

Implementing “Budget Neutrality,” Section 71118 of the “Working Families Tax Cut” Legislation (Public Law 119-21)

CMS Presentation to States

June 23, 2026

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Presentation Purpose

Describe the methodology to determine whether applications for (or renewal or amendment of) a section 1115 demonstration project meets the budget neutrality requirements of subsection 1115(g) of the Social Security Act. The approach CMS expects to apply on a provisional basis beginning January 1, 2027, and changes from current policy are described in State Medicaid Director Letter (SMDL) #26-003.

Table of Contents

- 1 Context
- 2 Changes to Determining Budget Neutrality
- 3 Overview of Proposed Approach Under Subsection 1115(g)
- 4 Calculation of Rollover Savings
- 5 Transitional Impacts and Additional Policy Components

Context

Background

- On July 4, 2025, President Trump signed Public Law No. 119-21, which the Centers for Medicare & Medicaid Services (CMS) refers to as the “Working Families Tax Cut” (WFTC) legislation.
- Section 71118 of the WFTC legislation added budget neutrality as a new statutory requirement in subsection 1115(g) of the Social Security Act.
- CMS anticipates significant changes to the current approach to budget neutrality, including a more rigorous approach to evaluating the Federal budget impact of section 1115 demonstrations.
- CMS is committed to supporting states in this effort and ongoing state and stakeholder engagement will inform areas of need for additional guidance, including a notice of proposed rule making in early 2027.

WFTC Legislation | Section 71118

SEC. 71118. REQUIRING BUDGET NEUTRALITY FOR MEDICAID DEMONSTRATION PROJECTS UNDER SECTION 1115.

(a) In General.—Section 1115 of the Social Security Act (42 U.S.C. 1315) is amended by adding at the end the following new subsection:

“(g) Requirement of Budget Neutrality for Medicaid Demonstration Projects.—

(1) In general.—Beginning January 1 2027, the Secretary may not approve an application for (or renewal or amendment of) an experimental, pilot, or demonstration project undertaken under subsection (a) to promote the objectives of title XIX in a State (in this subsection referred to as a ‘Medicaid demonstration project’) unless the Chief Actuary for the Centers for Medicare & Medicaid Services certifies that such project, or, in the case of a renewal, the duration of the preceding waiver, is not expected to result in an increase in the amount of Federal expenditures compared to the amount that such expenditures would otherwise be in the absence of such project. For purposes of this subsection, expenditures for the coverage of populations and services that the State could have otherwise provided through its Medicaid State plan or other authority under title XIX, including expenditures that could be made under such authority but for the provision of such services at a different site of service than authorized under such State plan or other authority, shall be considered expenditures in the absence of such a project.

(2) Treatment of savings.—In the event that expenditures with respect to a State under a Medicaid demonstration project are, during an approval period for such project, less than the amount of such expenditures that would have otherwise been made in the absence of such project, the Secretary shall specify the methodology to be used with respect to the subsequent approval period for such project for purposes of taking the difference between such expenditures into account.”

Overview

- Budget neutrality policy applies to all 1115 demonstrations approved by CMS.
- Beginning January 1, 2027, the Secretary may not approve an application, amendment or renewal of a Medicaid section 1115 demonstration project unless the Chief Actuary of CMS certifies that the demonstration is budget neutral.
- Current budget neutrality requirements are not sufficient for the Chief Actuary to certify based on actuarial principles.
- CMS intends to go through rulemaking to formalize how budget neutrality will be determined and certified.

Current Budget Neutrality Approach

CMS generally applies the following budget neutrality approach to section 1115 demonstrations:

1

Budget Neutrality Test

The difference between **anticipated** with waiver (WW) costs and without waiver (WOW) baseline expenditures.

2

Costs Not Otherwise Matchable

Any projected demonstration savings may be able to offset **costs not otherwise matchable (CNOMs)**.

3

Demonstration Period

State reports quarterly and annually on budget neutrality monitoring and can make adjustments such as mid course corrections, if needed.

4

Neutrality Assessment

Actual WW costs are compared to the WOW baseline¹ to determine if the demonstration is under the budget neutrality cap.

5

Savings and Rollover

If expenditures are below the budget neutrality cap, savings may sometimes be “rolled over” to offset costs in future demonstrations.

Overages

Federal expenditures above the budget neutrality cap are owed back to the federal government.

Pre Approval

Post Demonstration

Note: Current budget neutrality refers to the policies described in the [2024 budget neutrality SMDL](#), prior to January 1, 2027.

¹ Per the [2024 budget neutrality SMDL](#), the **WOW baseline** for a future demonstration renewal period is a weighted blend of the historical WOW baseline and actual WW experience, trended forward by the Medicaid coverage cost trends from the annual President’s Budget.

