share
State Health Access Reform Evaluation
Robert Wood Johnson Foundation
shadac
State Health Access Data Assistance Center

May 2013

Income Eligibility for Assistance under the ACA: The Question of Monthly vs. Annual Income

Number 2 in the Series, "Eligibility Determination Using Modified Adjusted Gross Income: Implications for Enrollment under Health Reform"

John L. Czajka

Mathematica Policy Research • Washington, DC

INTRODUCTION

Beginning January 1, 2014, the Affordable Care Act (ACA) gives states the option to expand eligibility for Medicaid to uninsured adults ages 19 through 64 with incomes at or below 133 percent of the federal poverty level (FPL). Applicants will be allowed to disregard a portion of their income equaling 5 percent of the applicable FPL, which effectively raises eligibility to 138 percent of poverty. Adults with incomes above this level, up to 400 percent of poverty, will be eligible for tax credits to help them purchase non-group health insurance coverage from state health insurance exchanges; to 250 percent of poverty, adults will also be eligible for cost-sharing reductions that will reduce their out-of-pocket expenditures for the medical care they receive(Figure 1).

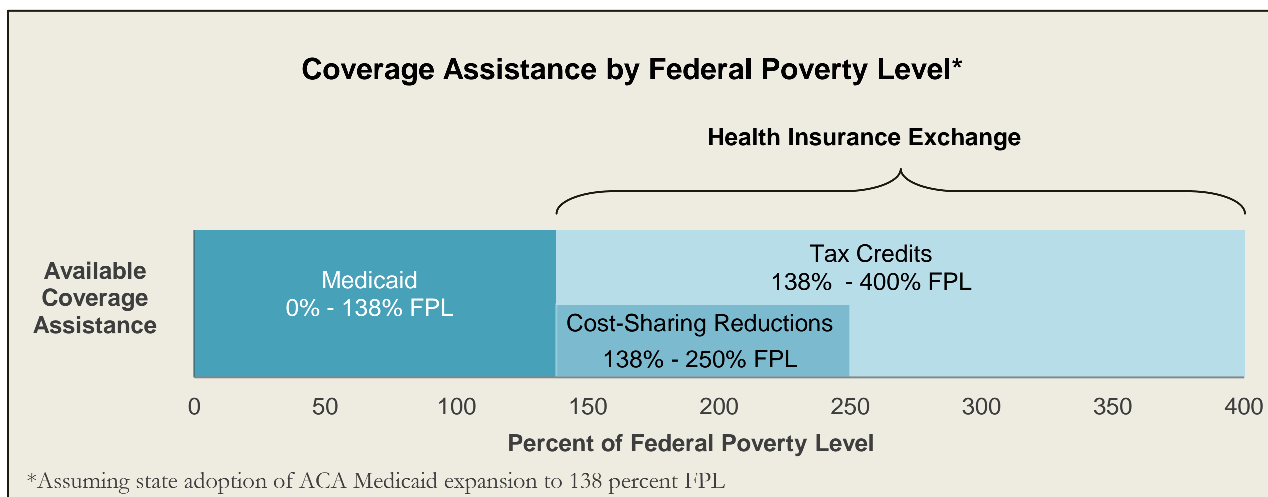
In an effort to simplify the determination of income eligibility for all of these benefits and to make eligibility uniform across the nation (as any system of federal tax credits must be), the ACA specifies a common income concept, Modified Adjusted Gross Income (MAGI), which it defines through a change to the Internal Revenue Code. While eligibility for both Medicaid and the cost-sharing reductions and tax credits will be determined using MAGI as an income concept, the time frame used to determine eligibility for the two categories of assistance is different. Namely, Medicaid eligibility is determined based on *monthly* income, while eligibility for cost-sharing reductions and tax credits is based on *annual* income.

