagement Requirements (CER) apply to non-pregnant adults ages 19 — 64 enrolled in Medicaid through the ACA expansion or comparable 1115 waiver coverage. Beginning January 1, 2027, enrollees must demonstrate at least 80 hours per month of qualifying community engagement activities. These include employment, job training, education, community service, or a combination. The requirements are also met if the enrollee's gross income is $580 per month. These activities must be reported to maintain Medicaid coverage.

Work

- Work in exchange for money, including self-employment, independent contracting, and employment with an organization or company.
- Work in exchange for goods or services ("in-kind" work).
- Unpaid work other than community service, including internships and opportunities to gain job experience.
- Unpaid family caregiving that does not meet other exclusionary criteria.

Community Service

- Must be completed through a structured program under a public or nonprofit organization that will provide oversight and have a process in place for tracking.
- Includes training activities and court-mandated service.
- Excludes activities that benefit one individual rather than the broader community and activities that are purely recreational in nature.

Work Programs

- Workforce Innovation and Opportunity Act programs and Trade Adjustment Assistance programs.
- Employment and Training programs from DOL or VA programs for veterans, SNAP, and other state-approved programs.
- SNAP workforce partnerships.
- Supervised job search and training programs that count as subsidiary activities (less than 40 hours).
- Unemployment insurance job search activities that must be consistent with qualifying work program requirements.

Educational Program

- Enrollment status is determined by the educational institution.
- Institution of higher education, including college, university, or community college.
- Career and technical education.
- High school and state-approved GED programs.
- Excludes independent study and self-paced online programs.
- If the program is not in person, must be a state-approved program able to monitor and document program hours.

Medical Frailty Exemption – Qualifying Conditions

Blind or Disabled: Central vision acuity less than or equal to 20/100 in better eye with correction OR unable to engage substantial gainful activity due to a medically determinable physical or mental impairment lasting 12+ months or expected to result in death.

Substance Use Disorder (SUD): Includes individuals with an active or recovering SUD, including alcohol use disorders, opiate use disorders, and stimulant use disorders, provided the SUD significantly impairs an individual's ability to comply with CERs. Medical frailty applies whether or not an individual is in an active treatment program. Excludes individuals in "stable recovery" (more than five years).

Disabling Mental Disorder: A mental disorder that significantly impairs an individual's ability to comply with CERs. CMS will allow states to consider certain conditions as "disabling mental disorders" based on ISMICC, DSM-5, and ICD-10 criteria. Examples may include schizophrenia, schizotypal disorders, delusional disorder, non-mood psychotic disorder, moderate or sever bipolar depression, major depressive disorder, and panic disorder.

Physical, Intellectual, or Developmental Disability: A disability that significantly impairs an individual's ability to perform one or more activities of daily living (ADL), including bathing, dressing, getting out of bed, using the toilet, and eating. Instrumental ADLs, including shopping and meal preparation, are not included in the definition. CMS directs states to consider the impact of the disability on an individual's ability to comply with CERs. Examples of conditions include muscular dystrophy, cerebral palsy, cystic fibrosis, spina bifida, impairments from injuries (spinal cord injury, brain injury, amputation), Down syndrome, Fragile X syndrome, and Prader-Willi syndrome.

Serious or Complex Medical Condition: Applies to individuals with a serious medical condition, a complex medical condition, or a medical condition that is both serious and complex. The condition does not necessarily need to be life-threatening, but it must be seriously disabling, cause significant pain or discomfort that requires major caregiver time commitment, require frequent monitoring, and/or have multi-specialty coordination. This also includes treatments with risk of serious complications. Examples include HIV/AIDS, end stage renal disease, cancer, and sickle cell disease, but the severity of the condition must be considered.

Medical Frailty Documentation and Verfication

Step 1 – Ex Parte Verification

Before permitting self-attestation, states must attempt to verify medical frailty status with ex parte reviews and screenings. These verification sources may include:

- Claims and encounter data from the previous 12-month period;
- ICD-10 codes with utilization data;
- Acuity scoring algorithms;
- Severity of condition indicators;
- Caregiver utilization data.

Absence of claims data alone may not be used to deny eligibility.

Step 2 – Individual Documentation

Before January 1, 2028, states can accept self-attestation for individuals seeking status as a specified excluded individual as medically frail. Beginning in 2028, states may allow for this attestation only one time. At subsequent renewals, the state must require documentation of medical frailty status.

