Medicaid and CHIP in 2014: A Seamless Path to Affordable Coverage

The New World of Modified Adjusted Gross Income (MAGI)
Final Rule:
Seamless and Affordable Coverage

- Expands access to affordable coverage
- Simplifies Medicaid & CHIP
- Ensures a seamless system of coverage
MAGI-Based Methodologies
Overarching Goals

• Align financial eligibility rules across all insurance affordability programs
• Seamless and coordinated system of eligibility and enrollment
• Maintain eligibility of low-income populations, especially children
Alignment of Financial Eligibility Rules in 2014 Based on MAGI

- Eligibility for premium tax credits and cost sharing reductions for coverage through the Exchange is based on:
  - Modified adjusted gross income
  - Household income
  - These terms are defined in the tax code

- MAGI-based rules will be used for most individuals who apply for Medicaid and CHIP eligibility
What is MAGI?

• MAGI is a methodology for how income is counted and how household composition and family size are determined
• MAGI is not a number on a tax return
• MAGI is based on federal tax rules for determining adjusted gross income (with some modification)
• No asset test or disregards (except across-the-board 5% disregard, bringing income standard for adults to 138%)
**Whose Eligibility is Based on MAGI?**

<table>
<thead>
<tr>
<th>MAGI</th>
<th>MAGI-Excepted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adults</td>
<td>Anyone for whom agency not required to make income determination (e.g., SSI, federal foster care or adoption assistance recipients)</td>
</tr>
<tr>
<td>Parents</td>
<td>Individuals eligible on the basis of being aged, blind or disabled</td>
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<td>Children</td>
<td>Individuals with long-term care needs</td>
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<tr>
<td>Pregnant women</td>
<td>Individuals eligible as medically needy</td>
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<td>Eligibility for Medicare cost sharing assistance</td>
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Tax Definitions of MAGI

- MAGI = Adjusted Gross Income (AGI) plus
  - Any foreign earned income excluded from taxes;
  - Tax-exempt interest; and
  - Tax-exempt Social Security income

- Family = Taxpayer (includes married taxpayers filing jointly) and all claimed tax dependents.

- Family size = Number of individuals in the family

- Household income = The sum of the taxpayer’s MAGI plus the MAGI of tax dependents in the family if required to file.
MAGI in Medicaid and CHIP Definitions of Income

- General rule: Same as tax definitions
  - Taxable income counted for Medicaid and CHIP purposes; non-taxable income not counted
  - Same adjustments to AGI

- Key differences compared to current Medicaid methods:
  - Child support income received is not counted
  - Self-employment and farm income after depreciation and deduction of capital losses counted
Taxable Income Not Counted or Counted Differently in Medicaid and CHIP MAGI

- Scholarships, fellowship grants and awards used for education purposes
- American Indian and Alaska Native (AI/AN) income derived from distributions, payments, ownership interests, and real property usage rights
- Lump sum
MAGI in Medicaid and CHIP: Household Composition

- Taxpayers and tax dependents use tax household with limited exceptions
  - This means that in vast majority of cases, household is determined by principles of tax dependency
- Parents, children and siblings are included in same household
  - Stepparents and parents treated the same
  - Children and siblings with or without income included in same household as rest of family
  - Older children included in family if claimed as tax dependent by parents
  - Child income does not count if child not required to file a tax return
MAGI in Medicaid and CHIP: Differences in Household Composition

- Extended family – Family members and unrelated individuals claimed as a tax dependent by a taxpayer other than a parent or spouse (e.g., grandchild, niece, taxpayer’s parent)
- Children of non-custodial parents – Children claimed as tax dependent by non-custodial parent
- Children of unmarried parents – If living together with child.
Rules for Non-Filers

• Mirror rules for tax filers to maximum extent
• Spouses, parents, stepparents and children living together included in same household.
• “Child” defined as under age 19. State option to also include individuals age 19 and 20 who are full time students.
• Rules for non-filers also apply to tax dependents excepted from general rule to use tax definition of household.
MAGI Budget Period ("Point in Time")

• Premium tax credit and cost sharing reductions for coverage through Exchange based on annual income.

• Medicaid and CHIP base determination on current monthly income, with State option to consider predictable changes in income at initial determination.

