Implementation Guide:
Medicaid State Plan Eligibility
MAGI-based Methodologies

Contents

MAGI-based Methodologies

POLICY CITATION

Statute: 1902(e)(14)
Regulation: 42 CFR 435.603

BACKGROUND

<u>Overview</u>
This reviewable unit (RU) describes the Modified Adjusted Gross Income (MAGI)-based methodologies used to determine financial eligibility for MAGI-based groups in Medicaid. It includes available options with regard both to household composition (including family size) and to household income. The RU for each eligibility group which uses MAGI-based methodologies includes a statement referencing these methodologies and an option to view this RU upon request. This RU is applicable to the 50 states and the District of Columbia; a separate RU, **MAGI-Based Methodologies – Territories**, is applicable in the territories.

In general, when making financial eligibility determinations for certain Medicaid eligibility groups and for other insurance affordability programs, including the Children's Health Insurance Program (CHIP) and advanced payments of the premium tax credits (APTC) for enrollment in a Qualified Health Plan, states must determine household income using MAGI as defined in section 36B(d)(2) of the Internal Revenue Code of 1986 (26 CFR 1.36B). The use of MAGI methodologies aligns the eligibility and enrollment process and improves coordination among insurance affordability programs. However, there are some differences in how the household is constructed and how income is calculated for eligibility for APTC (MAGI) and for eligibility for Medicaid and CHIP (MAGI-based methodology) which are included in the discussion below. The MAGI-based methodology rules for Medicaid eligibility determinations are codified at 42 CFR 435.603.

MAGI-based rules are used to determine financial eligibility for most individuals in Medicaid, including children, adults age 19-65, parents, and pregnant women. MAGI-based rules are <u>not</u> used to determine Medicaid eligibility for MAGI-excepted individuals described in 42 CFR 435.603(j), such as:

- Individuals whose eligibility for Medicaid is being determined based on being 65 years old or older, or having blindness or a disability,
- Individuals being evaluated for coverage as medically needy, and
- Individuals for whom the agency does not have to make an income determination.

The MAGI-based methodology has two principal components: household composition and household income.

<u>MAGI-based Household Composition</u>
The MAGI-based household composition rules, which are described at 42 CFR 435.603(f), define who is included in an individual's household. They are used both to determine whose

income is counted toward total household income and to establish family size when making an eligibility determination. The household composition rules differ for:

- Individuals who file taxes or are claimed as a tax dependent, and
- Individuals who neither file a tax return nor are claimed as a tax dependent on someone else's tax return (individuals we refer to as non-filers).

Tax Filers and their Tax Dependents

When determining household composition for tax filers and their dependents, the household generally consists of the tax filer(s) and all claimed tax dependents. Some tax dependents fall under an exception defined at 42 CFR 435.603(f)(2)(i) through 435.603(f)(2)(iii), in which case household composition is established using the rules for non-filers.

<u>Option: State Flexibility for Joint Tax Filers Not Living Together</u>. States have the option to always include joint tax filers in each other's households or to include joint filers in each other's households only when they live together. The intent of 42 CFR 435.603(f)(1) is that spouses who file a joint tax return are always included in each other's households regardless of whether they live together and regardless of the reason for their separation (including institutionalization). However, because the regulation does not explicitly address this issue, states have the flexibility to use a different approach. If a state does not always count joint tax filers together in each other's households, CMS allows states to describe their policy in the ***Additional Information*** section at the end of this RU.

Non-Filers

The household composition rules for non-filers apply to individuals who are neither tax filers nor tax dependents and apply to certain tax dependents who meet an exception under 42 CFR 435.603(f)(2)(i) through 435.603(f)(2)(iii):

- Individuals who are not the child of the tax payer claiming them as a tax dependent.
- Children under age 19 who live with two parents, the two parents are not filing jointly, and one parent claims the child as a tax dependent.
- Children under age 19 who live with one parent and are claimed as a tax dependent by a non-custodial parent.

When determining household composition using the non-filer rules, an individual's household includes:

- The individual,
- The individual's spouse (if living with the individual),
- The individual's children under age 19 (if living with the individual), and
- If the individual is a child under age 19, the individual's parents and siblings under age 19 who live with the individual.

<u>Option: Age of a Child Using Non-filer Rules</u>. States have the option to expand the definition of child, for MAGI-based household composition purposes only, to include both children under age 19 and individuals aged 19 and 20 who are full-time students.

Family Size
Family size is the number of persons counted as members of an individual's household when comparing household income to the applicable income standard based on a percentage of the federal poverty level or a fixed income threshold. For the purpose of determining a pregnant woman's Medicaid eligibility, family size will reflect all members of the pregnant woman's household, including herself, plus the number of children she is expecting to deliver.

<u>Option: Family Size of a Pregnant Woman in the Household</u>. For the family size of non-pregnant individuals who have a pregnant woman in their household, states have the option to count the pregnant woman as either one person (herself only), two persons, or to count her as one person plus each expected child, if more than one. This option is described at 42 CFR 435.603(b).

