Issue Brief

FEDERAL ISSUE BRIEF

Analysis provided for MHA by Larry Goldberg, Goldberg Consulting

June 2, 2026

CMS Releasing Medicaid Community Engagement Requirements.

The Centers for Medicare and Medicaid Services (CMS) are issuing an interim final rule that meets, interprets and implements the community engagement requirement in Medicaid under section 1902(xx) of the Social Security Act. States are required to implement the new requirement no later than January 1, 2027.

A display copy of the rule is available at: https://public-inspection.federalregister.gov/2026-11094.pdf.
A comment period ending July31 is provided. July31 is also the effective date of the rule.
The rule is scheduled for publication in the June 3 ***Federal Register.***

This interim final rule interprets and implements the community engagement requirement (work) in Medicaid under section 1902(xx) of the Social Security Act.

The rule specifies the requirements and expectations for States, including the Medicaid applicants and beneficiaries who must demonstrate community engagement as a condition of their eligibility, the types of qualifying activities that satisfy the community engagement requirement, the criteria to meet an exception from the requirement (that is, be deemed compliant), and the criteria to meet a specified exclusion from the requirement. It also specifies requirements for verification of qualifying activities, outreach to affected populations, steps States must take if they determine individuals are noncompliant, and additional operational considerations for States. Finally, the rule specifies implementation timing and establishes new State reporting requirements.

The Patient Protection and Affordable Care Act (ACA) of 2010, expanded Medicaid eligibility to include non-pregnant adults with income up to 133 percent of the Federal poverty level (also known as the adult group). Presently, States are not required to provide coverage to the adult group. States that have elected to provide coverage to the adult group have primarily done so using State plan authority.

To date, 43 States and the District of Columbia have expanded Medicaid and will be subject to the new community engagement requirement. States that have partially expanded Medicaid through a section 1115 demonstration and additional States that have applicable individuals eligible to enroll or enrolled in a section 1115 demonstration will also be subject to the new community engagement requirement.

Section 1902(xx) of the Act requires individuals to engage in qualifying community engagement activities like work or education. The law also requires disenrollment of noncompliant individuals from Medicaid.

If any provision of this rule is held to be invalid or unenforceable by its terms, or as applied to any person or circumstance, or stayed pending further action, it shall be severable from this IFC, and from rules and regulations currently in effect, and not affect the remainder thereof or the application of the provision to other persons not similarly situated or to other, dissimilar circumstances.

Questions? Contact Andrew Wheeler, MHA's Vice President of Federal Finance, at 573-893-3700 | ext. 136 or awheeler@MoHospitals.org

4712 Country Club Drive, Jefferson City, Mo. 65109
P.O. Box 60, Jefferson City, Mo. 65102
573-893-3700 | MoHospitals.org

MISSOURI HOSPITAL ASSOCIATION

Comments

By statute, CMS is bound to provide this rule no later than June 1, 2026. While providing a comment period ending July 31, this date is also the effective date of the rule. CMS address this by saying "it will consider these comments in deciding the next steps following this IFC."

This rule has a simple table of contents (ToC) and we are providing such below. We are also adding page numbers, and we are adding additional subheads (*in italic*).

