

Essential Medicaid Reform: Ensuring Access to Preventative Mental Health Services for Children Before Crisis

Children in Pennsylvania face extraordinary barriers to accessing mental health services. As a result, too little is being done to prevent the development of mental health conditions among children, and their healthy development is at risk. This is the case for more than 40% of children in the state who are insured by Medicaid, the state's public health insurance program that has both the authority and obligation to meet the critical physical and mental health care needs of children it covers.

With respect to physical health, Medicaid already incentivizes providers to **universally** deliver services that reduce the risk of serious illness. But when it comes to mental health services, a child must typically have a clinical behavioral health diagnosis before Medicaid pays for treatment.

Many children, especially young children, experience mental health challenges that interfere with their healthy development or daily living but don't yet meet the intensity or frequency to qualify for a diagnosis. Some parents/caregivers avoid seeking mental health care for their children because of concerns about stigma and associated impact on schooling and socialization.

As a result, far too many children continue to struggle at home or at school and are at risk for developing greater behavioral health challenges. Preventative mental health care can help children cope and thrive, but access to this care is constrained by Medicaid payment policies that are producing unhealthy outcomes for children and elevated health care costs for the Commonwealth.

Yet Pennsylvania's statutes are clear that Medicaid must pay for services that are "medically necessary" defined as:

a service, item, procedure or level of care that is **necessary for the proper treatment or management of an illness, injury or disability . . . that: (1) [w]ill, or is reasonably expected to, *prevent the onset* of an illness, condition, injury or disability.**¹

By adopting payment policies that fully align with medical necessity criteria, the Commonwealth can ensure children's mental health care needs are met, prevent costly mental health crises, promote child wellness, and reduce long-term

¹ PA Title 55 § 1101.21a.

expenditures on chronic illness care child welfare, juvenile justice and remedial education. We can set our children up to thrive.

A Payment Path to Early Access with At-Risk Diagnosis

Pennsylvania's Medicaid program can significantly improve child wellness, reduce the incidence of serious childhood mental illness, and reduce health care costs by paying for preventive mental health services for children based on need rather than a diagnosis.

Already some states rely on need as a criterion for payment for prevention-oriented mental health services, largely relying on one or more ICD-10 "Z" codes that are already part of the health coding system and reflect definitions of Adverse Childhood Experiences, Social Determinants of Health, and other psychosocial circumstances. These states authorize an "at-risk diagnosis," meaning a determination is made after consideration of factors influencing behavioral health and child development, such as family circumstances or life challenges. This does not lead to a formal mental health diagnosis and instead promotes preventive care.

Streamlining payment for services by allowing the use of Z codes increases the likelihood that children can start to receive mental health care services before their symptoms progress to a disorder.

A related Medicaid barrier to care is Pennsylvania's EPSDT policy which also limits payment under EPSDT to children who have a behavioral health disorder diagnosis as defined in the Diagnostic and Statistical Manual (DSM). However, the federal EPSDT guidelines do not require this restrictive payment approach. On the contrary, the program establishes a broad standard of coverage for all children stipulating that care should be *provided to promote health by preventing conditions, reducing their impact, or providing treatment.*

In fact, under the federal Early Periodic Screening, Diagnostic, and Treatment (EPSDT) program guidelines, any factor identified that places a child at risk for mental health problems are covered services, whether the child is seen in a pediatric or primary care practice, school health center, or mental health clinic. Despite these federal requirements, Pennsylvania has not fully aligned its policies with EPSDT's intent.

Federal Medicaid rules require that an ICD-10 code be attached to a billed service; they do not prohibit the use of Z-codes.² Pennsylvania's current practice of limiting reimbursement to clinical F-codes is a state policy constraint- not a federal one- and updating this policy would allow DHS to reimburse preventive youth mental health services using widely accepted Z-codes. Pennsylvania can improve access to care by updating its interpretation of "medical necessity."

² <https://www.medicaid.gov/federal-policy-guidance/downloads/state-medicaid-chip-bh-epsdt.pdf>

Many states have already done so, with sixteen states shown in the chart below.