Changes to Determining Budget Neutrality

Budget Neutrality Requirement in Subsection 1115(g) of the Act

Beginning January 1, 2027, the Secretary may not approve an application for (or renewal or amendment of) an experimental, pilot, or demonstration project undertaken under subsection (a) to promote the objectives of title XIX in a State (in this subsection referred to as a 'Medicaid demonstration project') unless the Chief Actuary for the Centers for Medicare & Medicaid Services certifies that such project, or, in the case of a renewal, the duration of the preceding waiver, is not expected to result in an increase in the amount of Federal expenditures compared to the amount that such expenditures would otherwise be in the absence of such project.

For purposes of this subsection, expenditures for the coverage of populations and services that the State could have otherwise provided through its Medicaid State plan or other authority under title XIX, including expenditures that could be made under such authority but for the provision of such services at a different site of service than authorized under such State plan or other authority, shall be considered expenditures in the absence of such a project.

Certification of Budget Neutrality

Beginning January 1, 2027, the CMS Chief Actuary must certify that all 1115 demonstration applications, amendments, and renewals are budget neutral.

Budget neutral means the demonstration is not expected to increase federal Medicaid expenditures compared to what would have been spent without the demonstration.

Medicaid Authorizable Populations and Services (MAPS) Expenditures

Beginning January 1, 2027, to be an expenditure in absence of the project, the service **and** the underlying population receiving that service must be able to be authorized under the State Plan or other Medicaid authority. These activities will be referred to as MAPS.

Demonstrations authorizing service expenditures in IMDs and carceral settings will be considered MAPS.

Certification of Budget Neutrality: Focus on 1115-Only Activities

Section 1115 demonstrations should focus on activities that can only be carried out under section 1115 authority (activities not approvable under other Medicaid authorities).

- States will be encouraged to use State Plan or other Medicaid authority for policy objectives that align with those authorities, where appropriate.
- The new budget neutrality approach reinforces this by focusing certification of budget neutrality on the cost and savings impacts from section 1115-only activities.



Increases in Expenditures (Costs): The direct costs of an activity that can only be authorized under section 1115.



Indirect Costs and Savings (Effects): Changes in expenditures that are indirectly related to the activities that can only be authorized under section 1115.

Effects could represent costs or savings.

New Budget Neutrality Approach

CMS anticipates using a new approach to certify section 1115 demonstrations as budget neutral beginning January 1, 2027:

1

Classification of Activities:

1115-Only Activities

or

Medicaid Authorizable Populations and Services (MAPS)

2

Financial Impact Analysis of Each 1115 Only Activity

Total Costs
- Total Savings
Financial Impact

3

Net Financial Impact of Demonstration

Financial impacts of all activities are aggregated for the demonstration.

4

Chief Actuary Budget Neutrality Determination and Certification

Independent actuarial determination and attestation by the CMS Chief Actuary that the section 1115 demonstration is projected to be budget neutral with consideration of rollover savings, if applicable.

Demonstration Period

Pre Approval

Current vs. Proposed Budget Neutrality Approach (1/2)

	Current Approach	New Approach
Budget Neutrality Determination	<p>Analysis of With (WW) and Without Waver (WOW) expenditures based on state data.</p> <p>Initial analysis prior to approval; budget neutrality assessed post demonstration period.</p>	<p>Actuarial, economic, statistical or other comparable rigorous analysis of projected financial impacts of individual demonstration activities.</p> <p>CMS Chief Actuary certifies budget neutrality prior to approval.</p>
Budget Neutrality Expenditure Limit	<p>States cannot exceed the expenditure limit published in the state's STCs, including for hypothetical expenditures.</p> <p>Excess federal funds must be returned to CMS.</p>	<p>No expenditure limits or budget neutrality cap.</p> <p>Demonstrations expected to result in an increase in federal expenditures will not be approved.</p>
Expenditures in Absence of the Project	<p><i>Hypotheticals</i>: Populations or services that the state could have otherwise provided.</p>	<p><i>MAPS</i>: Populations and services for that population that the state could have otherwise provided in state plan or other Medicaid authority, subject to guardrails.</p>

Current vs. Proposed Budget Neutrality Approach (2/2)

	Current Approach	New Approach
Budget Neutrality Monitoring	Quarterly and Annual reporting on budget neutrality.	<p>States expected to monitor key indicators, program outcomes and expenditures, and manage the demonstration within CMS guardrails, to be defined.</p> <p>CMS will utilize new monitoring special terms and conditions (STCs) of expenditures and will require states to complete corrective actions if expenditures substantially deviate from a state's projection.</p>
Savings and Rollover	<p>Hypothetical and deemed expenditures not allowed to generate savings.</p> <p>Current demonstration savings plus rollover of 10 years of legacy savings can be used to offset costs not otherwise matchable.</p>	<p>MAPS activities do not generate savings.</p> <p>Current demonstration period savings plus rollover of previous demonstration period savings can be used to offset current demonstration period costs.</p>

Overview of New Approach to Determining Budget Neutrality Under Subsection 1115(g)

1

Classification of Activities:

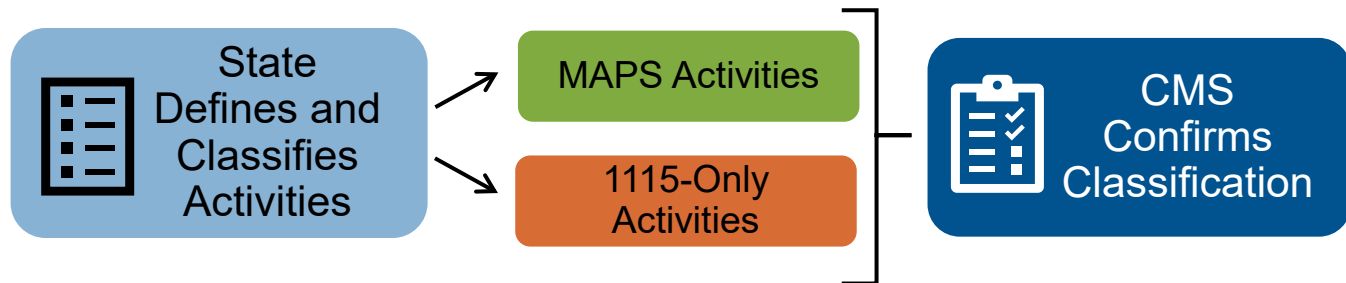
1115 Only Activities

or

Medicaid Authorizable Populations and Services (MAPS)

States Define *Activities* in the New Budget Neutrality Approach

- The new budget neutrality approach focuses certification of budget neutrality on the costs and savings impacts from 1115-only activities.
- States will analyze each activity requested in their demonstration and classify the type of activity being requested.
- CMS will confirm state classification of activities.



Activities can be defined narrowly, such as one specific service, or broadly, such as a group of services that together support a specific demonstration objective.

1

Classification of Activities:

1115 Only Activities

or

Medicaid Authorizable Populations and Services (MAPS)

Classification of Activities

Medicaid Authorizable Populations and Services (MAPS)

Activities the state could have implemented through or are a subset of the Medicaid State Plan or other Medicaid authority. Can also include services provided at different sites of service (DSS) than authorized under the state plan.

Since MAPS activities are equivalent to or a subset of State Plan coverage, MAPS costs will be considered equal to State Plan costs and will have a net financial impact of zero in budget neutrality certification.

Section 1115-only activities

Activities that could be federally matched only under section 1115 authority.

These activities, and their cost and savings impacts drive budget neutrality.

Types of Activities

All activities can be classified into two categories for determining budget neutrality:

Managed care can be implemented through other Medicaid authorities and will be classified as a MAPS activity. Managed care will not be able to generate budget neutrality savings under the proposed approach.

1

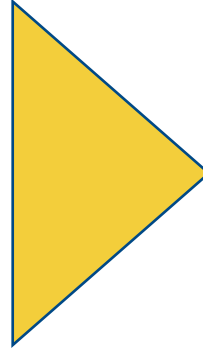
Classification of Activities:

1115 Only Activities
or
Medicaid Authorizable Populations and Services (MAPS)

MAPS Activities: New Approach

Current Approach

Populations **or** services that the state could have otherwise provided.



New Approach

Populations **and** services for that population that the state could have otherwise provided.

Definitions for allowed activities under subsection 1115(g) of the Act:

Medicaid Authorizable Populations and Services (MAPS): Coverage of populations and services that the state could have provided through its Medicaid state plan or other authority under title XIX. MAPS activities must either be equivalent to, or a subset of the coverage that could otherwise be provided through the Medicaid state plan or other authority under title XIX.

Different Site of Service (DSS): Expenditures that could be made under such authority but for the provision of such services at a different site of service than authorized under such state plan or other authority for IMD and carceral settings. These expenditures are also considered MAPS.

1

Classification of Activities:

1115 Only Activities

or

Medicaid Authorizable Populations and Services (MAPS)

MAPS Activities: Detail

MAPS activities must either be equivalent to, or a subset of the coverage that could otherwise be provided through the Medicaid state plan or other authority under title XIX, and would have a net financial impact of zero in budget neutrality certification.

States can request that CMS consider treating an activity as MAPS in a demonstration application and CMS will confirm that the activity meets the MAPS definition. States must:

- Show how the coverage of populations and services could have otherwise been provided through its Medicaid state plan or other title XIX authority, and
- Provide the federal budget impact for MAPS expenditures.

For activities that do not qualify as MAPS (i.e., section 1115-only activities), the state must provide a detailed analysis of the financial impacts of the activity. CMS expects that the proposed approach would require analysis of costs and savings for some expenditures currently approved as hypothetical.

For example, the change will impact “Supplemental Health-Related Social Needs Aggregate Ceiling (SHAC)” expenditures, which were authorized as hypothetical expenditures in demonstration approvals since September 2022 and will now require cost and savings analysis as an 1115-only activity.

Example Classification of Section 1115 Demonstration Activities

A state proposes two activities:



Expands eligibility to a targeted population that could be included in an optional coverage group under the state plan and grants coverage of state plan services using state plan payment methodologies.