Table of Contents

I. Background
- A. Overview Page 5
- B. Working Families Tax Cut Legislation Page 7
- C. Severability Page 13

II. Provisions of the Interim Final Rule with Comment Period Page 13
- A. Decision to Revise Certain Eligibility and Enrollment Regulations to Implement Community Engagement Page 14
- B. Applicable Individuals Page 18
- C. Demonstrating Community Engagement Page 22
  - *1. Work* Page 23
  - *2. Community Service* Page 26
  - *3. Work Program* Page 29
  - *4. Education Program* Page 32
  - *5. Enrollment in an Educational Program at Least Half-Time* Page 34
  - *6. Enrollment in an Educational Program Less Than Half-Time* Page 35
  - *7. Combination of Activities* Page 40
  - *8. Monthly Income and Average Monthly Income for Seasonal Workers* Page 41
- D. Mandatory Exceptions for Certain Individuals Page 52
- E. Specified Excluded Individuals Page 55
  - *1. Former Foster Care Children* Page 56
  - *2. American Indians* Page 59
  - *3. Parent, Guardian, Caretaker Relative, or Family Caregiver of a Dependent Child 13 Years of Age and Under or a Disabled Individual* Page 60
    - *a. Definition of Caretaker Relative* Page 61
    - *b. Definition of Parent* Page 64
    - *c. Definition of Guardian* Page 64
    - *d. Definition of Family Caregiver* Page 65
    - *e. Definition of Dependent Child* Page 67
    - *f. Definition of Disabled Individual* Page 69
    - *g. Applicability of Parent, Caretaker Relative, Guardian, or Family Caregiver Exclusion to Multiple Individuals in a Residence* Page 71
    - *h. Criteria for the Family Caregiver Exclusion* Page 73
  - 4. Veteran with a Disability Rated as Total Page 78
  - *5. An Individual Who is Medically Frail or Otherwise has Special Medical Needs* Page 79
  - *6. Individuals Compliant with TANF Work Requirements and Individuals Not Exempt from SNAP Work Requirements* Page 96
  - *7. Participant in a Drug or Alcohol Rehabilitation or Treatment Program* Page 98

8. *Inmate of a Public Institution* Page 99
9. *Pregnant or Entitled to Postpartum Coverage* Page 100

F. Mandatory Exceptions vs. Specified Excluded Individuals Page 101
G. Short-Term Hardship Exceptions Page 103
1. *Scope of the Election and Certain Notice Requirements* Page 105
2. *Procedures for Implementing Short-Term Hardship Exceptions* Page 106
3. *Definition of a Short-term Hardship Event* Page 110
4. *Applicable Individuals in Certain Medical Institutions or Receiving Outpatient Services* Page 111
5. *Emergency and Disaster Areas* Page 119
6. *Areas with Certain Levels of Unemployment* Page 123
7. *Applicable Individual or Dependent Must Travel Outside of Their Community for an Extended Period of Time to Receive Medical Services Necessary for a Serious or Complex Medical Condition* Page 126

H. Assessing Compliance with the Community Engagement Requirement Page 132
1. *Assessing Applicability of the Community Engagement Requirement* Page 133
2. *Assessing Compliance for Applicants* Page 133
3. *Assessing Compliance for Enrolled Beneficiaries* Page 134

I. Verification of Compliance with and Exceptions and Exclusions from the Community Engagement Requirement Page 144
1. *Requirement to Conduct Ex Parte Verification* Page 145
2. *Requirement to Use Reliable Information Available to the State* Page 146
3. *Requesting Additional Information from Applicants and Beneficiaries to Verify Compliance with, and Exceptions and Exclusions from, the Community Engagement Requirement* Page 152
4. *Verifying Community Engagement at Application, Renewal and More Frequent Verifications* Page 155
5. *The Federal Data Services Hub or Other Electronic Service* Page 160
6. *Verifying Compliance with Community Engagement Activities* Page 161
    a. *Verifying Hours of Work* Page 163
    b. *Verifying Community Service* Page 167
    c. *Verifying Participation in a Work Program* Page 168
    d. *Verifying Enrollment in an Educational Program* Page 169
    e. *Verifying Compliance Using a Combination of Activities* Page 171
    f. *Verifying Compliance Based on Monthly Income* Page 173
7. *Verifying Status as a Specified Excluded Individual* Page 174
    a. *Former Foster Care Children* Page 177
    b. *American Indians* Page 178
    c. *Parent, Guardian, Caretaker Relative, or Family Caregiver of a dependent Child 13 Years of Age and Under or a Disabled Individual* Page 178
    d. *Veterans with a Disability Rating as Total* Page 184
    e. *Individuals Who Are Medically Frail or Otherwise Have Special Medical Needs* Page 185
    f. *Individuals Compliant with TANF Work Requirements and Individuals Not Exempt from SNAP Work Requirements* Page 192
    g. *Participants in Drug Addiction or Alcoholic Treatment and Rehabilitation Programs* Page 194
    h. *Inmate of a Public Institution* Page 195
    i. *Pregnant or Eligible for Postpartum Coverage* Page 196
8. Mandatory Exceptions Page 197

