



August 10, 2011

Dear State Exchange Grantees, Medicaid and CHIP Directors, and Health and Human Services Directors:

As part of the Administration's commitment to promote flexibility for States and to ensure effective and efficient use of State and Federal resources, we are providing a time-limited, specific exception to the cost allocation requirements set forth in OMB Circular A-87 (Section C.3) to allow, at the option of the State, Federally funded human services programs to benefit from investments in State eligibility systems being made by State-operated Exchanges, Medicaid and the Children's Health Insurance Program (CHIP). This exception, discussed below, allows States the opportunity to thoughtfully consider the benefits of integrating the eligibility determination functions across health and human services programs and the timing of any such integration.

Integrated systems can realize efficiencies for States and better customer service for families. At the same time, States have a short timeframe to accomplish the eligibility system changes needed to implement Affordable Care Act health insurance changes that take effect in 2014. We encourage States to consider the benefits of interoperable systems, and how system development might be staged to ensure that the Affordable Care Act timeframes are met. Ultimately, decisions about whether to integrate the eligibility functions across programs and the schedule for such integration is a State decision. We are committed to providing coordinated Federal support and technical assistance throughout the process.

Background

As you know, the Affordable Care Act is projected to expand health insurance coverage to tens of millions of individuals starting January 1, 2014, through new Affordable Insurance Exchanges (Exchanges) and expansions in Medicaid. In addition, the Affordable Care Act substantially changes the way Medicaid programs cover individuals, creating a new national income standard and methodology which will work in coordination with CHIP, and premium tax credits and reduced cost-sharing through the Exchanges.

To accommodate these demands, many States are making long-needed investments in eligibility systems, to provide a high-quality customer experience to all individuals seeking health coverage, to accurately and quickly make a decision about a person's eligibility, and to get the individual enrolled into coverage.

We have provided previous guidance to States about how these systems should be developed and deployed to meet the goals of the Affordable Care Act, which calls for coordinated eligibility determination mechanisms. In accordance with this previous guidance, State eligibility systems, in order for the improvements to be eligible for Federal assistance, must be able to determine eligibility for Medicaid, CHIP, and premium tax credits and cost sharing benefits through the Exchange in a streamlined and integrated fashion. Medicaid, CHIP, and the Exchange will each contribute funding to a shared eligibility service or system that will apply a coordinated set of eligibility rules and use a common verification system to determine placement in one of the coverage programs available. As a reminder, this Federal guidance can be found in the “Guidance for Exchange and Medicaid Information Technology (IT) Systems, Version 2.0” (located at <http://www.cms.gov/Medicaid-Information-Technology-MIT/Downloads/exchangemedicaiditguidance.pdf> and <http://www.cms.gov/Medicaid-Information-Technology-MIT/>).

Exceptions to Certain Cost Allocation Requirements

Because other Federally funded human services programs can benefit from the changes being made to create a modern infrastructure to determine eligibility for Exchanges, tax credits, Medicaid and CHIP, we sought and received an exception to OMB Circular A-87 to allow States to reuse these assets for other programs and purposes without having to allocate those development costs to these other programs.

The exception allows human services programs (including, but not limited to, Temporary Assistance for Needy Families (TANF), Child Care and Development Fund (CCDF), and the Supplemental Nutrition Assistance Program (SNAP)) to utilize systems designed specifically for determining a person’s eligibility for certain health coverage programs (Medicaid, CHIP, and premium tax credits and cost sharing benefits through the Exchange) without sharing in the common system development costs, so long as those costs would have been incurred anyway to develop systems for the Exchanges, Medicaid, and CHIP. Incremental costs for additional requirements needed for the inclusion of those programs, whether they are added to those projects at initial or later stages, must be charged entirely to the benefitting program.

This exception is effective immediately, applies only to development costs for eligibility determination systems, and terminates on December 31, 2015. Maintenance and operational costs for these systems shall continue to be cost allocated as currently required under OMB Circular A-87. Additional guidance and technical assistance related to the exception will be provided in the upcoming months.

CMS will track and compare development across States benchmarking costs and system capacity, to ensure that States are accurately capturing which costs and components are attributable to the underlying system for the Exchanges, Medicaid, and CHIP, and which are attributable to the addition of human services programs. We will provide more guidance at a later time.

As you know, the Affordable Care Act’s coverage expansions are effective January 1, 2014, and the systems that support eligibility determinations need to be operational and fully tested no later

than the summer of 2013. Toward that end, any system requirement that would delay meeting that deadline will not be permitted. Because of these tight timeframes, we encourage States pursuing an integrated eligibility system strategy consider mechanisms for phasing their IT development such that the functionality needed to determine eligibility for human services programs, such as TANF or SNAP, can be added after the health components are up and running. The exception to OMB Circular A-87 cost allocation principles remains in place through December 31, 2015, to allow such phased projects.

The U.S. Departments of Health and Human Services (HHS) and Agriculture (USDA) are committed to a strong partnership with States and our Federal partners as we work together to implement the Affordable Care Act.

Sincerely,

/s/

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and Survey & Certification,
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/s/

George Sheldon
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