

CMS RELEASES GUIDANCE TO STATES ON IMPLEMENTATION OF OBBBA'S COMMUNITY ENGAGEMENT REQUIREMENTS

EXECUTIVE SUMMARY

On Dec. 8, the Centers for Medicare & Medicaid Services (CMS) issued [guidance](#) ([press release](#)) providing clarity on implementation of the Medicaid community engagement provisions included in the One Big Beautiful Bill Act (OBBBA).

- **Context.** Signed into law on July 4, the OBBBA enacts sweeping reforms to the Medicaid program. The law establishes the first-ever nationwide community engagement (work) requirements for able-bodied adults, imposes new federal limits on state directed payments (SDPs), and introduces cost-sharing requirements for expansion enrollees with incomes above 100 percent of the federal poverty level (FPL), among other changes.

The guidance largely restates the community engagement provisions in the statute, offering limited new guidance or operational direction. In plainer language than the bill itself, CMS describes who qualifies as an “applicable individual,” outlines the requirements, identifies exceptions and exclusions, and provides direction on demonstrating and verifying compliance. While mostly consistent with the legislation, the guidance adds some new insight, including CMS interpretations related to compliance verification, potential sources of “reliable information” for those verifications, and the role of managed care organizations (MCOs). These additions are highlighted in the full summary below.

- **Next Steps.** CMS is expected to issue additional guidance, particularly with more detailed instructions for state operationalization. The OBBBA requires CMS to issue an interim final rule (IFR) by June 1, 2026, though it is not yet clear whether outstanding questions will be addressed through that final rulemaking or through further subregulatory guidance beforehand. Separately, the Medicaid and CHIP Payment and Access Commission (MACPAC) will host an expert panel on these requirements at its December meeting this Thursday, featuring Dr. Caprice Knapp, Principal Deputy at the Center for Medicaid and CHIP Services (CMCS).

Key policies outlined in the guidance include:

Applicable Individuals

CMS reiterates that states may only impose community engagement requirements on an individual who is: (1) aged 19-64, not pregnant, not eligible for or enrolled in Medicare, and not eligible for Medicaid under other mandatory groups; or (2) otherwise eligible to enroll in Medicaid under a waiver of the State plan that provides coverage equivalent to minimum essential coverage and aged 19-64, not pregnant, not eligible for or enrolled in Medicare, and not otherwise eligible to enroll under the state plan or waiver.

New in this guidance, CMS clarifies that the community engagement requirements will not apply to states that: (1) have not adopted the adult group under the state plan; and (2) do not have a section 1115 demonstration offering minimum essential coverage (MEC) to applicable individuals. The agency acknowledges that some overlap exists when states have not adopted the new adult group yet community engagement requirements would still apply to certain individuals enrolled under a section 1115 demonstration.

Looking ahead, CMS notes that it will continue to evaluate which existing state section 1115 demonstration populations meet the definition of an “applicable individual.”

Community Engagement Requirements

To meet community engagement requirements in a given month, CMS reiterates that applicable individuals will be deemed compliant if the individual: (1) works at least 80 hours; (2) completes at least 80 hours of community service; (3) participates in a work program for at least 80 hours; (4) is enrolled in an educational program for at least 40 hours; (5) engages in any combination of these activities for at least 80 hours; (6) has a monthly income that is not less than \$580 (the applicable minimum wage requirement multiplied by 80 hours); or (7) is a seasonal worker who has had an average monthly income over the preceding 6 months that is not less than \$580 (the applicable minimum wage requirement multiplied by 80 hours).

CMS does not provide new guidance in this area.