9. Verifying Optional Short-Term Exceptions Page 198

J. Noncompliance Procedures Page 201
K. Implementation Timing Page 218
L. Outreach Page 230
M. Managed Care Implications Page 240
N. Additional Considerations Page 243
O. Monitoring Page 247

III. Good Cause for Proceeding with an Interim Final Rule with Comment Period Page 250

IV. Collection of Information Requirements Page 250
A. Wage Estimates
B. Adjustment to State Cost Estimates
C. Information Collection Requirements (ICRs)
D. Burden Summary
E. Submission of PRA-Related Comments

V. Regulatory Impact Analysis Page 250
A. Statement of Need
B. Overall Impact
C. Detailed Economic Analysis
D. Alternatives Considered
E. Accounting Statement
F. Regulatory Flexibility Act (RFA)
G. Unfunded Mandates Reform Act (UMRA)
H. Federalism
I. E.O. 14192, "Unleashing Prosperity Through Deregulation"
J. Conclusion

List of Subjects (Reg Text) Page 338

Comment

There are addition subsections of the rule that would fit into the table of contents. But to keep the ToC to a reasonable length we have not provided any additional subheads after II.I. above.

As you can tell by just by looking at the table of contents, this is an extremely detailed rule.

Select Provision Reviews

The following are summary snippets of the rule.

Document Type: Interim Final Rule with Comment Period Agency: Centers for Medicare & Medicaid Services (CMS), HHS Published: June 3, 2026 (Federal Register) Effective Date: July 31, 2026 Comment Deadline: July 31, 2026 State Implementation Deadline: January 1, 2027

Background & Purpose

This 387-page rule implements the community engagement (work) requirement for Medicaid, mandated by the Working Families Tax Cut (WFTC) Act (Pub. L. 119-21), signed by President Trump on July 4, 2025. It adds Section 1902(xx) to the Social Security Act, requiring certain Medicaid adults to demonstrate work or community participation as a condition of eligibility.

Key context:

- In FY 2025, approximately 82.4 million individuals were enrolled in Medicaid, with 20 million in the adult expansion group. Total Medicaid spending approached $1 trillion, with $200 billion attributable to the adult group.
- The rule applies to the 43 states + D.C. that have expanded Medicaid under the ACA.
- CMS draws on lessons from prior Section 1115 demonstration projects (2017–2021) in 13 states, only two of which (Georgia and Arkansas) actually launched programs.

II. Who Must Comply — "Applicable Individuals"

The requirement applies to "applicable individuals" — generally, non-disabled adults aged 19–64 who are:

- Enrolled in the ACA Medicaid adult group (income up to 133% FPL), or
- Enrolled in certain Section 1115 demonstration programs providing minimum essential coverage (MEC).

Not subject to requirements: Territories (Puerto Rico, etc.), mandatory Medicaid eligibility groups (e.g., children, pregnant women, SSI recipients, parents/caretaker relatives).

III. How to Demonstrate Community Engagement

Applicable individuals must meet at least 80 hours per month of qualifying activity through any combination of the following:

- Work — paid, in-kind, or unpaid (including self-employment, internships, family caregiving),
- Community Service — unpaid, structured programs with public/nonprofit organizations (e.g., food banks, tutoring, park cleanup),
- Work Programs — defined programs under WIOA, SNAP E&T, Trade Act, veterans' employment programs, and similar,
- Educational Programs — at least half-time enrollment in higher education, career/technical education, high school, or GED programs,
- Combination — any mix of the above totaling 80+ hours/month,
- Monthly Income — household income ≥ Federal minimum wage ($7.25/hr) × 80 hours = $580/month,
- Seasonal Workers — average monthly income over the preceding 6 months ≥ $580.