<u>MAGI-based Household Income</u>
The MAGI-based household income rules define what income is counted in an individual's income, whose income is counted toward an individual's household income and over what budget period the income is counted for Medicaid eligibility determinations and other purposes where income is used.

MAGI-based Income
MAGI-based income means income calculated using the financial methodologies defined in section 36B(d)(2)(B) of the Internal Revenue Code (26 CFR 1.36B), with the following differences:

- Exclude scholarships, fellowship grants and awards used for education purposes.
- Exclude payments derived from American Indian/Alaska Native lands, natural resources, trust settlements or traditional/cultural activities.
- Count lump sum income only in the month received.

<u>Option: Cash Support Provided by Non-Parent Claiming Tax Filer</u>. States have the option, described at 42 CFR 435.603(d)(3), in limited circumstances to include in MAGI-based income cash support that is not taxable. This option applies in the case of actual cash support provided by a tax filer to a tax dependent who is not a child of the tax filer. Under the option, such cash support would be counted in the household income of the tax dependent. Because the dependent meets the exception at 42 CFR 435.603(f)(2)(i), his or her household does not include the tax filer. To be countable, cash support must exceed a nominal amount, defined by the state as either a specific amount with a specific frequency (for example, $50 per month) or using another methodology. In-kind support (such as room and board) is not counted as income under this option.

As described at 42 CFR 435.603(d), an individual's total household income is the sum of the MAGI-based income of everyone included in the individual's household, with two specific exceptions for children and tax dependents. The exceptions, described at 42 CFR 435.603(d)(2), are:

1. The income of a child, who is included in a Medicaid household with at least one parent, is included in the total household income only if the child is expected to be required to file a tax return for the current tax year (regardless of whether the child does or does not

file taxes). This exception applies whether or not the child is claimed as a tax dependent by his or her parent(s).

2. The income of a tax dependent, who is included in a Medicaid household with the claiming tax filer, is included in the total household income only if the tax dependent is expected to be required to file a tax return for the current tax year (regardless of whether the dependent does or does not file taxes). This exception applies only to the income of a tax dependent claimed by someone other than a parent, because a child claimed by his/her parent is included in the first exception.

The income counting rules are specific to each individual's Medicaid household. The composition of one family member's Medicaid household may differ from that of another family member, so the rules must be applied separately to each Medicaid household. For example, the exclusion of an individual's income from the total household income of one family member does not mean that the individual's income is excluded from his own household income.

Budget Period

The budget period is the period of time over which household income is determined in making a financial eligibility determination. The Medicaid budget period and state options are described at 42 CFR 435.603(h). Because Medicaid eligibility is determined as of the point in time at which an application is received or a renewal is processed, the budget period is generally the month for which eligibility is being determined. Current monthly household income is calculated based on the total countable income expected to be received during that month by certain individuals included in the applicant's household. Ongoing financial eligibility is similarly based on an individual's current monthly household income in successive months.

<u>Option: Projected Annual Household Income</u>. For current Medicaid beneficiaries, once an initial determination of eligibility at application has been made, states have the option to use projected annual income and family size for the remainder of the calendar year to make subsequent determinations of financial eligibility. This option, which is described at 42 CFR 435.603(h)(2), gives states the flexibility to achieve more alignment with the annual budget period used by the Marketplace for determining APTC eligibility. It can also help to minimize churn between insurance affordability programs. This option can be implemented in one of two ways:

1. States may count projected annual income for the entire calendar year (January through December), including income from prior months, or
2. States may consider projected income only for the remaining months in the calendar year, which would include future income only.

When this option is applied to a beneficiary whose monthly income has increased over the course of the year above the applicable monthly income standard, but who remains eligible through the end of the calendar year under this option, the individual's financial eligibility will need to be re-evaluated at the end of the calendar year. This re-evaluation will be effective for January of the following year in accordance with 42 CFR 435.916(d), regardless of the date of the next scheduled renewal. This is treated as an anticipated change in circumstances, as the individual's projected annual income for the upcoming year likely will be different than the projected annual income determined for the current year.

Option: Reasonably Predictable Changes in Income. When determining current monthly household income or projected annual household income for applicants/new enrollees and current Medicaid beneficiaries, as described at 42 CFR 435.603(h)(3), states may adopt a reasonable method to account for:

- A reasonably predictable increase in future income, family size, and/or household composition; and/or
- A reasonably predictable decrease in future income, family size and/or household composition.

The reasonable method for considering future changes is another optional strategy for states to mitigate the impact of fluctuating income or anticipated changes in household composition on both applicants' and beneficiaries' eligibility. It is an additional tool states may employ to reduce churn between insurance affordability programs.

Examples of reasonably predictable changes include recurring seasonal employment or a new job with a signed employment contract. Future changes in household composition, such as tax dependent status, may also be considered. For example, a state could have a reasonable method to apply the non-filer rules to a child who no longer lives with a parent because it is reasonable, based on the child's current situation, to predict that, if projected into the future, the parent would not likely claim the child as a tax dependent. Uncertain future changes, such as a job prospect that is not yet finalized or a change in marital status that is not yet finalized may not be considered as a reasonably predictable change.