• State option to use projected annual income for remainder of year for ongoing eligibility of beneficiaries.
Preventing Potential Coverage Gaps in the Final Rule

• If differences between Medicaid and tax definition of MAGI results in coverage gap, tax definitions are used without exceptions.

• Ensures that regardless of differences in income counting, household composition and point-in-time methodologies, coverage is maintained.
Establishing Filing Requirements and Tax Dependency Relationships

• Filing requirements and tax dependency based on reasonable expectations at time of determination.

• If taxpayer cannot reasonably establish tax dependency relationship, inclusion of tax dependent in household determined in accordance with non-filer rules.
What’s New in the Final Rule

Some changes in final rule:

• Treatment of non-taxable Social Security Income
• Accounting for uncertainty in tax rules
• Preventing potential coverage gaps
• Technical corrections
Scenario 1 – Jones Family
The General Rule Applied

- John and Joan Jones are a married couple. They file jointly and claim Joan’s son by a first marriage, JP, age 17, as a tax dependent.
- John and Joan together currently earn $2,300 per month, with projected annual income of $27,600.
- Joan’s ex-husband pays $500 per month in child support.
- JP works 4 hours every Saturday, earning roughly $135 per month.
- Medicaid income standard = 133% FPL for adults and children ages 6 to 18; CHIP income standard = 200% FPL.
Scenario 1 – Jones Family

- Tax and Medicaid Household = John, Joan and JP
- Child support income does not count JP’s income does not count (< filing threshold for dependents)
- Household income = 149% FPL for a household size of 3.*

* Medicaid/CHIP household income after applying the across-the-board 5% FPL disregard = 144% FPL.
Scenario 1 – Jones Family

• Joan and Joan are eligible for premium tax credits and cost sharing reductions through Exchange.

• JP is eligible for CHIP
Scenario 2 – John Doe

Differences in Treatment of Income

- John is a single parent with 2 children, ages 6 and 10, whom he claims as tax dependents.
- John earns $3,000 per month, with projected annual income of $36,000.
- John also receives $1,800/year ($150/mo) in taxable AI/AN income which is not counted for Medicaid/CHIP purposes.
- Medicaid income standard = 133% FPL for adults and children ages 6 to 18; CHIP income standard = 200% FPL
Scenario 2 – John Doe

- Tax household = John and 2 children
- Medicaid/CHIP household = Same
- Projected annual income for Exchange purposes = $36,000 + $1,800 = $37,800 = 204% FPL for household size of 3.
- Current monthly income for Medicaid/CHIP = $3,000 per month = 194% FPL for household size of 3 minus 5% FPL = 189% FPL.
Scenario 2 – John Doe

- John is eligible for premium tax credits and cost sharing reductions based on income = 204% FPL.
- Both children are eligible for CHIP.
Scenario 3 – Lewis Family
Differences in Household Composition

- Mary Lewis is a working grandmother who claims her daughter (Samantha), age 20 and a full-time student, and granddaughter (Joy), age 2, as tax dependents.
- Mary earns $4,500/month ($54,000/year)
- Samantha earns $300/month ($3,600/year)
- Medicaid income standard = 133% FPL
Scenario 3 – Lewis Family

- Tax household = Mary, Samantha and Joy
- Medicaid/CHIP households
  - Mary = Same as tax household = Mary, Samantha and Joy
  - Samantha = Same Mary’s household = Mary, Samantha and Joy
  - Joy = Samantha and Joy (exception: non-filer rules apply)
Scenario 3 – Lewis Family

- Projected annual income for tax household = Mary’s income (Samantha not required to file) = $54,000 per year = 291% FPL for household size of 3.

- Medicaid household income (current monthly)
  - Mary = Same as tax household = $4,500/mo = 291% minus 5% = 287% FPL for household size of 3
  - Samantha = Same Mary’s income = 287% FPL
  - Joy = Samantha and Joy (exception – non-filer rules apply) = $600/mo. = 49% FPL for household size of 2 minus 5% FPL = 44% FPL
Scenario 3 – Lewis Family

- Mary and Samantha are eligible for enrollment in the Exchange
- Joy is eligible for Medicaid
More Information

For more information on the final rule:

http://www.medicaid.gov/AffordableCareAct/Provisions/Eligibility.html

Webinar information:

• April 5, 3:00 p.m. EST
• Coordination Across Medicaid, CHIP and Affordable Insurance Exchanges