Counting education hours (less than half-time): 1 credit hour = 3 hours/week of activity (13 hours/month). Programs without credit hours count actual classroom/participation time.

IV. Mandatory Exceptions (Deemed Compliant)

States must deem individuals compliant (not require proof) for any month they:

- Were under age 19,
- Were enrolled in Medicare (Part A or B),
- Were in another mandatory Medicaid eligibility group,
- Were a "specified excluded individual",
- Were recently released from incarceration (within the prior 3-month window).

V. Specified Excluded Individuals (Fully Exempt)

Nine categories are entirely excluded from the definition of "applicable individual" and thus face no community engagement requirement at all:

- Former Foster Care youth (under age 26 who aged out of foster care while enrolled in Medicaid),
- American Indians / Urban Indians (as defined under the Indian Health Care Improvement Act),
- Parents, guardians, caretaker relatives, or family caregivers of a dependent child age 13 or under, or of a disabled individual,
    - Family caregivers not living with or unrelated to the care recipient must provide ≥80 hours/month of caregiving.
- Veterans with a 100 total disability based on individual unemployability (TDIU),
- Medically frail individuals — those whose physical/mental/behavioral condition significantly impairs their ability to comply, including:
    - Blind or disabled (SSI/SSDI standard),
    - Substance use disorder (SUD) — except those in stable recovery (5+ years),
    - Disabling mental disorder (e.g., schizophrenia, severe bipolar, major depression),
    - Physical/intellectual/developmental disability impairing one or more ADLs,
    - Serious or complex medical condition (e.g., cancer, ESRD, HIV/AIDS, ALS, MS),
    - Individuals compliant with TANF work requirements or subject to SNAP work requirements (in a SNAP household),
    - Participants in a drug/alcohol treatment or rehabilitation program,
    - Inmates of public institutions (incarcerated individuals),
    - Pregnant women or those in postpartum coverage (up to 12 months postpartum in states with extended coverage),

- *Individuals Compliant with TANF Work Requirements and Individuals Not Exempt from SNAP Work Requirements*
- *Participants in Drug Addiction or Alcoholic Treatment and Rehabilitation Programs* Page 194
- *Inmate of a Public Institution* Page 195
- *Pregnant or Eligible for Postpartum Coverage* Page 196

VI. Optional Short-Term Hardship Exceptions

States may elect to offer temporary hardship exceptions (deeming compliance) for applicable individuals experiencing:

- Medical institutionalization — inpatient hospital, nursing facility, ICF/IID, psychiatric hospital, or services of similar acuity (including comparable noninstitutional care),
- Presidentially declared emergencies or disasters (under NEA or Stafford Act) affecting the individual's county,
- High unemployment — county unemployment rate at or above the lesser of 8% or 1.5× the national rate (requires CMS approval),
- Extended travel for medical care — when the individual or their dependent must travel outside their community for a serious/complex condition not available locally.

VII. Compliance Verification & Assessment

- States must verify compliance at application and renewal using a review period (at least 1 month; states may set longer periods),
- States must first attempt ex parte (automated) verification using existing data sources:
    - Quarterly wage data / IRS records,
    - SNAP/TANF enrollment and compliance data,
    - National Student Clearinghouse (educational enrollment),
    - VA disability records,
    - Medicaid/claims data (for medical frailty),
- If ex parte verification fails, states must provide the individual with a notice of noncompliance and 30 calendar days to demonstrate compliance or claim an exception.