In this issue brief we present empirical estimates of nonelderly adults by a measure of income that approximates MAGI, and we examine the incidence of employment patterns that imply varying degrees of volatility in monthly income. **We find that more than a fifth of nonelderly adults with family incomes between 50 and 138 percent of poverty—levels that will include most of those made newly eligible for Medicaid by the ACA—are likely to experience significant swings in monthly family income as a direct result of their employment patterns. This monthly income instability will result in significant numbers of people gaining and then losing eligibility for Medicaid within the course of a given year while not being able to take full advantage of the cost-sharing reductions and tax credits because of lower-than-required annual income.**

About SHARE

The State Health Access Reform Evaluation (SHARE) is a Robert Wood Johnson Foundation (RWJF) program that supports rigorous research on health reform issues at a state level, with a focus on state-level implementation of the Affordable Care Act (ACA) and other efforts designed to increase coverage and access. The program operates out of the State Health Access Data Assistance Center (SHADAC), an RWJF-funded research center in the Division of Health Policy and Management, School of Public Health, University of Minnesota. Information is available at www.shadac.org/share.

Figure 1. Types of Coverage Assistance Available under the Affordable Care Act



*Assuming state adoption of ACA Medicaid expansion to 138 percent FPL

Determining Income Eligibility

Family Income under the ACA

Currently, states take varying approaches to determining family size and establishing which family members' income to count depending on which member(s) of the family is applying for benefits. Generally, Medicaid programs are required to consider the incomes of parents and spouses in determining an applicant's eligibility, and income of other family members is counted only if they are also applying for coverage (Angeles 2011). In order to apply a tax-based concept of income, however, the ACA redefines the family around the tax filing unit.

A tax filing unit includes the filer, his or her spouse (if they file a joint return, as nearly all married couple do), and any dependents that they are qualified to claim. Typically, dependents are children under 19 (or under 24 if a student), but they may be older children, parents or other relatives, or even non-relatives if the filer provided more than half of their support during the tax year and they met a residency test. Being claimed as a dependent does not exempt an individual from filing if the individual's income meets the applicable filing threshold, which is considerably lower for dependents than for non-dependents. In 2010, dependents filed 7.9 million federal tax returns, representing 5.6 percent of all returns filed in that year (Internal Revenue Service 2011). ACA provides that for purposes of determining eligibility for Medicaid as well as the health insurance premium subsidies and tax credits, family (or "household") income includes the income from all filing units that are linked by

Table 1. Distribution of Nonelderly Adults, Ages 19 through 64, by Poverty Level Based on Simulated Tax Family Income

Income Relative to Federal Poverty Level (FPL)	Number of Adults (1,000s)	Percent of Total	Cumulative Number	Cumulative Percent
≤ 50% FPL	36,346	19.4%	36,346	19.4%
050% < and ≤ 100% FPL	13,373	7.1%	49,719	26.5%
100% < and ≤ 138% FPL	10,665	5.7%	60,384	32.2%
138% < and ≤ 250% FPL	30,341	16.2%	90,725	48.4%
250% < and ≤ 400% FPL	32,569	17.4%	123,294	65.8%
> 400% FPL	64,349	34.3%	187,643	100.0%
Total	**187,643**	**100.0%**		

Source: *2011 Current Population Survey, Annual Social and Economic Supplement, version 3.*

dependency, even when some of the members do not currently live together. [i]

Table 1 shows the distribution of civilian, noninstitutionalized adults, ages 19 through 64, in March 2011, classified by their "tax family" income relative to the FPL in calendar year 2010.[ii] In all, nearly two-thirds of nonelderly adults (the 65.8 percent with income below 400 percent of poverty) would be income-eligible for at least some form of financial assistance in acquiring health insurance coverage under the provisions that will go into effect on January 1, 2014. As a point of comparison, median household income in the United States in 2010 was $49, 445 (DeNavas-Walt, Proctor, & Smith 2011). This represents 270 percent of FPL for a family size of three and 340 percent for a family size of two.

