

September 2025

H.R. 1: What States Need to Know About IPS and Funding Options

Overview

On July 4, the House of Representatives Bill 1 (H.R.1), the One Big Beautiful Bill Act (OBBBA)¹, was signed into law. One mandate in H.R.1 is that states must implement community engagement requirements, which requires Medicaid members aged 19–64 (covered through the Affordable Care Act Medicaid expansion or an 1115 demonstration waiver providing minimum essential coverage) to engage in at least 80 hours of employment, education, a work program, or community service/volunteering to maintain their Medicaid eligibility.

Adults with serious mental illness (SMI) have historically struggled to find and maintain competitive employment. They experience unemployment and underemployment rates higher than individuals without SMI². Studies have found that over 60% of individuals with SMI want to work and less than 20% are employed³.

Individual Placement and Support (IPS) is an evidence-based practice that supports people with SMI in finding and sustaining competitive employment. When compared to treatment as usual, IPS successfully finds and supports 67% of individuals in employment, whereas 27% of individuals receiving treatment as usual find employment⁴.

States have different options for funding IPS services. At present, 29 states have implemented IPS utilizing a variety of funding authorities. As employment becomes a more pressing need and challenges with linking individuals with SMI to competitive employment grow, more states can turn to IPS as an option, braiding federal funding resources to support the service implementation.

Next Steps

Funding Options for IPS

In a quickly evolving federal funding landscape, there are several ways to maximize funding to reimburse for supported employment services. One example is utilizing both Vocational Rehabilitation funding and Medicaid funding, billing each funding source for different activities. Vocational Rehabilitation can cover services for eligible individuals, such as developing a workplan and assisting with employment activities, while Medicaid can reimburse for services that provide rehabilitative skills to an individual to allow them to succeed in the workforce.

¹ Congress.Gov. “H.R.1 — 119th Congress (2025-2026),” available at <https://www.congress.gov/bill/119th-congress/house-bill/1/text>.

² Yang Y, Niu L, Amin S, Yasin I. Unemployment and mental health: a global study of unemployment's influence on diverse mental disorders. *Front Public Health*. 2024 Dec 13;12:1440403. doi: 10.3389/fpubh.2024.1440403. PMID: 39735766; PMCID: PMC11672120.

³ [Mental Illness: NAMI Report Deplores 80 Percent Unemployment Rate; State Rates and Ranks Listed—Mode | NAMI: National Alliance on Mental Illness](#)

⁴ [A Systematic Review and Meta-analysis of IPS Supported Employment for Young Adults with Mental Health Conditions](#)

There are several waiver options available under Medicaid to provide supported employment funds, such as:

- A home- and community-based services option [1915(i) and 1915(c)], which allows coverage of services to support individuals residing in the community instead of a congregate/institutional setting.
- An 1115 SMI/Serious Emotional Disturbance Demonstration Waiver to allow states to make experimental or pilot changes to their Medicaid program to test new approaches that may not align with federal requirements, but do promote the objectives of the Medicaid program.
- In-lieu-of services that allows states and managed care plans to cover services that are substitutes for services covered under the State Plan.

Benefits of IPS

In addition to providing individuals access to a service that can help them meet community engagement requirements, other benefits of IPS and employment include:

- Potential decrease in inpatient treatment costs.
- Potential reduction in long-term mental health treatment costs.
- Potential reduction in overall costs when IPS is replacing day treatment programs.
- Improved self-esteem and financial security.
- Less social isolation.
- Reduced substance use and maintenance of mental wellbeing.

How Mercer Can Help

Mercer Government (Mercer) has experience identifying Medicaid authorities that can cover IPS, coordinating with Medicaid and Vocational Rehabilitation offices for implementation planning, funding, and coverage of services, developing workflows to support referrals to IPS teams, rate setting, stakeholder engagement, and strategic planning. Mercer can also assist with quality improvement and fidelity evaluation initiatives. We can provide states support in identifying ways to provide Medicaid coverage for evidence-based employment services and how to engage other State agencies to sequence funding. Mercer can also support states as they begin to determine how to implement community engagement requirements of H.R. 1, including supported employment.

Caveats and Limitations

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For More Information

Please contact [Kathy Nichols](#), [Stacy Smith](#), or [Lauren Chenoweth](#) to talk through the potential impact of these new therapies and updates to your specific state program. You may also email us at: mercergovernment@mercergov.com.

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