State	Allowable Billing Codes	Services	Limits
AL	Z65.9 (problem related to unspecified psychosocial circumstances)	Individual, family, group, and multifamily group counseling	Once a day each service individual, family, and group
AZ	Z55-Z65	Individual, group, and family psychotherapy, with or without child present	Unlimited
CA	R-codes and Z-Codes for all preventative dyadic care services. Mental health symptoms or a listed risk factor for dyadic behavioral health services.	17 services including 4 different Universal Dyadic services: (1) Behavioral Health Well-child visit; (2) Comprehensive Community Support Services; (3) Family Training and Counseling for Child Development; and (4) Psychoeducational Services. Family psychotherapy, with or without child present	2 Dyadic Well Child Visits 24 Community Support, Family Training and Counseling, and Psychoeducation (each) Unlimited family therapy
CO	R45-R69, Z03.89 (Encounter for observation for other suspected diseases and conditions ruled out), and Z55-Z65.9	18 types of services including: individual, group, and family psychotherapy, with or without the child present, primary care behavioral counseling, peer services, select rehabilitative services, and member education	Unlimited
IL	31 specified R-codes	Outpatient Therapy/Counseling with prevention modifier	8 sessions
MA	Z-codes	Individual, group, and family psychotherapy, with or without child present	Unlimited

State	Allowable Billing Codes	Services	Limits
MN	R-Codes	Outpatient psychotherapy and psychoeducation	10 sessions
MO	Z-600 (Problems of adjustment to life-cycle transitions) to Z-9152 (Personal history of non-suicidal self-harm)	Psychotherapy and counseling	Up to ten hours of psychotherapy per year.
NC	Z-code with a corresponding DSM-5 code	Psychotherapy services	Up to 6 visits with a Z code
NJ (2026)	Z-code/V-code for at-risk youth	Individual, group, and family psychotherapy	All state regulated health insurance up to age 18
NY	Z65.9 (problem related to unspecified psychosocial circumstances)	7 types of services for individual, group, and family psychotherapy, with or without child present	Unlimited
OK	V-codes/Z-codes	Outpatient services all ages	Unlimited
OR	Z-Codes	As long as medically necessary	Unlimited
SC	Z-Codes	Licensed Independent Practitioner Rehabilitative Services: individual, family, and group psychotherapy	No limit children ages 0-6 years, up to 6 month for children age 7+.
SD	Certain R-codes between R410-R4689	Individual, crisis, group, family, and group medical psychotherapy	Up to 40 hours a state fiscal year without prior auth
WY	Z-Codes	Targeted case management and mental health services	“Young children” (ages unspecified)

Recommendations for Reform

1. Authorize use of Z-codes for mental health billing to support preventive services

Pennsylvania’s Department of Human Services (DHS) should authorize Z-codes that enable pediatric billing for preventative mental health. Preventative mental health care for children should be remunerated in the same manner as preventative physical health. Authorization should include Behavioral Health Manage Care Organizations (BH-MCOS).

2. Extend EPSDT billable mental health services to at-risk children.

EPSDT billable mental health services should extend to at-risk children whose needs are documented under “Other Conditions of Clinical Concern”. This ensures that environmental and emotional stressors are formally recognized as medically necessary conditions for intervention. These include circumstances such as foster care placement, juvenile justice involvement, or exposure to violence—factors that place children at high risk for developing a behavioral health condition. By reimbursing the full scope of diagnosis including the use of z codes, Pennsylvania can ensure that children receive timely, preventive mental health support before challenges escalate into crisis, ultimately saving young lives.

3. Build a system of mental health services to meet a range of needs including at risk children.

Pennsylvania’s Department of Human Services (DHS) should incentivize mental health providers to build a comprehensive continuum of evidence-based services that can help children at risk of a mental health diagnosis. Billable services should be designed to meet families where they are, beginning with less intensive preventive interventions and scaling up to more intensive levels of care as needs become more complex.

Join the Movement

[Join Strong Minds, Bright Futures](#) to work with us so that children and families can access the mental health services they need when they need them – strengthening Pennsylvania’s future through smart policies and strong partnerships.