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July 2, 2026

States Challenge CMS's Rule on Medicaid Work Requirements

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A coalition of 26 states[1] sued the Centers for Medicare & Medicaid Services (CMS) on June 29 challenging key portions of the agency's June 3 Interim Final Rule (IFR) implementing the Medicaid work and community engagement requirements under H.R. 1 (P.L. 119-21), including:

- Narrowed exemptions for individuals who are "medically frail" or experiencing a short-term hardship; and
- Restrictions on states' ability to verify compliance via beneficiary self-attestation or claims data.

The complaint, filed in federal court in Massachusetts, asserts that these IFR provisions are contrary to the plain language of the statute, contradict guidance that CMS provided to states repeatedly over the last year, and fail to adequately inform states about their obligations. Along with the complaint, the plaintiff states filed a motion for a preliminary injunction asking the court to prohibit CMS from enforcing these IFR provisions while the litigation is ongoing. (For more on the IFR, see the *Manatt on Health* analysis.)

H.R. 1 requires states to send a notice by August 31 advising beneficiaries about how work requirements will be implemented effective January 1, 2027. The plaintiff states have asked the court to rule on their motion for a preliminary injunction by July 31, including their requests to put on hold the August 31 deadline and suspend the challenged elements in the IFR while litigation progresses as to the plaintiff states. As an alternative, the states have noted their willingness to pause their request for a preliminary injunction if CMS agrees to delay the January 1, 2027 implementation deadline by six months for all states and also delay the August 31 deadline for the beneficiary notice.

Whereas the preliminary injunction motion focuses on short-term relief for the plaintiff states, the complaint includes a request for the court to vacate all challenged provisions of the IFR—a

[1] The 26 plaintiff states are: Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Hawaii, Illinois, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, Rhode Island, Vermont, Virginia, Washington, and Wisconsin.

remedy that may prevent CMS from enforcing those provisions as to *any* state, including those that have chosen not to participate in this lawsuit.

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Background: The Work Requirements Statute and CMS's IFR

Legislative Requirements: H.R. 1 Section 71119

Overview. Section 71119 of H.R. 1 established, for the first time, a nationwide Medicaid work and community engagement requirement applicable to certain adults enrolled through the Affordable Care Act's Medicaid expansion pathway (as well as expansion-like populations covered under a demonstration). To maintain coverage, an applicable individual must demonstrate at least 80 hours per month of qualifying activity (work, community service, and/or participation in a work program), enroll in an educational program at least half-time, or meet specific income thresholds for monthly or seasonal earnings.

Individuals who are otherwise eligible for Medicaid must show their compliance with work requirements upon initial enrollment and at least every 6 months thereafter in order to gain or maintain coverage (though states may impose more stringent requirements beyond these minimums).

Exclusions and Exceptions. H.R. 1 categorically excludes nine groups from this requirement as "specified excluded individuals," including: individuals who are medically frail or otherwise have special medical needs (as described further below), pregnant and postpartum individuals, parents and caregivers of dependent children age 13 and under, and American Indians and Alaska Natives. In addition, a state may choose to implement a short-term "hardship" exception for individuals receiving inpatient or other institutional care, or who reside in an area subject to a federal emergency declaration.

Process for Verifying Compliance. When determining individuals' compliance with or exclusion/exception from Medicaid work requirements, states are required to use "ex parte" processes as much as possible—i.e., relying on data already available to the state without asking individuals to supply additional information. Where full data are not available to the state, the state defines circumstances when states may or must require documentation from individuals and when accepting self-attestation (i.e., a sworn statement from the individual) may be acceptable.

Implementation Timeline. H.R. 1, enacted on July 4, 2025, set an aggressive implementation timeline for this major policy change that requires substantial revisions to state policies, procedures, and IT systems. States must begin applying work requirements as a condition of Medicaid eligibility no later than January 1, 2027 (although some states have chosen to implement earlier). Ahead of that deadline, H.R. 1 required that: by June 1, 2026, CMS issue a rule providing further detail on H.R. 1's requirements; and by August 31, 2026, states send a notice advising enrollees about these new requirements.