Adds an assistive technology service to multiple coverage groups, including the new group in the demonstration.

Medicaid Authorizable Populations and Services (MAPS)



The new population would be a MAPS activity because the state could have covered this group under the state plan, and the state's coverage is equivalent to the state plan and uses state plan approved payment methodologies.

Section 1115-only Activities



The assistive technology service would be considered a section 1115-only activity for budget neutrality, since the proposed service could not be part of the Medicaid program under the state plan or other authorities.

Example

1

Classification of Activities:

1115-Only Activities

or

Medicaid Authorizable Populations and Services (MAPS)

Example Classification of Current Section 1115 Authorities (1/2)

Description of Demonstration Authority	Current Approach	New Approach
Coverage of services furnished to beneficiaries who are residing in an institution for mental diseases (IMD) primarily to receive treatment for a substance use disorder (SUD), serious mental illness (SMI) or serious emotional disturbance (SED) — which would have been otherwise allowable under title XIX were it not for the IMD exclusion.	Hypothetical	MAPS
Coverage of pre-release services furnished to certain incarcerated beneficiaries who are soon-to-be former inmates of a public institution during a specified pre-release period – which would have been otherwise allowable under title XIX were it not for the inmate payment exclusion.	Hypothetical	MAPS
Expenditure authority for infrastructure funding to support implementation, expansion, or maintenance of services or capacity building in reentry demonstrations or health related social needs (HRSN) demonstrations.	Hypothetical	Section 1115-only
Expenditure authority for partial new adult group expansions.	Hypothetical	MAPS
Coverage of family planning services that is less than state plan coverage for a population eligible to receive family planning services under the state plan.	Hypothetical	MAPS
Expenditure authority for payment of Marketplace subsidies through qualified health plans, including payment for part or all of the cost of premiums or for payments to reduce cost sharing requirements.	Hypothetical	Section 1115-only

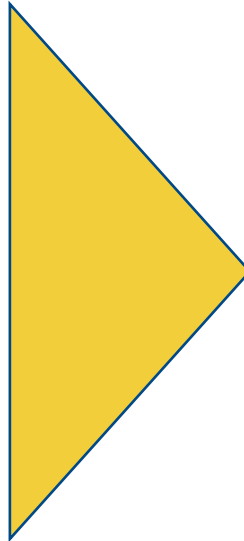
Example Classification of Current Section 1115 Authorities (2/2)

Description of Demonstration Authority	Current Approach	New Approach
Coverage of HCBS services (section 1915(c) or section 1915(i)) for state plan eligible adults who meet eligibility criteria for the specific services – no alterations to eligibility or benefits	Hypothetical	MAPS
Coverage of targeted HCBS for adults who meet section 1915 eligibility criteria for the specific HCBS services.	Hypothetical	MAPS
Expenditure or waiver authority to provide coverage of populations and services that could be provided under section 1915(i) HCBS authority, with wait list.	Hypothetical	MAPS
Expenditure authority to expand eligibility for HCBS beyond what is authorizable under the state plan or a section 1915 waiver.	Hypothetical	Section 1115-only
Expenditure authority to cover services authorized under the Medicaid state plan or other title XIX authority for Medicaid state plan eligible individuals who are not otherwise eligible for the services under the Medicaid state plan or other title XIX authority.	Hypothetical	Section 1115-only

Authorities Deemed Budget Neutral

Current Approach

- CMS excepts certain demonstration authorities from budget neutrality limits by deeming them budget neutral.
- Authorities currently deemed budget neutral include demonstrations with only waiver authorities (i.e., no expenditure authority), coverage for out-of-state Former Foster Care Youth, demonstrations for U.S. Territories, and authority for a state to operate a single managed care plan.



New Approach

- CMS anticipates no longer deeming authorities **budget neutral**: All demonstration authorities will be classified and reviewed as either “MAPS” or “Section 1115-only” activities.
- All demonstration authorities currently deemed budget neutral would be required to meet the proposed budget neutrality framework.
- CMS intends to propose in rulemaking that, **in limited circumstances, CMS would expedite budget neutrality review to address public health emergencies (PHE).**

2

Financial Impact Analysis of Each 1115 Only Activity

$$\frac{\text{Total Costs} - \text{Total Savings}}{\text{Financial Impact}}$$

Analysis for MAPS and Section 1115- only Activities

- Expenditures for **MAPS** activities would be treated as equivalent to expenditures absent the demonstration and would have a financial impact of zero in budget neutrality certification.
 - States must provide a federal budget impact for the demonstration period that will be used to monitor state expenditures.
 - States do **not** need to complete an actuarial, economic, statistical or other analysis of costs for certification of MAPS.

MAPS Activities



Federal Budget Impact

1115-Only Activities



Actuarial, economic, statistical, or other rigorous analysis of costs and savings of each 1115-only activity.

Note: While MAPS activities have a financial impact of zero in budget neutrality certification, a section 1115-only activity could impact populations or services provided through MAPS. These impacts would need to be considered in a state's financial impact assessment of the 1115-only activity.

