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# **Medicaid Eligibility Determination under the Affordable Care Act: Challenges for States**

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**State Health Access Reform Evaluation (SHARE) Webinar**

**April 14, 2011**

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Policy Research, Inc.

# ACA Provisions Affecting Eligibility for Medical Assistance and How It Is Funded

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- **Expands Medicaid eligibility to 133% of poverty (plus a 5% disregard) for many persons under age 65**
- **Provides a benchmark benefit package to those made eligible by this expansion**
- **Standardizes the definition of income for the purpose of determining eligibility not only for Medicaid but for the premium subsidy that will be available to persons with income up to 400% of poverty**
- **Provides 100% federal financial participation, initially, for those made eligible by the Medicaid expansion**
- **These provisions are mandatory as of January 1, 2014**

# Additional Provisions

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- **States must distinguish between persons made eligible by the expansion and those who would have been eligible based on the limits in place before ACA was enacted**
  - **Benefit package may differ**
  - **Federal Medical Assistance Percentage (FMAP) will differ**
- **Eligibility under the old criteria must be expressed in terms of the new, standard income definition**
- **The new income definition is an old tax concept: Modified Adjusted Gross Income (MAGI)**
- **MAGI is to be calculated for the “household,” defined as the tax filing unit, including dependent filers**

# Why Modified Adjusted Gross Income?

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- **The premium subsidy will be administered as a tax credit—hence the need for a definition of income that can be calculated from items on the tax return**
- **MAGI adds and subtracts various income amounts and adjustments from Adjusted Gross Income (AGI)**
- **MAGI does not appear on Form 1040; a limited version is used in worksheet for student interest loan deduction and more elaborate versions in a few other places**
- **Rarely calculated by low-income filers and not often by higher-income filers but will differ from AGI over a broad range of filers**

# What is Modified Adjusted Gross Income?

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## Adjusted Gross Income

- Taxable amount of Social Security and tier 1 Railroad Retirement benefits
  - Passive income or loss from Form 8582
  - Active real estate loss allowed to real estate professions
  - + Deductible contributions to traditional IRAs and 501(c)(18) pension plans
  - + Deduction allowed for one-half of self-employment taxes
  - + Foreign earned income exclusion
  - + Student loan interest and tuition and fees deduction
- and some additional adjustments

# MAGI Continued

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- **In addition, earnings included in AGI and MAGI are from the W-2, which excludes pre-tax deductions from gross income**
  - Deduction for dependent care expenses (up to \$5,000) probably the most relevant
  - Pre-tax deductions much more important to persons at higher levels of eligibility for premium tax credit
- **In addition, there are forms of unearned income that are not collected on the tax return**
- **Eligibility for the premium subsidy will use MAGI calculated from tax returns—with annual income**
- **Eligibility for Medicaid will apply MAGI to current income at the time of enrollment**

# Different Eligibility Groups Defined by Income

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- **Up to current equivalent level**
  - Standard Medicaid benefit package
  - Current FMAP
- **Above current equivalent level to  $\leq 138\%$  FPL**
  - Benchmark benefit package
  - Initial FMAP 100%, declining to 90%
- **Above 138% FPL to  $\leq 250\%$** 
  - Premium tax credit to purchase coverage in exchange
  - Cost sharing credit
- **Above 250% FPL to  $\leq 400\%$** 
  - Premium tax credit to purchase coverage in exchange

# Changes to the Federal Medical Assistance Percentage (FMAP)

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- **Federal matching percentage for state expenditures for the newly eligible**
  - 100% in 2014 through 2016
  - 95% in 2017
  - 94% in 2018
  - 93% in 2019
  - 90% in 2020 and beyond
- **CHIP EFMAP increased by 23 percentage points (capped at 100%) starting 2015**

# Challenge 1: Determining the MAGI Equivalent of Current Medicaid Eligibility Limits

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- **What exactly does this mean?**
- **How will states make this determination?**
- **What if a state has an asset limit in its current eligibility determination?**
- **What if a state determines equivalent thresholds that turn out to be too high? Too low?**
  - **How will this be known?**
  - **If known, can the equivalent level be corrected later?**

# Measuring MAGI at Enrollment

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- **Use of the tax return as the ultimate source of MAGI for the premium tax credit will standardize both the definition and measurement of income across states**
- **One way to achieve the same for Medicaid eligibility determination, which must be based on income at enrollment, would be to develop, at the national level, a data collection protocol that all states could use**
- **Absent this, guidance in translating tax line items into what states currently collect from applicants would reduce variability across states**
- **For the states, a review of what is currently collected and whether there are options that might better fit individual elements of MAGI would be a first step**

# Establishing Equivalent Eligibility

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- **Equivalence does not mean that an individual's eligibility determination would be the same under both income measures, as this is not possible (although it will be true for most persons)**
- **Rather, the two measures should make the same number of persons eligible**
- **Unless the federal government undertakes defining this for each state, the best option for states may be to collect any additional data needed to calculate MAGI from a sample of applicants or cases at redetermination**
- **After an analysis to estimate equivalent levels, data collection should be repeated to confirm/tweak levels**

# Challenge 2: Movement between Old and New Medicaid Eligibility

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- **If eligibility redetermination is frequent enough, there is likely to be considerable movement**
- **This has implications for determining FMAP**
- **This also affects the benefit package for which people qualify**
- **Longer certification smooths out the impact of changes in income, but its effects may be uneven**
  - **Current regulations limit the interval between income eligibility determinations to 12 months, but that is long enough to match the premium subsidy determination**

# What Can We Learn from CHIP?

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- **Two-tiered FMAP**
- **Single eligibility system**
- **Some states had more generous disregards for CHIP than for regular Medicaid**
  - **One income definition determined the threshold between regular Medicaid and CHIP**
  - **The second definition determined the upper eligibility limit for CHIP**
- **Most states had separate state programs (S-CHIP) that provided a different benefit package than Medicaid**
- **Movement between programs is common**

# Challenge 3: People at the Seam between the Medicaid Expansion and the Premium Subsidy

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- **Current income determines eligibility for the expansion; annual income from tax return determines final premium subsidy credit for the year**
- **The two measures will not be fully consistent**
- **Persons may be income-eligible for both at the same time**
- **Persons may also be just above Medicaid eligibility on the current income measure but below eligibility for the subsidy on the annual income measure**
- **Both types of cases need to be addressed**

# Addressing Eligibility Issues at the Seam

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- **If a person can be income-eligible for Medicaid and, based on a different income measure, income-eligible for a premium subsidy at the same time, is this a problem to be addressed?**
  - Is the individual allowed to choose between the two options: enrolling in Medicaid or buying heavily-subsidized coverage from the exchange?
- **What about potential gaps when the alternative measures of eligibility do not overlap?**
  - A person enrolled in Medicaid may lose eligibility due to an increase in income half-way through the year but annual income for the year is below 138% of poverty
  - Assuming this person purchases coverage for the balance of the year, can this individual still qualify for the full premium subsidy?

# For More Information

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