Sub-Annual Income Fluctuations and Eligibility for Coverage Assistance under the ACA

This brief summarizes the article, "Income Dynamics and the Affordable Care Act," by Lara D. Shore-Sheppard, published in Volume 49, Issue S2, of Health Services Research in December 2014 (pages 2041-2061). The article is available at http://onlinelibrary.wiley.com/doi/10.1111/1475-6773.12245/abstract?campaign=woletoc.

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Introduction

The Affordable Care Act (ACA) aims to help low- and moderate-income families acquire health insurance coverage through the expansion of Medicaid eligibility and the provision of subsidized private coverage. More than half of the states have used the authority granted to them under the ACA to expand Medicaid eligibility to include all individuals with household incomes up to 138 percent of the federal poverty level (FPL). Nationwide, individuals with household incomes between 138 and 400 percent FPL are able to purchase coverage through "health insurance marketplaces" (a.k.a. "exchanges") subsidized with premium tax credits. Individuals with household incomes between 138 and 250 percent FPL are also eligible for reduced cost-sharing scaled according to income.

Sub-Annual Income Fluctuations

Although the ACA's coverage eligibility structure appears straightforward in concept, individuals' point-in-time income can differ substantially from their annual income, making eligibility determinations challenging. In particular, many low- and moderate-income individuals and families can be expected to move between coverage eligibility categories (i.e., Medicaid vs. the insurance marketplace) throughout the course of a given year. An analysis by Sommers and Rosenbaum showed that around half of non-elderly adults with incomes below 200 percent FPL are likely to transition between Medicaid and insurance marketplace eligibility over the course of a year (2011). These dynamics pose a challenge to the goal of seamless, universal coverage, and have implications for access to care. For example, previous work by Buchmueller, Orzol, and Shore-Sheppard using the Survey of Income and Program Participation (SIPP) suggests that access to care is reduced for children who transition between coverage sources during the course of a year, even when children do not experience a period of uninsurance (2014).

Income fluctuations also pose a challenge for determining eligibility for and administering premium tax credits. Health insurance premium subsidies are implemented as a refundable federal income tax credit that is provided at the time coverage is purchased. The problem is that families may receive a subsidy at the time of application that does not match the subsidy for which they will ultimately be qualified based on their actual annual income. Evidence from the Earned Income Tax Credit (EITC) shows that such tax credits are not as popular as might be expected: People are reluctant to claim an advance tax credit because they do not want to risk having to return money due to overpayment. Instead, they are more likely to choose to receive a lump sum at the end of the year (Jones 2010). This unwillingness to accept tax credits in advance may lead to additional breaks in coverage.

Patterns and Determinants of Sub-Annual Income Fluctuation

In order to ensure that income volatility among ACA expansion populations is managed smoothly, it is necessary both to understand the nature of the income fluctuations for low- and moderate-income populations and to explore what options exist for facilitating movement across coverage types. This study takes on the first of these tasks by considering monthly patterns in income dynamics across the full range of income categories eligible for coverage assistance under the ACA (i.e., 0-400% FPL) and examining determinants of movement between categories.

Data and Methods

This study analyzed longitudinal data from the 1996, 2001, 2004, and 2008 panels of the Survey of Income and Program Participation (SIPP). The SIPP is the only national survey to collect detailed, sub-annual information on topics such as family structure, household income, labor market outcomes, public program participation, and health insurance coverage. The analysis was conducted on original sample adults between 22 and 64 years of age whose state of residence was identified by the survey.

The author utilized the family relationship information provided in the SIPP to determine tax filing units for each household. The incomes within the tax filing unit were then aggregated to calculate an estimate of the monthly equivalent of modified adjusted gross income (MAGI; see text box) since that is used for subsidy determination. The sample adults were placed into four broad income categories – less than 138% FPL, 138-250% FPL, 250-400% FPL, and greater than 400% FPL – based on the monthly and calculated annual income for their tax filing unit. Duration models of time spent in an income category were used to evaluate the probability of movements between income categories over the period of one year and the causes of these changes in income.