2

Financial Impact Analysis of Each 1115 Only Activity

Total Costs
- Total Savings
Financial Impact

Financial Impact Analysis for Section 1115-only Activities

- **Financial Impact Requirements** – States would be required to **provide an analysis of these activities' financial impact** for the duration of the requested authority.
 - The analysis may be actuarial, economic, or statistical, or another comparable rigorous approach.

The analysis and applicable context and rationale would need to be **sufficiently thorough and well-documented** for CMS' Chief Actuary to evaluate its conclusions, including the data, assumptions, and methodologies used in its development.

- **Analysis Methods** – Analysis should be on a PMPM basis or percentage cost basis, except for lump sum amounts which should be provided as aggregate costs for the duration of the initiative.

Note: Where PMPM amounts are used, states should provide enrollee count estimates to develop aggregate net impact estimates.

2

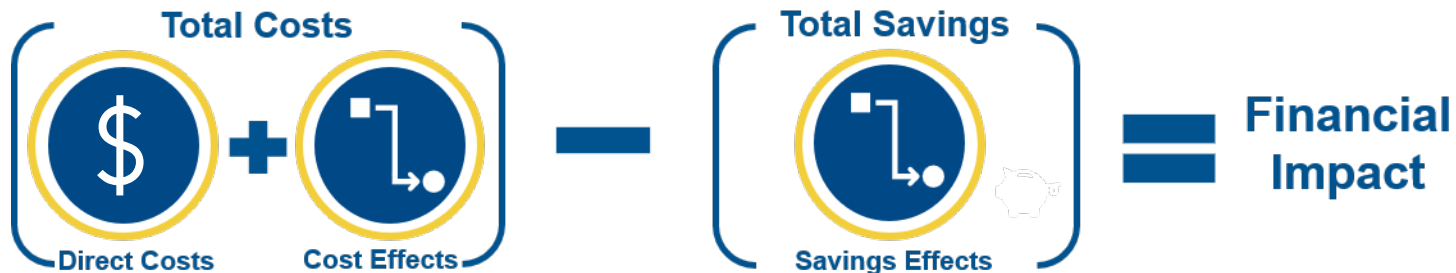
Financial Impact Analysis of Each 1115 Only Activity

$$\frac{\text{Total Costs} - \text{Total Savings}}{\text{Financial Impact}}$$

Financial Impact Analysis

1115-only Activities

States would be required to **analyze** the costs and savings **per activity**:



Cost Examples

- Direct costs of providing the 1115-only activity.
 - Services, Benefits, Populations
- Indirect costs from increases in utilization or costs for other services or populations due to 1115-only activity.
 - Example: Increased use of State Plan Services due to 1115-only activity.
- Administrative costs attributable to the 1115-only activity.
 - Example: Systems, Staff, Vendors, Evaluators, etc.

Saving Examples

- Reductions in utilization or costs for other services or populations due to 1115-only activity.
- Avoided costs due to improved outcomes or care efficiency caused by the 1115-only activity.
- Other demonstrable savings attributable to the 1115-only activity.
- States cannot achieve savings from simply reducing enrollment and/or benefits.

Note: Inclusion of Administrative Costs in Budget Neutrality is a change from the current approach where Administrative Costs are not considered.

2

Financial Impact Analysis of Each 1115 Only Activity

$$\frac{\text{Total Costs} - \text{Total Savings}}{\text{Financial Impact}}$$

Financial Impact Analysis Flexibility

At this time, CMS does **not** intend to prescribe a specific type of analysis that states would be required to conduct in analyzing the financial impacts of an activity. CMS aims to release additional technical guidance on state assessment of financial impacts.

- States should determine the most appropriate analysis for the activities in their demonstrations.
 - Economic evaluation methods used for demonstration evaluation may be appropriate for states to consider employing, if adjusted for the scope of budget neutrality rather than demonstration evaluation (e.g., inclusion/exclusion of certain programs and/or populations).
- States should be prepared to fully explain their financial impact assessment and the underlying data, assumptions and methodologies used to inform the assessment and cite specific evidence where appropriate for each 1115-only activity.



Are states required to use an actuary to develop the financial impact analysis?

No, states may choose the most appropriate analysis method. All financial impact assessments will be evaluated by the CMS Chief Actuary.

Analysis Methodology for New Demonstrations and Renewals

New Demonstrations and New Activities

States provide prospective analyses of the upcoming demonstration period that would rely on modeling, simulation, estimation, or other experience and research of comparable activities already used or tested elsewhere (e.g., other Medicaid programs or other healthcare programs in the state or other states).

Renewals

States provide a historical analysis of the activities in the current demonstration period and a prospective analysis of the upcoming demonstration period that is informed by the financial impacts of the historical analysis that would consider how costs and savings may change in the future.

CMS plans to offer technical assistance to help states develop these analyses.