States have flexibility to develop reasonable methodologies for including a prorated portion of reasonably predictable future income that works in the context of their eligibility and enrollment systems. Most typically, the methodology utilizes an individual's projected household income over the next 12 months, divided by 12 to derive monthly income. Current calendar year income (i.e., January through December) cannot be used for this methodology (unless the determination is being made in January). For example, if an individual applies in July of 2017, using the reasonably predictable changes in income methodology, the state would need to look at income from July 2017 through June 2018 (using annual income for calendar year 2017 is not permitted).

One way to determine if projected income for the next 12 month period is reasonably predictable is to ask the individual if she expects her annual income for the current year and her annual income for the following year to be about the same. If so, the individual's income over the next 12 month period is likely to be both reasonably predictable and the same as her current annual income. For example, the individual attests that projected annual income for the current calendar year (2017) is $12,500 and projected annual income for the next calendar year (2018) is also about $12,500. This amount can then be verified against IRS data for a prior tax year.

Alternatively, if the individual's attested annual income for the current calendar year is about the same as the annual income reflected on his last available tax return, it is reasonable to conclude that the individual's income over the next 12 month period is likely to be both reasonably predictable and the same as his current annual income. For example, the individual attests that projected annual income for the current calendar year (2017) is $12,500, which is about the same as the $12,500 reported on the last available tax return (from 2016). Data from sources other than the IRS, such as a year's worth of quarterly wage data or income information from TALX or The Work Number, also may be used in a similar manner.

Either of these methods would satisfy the stipulation that the individual's future income is reasonably predictable under the option at 42 CFR 435.603(h)(3).

Other MAGI Rules

In determining eligibility for the group for individuals eligible for family planning services (42 CFR 435.214), states have additional flexibilities regarding both MAGI-based household composition and income counting, as described in 42 CFR 435.603(k). These flexibilities are described in the **Individuals Eligible for Family Planning Services** RU. The use of any other less restrictive income methodologies or income disregards under sections 1902(r)(2) and 1931(b)(2)(C) of the Act are not permitted when determining the income of individuals using MAGI-based methodologies.

States cannot apply a resource test in determining eligibility for groups that use MAGI-based methodologies.

INSTRUCTIONS

A. Household Composition

- **A.1.** has a statement that the family size for the eligibility determination of a pregnant woman includes the pregnant women plus each of the children she is expected to deliver.
- At **A.2.,** select one of the three options to indicate how the family size is determined for households that include a pregnant woman.
- At **A.3.**, select one of the two options to indicate the age of children used to establish household composition under the non-filer rules.

B. Household Income

- **B.1.** has a statement that financial eligibility for new applicants is based on current monthly income and family size.
- At **B.2.**, select one of the two options to indicate the budget period for determining financial eligibility for current beneficiaries.
- At **B.3.**, indicate, ***Yes*** or ***No***, if reasonably predictable changes in future income and/or family size are considered when determining current monthly or projected annual household income.
    - If ***Yes***, select one or both of the options.
        - For each option selected, describe the reasonable methodology used to account for and verify such change in the text box provided.
- **B.4., B.5., and B.6.** describe rules which must be followed when determining financial eligibility using MAGI-based methodologies.
- At **B.7.**, indicate, ***Yes*** or ***No***, if household income includes actually available cash support, exceeding nominal amounts, provided by the person claiming an individual described at §435.603(f)(2)(i) as a tax dependent.

- If ***Yes*** is entered for **B.7.**, indicate, ***Yes*** or ***No***, if a specific nominal amount and frequency is used.
    - If ***Yes*** is selected,
        - Enter a nominal amount in the text box that is displayed.
        - Select one of the options to indicate the frequency of the nominal amount.
        - At your option, enter additional explanation in the text box.
    - If ***No*** is selected,
        - Enter an explanation in the text box to describe the state's methodology for determining the nominal amount.
- If ***No*** is entered for **B.7.**, you have completed this section.

C. <u>Resource Test</u>

There is a statement that no resource test is applied to eligibility groups that use MAGI-based methodologies.

D. <u>Additional Information (optional)</u>

You may describe the state's policy for counting joint tax filers in each other's households when they do not live together.

Please consult with CMS before adding any other information concerning this RU.

REVIEW CRITERIA

For each option selected at B.3., the description of the methodology used to account for and verify changes in income and/or family size must be clear and reasonable.

If the state answers No to the statement "The state uses a specific nominal amount and frequency." in item B.7., the explanation of the methodology used to establish the nominal amount used must be clear and reasonable.

States that operate a separate CHIP program should take care to ensure that all elections of options and flexibilities in MAGI-based methodologies are consistent between Medicaid and CHIP. The corresponding MAGI-Based Methodologies state plan page for CHIP should reflect identical elections, otherwise the state will need to explain any discrepancies.