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November 2, 2026

A Win and a Race: Court Removes "Significant Impairment" Requirement from Medicaid Work Requirement Exemption

On October 29, 2026, a federal district court ruled that the Centers for Medicare and Medicaid Services (CMS) went beyond the authority Congress gave it to define who is exempt from the new Medicaid work requirements based on their health condition. Over the summer, CMS released a rule that required Medicaid enrollees to show that their health condition significantly limits their ability to comply with the new work requirements in order to qualify as medically frail. The decision removes that extra test, but leaves other challenged parts of the CMS rule in place.

This is potentially a big win for health care access, because it resets the medical frailty definition to Congress's original definition, which is broader than the definition CMS wanted states to use. But this decision creates a lot of complexity for the states, who are racing the clock to implement work requirements by the start of 2027. Read on for a breakdown of the decision, its implications for access to care, and how it might play out in different states.

What did the court decide?

In *Commonwealth of Massachusetts v. Oz*, federal district court Judge Richard G. Stearns held that CMS's June 2026 interim final rule (IFR) unlawfully narrowed the medical-frailty exemption from having to comply with Medicaid work requirements. Under HR 1, people in specified categories—including people living with serious or complex medical conditions and people with substance use disorders—are included in the statutory definition of medically frail. The statute also includes people who are blind or disabled and people whose physical, intellectual, or developmental disability significantly impairs one or more activities of daily living. Defining these categories broadly is important for health care access because any Medicaid member who is exempt from the new work requirements (formerly called community engagement requirements in HR 1) will be protected from losing their coverage once work requirements go into effect.

Want more on Medicaid work requirements and exemptions?

Please see our previous issues of HCIM here and here.

What is Vacatur? What is an Injunction?

Vacatur as used in this context generally means to set aside a government rule or decision, removing its legal effect.

An **injunction** is a court order telling parties to stop (or take) a particular action.

In other words, vacatur changes the rule itself, while an injunction changes what the parties may do.

In the 2026 IFR CMS added another condition that individuals must meet to qualify for the medical-frailty exemption from Medicaid work requirements: a person in one of these categories also had to show that their health condition significantly impaired their ability to comply with work requirements. The court concluded that Congress had not authorized CMS to impose that additional test of significant impairment. In the court's view, the statutory categories establish who must be included — CMS could not exclude people within those categories by requiring a separate showing about their ability to work, study, or volunteer. Therefore, the court concluded imposing the significant impairment requirement was unlawful and vacated it. This likely applies to all states.

The court also enjoined the defendants—the federal government—from enforcing the significant impairment provision, but this only applies to the 26 states (including DC) who brought the lawsuit. The injunction includes a six-month prohibition from penalizing the 26 plaintiff states for any decisions they make about whether an individual qualifies as medically frail.

The court ruled against the plaintiff states on two other challenges they brought to the IFR. The plaintiffs challenged a rule limiting to only twelve months the "lookback" period during which states can consider a Medicaid member's claims and encounter data to assess whether the member qualifies as medically frail. The plaintiffs also challenged restrictions in the IFR on the ability of states to rely on patient self-attestations to establish medical frailty. The court declined to find any administrative procedure concerns with these portions of the IFR, so these parts of the IFR remain intact and operative. This part of the court's ruling is disappointing because these rules will make it harder for people to qualify as medically frail by limiting the evidence that states may consider and increasing administrative burdens on Medicaid members and their providers.

How will this decision impact implementation?

The court made clear that it was not striking down the entire IFR or the parts of HR 1 that call for work requirements to be implemented in all state Medicaid expansion programs. Implementation of work requirements generally still must start by January 1, 2027 as Congress required in HR 1. But what this means for states is complex and depends on if they were part of the litigation, among other factors.

Who are the Plaintiffs in Massachusetts v. Oz?

MA, CA, NJ, AZ, CO, CT, DE, DC, HI, IL, KY, ME, MD, MI, MN, NE, NM, NY, NC, OR, PA, RI, VT, VA, WA, and WI

***Plaintiff States*:**

- These states are required to implement work requirements with a medical frailty exemption, but they do not have to limit eligibility for this exemption to people who are "significantly impaired" in their ability to comply with work requirements. Hopefully these states can revert back to using medical frailty definitions (including diagnosis and claims code lists) that they were building prior to the IFR that did not include the requirement of significant impairment. Reverting back may not be simple, however, as states have had to put work into designing and implementing systems that can check an individual's encounter and claims history against these code lists to determine whether the individual may qualify as medically frail.
- They have a 6-month reprieve under the court's order from federal enforcement when it comes to granting exemptions to work requirements for people who qualify as medically frail. This will give them a grace period to work to implement their approach. It does not mean that they do not have to, or cannot, implement work requirements during this period. HR 1 is still good law and requires them to enforce work requirements generally.

The Role of Code Lists in Determining Medical Frailty

Under HR 1 and the IFR, states must attempt to determine whether someone qualifies as medically frail using information that the state already has. This helps reduce administrative burdens on Medicaid members and decreases the likelihood that someone will lose coverage simply because they did not return required paperwork. The data that states can look to for this is in a member's claims and encounter history, which include codes for medical diagnoses and services received. States are actively reviewing and publishing their medical frailty exemption code lists, with lists varying by state.

Non-plaintiff States Who Do Not Want to Implement the "Significant Impairment" Test:

- Because the vacatur order likely applies nationally, they are in the same boat as the plaintiff states in that they do not need to limit eligibility for the medical frailty exemption to people who are "significantly impaired."
- Because the injunction against federal enforcement applies only to plaintiff states, these states will not get the same six-month grace period. This means more pressure to "get things right" from the very start of 2027.

Non-plaintiff States Who Do Want to Implement the "Significant Impairment" Test:

- These are states who, for ideological reasons, or simply because of how far along they are in implementing this standard, may prefer to keep the "significant impairment" criteria in their approach to who qualifies for the medical frailty exemption.
- Because of the vacatur order, they likely can't implement the "significant impairment" test, which has been ruled contrary to Congress's instructions in HR 1.
- But there are complexities surrounding enforcement of this rule against these states if they did try to implement the "significant impairment" test.

For all States:

The timeline under HR 1 for implementing Medicaid work requirements—a huge and challenging to administer change to the Medicaid program—was already incredibly ambitious. When CMS released the IFR, with its significant change in approach to the medical frailty exemption, it was criticized as giving states only six months to develop and implement an even more complex standard. Now states have until the end of the year to rework their approach yet again to comply with the court's order. At the same time, states will likely have to continue to be ready to implement the "significant impairment" test in case an appeal reinstates this requirement on short notice. States are truly in a race against the clock to stand up their work requirement—and exemption—processes.

What's Next?

The federal government will almost certainly appeal. Depending on how the appeal turns out, states could be ordered to go back to implementing CMS's standard that includes the "significant impairment" test. This creates the potential for even more doing and undoing of work, at a time states are racing to implement a massive new program. Additionally, even if the appeal does not change the district court's ruling on the "significant impairment" test, it could change the remedy that the lower court ordered, creating even more ambiguities in what could happen next.

Adding to the complexity, last month, five Medicaid enrollees, six physician organizations, and the City of Columbus, Ohio filed a similar suit in the U.S. District Court for the District of Maryland against the same defendants. They also challenged the "significantly impairs" test, the IFR's 12-month lookback limit, its limits on self-attestation, and other provisions of the rule. That case is still pending.

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