Congress allowed—but did not require—CMS to extend the implementation deadline as late as December 31, 2028 for a state that demonstrates a good-faith effort toward implementation. To date, CMS has not granted any such waivers.

CMS Implementation: Guidance and the IFR

States communicated to CMS that implementing work requirements involved major changes to eligibility systems, beneficiary notices, and staff training, and that these efforts needed to begin well before the June 2026 deadline for an IFR. Acknowledging that reality, CMS began providing guidance to states in late 2025, including a series of workgroup calls and written materials, including a December 2025 informational bulletin. with states to provide guidance on and answer questions regarding implementation.

On June 3, 2026, CMS published its IFR. Although the IFR tracks the statutory framework enacted by Congress in many respects, it introduces new requirements and limitations that go beyond those statutory requirements and, in key ways, depart from the preliminary CMS guidance states sought and relied upon to prepare for January 2027, as described in the following section.

The States' Legal Challenge to CMS's IFR

On June 29, 26 states filed suit under the Administrative Procedure Act (APA) asking the court to overturn various elements of the IFR. The states also filed a motion for a preliminary injunction seeking swift relief on a subset of claims.

- In the preliminary injunction motion, the states ask the court for an order before the end of July that delays the deadline for the beneficiary notice, in addition to suspending the IFR provisions that condition the medical frailty exclusion on inability to work, narrows the emergency hardship exception, and establish a 12-month lookback period for claim or encounter data used to establish eligibility.

- The complaint further challenges the limits on self-attestation, the short-term hardship lookback period, and renewal process timing. The court's ruling on the preliminary injunction motion will not address these additional provisions, which would be litigated in later stages of the case.

The states assert that these provisions of the IFR are unlawful because:

- The provisions conflict with H.R. 1 and so exceed CMS's authority in violation of the APA;

- CMS's action was arbitrary and capricious in violation of the APA because the agency failed to adequately justify these provisions, including its decision to depart from the interpretations communicated to states through months of pre-IFR guidance; and

- The IFR's significant interpretative changes so close to the implementation deadlines, as well as unanswered questions about states' obligations, fail to provide states with the "clear notice" required under the Spending Clause of the U.S. Constitution.

Throughout their briefing, the states emphasize the extensive investments they've already made in implementing work requirements based on the guidance CMS provided prior to the IFR, as well as their concerns about CMS imposing significant financial penalties on states that fail to implement work requirements in accordance with CMS's vision.

The discussion below addresses the three provisions and remedies at issue in the preliminary injunction motion, then the additional provisions and remedies raised only in the complaint.

The Pending Motion for a Preliminary Injunction

The plaintiff states have asked the court to preliminarily prohibit CMS from enforcing three IFR provisions (related to the medical frailty and hardship exemptions) and to suspend the August 31 notice deadline, while the litigation proceeds. The states' proposed preliminary injunction order appears to limit this relief to the 26 states participating in the lawsuit, although this intention is not consistently clear. Specifically:

- As to the plaintiff states, the proposed order would prohibit CMS from enforcing the three provisions of the IFR challenged in the motion, or *retroactively* enforcing those elements (likely aimed at preventing CMS from penalizing states for any conduct in reliance on the injunction, even if the injunction is later overturned).

- The proposed order would further prohibit CMS from taking the following actions as to "states" (without expressly limiting the request to the plaintiff states, although the court could choose to so limit the relief) "enforcing the IFR in a manner that would preclude States from relying on electronically-available data to determine whether an individual is 'medically frail'"; or "penalizing States for any delays in sending the notices" which are due by August 31.

CMS is due to file a response to the states' motion for a preliminary injunction by July 13. While that deadline could be extended, the states have asked the court to act on their preliminary injunction request by July 31. Several states have indicated they must finalize beneficiary notices by July 31 to meet the August 31 statutory notice deadline.

The preliminary injunction motion is supported by sworn statements from state officials in each of the 26 states detailing the substantial costs to comply with the IFR provisions that are contrary to H.R.1, how CMS failed to consider the states' reliance on CMS, and the likely loss of coverage for eligible individuals.