Among all subsidized adults, 60.4 million (32.2 percent of nonelderly, noninstitutionalized adults) would be income-eligible for Medicaid under the provisions of the ACA that go into effect in 2014. Breaking down the 32.2 percent, more than half (19.4 percentage points) were at or below 50 percent of poverty, about one quarter (7.1 percentage points) were between 50 and 100 percent of poverty, and nearly one-fifth (5.7 percentage points) were between 100 and 138 percent of poverty. An additional 16.2 percent were in families with incomes that would make them eligible for both cost-sharing reductions and tax credits if they lacked access to affordable coverage, and another 17.4 percent would be eligible for tax credits alone.

Filing Status

The starting point for determining eligibility for Medicaid, premium subsidies, or tax credits will be an individual or family's most recent federal tax return (for those who filed). In early 2014, the most recent return (or set of returns) will have been filed in 2013 for the 2012 tax year. When the family files in 2014 for the 2013 tax year, this new return with more recent income will replace the earlier return. For those whose current incomes are different from what was reported on their most recent tax returns (either higher or lower), and those who are applying for Medicaid, the application will require reports of current income. Details remain to be worked out by the federal government and the states.

Tax credits will be administered through the federal tax system, with the final credits for a given tax year being determined when the taxpayer files for that year. Thus, the final tax credits that are earned during the 2014 calendar year will be determined when the taxpayer files in early 2015. Individuals may apply to receive their tax credits in advance, however, just as they could formerly do with the Earned Income Tax Credit (EITC). The advance tax credits for which people qualify based on a prior tax return or current income may differ from what they are ultimately entitled to receive based on the tax return that they file for 2014, and many individuals may have to "give back" excess credits that they may have received based on income that was lower, on average, than their eventual annual total. If the experience with the EITC is any indication, this prospect may discourage

Table 2. Distribution of Nonelderly Adults, 19 through 64, by Poverty Level of Tax Family and Filing Status of Family Head

Income Relative to Federal Poverty Level (FPL)	Adults Whose Families Did Not File (1,000s)	Percent Non-Filers	Cumulative Number Not Filing (1,000s)	Percent Non-Filers
≤ 50% FPL	25,242	69.4%	25,242	69.4%
050% < and ≤ 100% FPL	168	1.3%	25,410	51.1%
100% < and ≤ 138% FPL	142	1.3%	25,552	42.3%
138% < and ≤ 250% FPL	248	0.8%	25,800	28.4%
250% < and ≤ 400% FPL	263	0.8%	26,063	21.1%
> 400% FPL	329	0.5%	26,392	14.1%
Total	**26,394**	**14.1%**		

Source: *2011 Current Population Survey, Annual Social and Economic Supplement, version 3.*

people from applying for advance credits. The Advance EITC suffered from persistent low usage and high noncompliance and was ultimately repealed (GAO 2007).[iii]

Tax filing is relevant to the eligibility determination, then, but much more so for applicants who are above the threshold for Medicaid and whose incomes have been fairly stable. Tax filing is essential, of course, for those who wish to secure tax credits to help pay for coverage, and ultimately the ACA may increase filing rates. However, as changes in filing patterns may take a while to develop, current filing behavior is likely to be predictive of what will be observed in 2014.

For tax year 2010, persons under 65 who were not dependents were required to file if they were single with a gross income of at least $9,350; a head of household with gross income of at least $12,050; married filing jointly with a gross income of at least $18,700 (double the level for single persons); or married filing separately with a gross income of at least $3,650. For a single person, the filing threshold corresponded to an FPL of 86 percent. For a couple with no dependents, the filing threshold corresponded to an FPL of 128 percent; for a couple with two dependents, the filing threshold corresponded to an FPL of 85 percent. Persons who were not required to file may nevertheless have had reason to do so if they had federal income tax withheld or qualified for any of a number of refundable credits.