Acceptable provider documentation may come from physicians, NPs, PAs, psychologists, counselors, therapists, clinical social workers, and other credentialed practitioners.

Community Engagement in PA

- The state will determine who is considered medically frail with information from multiple sources, including health care claims, managed care case management, the Pennsylvania Patient and Provider Network (P3N), and applicant-provided information.
- The Pennsylvania Department of Human Services (DHS) will begin outreach to impacted individuals beginning September 2026. DHS has released samples of what their communication will look like.
  - CER Initial Outreach Letter: *Initial outreach letter informing individuals currently in the Medicaid Expansion Population and those joining the Medicaid Expansion population prior to January 1, 2027, of upcoming CER requirements and key information*
  - CER Outreach Letter Periodic: *Recurring outreach will be periodic as determined by CMS*
  - CER Non-Compliance Notice Application: *CER non-compliance notice informing new applicants of the specific due date (35 days from the mail date) by which they must demonstrate CER compliance or exclusion*
  - CER Non-Compliance Notice Renewal: *If CER exemption/compliance cannot be determined during ex parte, notice informing individuals of the specific due date (35 days from the mail date) by which they must demonstrate CER compliance or exclusion*
  - CER Self-Assessment: *CER self-assessment form allowing individuals to self-attest to CER activities and exemptions when that information is not provided on the application, mailed with the CER Non-Compliance Notice*

Proposed Exemptions for Community Engagement*

- People under age 26 who aged out of foster care
- Members of recognized American Indian or Alaska Native tribes
- Parents, caretakers, or caregivers of children under 14
- Parents, caretakers, or caregivers of an individual with disabilities
- Veterans with a total disability rating (100% rating) from the Veterans Administration
- People who are medically frail or have special medical needs, including blindness or disability, disabling mental disorder, or other significant physical, intellectual, or developmental disabilities
- People compliant with TANF work requirements
- People receiving SNAP benefits who are not exempt from SNAP work requirements
- People who are participating in a substance use or alcohol treatment program
- People who are incarcerated or have been incarcerated within the last 90 days
- People who are pregnant or receiving postpartum coverage through Medical Assistance
- People who received inpatient hospital care
- People who traveled outside of their community to receive medical care for themselves or a dependent in the last month

*This draft list is still awaiting CMS final approval.

Provider Readiness

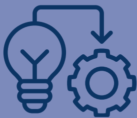
Fraud, Waste, and Abuse

In Spring of 2026, the House Committee on Energy and Commerce sent ten states letters that identified them as “high risk” for Medicaid fraud, including Pennsylvania. The state was required to respond to this letter, though the response has not been publicly released. CMS has also required Pennsylvania to submit a plan on a process to revalidate “high risk” providers, which DHS plans to submit in June.

Recommendations for Providers

With such significant changes coming to the Medicaid program, providers can take the following steps to minimize negative impacts:

- Ensure patient contact information is up-to-date.
- Monitor eligibility by incorporating related questions into office and clinical practices.
- Collect data now to establish a baseline and continue to collect data once changes are implemented to measure the impact of the policy changes on clients, programs, and the workforce.



Implementation Challenges

- **State Challenges:** Final guidance for CERs was released on June 1, 2026, leaving states with only seven months to ensure that their beneficiary communication, workforce, and technological infrastructure are prepared for the January 1, 2027, implementation of semi-annual redeterminations and community engagement requirements.
- **Provider Challenges:** Providers will also see an increase in administrative burden, as they may need to serve as the source of documentation for medical frailty and will also be crucial in aiding beneficiaries with eligibility status.
- **Beneficiary Challenges:** Beneficiaries will have to navigate the new, complicated landscape of eligibility changes.

FAQ

Do we know what diagnoses qualify as a Serious Mental Illness?

CMS released their interim final guidance on June 1, 2026, which included a description of what is constituted as a "disabling mental disorder," where states are instructed to consider whether or not the mental disorder significantly impairs an individual's ability to comply with the community engagement requirements. Instead of narrowly defining what is considered a disabling mental disorder, CMS is encouraging states to use criteria from the ISMICC, DSM-5, and ICD-10. CMS provided examples of disorders that may be considered for the medical frailty exemption, including:

- Schizophrenia and schizotypal disorder
- Moderate or severe bipolar depression
- Major depressive disorder
- Delusional disorder and non-mood psychotic disorders
- Panic disorder

CMS states this is not an exhaustive list, only examples for states to consider.