Amendments are discussed later in this presentation

3

Net Financial Impact of Demonstration

Financial impacts of all activities are aggregated for the demonstration.

Net Financial Impact (NFI) of Demonstration

1115-Only Activity 1



1115-Only Activity 2



1115-Only Activity 3



After states calculate the financial impacts of each activity in the demonstration, states will sum the financial impact of each activity to determine the net financial impact of the demonstration.

A budget neutral demonstration will have a net financial impact that can be certified by the Chief Actuary that is *less than or equal to zero* for the upcoming demonstration period.*

*Except in cases when a state has sufficient rollover savings that can offset the positive net financial impact.

$$\text{Financial Impact 1} + \text{Financial Impact 2} + \text{Financial Impact 3} + \dots = \text{Net Financial Impact of Demonstration}$$

Example Net Financial Impact of Demonstration

Activity	Prospective Financial Impact Analysis		
	Per Member Per Month <i>Total Computable</i>	Total Expenditures <i>Total Computable</i>	Total Expenditures <i>Federal</i>
MAPS Activity 1	\$0	\$0	\$0
MAPS Activity 2	\$0	\$0	\$0
1115-Only Activity 1	\$10 PMPM (Cost)	\$10 Million (Cost)	\$5 Million (Cost)
1115-Only Activity 2	- \$5 PMPM (Savings)	- \$5 Million (Savings)	- \$2.5 Million (Savings)
1115-Only Activity 3	- \$5 PMPM (Savings)	- \$5 Million (Savings)	- \$2.5 Million (Savings)
Net Financial Impact of Demonstration			\$0

Example

3

Net Financial Impact of Demonstration

Financial impact of all activities are aggregated for the demonstration.

This budget neutral demonstration can be certified by the Chief Actuary if it has a net financial impact that is less than or equal to zero.

4

Chief Actuary Budget Neutrality Evaluation and Certification

Independent actuarial determination and attestation by the CMS Chief Actuary that the section 1115 demonstration is projected to be budget neutral with consideration of rollover savings, if applicable.

Chief Actuary Budget Neutrality Evaluation and Certification

- CMS would review the state's analyses and narrative support, including detailed analysis of the financial impact of each activity and the Net Financial Impact of the Demonstration.
- CMS anticipates having questions about the state's analysis and issuing requests for additional information as part of the evaluation of the state's application.

There is no fixed timeframe for budget neutrality reviews.

- The evaluation may include multiple rounds of questions and could require additional state analysis.
- If there are changes to the proposed demonstration during negotiations, additional review would be required and CMS may require additional analysis before finalizing a certification of budget neutrality.

Certifying Budget Neutrality for Amendments to Existing Demonstrations

- Beginning January 1, 2027, amendments to demonstrations approved prior to January 1, 2027 would need the Chief Actuary to certify that the entire demonstration is budget neutral as a condition of approving the amendment.

States would need to provide analyses of the financial impact of **all** activities in the demonstration (including those not being amended) for the entire duration of the current demonstration period (both prior to and after the amended period) and analyses for the prior demonstration period.

- After a demonstration has been certified as budget neutral by the Chief Actuary, amendments to that demonstration would only need Chief Actuary's review of activities that are amended or affected by the changes in the amendment.

Demonstration Rollover Savings

Consideration of Rollover Savings

“Treatment of savings.—In the event that expenditures with respect to a State under a Medicaid demonstration project are, during an approval period for such project, less than the amount of such expenditures that would have otherwise been made in the absence of such project, the Secretary shall specify the methodology to be used with respect to the subsequent approval period for such project for purposes of taking the difference between such expenditures into account.”

- If a demonstration results in net savings, savings would be available for states to use in the current demonstration period. Any savings earned in the current period that are remaining at the end of the demonstration could be rolled over to the subsequent renewal period.
 - Savings would be available for use only in the first renewal period immediately following the current demonstration period and would not rollover into subsequent approval periods.

This approach is expected to give states access to less demonstration savings than would have been available under the current approach, which allowed for demonstration savings to be available for the first and second renewal periods.

Example Budget Neutrality Determination with Rollover Savings & Current Period Savings Calculation

