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**FEB 12 2016**

Judy Mohr-Peterson  
Med-QUEST Division Administrator  
Hawaii Department of Human Services  
601 Kamokila Boulevard, Room 518, PO Box 700190  
Kapolei, HI 96709

Re: Designation of Minimum Essential Coverage

Dear Ms. Mohr-Peterson:

The purpose of this letter is to inform the state whether certain types of Medicaid and CHIP coverage provided in Hawaii is recognized by the Centers for Medicare & Medicaid Services (CMS) as minimum essential coverage (MEC) under section 5000A(f)(1)(E) of the Internal Revenue Code of 1986 (the Code).

On November 7, 2014, we explained in State Health Official Letter (SHO) #14-002 that certain types of coverage are not recognized as government-sponsored MEC under section 5000A(f)(1)(A) of the Code, including certain coverage for low-income pregnant women under the Medicaid state plan, coverage for medically needy individuals under the Medicaid state plan, and coverage under a demonstration program authorized under section 1115 of the Social Security Act (the Act). These types of coverage are not included as MEC under Internal Revenue Service (IRS) regulations implementing section 5000A(f)(1)(A)(ii) of the Code.<sup>1</sup> However, in many states, this coverage is comparable to the coverage generally afforded to categorically needy Medicaid beneficiaries. Therefore, pursuant to the authority under section 5000A(f)(1)(E) of the Code, CMS, in consultation with the Secretary of the Treasury, may recognize as MEC, coverage which is not recognized as MEC under the IRS regulations.

Following issuance of SHO #14-002, CMS reviewed the coverage provided to medically needy individuals under Hawaii's Medicaid state plan as well as the coverage provided under the special terms and conditions (STCs) of its demonstration project authorized under section 1115 of the Act. We requested additional information from the state to elaborate on any limitations in coverage reflected in the state plan or STCs in order to compare the coverage provided against the standards established in the SHO. In the event that the state elects to alter the benefits provided to medically needy individuals or to beneficiaries enrolled under the state's

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<sup>1</sup> At the time of the SHO, the IRS had not finalized its proposed rule to carve out medically needy or section 1115 coverage as minimum essential coverage. The final rule, implementing 26 CFR 1.5000A-2(b), was published on November 26, 2014.

demonstration project, which could affect the MEC designations discussed below, CMS will evaluate the new coverage to assess whether the designation in this letter is still appropriate.

### Medically Needy Coverage

Based on our evaluation of information provided by the state and discussion with state staff, we have determined that the coverage provided to individuals who meet eligibility criteria as medically needy under 42 CFR 435.300 et seq. in Hawaii is comparable to the Medicaid state plan benefit package provided to categorically needy populations. Therefore, in accordance with the guidance, CMS has determined that medically needy coverage in the state is recognized as MEC for individuals who are eligible for such coverage without having to incur medical expenses in order to establish financial eligibility for medically needy coverage. However, coverage provided to individuals who must incur medical expenses in order to establish financial eligibility for medically needy coverage is not recognized as MEC.

### Coverage Authorized Under Section 1115

Based on our evaluation of the STCs for the state's demonstration project and discussion with state staff, we have concluded that the coverage under Hawaii's QUEST Integration Demonstration (Project #11-W-00001/9) meets the comprehensive criteria. The demonstration project provides all Medicaid eligible populations with a managed care benefit package that is equivalent to state plan coverage for categorically needy. Accordingly, CMS has determined that the coverage provided under this demonstration project is recognized as MEC.

### Implications of MEC Designation

Under section 5000A of the Code, "nonexempt individuals" must be enrolled in MEC for each month beginning after December 31, 2013, or make a payment (shared responsibility payment) with their federal income tax return. Individuals enrolled in coverage designated as MEC will not be liable for the shared responsibility payment. In addition, individuals eligible for coverage that is MEC are not eligible for advanced premium tax credits (APTC) and cost-sharing reductions (CSR).

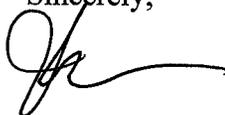
Individuals eligible for Medicaid coverage that is not considered MEC may be eligible for APTC and CSRs for enrollment in a qualified health plan (QHP) through the Marketplace. These individuals may simultaneously elect to enroll in Medicaid and a QHP, or they may elect to enroll in Medicaid with the limited benefit. However, unless they are eligible for a hardship or other exemption from the requirement to maintain MEC, individuals who elect Medicaid coverage that is not recognized as MEC may be subject to the shared responsibility payment.

Medically needy individuals enrolled in non-MEC Medicaid after incurring medical expenses to meet their spenddown requirement are eligible for a hardship exemption. On November 21, 2014, the Center for Consumer Information and Information Oversight issued guidance explaining that medically needy individuals who are not enrolled in MEC will need to apply for this hardship exemption through the Marketplace. More information on the hardship exemptions available to Medicaid beneficiaries can be found at <https://www.cms.gov/ccio/resources/Regulations-and-Guidance/index.html>.

States are required to comply with IRS reporting requirements with respect to individuals who are covered by minimum essential coverage and therefore are not liable for the individual shared responsibility payment. Copies of the 1095-B forms must be furnished to the person identified as the “responsible individual” on the form. For more information on the IRS reporting requirements, please visit <http://www.irs.gov/instructions/i109495b/ar01.html>. We also strongly encourage Hawaii to provide individuals enrolled in non-MEC Medicaid coverage with a notice of their coverage status as well as the availability of an exemption from the shared responsibility payment in the case of medically needy individuals enrolled in Medicaid coverage that is not recognized as MEC and how to obtain the exemption.

If you have questions regarding these designations, please contact Ms. Anne Marie Costello, Acting Director, Children and Adults Health Programs Group, Center for Medicaid & CHIP Services, at (410) 786-5647.

Sincerely,

A handwritten signature in black ink, appearing to read 'Vikki Wachino', with a long horizontal flourish extending to the right.

Vikki Wachino  
Director

cc:

Henrietta Sam-Louie, Acting ARA, CMS Regional Office San Francisco