Exclusions to the Requirements

The OBBBA provides several exclusions and exceptions to these requirements, which CMS reiterates in this guidance. The list of individuals defined as “specified excluded individuals” includes:

- Former foster youth up to age 26;
- Indian or Urban Indian;
- California Indians;
- Individuals otherwise determined eligible as an Indian for the Indian Health Service;
- Parent, guardian, or caretaker relative of a disabled individual or dependent child under the age of 13;
- A veteran with a disability rated as total under section 1155 of title 38, United States Code;
- Medically frail or otherwise has special medical needs;

- Complying with any requirements under the SNAP program or being a member of a household that receives SNAP and is not exempt from work requirements;
- Participating in a drug addiction or alcoholism treatment and rehabilitation program;
- Inmates of public institutions; or
- Individuals who are pregnant or entitled to postpartum medical assistance.

CMS does not provide new guidance in this area, though notably the agency opted not to include the definition of “medically frail” as it was described in the legislation.

Exceptions to the Requirements

States may provide, through their state plan or a waiver of the state plan, an exception to community engagement requirements if an individual experiences a short-term hardship event during the month. CMS reiterates what may be considered a short-term hardship event eligible for exception:

- Receiving inpatient hospital services, nursing facility services, services in an intermediate care facility for individuals with intellectual disabilities, inpatient psychiatric hospital services, or other services of similar acuity (including outpatient care relating to other services) deemed appropriate by the Secretary of HHS;
- Residing in a county with an emergency or disaster declared by the President or the unemployment rate of the State is at or above the lesser of eight percent or 1.5 times the national unemployment rate; or
- Having to travel outside one’s community for an extended period to receive medical services to treat a serious or complex medical condition that are not available within the individual’s community. Per the text, the individual must submit a request to the state in order to utilize this optional exception.

CMS does not provide new guidance in this area.

Demonstrating and Verifying Compliance

The guidance details states’ responsibility to require individuals to demonstrate compliance with these requirements as a condition of receiving Medicaid coverage. As outlined in the legislation, individuals who have filed an application for Medicaid coverage must demonstrate compliance with community engagement requirements for one or more, but not more than three, (as determined by the state) consecutive months immediately preceding the month in which the individual applies for Medicaid coverage.

For individuals already enrolled in the Medicaid program, the legislation requires individuals to demonstrate compliance with community engagement requirements for at least one or more months (as determined by the state) during the period between the individual’s most recent eligibility determination and the individual’s next regularly scheduled redetermination. The legislation further requires states to verify this compliance at the regularly scheduled redeterminations of eligibility, though states are permitted to verify compliance on a more frequent basis as well.

New in this guidance, CMS shares its interpretation of this requirement to mean that a beneficiary is considered compliant if they demonstrate engagement during *any part* of the eligibility period for the number of months the state specifies. The agency further concludes that states may not require compliance in specific months or require consecutive months when more than one month is required.

CMS also notes the OBBBA's change to Medicaid eligibility redetermination frequency, which requires states to conduct eligibility redeterminations every six months for expansion populations. The agency explains that individuals subject to both provisions will be required to demonstrate compliance every six months.

Looking ahead, the OBBBA indicates that this verification must be conducted in a manner determined by the Secretary. While the guidance provides more insight into CMS' position on this requirement, further guidance is still necessary to explain how states should operationalize this requirement.

Use of Reliable Information

Under the legislation, states are required to establish a process and first attempt to use reliable information available to the state without requiring, where possible, the applicable individual to submit additional information to verify compliance with community engagement requirements.

New in this guidance, CMS expands on potential sources of such reliable data, suggesting the use of data sources about higher education enrollment, job training participation, or community service in addition to the suggestions of payroll data, Medicaid provider payments, or encounter data included in the statute. The agency further adds that states may not request additional information or documentation from individuals unless they are unable to establish compliance using these data types and sources. This applies to verification conducted at application and at renewal.

Looking ahead, the agency expects to provide additional guidance on this topic, in particular the use of reliable data sources and instructions on documenting such policies and procedures.

Non-Compliance Procedures

In the event a state is unable to verify that an individual has met the community engagement requirements, the legislation requires states to issue the individual a notice of noncompliance and provide the individual with 30 calendar days, beginning on the date the notice of noncompliance is received, to make a satisfactory showing of compliance with the requirements or make a satisfactory showing to the state that such community engagement requirements do not apply to the individual.

