

Support “good faith” exemptions for states complying with new Medicaid Requirements

The One Big Beautiful Bill Act (OB3) introduces new requirements and more frequent eligibility renewals for Medicaid beneficiaries to start January 1, 2027. OB3 allows states to apply for a “good faith effort” exemption that would provide flexibility for implementation for that state through December 31, 2028. As states work to ensure that beneficiaries do not lose coverage for procedural reasons, such as paperwork or technological errors, additional time would also help to ensure that already strained physician practices can survive this economic transition.

Background

OB3 requires certain adult Medicaid enrollees to meet community engagement requirements and requires states to verify eligibility every six months. These changes start January 1, 2027, giving states a very tight timeline to prepare while facing major administrative challenges.

Key implementation challenges include:

- **New reporting infrastructure.** States must build systems to track and verify beneficiary compliance with community engagement requirements.
- **Updating eligibility and enrollment processes.** Many states will need to integrate new systems into their eligibility and enrollment processes.
- **Workforce capacity and training.** States will likely need to hire additional eligibility and program staff and provide training.

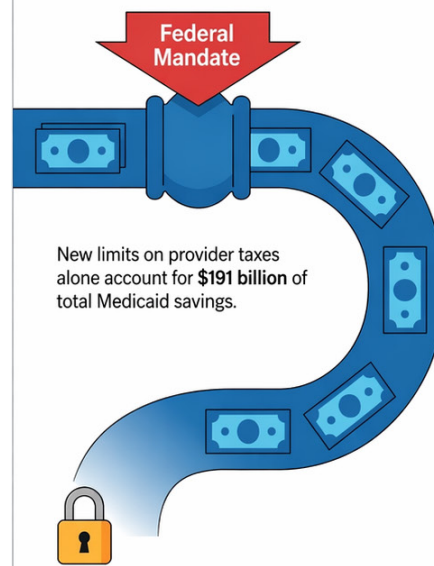
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Financial Impacts on Healthcare System

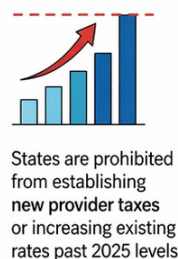
Medicaid provider taxes, a key state financing tool accounting for ~17% of state Medicaid budgets, are facing strict new caps and moratoriums under the 2025 OBDDA, leading to a projected \$911 billion reduction in federal support over the next decade.

NEW FEDERAL FUNDING RESTRICTIONS

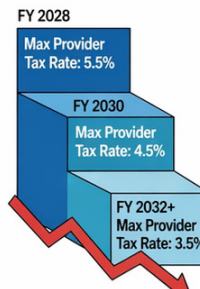
\$191 Billion
in Direct Tax Cuts



Moratorium on Revenue Growth



Phased Ceiling Reductions



The tax “safe harbor” limit will drop from 6% to 3.5% by FFY 2032.

NEGATIVE IMPACTS ON THE HEALTHCARE SYSTEM

14.2 Million
Newly Uninsured



Federal spending cuts are projected to **increase the total number of uninsured Americans significantly.**

‘Optional’ Benefits at Risk



Community disability supports and **prescription drug coverage** are often the first services eliminated during shortfalls.

Strained Provider Reimbursement



With providers already underfunded, further cuts threaten the viability of nursing homes and rural hospitals.

Key implementation challenges *continued*

- Data-sharing and coordination. Real-time verification often requires new data-sharing coordination between Medicaid, workforce, SNAP, and other state systems.
- Conducting beneficiary education and outreach. Clear, accessible notice and education materials must be developed to prevent procedural coverage losses.

The Challenging Timeline

OB3 establishes a rapid implementation timeline for its eligibility and enrollment changes, with community engagement requirements and increased eligibility checks launching by January 1, 2027. Without sufficient transition time and/or flexibility, states risk inconsistent implementation across regions, system errors and administrative backlogs, and disruptions in access to care. OB3 will also require significant changes to Medicaid IT systems; states must build additional systems to track compliance with community engagement requirements. States will need more workers to process paperwork and help beneficiaries, and if communication isn't clear, people may lose coverage simply for missing paperwork—even if they still qualify. All of these factors threaten the healthcare economy of the states who come up on this deadline unprepared. Small physician practices in rural areas or pediatric practices are especially vulnerable to Medicaid disruptions.

The Ask: Congress authorized the HHS Secretary in OB3 to grant a temporary exemption/extension where a state demonstrates that it is making a good-faith effort to comply with the new Medicaid requirements. This exemption can extend implementation through December 31, 2028. This extension is time-limited, discretionary, and intended for states facing systems, operational, or administrative barriers.

In recognition of the varying state system capabilities and procurement timelines and to promote a more durable and sustainable implementation of the OB3 requirements, Congress should encourage leniency in considering applications for these waivers from states. This also supports the economic stability of physician practices and therefore access to care for all patients.