DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, Maryland 21244-1850

SMD# 26-006

RE: Optional Hold Harmless Period for Community Engagement Implementation

November 13, 2026

Dear State Medicaid Director:

The Centers for Medicare & Medicaid Services (CMS) has been working with states[1] that elect to provide coverage to "applicable individuals" as defined in section 1902(xx)(9)(A)(i) of the Social Security Act (the Act) and 42 C.F.R. § 435.551[2] to implement the community engagement requirement described in section 1902(xx) of the Act no later than January 1, 2027. We appreciate your leadership and the substantial progress states have made toward implementing Medicaid's community engagement requirement. Across the country, states are modernizing eligibility systems, developing new data connections, training staff, engaging community partners, and improving the applicant and beneficiary experience. We recognize the dedication behind this work and appreciate your commitment to the Medicaid beneficiaries we serve.

Our shared goal is to make community engagement successful for applicants and beneficiaries, while ensuring that individuals who qualify for exclusions or exceptions are appropriately identified and excluded. Achieving those goals requires modernized systems, scaled automated processes, and informed beneficiaries and potential beneficiaries. States should use available reliable data and, wherever possible, automated processes to verify qualifying activities and identify exclusions or exceptions, minimizing the need for applicants and beneficiaries to submit information the state can obtain electronically. When additional information is necessary, applicants and beneficiaries should receive clear information about their options, accessible assistance, and a straightforward way to respond.

We have heard directly from states about their implementation timelines, impediments to successful launches at scale, policy updates, operations, and overall readiness. We are aware that leading up to January 1, 2027, and continuing thereafter, states are and will be actively identifying and addressing deficiencies, such as updating eligibility determination logics and system-generated notices, and mitigating challenges to maintain compliance with timely eligibility operations, which may arise when they first implement community engagement and other Medicaid eligibility and enrollment requirements enacted through Public Law No. 119-21 (which CMS refers to as the "Working Families Tax Cut" (WFTC) legislation). Your feedback to

[1] The term "states" in this letter refers to the 50 states and the District of Columbia.
[2] Generally, these are states that provide coverage to the adult group under the state plan (the group described in section 1902(a)(10)(A)(i)(VIII) of the Act and 42 C.F.R. § 435.119) or to adults who meet many of the criteria under section 1902(a)(10)(A)(i)(VIII) of the Act, but who are eligible under or enrolled in a demonstration project under section 1115(a)(2) of the Act that provides minimum essential coverage (MEC), rather than under the state plan (as detailed in section 1902(xx)(9)(A)(i)(II) of the Act and 42 C.F.R. § 435.551(b)).

date reinforces the importance of providing a practical transition period that supports the long-term success of community engagement and builds on improvements to the Medicaid eligibility and enrollment experience.

To that end, CMS is offering all states an optional "hold harmless" period through June 30, 2027, during which states that elect the option may suspend denials of eligibility and disenrollments when applicable individuals do not demonstrate compliance with community engagement. The hold harmless period applies to applicants and beneficiaries who are potentially applicable individuals. States may also seek CMS approval to adopt other mitigations and strategies to support successful implementation and address or prevent compliance deficiencies. The hold harmless period is optional, and states that choose to implement the hold harmless period are not required to use the option for the entire period through June 30, 2027.

Hold Harmless Period

If a state chooses to use the hold harmless period, CMS will not take enforcement action against it for failing to condition eligibility on community engagement during that period. Specifically, CMS will not take enforcement action if a state suspends eligibility denials and disenrollments based on an individual's failure to show either that they meet the community engagement requirement through qualifying activities or an exception (i.e., deemed compliance) or that they qualify for an exclusion from the requirement. This applies to applications received and renewals initiated through and including June 30, 2027 (or shorter hold harmless period implemented by the state). States choosing to use the hold harmless period will be expected to work towards full compliance with the statute and applicable regulations.[3] States will not be permitted to use the hold harmless period unless they assess whether individuals meet the requirement (including through deemed compliance) or are excluded from it, for all relevant applications received or renewals initiated during the hold harmless period. Doing so will let states test and refine their systems and processes before enforcement begins, supporting a successful launch of the community engagement requirement. This will also provide states the opportunity to learn from the early months of implementation to identify and address workforce training needs and improve the applicant and beneficiary experience before enforcement begins.

