

13 States Currently Exceed the OBBBA's New Medicaid PERM Eligibility Error Rate Threshold, OBBBA Likely to Increase Error Rates Initially

The [Medicaid Payment Error Rate Measurement](#) (PERM) program is the federal quality-control system that measures improper payments in Medicaid and CHIP. Under the PERM methodology, CMS measures fee-for-service (FFS) claims, managed care payments, and eligibility determinations across a rotating cycle of 17 states per year, meaning each state is reviewed once every three years. Improper payment includes any payment that does not meet program requirements, including payments for which documentation was insufficient to confirm eligibility and reimbursement. In FY 2025, 77.2% of Medicaid improper [payments](#) resulted from insufficient documentation (missing paperwork or incomplete records) rather than payments to ineligible individuals or fraudulent claims. The national rolling PERM [rate](#) for Medicaid was 6.12% (\$37.39 billion) in FY 2025, up from 5.09% (\$31.10 billion) in FY 2024. The increase was driven by states returning to normal eligibility operations following the COVID-19 pandemic unwinding.

For states that contract with Medicaid managed care plans, the PERM component estimates Medicaid managed care capitation payments made by the state in error. States that contract with managed care plans pay a set capitation payment to the plan for services covered by the plan contract. The managed care plan payments to providers are not reviewed under PERM. Since 2011, the estimated error rate for managed care has remained below 0.5% and has been 0% since 2021.

Section 71106 of the One Big Beautiful Bill Act (OBBBA, P.L. 119-21, signed July 4, 2025) tightens enforcement for states that exceed the 3% eligibility error rate threshold. Under prior law, CMS was required to recoup the federal share of erroneous excess payments from states above the threshold but retained broad authority to waive the penalty if a state demonstrated a "good faith effort" to comply. Effective October 1, 2029, the waivable amount is [capped](#) at overpayments made on behalf of eligible individuals only. Payments flagged for ineligible individuals are no longer waivable. Insufficient documentation errors retain limited waiver protection, but only up to the dollar value of that specific sub-category. The Congressional Budget Office estimates that Section 71106 will [reduce](#) federal payments to states by \$7.6 billion over 10 years.

Not all errors carry equal exposure to penalties under the OBBBA. Of the \$37.39 billion in national Medicaid [improper payments](#) in FY 2025, roughly \$8.3 billion (22%) [represent](#) confirmed monetary loss, including payments to ineligible beneficiaries (\$6.24 billion), other monetary loss (\$1.32 billion) and payments to unenrolled providers (\$0.71 billion). These improper payments were never waivable and remain subject to full recoupment. Under OBBBA Section 71106, the remaining \$26.76 billion in insufficient documentation errors will be considered erroneous excess payments, and states will no longer be able to avoid the penalties through good-faith waivers. Insufficient information to determine eligibility is the largest error category (\$16.74 billion).

Based on the most recent PERM data published by CMS, 13 states currently exceed the 3% eligibility error rate threshold. The states with the highest current eligibility error rates are Alaska (9.5%), South Carolina (8.7%), Rhode Island (7.9%), Delaware (6.1%), and California (5.9%). Four states fall within the near-threshold band between 2% and 3% [Idaho (2.4%), Oregon (2.2%), Colorado (2.2%) and Mississippi (2.1%)]. Since PERM reviews each state only once every three years, rates for some states reflect measurements from 2023 or 2024 and will be updated before the penalties take effect. The mandatory eligibility redeterminations and work requirements for expansion adults provision included in the OBBBA, effective December 31, 2026, are expected to increase documentation errors in the near term, potentially pushing additional states above the threshold before penalties activate.

Medicaid PERM Eligibility Error Rate Data Table

The Monetary Loss Rate indicates a confirmed ineligible beneficiary or claim and is not waivable under OBBBA Sec. 71106. The Doc Gap Rate indicates documentation or process errors where waiver protection is capped and narrowed.