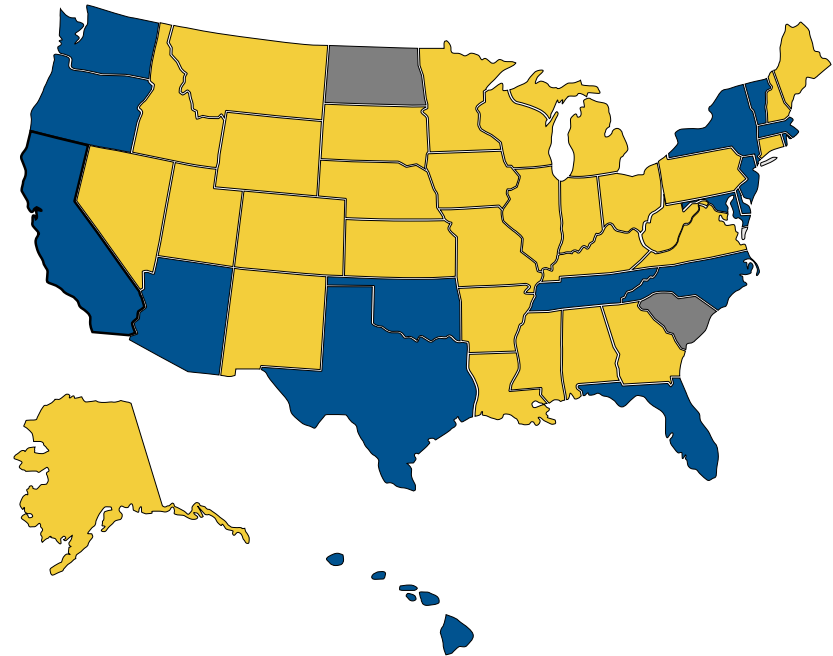
Rollover savings are applied after calculating the net financial impact of the demonstration, and do not count towards calculating current period savings.

Activity	Prospective Financial Impact Analysis for DY 6-10		
	Per Member Per Month <i>Total Computable</i>	Total Expenditures <i>Total Computable</i>	Total Expenditures <i>Federal</i>
MAPS Activity	\$0	\$0	\$0
1115-Only Activity 1	\$10 PMPM	\$10 Million	\$5 Million
1115-Only Activity 2	- \$5 PMPM (Savings)	- \$5 Million (Savings)	- \$2.5 Million (Savings)
Net Financial Impact of Demonstration			\$2.5 Million
Rollover Savings (From DY 1-5)			- \$10 Million (Savings)
Consideration of Rollover Savings			- \$7.5 Million <i>Demo is Certified</i>
Estimated Savings Available to Roll Over into Upcoming Demonstration Period (DY 11-15)			\$0
<i>Note: This will be calculated at the end of the current demo period (DYs 6-10).</i>			

A state can only generate current period savings if the net financial impact of the demonstration for the current period is less than \$0.

Transition Savings

- 17 states generate savings in their existing demonstration under the current budget neutrality approach.
 - For the 1st renewal of a demonstration project after Jan. 1, 2027, CMS intends to allow states a one-time rollover of a state's current period demonstration savings (limited to 5 years) into the demonstration renewal period, calculated using the current budget neutrality savings approach.
 - For all subsequent renewals, current period savings will be calculated under the proposed approach. States will be allowed to rollover current period savings to the first renewal period immediately following the current demonstration period.



States with 1115 Demonstrations:

- State currently generates savings
- State has no transition savings

Note: Savings Status as of May 2026

Transition Period Demonstration Savings

First Renewal

After Jan. 1, 2027, CMS will do a final assessment of budget neutrality (BN) for the current demonstration period using the current approach to determine an amount of transition period demonstration savings available to states for the upcoming demonstration period.

For the 1st renewal of a demonstration project after Jan. 1, 2027, CMS will permit states a one-time rollover of a state's current period demonstration savings (limited to 5 years) into the demonstration renewal period, calculated using the 2024 SMDL BN savings methodology.

All Renewals

Since renewals are typically approved before the end of a demonstration period, BN certification for renewals would need to be completed before the savings from the full current period are known.

- The BN determination will be completed using estimated savings from the current period.
- These estimated savings would be based on data available up to the date of the state submitting its analysis and could include projected savings for the remaining time of the current demonstration period.