This hold harmless period applies only to the requirement at section 1902(xx)(1) of the Act and 42 C.F.R. § 435.559 to condition initial or continued eligibility on demonstration of community engagement and does not apply to any other aspects of the requirement to implement community engagement by January 1, 2027. It also does not apply to denials and disenrollments based on eligibility criteria other than community engagement. States may not suspend denials or disenrollments if an applicable individual fails to meet factors of eligibility other than community engagement during the hold harmless period, such as ineligibility based on age or household income.

As noted above, states have the option to implement the hold harmless period option or implement the option for a shorter duration, but, state-specific compliance deficiencies may

[3] The obligation to work towards full compliance with the statute and applicable regulations does not include an obligation to implement the portion of the regulations recently vacated by a court. *See Massachusetts v. Oz*, No. 26-12692-RGS, 2026 WL 3257397, at *5–6 (D. Mass. Oct. 29, 2026).

warrant a state implementing the hold harmless option or other mitigations to avoid corrective action under section 1904 of the Act for state noncompliance.

For applications submitted and renewals initiated after the hold harmless period ends in the state, the state must deny or terminate eligibility (as applicable) when an applicable individual is determined ineligible for Medicaid because the individual has not met the community engagement requirement. Before denying or terminating eligibility, the state must comply with all applicable regulatory requirements, including (but not limited to) noncompliance procedures described at 42 C.F.R. § 435.558.

States that wish to use the hold harmless period should request it as an optional strategy in their mitigation plans described further in this letter, which are submitted to Medicaidworks@cms.hhs.gov and their state lead. CMS will approve use of the hold harmless period as part of the state's mitigation plan. States that have already submitted a mitigation plan or have requested a good faith effort exemption may update their requests to take into account the hold harmless period option. States that intend to use the hold harmless period beginning January 1, 2027, are asked to notify CMS by December 11, 2026.

State Mitigation Plans

CMS previously shared with states that they should identify compliance deficiencies as well as mitigations and other strategies to support implementation of the community engagement requirement and other eligibility and enrollment provisions of the WFTC legislation. States are encouraged to review all relevant regulations and available guidance to assess their compliance with community engagement and must obtain CMS approval prior to implementing the hold harmless period or other mitigations to address compliance deficiencies. CMS will monitor state implementation of community engagement, including use of the hold harmless period and other mitigations and strategies outlined in a state's approved community engagement mitigation plan. A state must comply with its approved mitigation plan to avoid formal compliance action under section 1904 of the Act for compliance deficiencies associated with implementation of community engagement or other eligibility provisions. States may need to work with CMS to update their mitigation plans as their implementation evolves.

Eligibility determinations for applicable individuals who did not demonstrate community engagement and whose applications are filed or renewals are initiated during the hold harmless period that is documented in a state's approved mitigation plan will not be considered an error for purposes of the Payment Error Rate Measurement (PERM) reviews, Medicaid Eligibility Quality Control (MEQC) reviews, or other CMS Medicaid beneficiary eligibility audits. Similarly, states that implement other mitigations that are documented in an approved mitigation plan related to community engagement implementation and that are compliant with the parameters of that plan (including updates to the plan as implementation evolves) will not be considered in violation of the Medicaid statute and regulations for purposes of PERM reviews, MEQC reviews, or other CMS Medicaid beneficiary eligibility audits.

Closing

CMS will remain an active partner throughout this transition period, providing technical assistance, helping states resolve implementation challenges, and sharing effective approaches across states. We encourage states to continue raising implementation concerns early so we can work together to address them.

Thank you for your continued partnership and the extraordinary effort of your teams. Together, we can implement community engagement in a way that supports better health, greater opportunity, and lasting paths to prosperity for the people who depend on Medicaid. If you have questions regarding this letter or would like to request technical assistance, please email Medicaidworks@cms.hhs.gov.

Sincerely,

/s/

Daniel Brillman
Deputy Administrator and Director