What is MAGI?

Modified Adjusted Gross Income

MAGI is a new income definition created by the ACA for determining Medicaid income eligibility. The ACA describes MAGI as Adjusted Gross Income as calculated under the federal income tax, plus any foreign income or tax-exempt interest received. MAGI is defined in §36B(d)(2) of the Internal Revenue Code. Because this calculation is based on an income tax definition, family size and household income are based on the tax filing unit.

FIGURE 1. INCOME TRANSITIONS RELATED TO EMPLOYMENT

SELF EMPLOYMENT OR UNIONIZATION, FOR INDIVIDUALS UNDER 138% FPL
Greater odds of increased income. (For individuals between 138-250% FPL, a union contract decreased the probability of more income, and self-employment had no statistically significant effect for this income range.)

JOB LOSS
Eight to twenty-four times greater odds of falling to a lower income category. (The effect of a family member losing a job was similar, but smaller.)

EMPLOYMENT AT SMALL FIRM (<25 employees)
Higher probability of an income decline and a lower probability of an income increase.

JOB TRANSITIONS
Switching to part-time hours or changing employers was associated with moving both up and down income categories

Arrows indicate the direction of income shift for each characteristic.

Findings

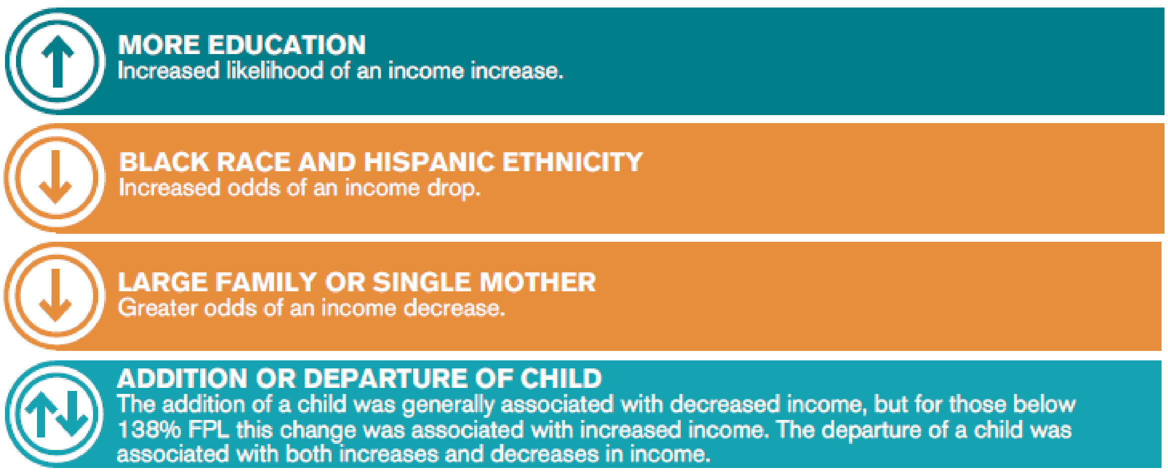
Employment-Related Income Transitions

Changes in employment status, along with certain characteristics of employment, are associated with both upward and downward income transitions (Figure 1).

Income Transitions Related to Demographics and Family Structure

Demographics and family structure were also shown to have a relationship with both upward and downward income transitions (Figure 2).

FIGURE 2. INCOME TRANSITIONS RELATED TO DEMOGRAPHICS & FAMILY STRUCTURE



Arrows indicate the direction of income shift for each characteristic.

Conclusion

The findings from this analysis indicate that ACA coverage expansion populations experience high levels of income fluctuation, and this fluctuation is associated with a variety of factors. As policy-makers work to address these income shifts, it is important to recognize the significant effect of employment changes in particular. Tailored interventions could account for the differential effects of employment changes for people at varying income levels within the coverage expansion population. Evaluation of the effectiveness of new strategies will help ensure that ACA expansion populations do not experience breaks in coverage due to income fluctuations and changing program/premium tax credit eligibility.

Suggested Citation

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