The number of nonelderly adults in March 2011 whose tax families did not file a return for 2010 is reported in Table 2, based on the Census Bureau's simulation of filing status and tax unit income using the Current Population Survey (CPS). Overall, 14.1 percent of nonelderly adults were in nonfiling families, but these were heavily concentrated at or below 50 percent of poverty—an income range where eligibility for tax credits is not a concern. Where filing is most important because of its role in the issuing of tax credits—between 138 and 400 percent of poverty—the nonfiling rate was between 1 and 2 percent. Comparisons between the CPS tax simulations and Internal Revenue Service (IRS) statistics suggest that the CPS simulations understate tax filing, so even this may be an overstatement of the nonfiling rate (Czajka 2012).

Employment

As noted, income instability can cause churning on and off of Medicaid and can make accurate tax credit eligibility determination difficult. The employment stability of the principal earner in a tax family provides a crude but nevertheless useful indicator of situations where monthly income is likely to fluctuate over the course of a calendar year. Table 3 classifies nonelderly adults by the employment status of the tax family's principal earner in 2010.[iv] We differentiate among four mutually exclusive statuses: (1) primarily self-employed, (2) not primarily self-employed but having little or no employment, (3) not primarily self-employed but having irregular employment, and (4) all other employment. We classified a person as self-employed if the longest job held during the year was in a business that this individual owned. For those who

Table 3. Distribution of Nonelderly Adults, 19 through 64, by Employment Status of Primary Earner by Income Relative to Poverty

Income Relative to Federal Poverty Level (FPL)	Primarily Self-Employed (%)	Little or No Employment (%)	Irregular Employment (%)	All Other Employment (%)
≤ 50% FPL	3.1	78.9	8.1	9.9
050% < and ≤ 100% FPL	6.4	24.8	19.1	49.6
100% < and ≤ 138% FPL	6.2	22.3	10.4	61.1
138% < and ≤ 250% FPL	4.7	15.8	7.4	72.1
250% < and ≤ 400% FPL	4.2	11.2	4.3	80.3
> 400% FPL	3.9	9.3	2.6	84.2
Total	**4.2**	**26.0**	**6.3**	**63.4**

Source: *2011 Current Population Survey, Annual Social and Economic Supplement.*

were not primarily self-employed we defined irregular employment as having three or more jobs or working more than 12 but fewer than 35 weeks during the year, and we defined little or no employment as having fewer than three jobs and working fewer than 13 weeks during the year. Persons classified as having all other employment were the residual group. They worked 35 or more weeks and had no more than two employers during the year. We focused on consistency of employment as an indicator of the stability of earnings, not the number of hours worked per week. [v]

Having a principal earner who is primarily self-employed was a comparatively rare occurrence at any income level, but it was most common among adults in families with annual incomes between 50 and 138 percent of poverty, where eligibility for premium subsidies and tax credits will be based, ultimately, on annual income as reported on the tax return.[vi] Between 6.2 and 6.4 percent of adults in this income range were in families in which the principal earner was self-employed. Uneven monthly income at this low level of annual income is likely to imply movement in and out of eligibility for Medicaid. However, at higher levels of income, anyone who were to obtain advance tax credits to purchase private coverage from a state exchange would risk having to repay those credits if annual income were to fall below 138 percent of poverty.[vii]

Like self-employment, irregular employment implies fluctuating monthly income and, with it, likely movement in and out of eligibility for the alternative forms of assistance that the ACA will offer. And, as with self-employment, irregular employment was relatively common at income levels between 50 and 138 percent of poverty in comparison with lower or higher income levels. The percentage of adults in families with principal earners who had irregular employment during the prior year peaked at 19.1 percent between 50 and 100 percent of poverty and then declined progressively as income rose. Overall, about one quarter of nonelderly adults in families with incomes between 50 and 100 percent of poverty and nearly 17 percent of those in families between 100 and 138 percent of poverty were in families with a principal earner who was either primarily self-employed or had irregular employment during the prior year.

