Determining Eligibility for Insurance Affordability Programs

Assessing the impact of using modified adjusted gross income to determine eligibility for state medical assistance in 2014

**SUMMARY**

Beginning in 2014, the Accountable Care Act (ACA) requires states to use a tax-based definition of income to determine who is eligible for Medicaid, the Children’s Health Insurance Program (CHIP), or premium and cost-sharing assistance for purchasing private health insurance through state insurance exchanges. From October 2010 through April 2012, researchers at Mathematica Policy Research, Washington, analyzed the impact of the new rule on state governments as well as on prospective enrollees.

The project was part of *State Health Access Reform Evaluation (SHARE)*, a national program of the Robert Wood Johnson Foundation (RWJF) that supports research on efforts to expand access to health insurance, especially under the ACA.¹ (See Program Results for more information on SHARE and its projects.)

**Key Findings**

- Nearly two-thirds (64.3%) of nonelderly adults with incomes at or below 400 percent of the federal poverty level will become income-eligible for Medicaid or cost-sharing reductions or tax credits for private health insurance.²

- Basing eligibility for Medicaid on current income, but eligibility for cost-sharing reductions and tax credits on annual income, could leave some low-income people without any insurance, either public or private.

- Determining Medicaid eligibility based on current income will be particularly difficult for applicants—especially the self-employed—who cannot determine their exact income until they file their yearly tax returns.

¹ The RWJF Board of Trustees reauthorized SHARE in October 2011. According to a call for proposals in March 2012, “SHARE-sponsored research will provide timely guidance on implementation issues as states consider their unique responsibilities in executing the ACA, and will contribute to the evidence base for future state and national health reform efforts.”

² Their eligibility for cost-sharing reductions or tax credits requires that they do not have access to affordable coverage through their employers.
Funding

RWJF funded this project with a $100,000 grant from October 2010 through April 2012.  

CONTEXT

Until the ACA, Medicaid enrollees had been mostly low-income elderly or disabled adults, pregnant women, and children and their caretaker relatives. To determine eligibility, states have used methodologies developed under the former federal welfare program, Aid to Families with Dependent Children (AFDC), which vary from state to state.  

The ACA expands Medicaid to adults under age 65 with income up to 138 percent of the federal poverty level (FPL). The act also reduces the amount that families earning up to 250 percent of the FPL must pay out of pocket annually for medical expenditures if they qualify to purchase private health insurance through state insurance exchanges. And the ACA allows families earning up to 400 percent of the FPL to apply for tax credits on a sliding scale to partially offset the cost of premiums for such coverage.

The ACA requires states to use “modified adjusted gross income”—as defined by the IRS—to determine whether nondisabled, nonelderly people qualify for Medicaid, the cost-sharing reductions and tax credits, and whether their children qualify for the Children’s Health Insurance Program (CHIP). The intent is to create a streamlined eligibility process in all 50 states and the District of Columbia that will simplify transitions between programs.

To support this process, states will have access to an individual or family’s modified adjusted gross income, as reported on tax returns, through a federal electronic data hub. “The ACA and regulations basically say the era of paper documentation is over,” notes Cheryl Camillo, MPA, formerly a senior researcher at Mathematica Policy Research and co-director of this project.

However, even while states consider modified adjusted gross income, they generally must continue to base Medicaid eligibility on current monthly income—as opposed to annual income—to ensure that people whose income drops during the year can gain access to Medicaid. Together, these changes in federal rules will require states to make major adjustments in their policies, information systems, benefit applications and processes, and staffing.

3 ID# 68232.
4 States continued to use the AFDC rules even after Temporary Assistance for Needy Families (TANF) replaced AFDC in 1996.
5 Modified adjusted gross income includes adjusted gross income (all income minus adjustments) plus tax-exempt interest, foreign earned income, and nontaxable Social Security benefits.
6 She is now a principal research scientist at NORC at the University of Chicago.
**RWJF’s Interest in This Area**

In 2010, SHARE awarded eight grants, including the one for this project, for quick-turnaround studies on the impact of the ACA on state governments. The State Health Access Data Assistance Center (SHADAC) at the University of Minnesota’s School of Public Health functions as SHARE’s national program office.

Other SHARE projects funded in 2010 include:

- Income Dynamics and Characteristics of Health Reform Expansion Population—an analysis of income and other characteristics of people who are eligible under ACA for Medicaid or financial help to purchase private coverage through a state health insurance exchange\(^7\)

- Evaluation of State & Federal Young Adult Dependent Coverage Expansion Policies—an analysis of the ACA requirement that insurance companies provide coverage to dependent children up to age 26\(^8\)

- Expanding Coverage and Ensuring Access: The Challenges and Opportunities of Implementing Health Reform in Rural America—an analysis of strategies to finance health insurance expansion in rural areas including the Consumer-Operated and Oriented Plan (Co-Op) authorized under ACA. In this plan, decisions are made by a majority vote of its membership and profits are used to lower premiums, improve benefits, and sustain programs.\(^9\)

**THE PROJECT**

Researchers at Mathematica Policy Research analyzed the impact of ACA-mandated eligibility rules for Medicaid and government assistance to purchase private health insurance through a state insurance exchange on state governments as well as prospective enrollees.