VIII. Noncompliance & Disenrollment

- If an applicable individual cannot demonstrate compliance within 30 days of notification, the state must disenroll the individual from the adult group or relevant Section 1115 demonstration.
- Individuals may reapply at any time; reapplication triggers a fresh assessment of compliance
- States must provide clear notices explaining: how to comply, how to reapply, and how to appeal.

IX. Outreach Requirements

States must notify individuals of the community engagement requirement when:

- Granting eligibility at application or renewal,
- Moving an individual into the adult group based on a change in circumstances,
- Electing or activating a short-term hardship exception.

Notices must explain qualifying activities, exceptions, exclusions, consequences of noncompliance, and how to reapply.

X. Regulatory Rollbacks (Section 71102 Moratorium)

The WFTC legislation also imposed a moratorium (until October 1, 2034) on several 2024 Medicaid eligibility and enrollment streamlining regulations. To enable community engagement implementation, this IFC restores prior (pre-2024) versions of key regulations covering:

- Application requirements,
- Renewal/redetermination procedures,
- Timeliness standards,
- Acting on changes in circumstances.

XI. Managed Care Implications

- States may delegate certain community engagement functions (e.g., outreach, referrals to work programs) to managed care plans.
- Managed care plans cannot make eligibility determinations for community engagement compliance.
- Conflict-of-interest rules apply to contractors performing these functions.

XII. Implementation Timeline

- States must implement No later than January 1, 2027.
- Section 71102 moratorium expire October 1, 2034.

XIII. Regulatory Impact

- CMS estimates the rule will result in significant Medicaid disenrollments among the adult group, particularly among individuals who are noncompliant and unable to demonstrate qualifying activity.
- Administrative burden is imposed on states to build verification systems, conduct outreach, and process noncompliance.
- CMS frames the rule as aligning Medicaid with SNAP and TANF, promoting self-sufficiency, and targeting coverage to the most vulnerable populations.

Final Comments

- CMS estimates that a one-time cost for States to upgrade eligibility systems would be $15 million per State, which results in a total estimate of $660 million ($15 million multiplied by 44 States). CMS expects this cost to be borne in 2026. CMS also projects that there will be annual costs to maintain these systems and it assumes that those costs will be 10 percent of implementation costs ($66 million annually).

- CMS projects that total spending on systems upgrades will be $1.52 billion from 2026 through 2036, with the Federal government paying $1.289 billion and the States paying $231 million. (Page 304)

Projected Federal and State Medicaid Spending for the Adult Group Under New Requirement, FY 2026-2036 (Expenditures in Real 2026 dollars)

Fiscal Year	Total Expenditures ($ millions)	Federal Expenditures ($ millions)	State Expenditures ($ millions)
2026	$860*	$794	$66
2027	$66	$49.5	$16.5
2028	$66	$49.5	$16.5
2029	$66	$49.5	$16.5
2030	$66	$49.5	$16.5
2031	$66	$49.5	$16.5
2032	$66	$49.5	$16.5
2033	$66	$49.5	$16.5
2034	$66	$49.5	$16.5
2035	$66	$49.5	$16.5
2036	$66	$49.5	$16.5

*Note: The total expenditures in fiscal year 2026 include the $200 million section 71119(e) of the WFTC legislation provides for States to establish systems necessary to carry section 71119 and other sections of the WFTC legislation, title VII, subtitle B, chapter 1 related to conducting eligibility determinations or redeterminations.

CMS projects that enrollment would be reduced by 2.3 million individuals in FY 2027 (accounting for implementation occurring in the second quarter of the fiscal year) and by between 3.1 to 3.3 million individuals in subsequent years. CMS project Federal Medicaid spending would be reduced by $350.3 billions over the next 10 years and State Medicaid spending would be reduced by $41.6 billion over the same time period.

While costs of implementation are pegged at $1.52 billion, savings because of enrollment declines are estimated to be $350.3 billion. The unanswered question is who will bear the cost of providing services to the disenrolled?