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Modified Adjusted Gross Income: Implications for Medicaid Eligibility Systems under the ACA

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BACKGROUND

MAGI

The federal Affordable Care Act (ACA) introduces a new income definition—Modified Adjusted Gross Income or “MAGI”—for determining Medicaid income eligibility across the country. Today, rules for counting income for Medicaid vary from state to state, with some states allowing disregards and deductions that are not allowed in others. The adoption of MAGI, which was created by ACA and is defined in a new section of the Internal Revenue Code, §36B(d)(2), will standardize the calculation of income across the nation. Additionally, since income will be based on an income tax definition, family size and household income will be based on the tax filing unit, which is a change from the current methodology used by Medicaid.

Modified Adjusted Gross Income—or “MAGI”—is defined by the ACA as Adjusted Gross Income as calculated under the federal income tax, plus any foreign income or tax-exempt interest received.

THE ISSUE

Multiple FMAPs

MAGI implementation is being rolled out in concert with an expansion of Medicaid to adults under age 65 in a wider range of income groups. These “newly-eligible” enrollees will garner a higher federal medical assistance percentage (FMAP) than will enrollees who would have been eligible prior to the Medicaid expansion (i.e., the “previously eligible”).¹ When Congress expanded children’s eligibility for medical assistance by establishing the Children’s Health Insurance Program (CHIP), states were granted a higher “enhanced” FMAP for their expenditures on children who were above the eligibility threshold for Medicaid but eligible for CHIP.² Because of this, states must track enrollment in CHIP separately from regular Medicaid and report CHIP expenses separately from child and adult Medicaid expenditures. Similarly, states will have to report their expenditures separately for newly-eligible and previously-eligible Medicaid enrollees. With MAGI replacing state-specific definitions of income, however, the dividing line between previously-eligible and newly-eligible enrollees becomes complicated. This has raised a concern among state officials that states will be required to maintain two eligibility systems within Medicaid in order to distinguish between newly-eligible and previously eligible enrollees:

¹ The FMAP for adult enrollees made newly eligible under the ACA will be 100 percent through 2016, after which it will decline in steps to 90 percent by 2020.

1. The first system would use the previous income definition (with an asset test; state-dependent income disregards and expense deductions; and the Medicaid definition of family size and household income) to determine whether an applicant would have been eligible for Medicaid before the ACA expansion (i.e., “previously-eligible”). Applicants who are determined to be among the previously-eligible would be tagged to receive the pre-ACA FMAP for their state. Applicants who are deemed ineligible by this system would be funneled into the second system.
2. The second system would use the new MAGI definition (with no asset test, income disregards or deductions, and using the tax filing unit to establish “family size”² and “household income”³) to determine if the applicant is “newly-eligible.” If approved, the applicant would be tagged to receive the post-ACA FMAP.

AN IMPLIED SOLUTION

MAGI Equivalent

In mandating the use of MAGI and a tax-based concept of family size and household income to determine eligibility for Medicaid and CHIP, the ACA addresses the issue of two eligibility systems indirectly. Section 2002 of the ACA requires each state to submit to the Secretary of Health and Human Services proposed income thresholds for previously-eligible Medicaid enrollees using the ACA definitions of MAGI and household income.⁴ In other words, each state is asked to develop the MAGI equivalent of the Medicaid and CHIP eligibility thresholds that were in effect in the state when the ACA became law. The implication is that each state will then use these thresholds—expressed in MAGI dollars—to differentiate between the previously-eligible and newly-eligible enrollees.

Translating current income thresholds, based on state definitions of countable income and disregards, into “equivalent” thresholds using MAGI is a task that few states have the resources to undertake independently. However, it may not be necessary for each state to do so. Working in collaboration with other federal agencies, the Centers for Medicare & Medicaid Services (CMS) has identified a number of possible approaches to establishing equivalent income levels and is continuing to evaluate them. From this it appears likely that CMS will recommend one or more strategies while also allowing states to devise their own approaches. Ultimately, it will be important that any income conversion strategies offered by CMS minimize the administrative burden on states and support the ACA’s goal of eligibility simplification in Medicaid.

This report was created as part of Dr. Czajka’s SHARE-funded project under which he and his research team are studying the potential repercussions of the ACA provision to implement MAGI to determine income eligibility for Medicaid and other medical assistance plans. Learn more about Dr. Czajka and his SHARE-funded research at <http://www.shadac.org/share/interview/john-czajka>.

Dr. Czajka’s SHARE webinar on MAGI, in which he discusses the eligibility challenges that states face under the ACA’s Medicaid provisions and suggests steps that states might take to prepare for MAGI implementation, can be viewed online at <http://www.shadac.org/publications/medicaid-eligibility-determination-under-aca-challenges-states>.

² Section 1401 of the ACA amends the Internal Revenue Code of 1986 by inserting a new section, §36B, wherein §36B(d)(1) defines “family size,” as equal to the number of individuals for whom the taxpayer is allowed a deduction under section 151 of the Internal Revenue Code (relating to allowance of deduction for personal exemptions) for the taxable year.

³ Section 1401 of the ACA amends the Internal Revenue Code of 1986 by inserting a new section, §36B, wherein §36B(d)(2)(A) defines “household income,” as the MAGI of the taxpayer plus the aggregate MAGI of all other individuals who are taken into account in determining the taxpayer’s family size.

⁴ Section 2002 of the ACA amends section 1902(3) of the Social Security Act (42 U.S.C. 1396a(e)) to include a new section, §14, titled “Income Determined Using Modified Adjusted Gross Income.” Subparagraph (E) of this new section states, “Each State shall submit to the Secretary for the Secretary’s approval the income eligibility thresholds proposed to be established using modified adjusted gross income and household income,[and] the methodologies and procedures to be used to determine income eligibility using modified adjusted gross income and household income...To the extent practicable, the State shall use the same methodologies and procedures for purposes of making such determinations as the State used on the date of enactment of the Patient Protection and Affordable Care Act.”