What is the timeline for PA's Rural Health Transformation Program fund release?

The Rural Health Transformation Program is a $50 billion initiative to expand and improve healthcare in rural areas, with $10 billion allocated every year between 2026 and 2030. The funding opportunities will be released throughout the duration of the 5-year grant. The first year allocation of $193 million must be obligated to a program by October 31, 2026. The first grant opportunity was released on May 1, 2026, and closed June 1, 2026. It is expected that multiple grants will be released in the summer of 2026.

More information about the PA Rural Health Transformation Program.

Will refugees without green cards but have one or two exceptions still qualify for Medicaid?

RCPA has requested additional information from the Office of Income Maintenance and will update this FAQ accordingly.

Which behavioral health services will be impacted by the state-directed payment caps? Are CCBHCs, FQHCs, and RHCs included?

SDP caps will impact inpatient and outpatient hospital services, nursing facility services, and other institutional care. FQHCs, CCBHCs, and RHCs are explicitly excluded from SDP limits.

Is there still an opportunity for states to delay implementation for two years?

There was information stipulated in H.R. 1 that a delay could be requested if the state was making a "good faith effort" towards implementation, but that would have to be reviewed by CMS. In discussion with DHS, it does not seem that requesting a waiver or delay will be a viable strategic option.

Will outreach letters be sent in people's native languages?

On May 11, 2026, DHS released a number of documents for public review, which included drafted communications to Medicaid expansion enrollees. They did not clarify whether these letters are to be translated to the enrollees' native languages. RCPA has requested clarification and will update the FAQ accordingly.

With the anticipated termination of Medicaid coverage for immigrants and refugees, what is Pennsylvania's plan for providing medical care for the families who depend on MA to stabilize and become self-sufficient?

RCPA has requested additional information from the Office of Income Maintenance and will update this FAQ accordingly.

There are many parents in the expansion population. How are we including information on children's eligibility for adults who may be parents? Are other state agencies engaged?

RCPA and its members have been deeply engaged in ensuring Medicaid coverage for children since the Medicaid unwinding in PA. There have been cross-systems efforts to ensure ongoing coverage, but there have been lapses and great barriers to guaranteeing Medicaid coverage since the unwinding. Unintended consequences have included rolling these children over to CHIP and Fee-for-Service (FFS), but many services cannot be funded through those pathways.

RCPA has requested additional clarification regarding state agency involvement and will update the FAQ accordingly.

Providers have seen an influx of new forms that clients are requesting to be completed in order to continue their assistance eligibility. These forms request more than diagnosis verification and are skewing more into assessments of ongoing disability, which is outside the scope of what many providers are trained to do. It is putting providers in the position of being asked to do work outside of their scope of training. Should providers be expected to see more of these types of documents, and, if so, what advice do you have for providers who may not feel comfortable assessing the functional impacts in settings that they cannot directly observe?

As stated in the June 1, 2026, interim final rule, providers may play a role in documenting medical frailty when claims data cannot.

It is currently unknown whether this documentation will be diagnosis verification or an assessment. This FAQ will be updated accordingly as information becomes available.

What communication is DHS sharing with families, and how can providers assist in reviewing and providing feedback?

DHS released drafted communications on May 11, 2026, for public comment. Feedback is due by May 31, 2026. A finalized communication plan has not yet been released.

Do you have a question?

This FAQ will be updated as the State and Federal governments release more information. Please forward any questions to esharp@paproviders.org.

Resources

National Council for Mental Wellbeing

- H.R. 1 Hub
- H.R. 1 Implementation Journey Map

Academy of Health Information Professionals

- Medicaid Community Engagement Requirements Toolkit for States

Inseparable

- A State Guide to Using Data for Community Engagement Determinations
- Medicaid, Mental Health, and H.R. 1: A Guide for State Agencies and Policymakers

Pennsylvania Department of Human Services

- Federal Changes to Benefits Programs
- H.R. 1 Implementation: Medical Frailty
- Improving Rural Health in Pennsylvania

Sellers Dorsey

- Community Engagement Requirement Interim Final Rule Summary

This document will continue to be updated as new information from CMS and DHS is released.