Narrowed Definition of Medical Frailty. H.R. 1 excludes "medically frail" individuals from complying with work requirements, and lists a minimum set of medical conditions that qualify

as "medically frail."[2] The IFR adds a further limitation that this exclusion applies only to an individual whose condition "significantly impairs the individual's ability to comply with the community engagement requirement," and signals that states may not classify an individual as medically frail based solely on the existence of a diagnosis or condition. In challenging this rule, the states argue that:

- This narrowed definition is contrary to law because CMS transformed a categorical protection for people with serious conditions into a functional work-capacity test that Congress did not impose. In defining the minimum list of conditions that qualify for medical frailty, Congress included certain conditions that include a built-in capacity test (such as blindness or other disability that qualifies an individual for Social Security payments), and other items that do not (such as a "serious or complex medical condition").

- CMS impermissibly departed from its own pre-rule guidance without weighing states' reliance on CMS's prior guidance, states' need for additional clarity around what counts as a "substantially impairment" or what types of evidence might be sufficient, the administrative burdens associated with implementing this additional eligibility condition, or the coverage losses likely to result from increased documentation requirements for individuals who, by definition, have a serious medical condition.

Hardship Exception for Declared Emergencies. The statute allows states (at their option) to provide a short-term hardship exception for an applicable individual who resides in a county or equivalent unit where there is a presidentially declared emergency or disaster. The IFR narrows that exception by tying it to emergencies that affect the ability of applicable individuals to demonstrate community engagement. As with the corresponding limitation on the exclusion for medically frail individuals, the states argue that CMS has impermissibly imposed an additional limitation beyond Congress's definition, and that CMS failed to appropriately consider the ambiguity of its new standard, the administrative burdens on states, or the likelihood of coverage losses for eligible individuals.

Twelve-Month Claims-Period Limitation. H.R. 1 requires states to use reliable information available to the state, including claims and encounter data, for ex parte verification where possible. The IFR limits that inquiry to adjudicated claims and encounter data from the preceding twelve months. The states challenge this limitation on the grounds that some chronic or permanent conditions do not generate frequent treatment claims even though they remain disabling or materially relevant to exclusion (the states note that CMS's own data systems use multi-year reference periods for chronic conditions); and Medicaid claims adjudication often

[2] Section 1902(xx)(9)(A)(ii)(V) excludes an individual "(V) who is medically frail or otherwise has special medical needs (as defined by the Secretary), including an individual— (aa) who is blind or disabled (as defined in section 1614); (bb) with a substance use disorder; (cc) with a disabling mental disorder; (dd) with a physical, intellectual or developmental disability that significantly impairs their ability to perform 1 or more activities of daily living; or (ee) with a serious or complex medical condition."

lags the underlying service date, so a twelve-month adjudication window may offer an incomplete picture of recent utilization.

Additional Provisions Challenged Under the Complaint

The plaintiff states' complaint challenges additional provisions of the IFR and seeks other remedies in addition to those in the preliminary injunction motion. Although these issues are not likely to be resolved immediately, they will remain part of the case as the litigation proceeds.

Whereas the preliminary injunction motion asks the court to suspend certain IFR provisions as to the plaintiff states, the complaint asks the court to vacate all challenged IFR provisions—a remedy that may prohibit CMS from enforcing these provisions as against any state, including those not participating in the lawsuit.[3]

Limits on Self-Attestation. H.R. 1 provides that, with respect to the various exclusions from compliance with work requirements, states "may elect to not require an individual to verify information" related to that exclusion[4]—i.e., states may choose to accept self-attestation rather than requiring individuals to submit documentation, consistent with existing CMS regulations governing other aspects of Medicaid eligibility.[5] Beginning January 1, 2028, however, the IFR limits states' ability to accept beneficiary self-attestation:

- For medical frailty, only one self-attestation per continuous enrollment period, meaning documentation would be needed at least every 6 to 12 months, depending on the state's medical frailty verification approach, as long as the individual remained enrolled; and

- For other compliance and exception categories, a requirement to seek documentation whenever documentation is "reasonably available."