<u>State</u>	<u>Elig. Error Rate</u>	<u>Monetary Loss Rate¹</u>	<u>Doc Gap Rate</u>	<u>Year Measured</u>	<u>PERM Cycle</u>
Below 3% Eligibility Error Rate					
Alabama	0.0	0.0	0.0	2023	Cycle 2
Georgia	0.0	0.0	0.0	2023	Cycle 2
Maine	0.0	0.0	0.0	2024	Cycle 3
Oklahoma	0.0	0.0	0.0	2025	Cycle 1
Pennsylvania	0.0	0.0	0.0	2025	Cycle 1
Utah	0.0	0.0	0.0	2023	Cycle 2
Vermont	0.0	0.0	0.0	2023	Cycle 2
Washington	0.0	0.0	0.0	2024	Cycle 3
Wisconsin	0.0	0.0	0.0	2025	Cycle 1
Kansas	0.1	0.0	0.1	2025	Cycle 1
Arkansas	0.2	0.0	0.2	2025	Cycle 1
South Dakota	0.2	0.2	0.0	2024	Cycle 3
Illinois	0.3	0.9	-0.6	2025	Cycle 1
North Dakota	0.3	0.0	0.3	2025	Cycle 1
Nebraska	0.4	0.0	0.4	2023	Cycle 2
New York	0.5	0.0	0.5	2024	Cycle 3
North Carolina	0.5	0.0	0.5	2023	Cycle 2
Virginia	0.5	0.0	0.5	2025	Cycle 1

¹ Monetary Loss Rate represents the confirmed ineligibility component of each state's PERM eligibility error rate: payments where CMS has sufficient information to determine the Medicaid payment should not have occurred. This is the component that is definitionally non-waivable under OBBBA Sec. 71106. Source: [CMS Supplemental Improper Payment Data \(2023, 2024, 2025\)](#), state-specific eligibility rate tables.

West Virginia	0.6	0.0	0.6	2023	Cycle 2
Kentucky	0.8	0.0	0.8	2023	Cycle 2
Missouri	0.8	0.0	0.8	2025	Cycle 1
Montana	0.9	N/A ²	N/A ²	2024	Cycle 3
Ohio	1.1	0.1	1.0	2025	Cycle 1
Texas	1.1	0.0	1.1	2024	Cycle 3
Hawaii	1.2	0.0	1.2	2024	Cycle 3
Nevada	1.2	0.0	1.2	2024	Cycle 3
New Hampshire	1.2	0.9	0.3	2023	Cycle 2
New Mexico	1.4	0.0	1.4	2025	Cycle 1
Arizona	1.5	1.0	0.5	2024	Cycle 3
Minnesota	1.5	0.1	1.4	2025	Cycle 1
Wyoming	1.6	N/A ²	N/A ²	2025	Cycle 1
Iowa	1.8	0.0	1.8	2024	Cycle 3
District of Columbia	1.9	0.0	1.9	2024	Cycle 3
Louisiana	1.9	0.0	1.9	2024	Cycle 3
Mississippi	2.1	0.8	1.3	2024	Cycle 3
Colorado	2.2	0.0	2.2	2023	Cycle 2
Oregon	2.2	0.9	1.3	2024	Cycle 3
Idaho	2.4	0.0	2.4	2025	Cycle 1
Above 3% Eligibility Error Rate (Penalty Exposure Under OBBBA Sec. 71106)					

² N/A indicates states where a separate monetary loss rate is not published in the CMS supplemental data, typically due to all-FFS program structure (Alaska, Montana) or other methodological factors (Connecticut, Indiana, Wyoming). The total eligibility error rate for these states includes both monetary loss and documentation gap components that cannot be separated from published data.

Connecticut	3.0	0.0	3.0	2025	Cycle 1
Indiana	3.1	N/A²	N/A²	2024	Cycle 3
Michigan	3.2	0.0	3.2	2025	Cycle 1
Maryland	3.4	0.2	3.2	2023	Cycle 2
Tennessee	3.4	0.0	3.4	2023	Cycle 2
Florida	3.9	1.0	2.9	2024	Cycle 3
New Jersey	4.1	0.3	3.8	2023	Cycle 2
Massachusetts	5.1	0.5	4.6	2023	Cycle 2
California	5.9	3.5	2.4	2023	Cycle 2
Delaware	6.1	0.0	6.1	2025	Cycle 1
Rhode Island	7.9	0.3	7.6	2023	Cycle 2
South Carolina	8.7	0.3	8.4	2023	Cycle 2
Alaska	9.5	N/A²	N/A²	2024	Cycle 3
National Rolling Rate	6.12%	~22%³	~72%***	FY 2025	All 3

³ National figures derived from [CMS 2025 Supplemental Data, Table S2A](#). Monetary loss includes: Beneficiary Ineligible for Program or Service (\$6.24B, 16.7%), Provider Not Enrolled (\$0.71B, 1.9%), Other Monetary Loss (\$1.32B, 3.5%). State-level prior cycle rates not published by CMS in supplemental reports prior to 2023; year-over-year comparisons unavailable. National rolling rate increased +1.03 pp from FY 2024 (5.09%) to FY 2025 (6.12%).