The guidance reiterates that for individuals currently enrolled in the Medicaid program, the state must continue to provide Medicaid coverage during the 30-calendar day period. If the individual does

not provide a satisfactory showing of compliance and is not exempt from the requirements, the state must deny the application for Medicaid or disenroll the individual from the plan at the end of the month following the month in which the 30-calendar-day period ends so long as the state determines whether there is any other basis for Medicaid eligibility or another insurance program and the individual is provided written notice and granted an opportunity for a fair hearing before being disenrolled from Medicaid.

CMS reminds states that it will not be considered out of compliance with Medicaid coverage or spending requirements for all individuals under current law if the state finds an individual ineligible for Medicaid for not meeting community engagement requirements. Additionally, CMS further clarifies in the guidance that individuals who are disenrolled from Medicaid as a result of noncompliance with the community engagement requirements are not eligible for premium tax credit subsidies under the ACA.

CMS does not provide new guidance in this area.

Outreach

The guidance underscores the requirement in OBBBA that states must notify Medicaid beneficiaries who may be subject to community engagement requirements about the requirements before they are implemented in the state and periodically afterwards. CMS reminds states that they must begin their outreach within a set number of months — three months plus however consecutive months of community engagement an applicant must demonstrate at the time of application—before implementation. For example, the guidance indicates that for a state implementation date of January 1, 2027, outreach to beneficiaries must start no later than September 2026 (if one month of community engagement is required at application), August 2026 (if two months of community engagement is required at application), and July 2026 (if three months of community engagement is required at application).

CMS also reminds states that the outreach must be sent by mail as well as at least one additional method, including phone calls, texts, a website, or other approved formats. As required by OBBBA, it must include information on how to comply with the requirements, an explanation of the exceptions to the requirements, the consequences of noncompliance, and how to report to the state any change in the individual's status that could result in the applicability of a short term hardship or that the individual qualifies for an exclusion from the community engagement activities.

CMS does not provide new guidance in this area.

Role of Managed Care Plans

New to this guidance is CMS's clarification that states cannot permit Medicaid managed care organizations (MCOs) to decide whether beneficiaries are complying with community engagement requirements, though the agency indicates MCOs may perform supportive tasks. **Looking ahead,**

CMS intends to provide more guidance on the potential tasks MCOs may perform related to community engagement.

Implementation Timeline

CMS reiterates the statutory deadline of January 1, 2027, for states to implement the new community engagement requirements. The bill also provides the Secretary with the authority to exempt a state from compliance with community engagement requirements if: (1) the state submits a request to the Secretary for the exemption, and (2) the Secretary determines that the state is demonstrating a good faith effort to comply with the requirements.

In determining whether a State is demonstrating a good faith effort, the guidance reiterates that the Secretary must consider any actions taken by the state toward compliance, any significant barriers to or challenges in meeting the requirements, the state's plan and timeline for achieving full compliance with such requirements, and any other criteria determined appropriate by the Secretary. The legislation permits the Secretary to terminate exceptions early if it is determined that the state has failed to comply with reporting requirements or if the state has failed to make continued good faith efforts towards compliance. Otherwise, any good-faith-effort exceptions must expire by December 31, 2028.

New in this guidance, CMS urges states interested in an earlier implementation to contact the agency for more details. Regarding the good-faith-effort exceptions, CMS notes that these exceptions will be considered on a case-by-case basis. The agency shares that it anticipates approvals to be limited to "states that are making meaningful efforts towards implementation and experience severe and/or unexpected issues that hinder their progress."

Available Funds for States

CMS reminds states that it will issue grants to establish the necessary systems to carry out the community engagement and other eligibility requirements included in OBBBA. In the guidance, the agency stresses the importance of smooth integration of community engagement requirements in states' existing and new IT systems and reminds states that they may submit an Advanced Planning Document to request 90/10 enhanced federal matching funds for the design, development, and installation of Medicaid Enterprise System changes as well as 75/25 enhanced federal matching funds for ongoing operations of CMS-approved systems.