The states argue that these regulatory limitations are inconsistent with H.R. 1's broad authorization for self-attestation. They further argue that the once-per-enrollment cap for medical frailty is likely to increase churn because an individual who loses coverage due to insufficient documentation of medical frailty could then re-enroll based on self-attestation. The

[3] The scope of APA vacatur is a contested and evolving question, however, and courts have increasingly scrutinized universal remedies, so the breadth of any vacatur may be contested later in the litigation.
[4] 42 U.S.C. § 1396a(xx)(3)(A).
[5] 42 C.F.R. § 435.945(a) ("Except where the law requires other procedures (such as for citizenship and immigration status information), the agency may accept attestation of information needed to determine the eligibility of an individual for Medicaid…without requiring further information (including documentation) from the individual."); 42 C.F.R. § 435.952(c)(3) ("The agency must establish an exception to permit, on a case-by-case basis, self-attestation of individuals for all eligibility criteria when documentation does not exist at the time of application or renewal, or is not reasonably available, such as in the case of individuals who are homeless or have experienced domestic violence or a natural disaster.")

complaint argues these restrictions convert what Congress created as a flexible verification regime into a documentation-first approach that will raise denial, termination, and churn risk for otherwise eligible people.

Hardship Exception Timing Gap. H.R. 1 allows states to except individuals experiencing a short-term hardship, such as inpatient or institutional care, as well as a presidentially declared emergency. The complaint alleges the IFR creates a lookback period for new applicants experiencing a short-term hardship by directing states to examine eligibility in the month(s) "immediately preceding the month of application." An applicant hospitalized in the month of application, for example, could not rely on that hospitalization to exempt themselves from the work and community engagement requirements until the following month. The complaint contends that nothing in H.R. 1 requires hardship to be shown in a prior month and challenges the provision as arbitrary and capricious for delaying coverage for the very individuals the hardship exceptions are meant to protect.

Renewal Process Timing. Plaintiffs further allege that the IFR's renewal sequencing compresses the compliance window Congress gave enrollees. The complaint explains that many states begin renewals 60 to 90 days before an eligibility period ends. If the state cannot verify a beneficiary's compliance with work requirements ex parte, the IFR contemplates a notice of noncompliance and a 30-day response period, followed by disenrollment by the end of the next month if no satisfactory showing is made. The complaint alleges that, in practice, this structure would force the state to judge compliance before the end of the statutory period between the last determination and the next scheduled redetermination, while simultaneously requiring states to swiftly revalidate eligibility again if the individual (on their own initiative) produced evidence of compliance after their notice response window had closed, but before the renewal termination date. As a result, states may have to redesign longstanding renewal workflows and issue denials or terminations earlier than the statute permits.

Looking Ahead

CMS's IFR and this litigation have introduced substantial uncertainty into an already-fraught process as states work to overhaul their eligibility systems, policy, and operations ahead of the January 1, 2027 deadline for implementing work requirements. State leaders must now make challenging decisions about resource allocation. States could attempt to swiftly revise their plans in accordance with the IFR's provisions, recognizing that a victory in court may mean those implementation costs were all for naught. Alternatively, states participating in the lawsuit could choose to proceed with implementation in accordance with CMS's pre-IFR guidance in the hopes that the litigation will succeed, at the risk of needing to pivot extremely quickly if the court (or a court of appeals) rules in CMS's favor.

Although the plaintiff states have not asked the court to extend the January 1, 2027 implementation deadline, the states noted in their motion that they have told CMS that they would pause their request for a preliminary injunction if CMS provides a six-month extension of

the January 1, 2027 implementation deadline to all plaintiff states. If CMS grants the states' requested extensions, the litigation will proceed more slowly; if it does not, a decision from the court action on the motion is expected by late July.

Meanwhile, it remains possible that beneficiaries or other stakeholders may seek to file a similar legal challenge to the IFR, with the goal of a court order that would apply to all states, including those not participating in the current litigation.

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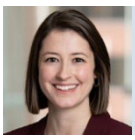

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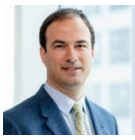

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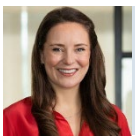

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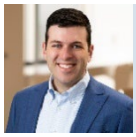

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