For persons in families with regular ("all other") employment, monthly income will exhibit much more stability than among other low-income families whose principal earners have irregular employment or are primarily self-employed. Regular employment over the year was rare among adults in families below 50 percent of poverty, characterizing about 10 percent of adults in this category. The frequency of regular employment rose sharply at incomes above 50 percent of poverty, accounting for 49.6 percent of adults between 50 and 100 percent of poverty and 61.1 percent of adults between 100 and 138 percent of poverty.

Conclusion

Continuing to base eligibility for Medicaid on current income while basing cost-sharing reductions and tax credits on annual income will result in people gaining and then losing eligibility for Medicaid while not being able to take full advantage of the cost-sharing reductions and tax credits available through the Exchange because their annual incomes are too low. While nonelderly adults with tax family incomes below 138 percent of poverty will be income-eligible for Medicaid beginning in 2014, those who enroll in Medicaid when their incomes are low may find that they lose eligibility when their incomes rise. This is a relatively likely occurrence, as the types of employment that imply the greatest fluctuation in monthly income are most common among families with annual incomes between 50 and 138 percent of poverty. These adults, and others with income that is higher but still near 138 percent of poverty, may not be able to take full advantage of the cost-sharing reductions and tax credits if their family income is unstable during the year and may be liable for repayment of any tax credits received. These findings indicate that efforts to address this problem through the implementing regulations and other mechanisms are well warranted.

This brief is the second in a three-part series titled, "Eligibility Determination Using Modified Adjusted Gross Income: Implications for Enrollment under Health Reform." Each of the three briefs can be found at www.shadac.org/share/grant/Eligibility-MAGI.

Acknowledgments

The author is grateful to SHARE and the Robert Wood Johnson Foundation for their support of this work and would also like to thank Joel Smith for producing the CPS tabulations presented herein and Deborah Chollet, Cheryl Camillo, and January Angeles for providing numerous helpful comments and suggestions.

References

Angeles, January. 2011. "Explaining Health Reform: The New Rules for Determining Income under Medicaid in 2014." Washington, DC: Kaiser Commission on Medicaid and the Uninsured. Available at http://www.kff.org/healthreform/upload/8194.pdf.

Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, P60-239, Income, Poverty, and Health Insurance Coverage in the United States: 2010, Washington, DC: U.S. Government Printing Office, 2011.

John L. Czajka. 2012. "Income Eligibility for Assistance Under the Affordable Care Act: Technical Memorandum on Estimates for Nonelderly Adults." Washington, DC: Mathematica Policy Research.

Internal Revenue Service, Statistics of Income Division. July 2011. "Individual Income Tax Returns 2010." Publication 1304, Table 2.4. Washington, DC: Internal Revenue Service.

United States Government Accountability Office (GAO). August 2007. "Advance Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance." GAO-07-1110. Washington, DC: US GAO.

Notes

---

i Regulations implementing the ACA create exceptions to this household definition—particularly for determining Medicaid eligibility for children.

ii In this brief, FPL refers to the poverty guidelines issued each year by the Department of Health and Human Services. These poverty guidelines are used to determine eligibility for a number of federal and state-administered programs, including Medicaid. The poverty guidelines are derived from the poverty thresholds that the Census Bureau updates each year and uses to measure the official poverty rate in the United States.

iii The Advance EITC was repealed by the Education Jobs and Medicaid Assistance Act of 2010 (H.R. 1586), which was signed into law on August 10, 2010, ending advance payments to employees after December 31, 2010.

iv We defined the principal earner as the person identified in the CPS file as the head of the filing unit if that person was single or living apart from his or her spouse. If the filing unit head had a spouse present, we designated the one with the larger earnings as the principal earner. If the spouse had no earnings, than we designated the filing unit head as the principal earner even if his or her income was negative

v In addition, the CPS does not provide information on stability in the hours worked.

vi The tax return is arguably the single best source for data on net income from self-employment, as business owners are required to produce a more complete accounting of their income and expenses than at any other time of the year.

vii Regulations implementing the ACA are addressing some of these anomalies.