Amendments

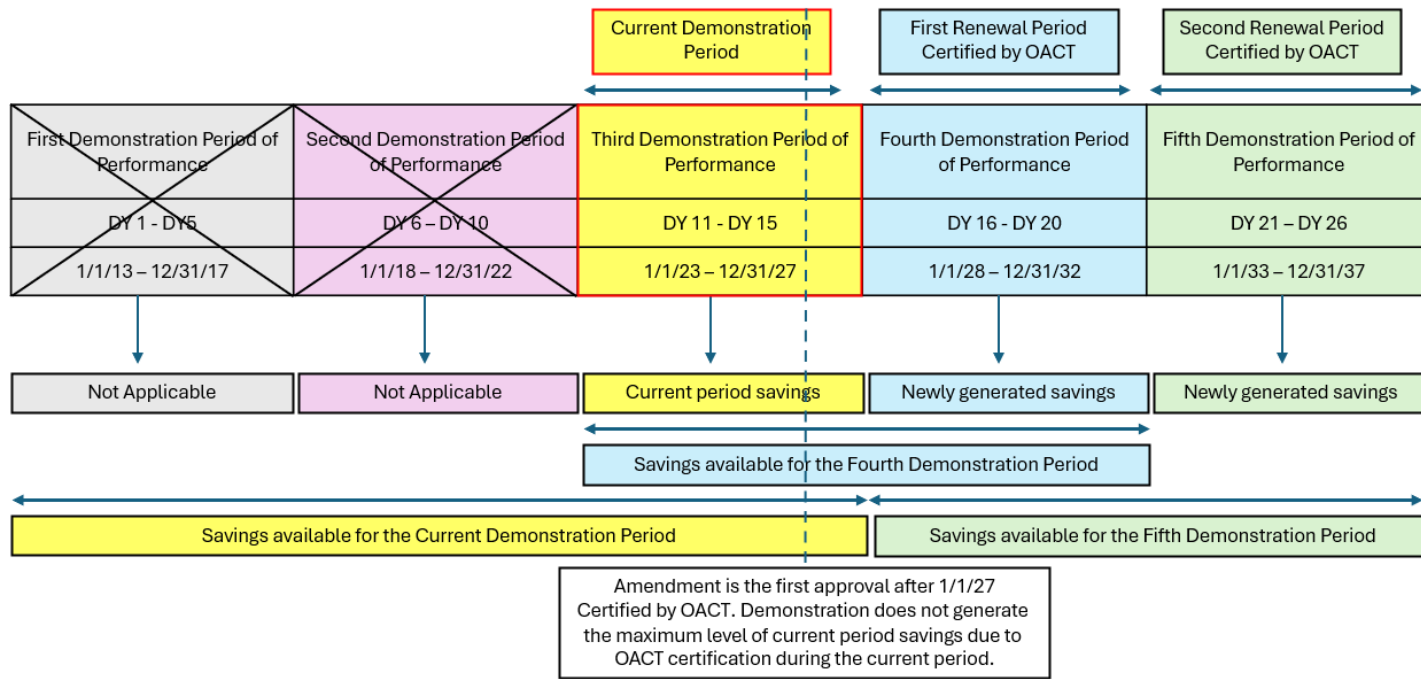
A state that amends its demonstration project after Jan. 1, 2027, but prior to renewal, must be certified as budget neutral by the Chief Actuary.

Once this occurs, the demonstration will no longer generate savings under the 2024 SMDL budget neutrality approach.

The Chief Actuary would certify the demonstration project as budget neutral for the entire demonstration project for the remainder of the demonstration approval period, using the proposed approach to measure the financial impacts of the demonstration. Savings for the remainder of the demonstration would be calculated under the proposed approach.

Savings by Demonstration Period

The figure below shows savings accumulated in various demonstration periods, and when they may be used in future demonstration periods.



Transitional Impacts and Additional Policy Components

Assessment of Current Demonstration Projects

- CMS expects to continue **monitoring budget neutrality** for all demonstration projects that include special terms and conditions (STCs) under the current approach through the end of a demonstration approval period that may extend beyond January 1, 2027.
- **At the end of the current demonstration period, CMS will do a final assessment of budget neutrality** for the current demonstration period using the current approach.
 - If actual expenditures are less than budget neutrality expenditure limits, CMS may identify available savings to roll over to the renewal period.
 - If actual expenditures exceed the budget neutrality expenditure limit and the demonstration does not have prior period savings to offset the excess spending, the demonstration project has a budget neutrality overage which states are required to return to CMS.

Monitoring

- CMS expects that the proposed approach will negate the need for current budget neutrality monitoring practices and midcourse corrections.
- CMS expects to issue new STCs for monitoring expenditures and outcomes that will require states to complete corrective actions if expenditures or outcomes substantially deviate from a state's projection at the time of budget neutrality certification.

Application Completeness per 42 CFR Part 431 Subpart G and Approved STCs

- CMS intends to propose changes to section 431.412 regarding the content of demonstration applications, to facilitate certification for budget neutrality. These will take effect upon the effective date of a final rule.
- Applications for new section 1115 demonstration projects or renewals of section 1115 demonstration projects that are received prior to the effective date of a final rule will continue to be reviewed for completeness using the current process and requirements in 42 CFR part 431 subpart G.
- Until a rule is finalized, CMS will apply the budget neutrality approach outlined in the SMDL and may request additional information from the state to facilitate certification by the CMS Chief Actuary.

Additional Policy Components

- **Length of Demonstration – Limit to 5 years** except when the expiration date is in the middle of a fiscal quarter; in these cases, CMS would align the demonstration expiration with the end of the next fiscal quarter. Temporary extensions may be in addition to the 5-year approval.
- **Evaluation** – States will be expected to demonstrate through research analyses that the demonstration has met the majority of its policy goals. If findings indicate that the demonstration has not been successful in **meeting its goals or is not likely to promote the objectives of Medicaid or CHIP**, CMS may determine not to approve a renewal of the demonstration. CMS intends to propose revised evaluation expectations for demonstrations meeting their goals to ensure sustained achievement in outcomes.
- **Applicability to CHIP** – The requirements in subsection 1115(g) of the Act **do not apply to the Children’s Health Insurance Program (CHIP)**, authorized under Title XXI of the Social Security Act, section 1115 demonstration projects.

Questions

If you have any questions about this guidance, please contact **Sarah Aker, Acting Director of the State Demonstrations Group at CMCS**, via e-mail at Medicaid1115BudgetNeutrality@cms.hhs.gov