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Robin Lunge, Director

MEMORANDUM

To: Members of the House Committee on Ways and Means

From: Robin Lunge, Director of Health Care Reform, Agency of Administration

Date: January 29, 2015

Re: Income offset eligibility requirements for MAGI

On 1/14/15 the committee asked for more information on the financial eligibility requirements for Medicaid. This memo provides information in respect to that request. Please let me know if the committee has any further questions.

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How income counts for eligibility purposes depends on if a person qualifies as Medicaid for the Aged, Blind and Disabled (MABD) or as Medicaid for Children and Adults (MCA). These two umbrellas encompass all the various categories of Medicaid, i.e., who can qualify for Medicaid.

Here are the big "categories" of people, under each of the umbrellas (MABD & MCA), who qualify for Medicaid in the SOV:

1. MABD:
   a. Elderly (age 65 and older)
   b. Disabled
   c. Blind
2. MCA:
   a. Children (Dr. Dynasaur)
   b. Pregnant women (also Dr. D)
   c. Parents and caretaker relatives of minor/dependent children
   d. New adult category (i.e., not pregnant 19-64 year olds who aren't enrolled in Medicare and who aren't required to be in a mandatory Medicaid category)

MABD Income Eligibility

To qualify for Medicaid on the basis of MABD, a person must meet financial eligibility requirements related to both income and resources (assets).

MABD income eligibility is generally based upon determining an individual and his financial responsibility group's gross income (that is all income that is not specifically excluded by rule), applying specified income disregards to the gross income, thus resulting in net income. Stated another way, net income is what remains after applicable disregards are subtracted from gross income. This amount is then compared to the applicable net income standard to determine if a person is eligible for Medicaid. Under MABD, income exclusions and disregards are closely aligned with those applicable to determining income in the SSI program.

Gross income consists of payment from any source, unless specifically excluded by law, that a person or a member of the person's financially responsibility group receives. Income is considered as either earned or unearned.

Earned income includes*:

- gross salary
- wages
- bonuses
- severance pay
- self- employment income
- payments and income from certain specified federal statutes.

*Note: The bulleted lists of types of income and disregards, in this memo, are not exhaustive. They are meant to represent either the major categories of income and/or disregards, or, where an exhaustive list would be very long, e.g., income exclusions, then the examples are ones that are typical and illustrative.

Unearned income includes:

- Social Security retirement, disability and other Social Security benefits
- SSI
- pensions
- unemployment compensation
- alimony.

Certain earned and unearned payments are specifically excluded by rule, so that these payments are not considered in determining gross income, including:

- the first $20 per month of unearned income
- infrequent unearned income amounting to less than $60 in a quarter
- the earned income of a child under 18 years old
- grants used to pay tuition or other educational expenses
- certain home energy assistance payments
- dividends paid on life insurance.

After determining gross income, that is, income that is countable for MABD purposes, the agency then must disregard certain amounts of income including:

- $65 of earned income
- certain deductions for work expenses for the disabled

- income needed for a person who is blind or disabled to carry out a Plan to Achieve Self-Support (PASS).

This is a “big picture” explanation of how MABD income rules work, including what income counts and what is disregarded. The rules for income eligibility under MABD are complex including, by way of example, for these reasons:

- to determine whose income counts, the state must determine income of the individual’s “financial responsibility group” and compare the amount to the standard based on the size of the individual’s Medicaid group;
- the state must sometimes consider income from another person as automatically available to an individual, called “deeming,” even if the income isn’t actually available to the individual;
- certain “in-kind” benefits, such as the value of food or shelter received from someone in the home, may be counted as income.

MCA Income Eligibility

The Affordable Care Act (ACA) completely changed the way that income is counted for people eligible on the basis of MCA. The ACA eliminated all resource (asset) test for MCA eligibility. The ACA didn’t impact the rules for financial, including income, eligibility for MABD.

The ACA establishes a new definition of income, called Modified Adjusted Gross Income (MAGI). MAGI is a mandatory and standardized methodology for determining income for MCA purposes. It closely mirrors how the IRS determines adjusted gross income for tax purposes. Household composition now mirrors federal tax filing rules in most situations. This simplified income calculation is used to determine Medicaid eligibility under MCA.

The MAGI methodology is significantly different from how income was counted for this population prior to the ACA. For example, under pre-ACA Medicaid income rules, applicants/enrollees were allowed certain income disregards and/or deduction including some child support payments, the first $90 of earned income, and some childcare expenses. The methodology was similar, at least in kind, to the one used in MABD.

Based upon federal tax law, certain payments that used to count as “income,” under pre-ACA rules, no longer count as income. Most notable are Social Security payments to most low-income people (what Social Security counts takes into consideration other income), veteran’s benefits, child support received, and worker’s compensation. Additionally, certain “adjustments” are made to income; for example, self-employment income is generally counted but the IRS Code allows deductions for certain business expenses.

The ACA essentially replaced pre-ACA income disregards, which were based in federal law but varied by state, by a mandatory standard five percent income disregard. In determining Medicaid eligibility, states must reduce countable income by an amount equal to five per cent of the federal poverty level.