To determine who will qualify for Medicaid, cost-sharing reductions, and tax credits under the ACA, and the impact on states, the researchers used data from the U.S. Census Bureau’s Current Population Survey, and the IRS’s Statistics of Income.

As part of the project, Mathematica researchers:

- Held a workshop in May 2011 to enable state officials, policy analysts, and SHARE representatives to identify challenges for states in implementing the ACA-mandated eligibility rules. An issue brief on the workshop is available online.

---

\(^7\) Grant ID# 68076.

\(^8\) Grant ID# 68071.

\(^9\) Grant ID# 68077.
• Participated in “Medicaid Eligibility Determination under the Affordable Care Act: Challenges for States,” a SHARE-sponsored webinar, in April 2011. The webinar with slides is online.

• Presented “Implementing Expanded Medicaid Eligibility and MAGI under ACA: State Perspectives” at the annual Fall Research Conference of the Association for Public Policy, Analysis & Management in November 2011. The presentation is available online.

**FINDINGS**

In a report to RWJF, an interview for this report, four issue briefs, and a technical report, the researchers noted these findings (see the Bibliography for details):

• **Family income will often be lower based on modified adjusted gross income rather than current state rules, but the difference will affect eligibility for only a small share of applicants** (Issue Brief 3, *Translating Modified Adjusted Gross Income (MAGI) to Current Monthly Income*).

• **Beginning in 2014, nearly two-thirds (65.8%) of nonelderly adults with incomes at or below 400 percent of the federal poverty level will be income-eligible for Medicaid, CHIP, cost-sharing reductions, or tax credits** (Issue Brief 2, *Income Eligibility for Assistance under the Affordable Care Act: Estimates for Nonelderly Adults*). Of nonelderly adults:
  — 32.2 percent will likely become income-eligible for Medicaid.
  — 16.2 percent will likely be income-eligible for both cost-sharing reductions and tax credits.
  — 17.4 percent will likely be income-eligible for tax credits alone.

• **More than one-fifth of nonelderly adults with family incomes between 50 percent and 138 percent of the federal poverty level—an income range that will include most of those newly income-eligible for Medicaid—will likely have significant swings in their monthly income because of irregular employment** (Issue Brief 2). Volatility could be a problem because people with fluctuating monthly income could move in and out of eligibility for Medicaid. However, the Centers for Medicare & Medicaid Services partially solved this problem in a final rule issued in March 2012.

• **Basing eligibility for Medicaid on current income, but cost-sharing reductions and tax credits on annual income, could leave some low-income people without any government assistance, if they live in a state that elects not to expand Medicaid—an option that the Supreme Court has allowed** (Issue Brief 3).

  For example, applicants with a recent increase in current income—such as from a new job—may be ineligible for Medicaid. However, they may also be ineligible for
cost-sharing reductions and tax credits, because the annual but out-of-date income on their most recent tax return is less than 100 percent of the federal poverty level.

“It is certainly possible that people could fall between the cracks,” said John Czajka, PhD, a senior fellow at Mathematics and project co-director.

- **Information in the federal data hub may not be adequate to determine Medicaid and CHIP eligibility for everyone who applies** (Issue Brief 3). Translating data from annual tax returns into monthly income for Medicaid eligibility “can be very challenging,” observed Czajka. States will likely need to supplement federal data with information from wage reports that employers submit to state unemployment insurance programs and in some cases the employees’ own pay stubs.

- **Determining Medicaid and CHIP eligibility based on current income will be particularly difficult for applicants—especially the self-employed—who cannot determine their exact income until they file their yearly tax returns** (Issue Brief 3).

To fulfill the intent of the ACA to provide nearly universal coverage, states may need to give applications from those who appear to be narrowly ineligible for Medicaid, especially those from the self-employed, a more in-depth review.

- **The ACA’s Medicaid and CHIP eligibility provisions could modernize the process for enrolling in the program** (Issue Brief 1).10 However, state implementation will be difficult because of resource constraints and the need to follow federal guidance.

- **Many implementation challenges identified by state Medicaid and CHIP directors remain unresolved.** Regular communication between the Centers for Medicare & Medicaid Services and the states will facilitate timely fulfillment of the ACA’s provisions (Issue Brief 1).

**LESSON LEARNED**

1. **Flexibility is important when analyzing the impact of new laws and regulations.** The Centers for Medicare & Medicaid Services released draft regulations on eligibility for federal assistance with health insurance in August 2011. The final rules, published in March 2012, included significant changes. The project directors had to analyze the final rules and rework their issue briefs in little more than a month. (Report to RWJF)

---

AFTERWARD

The project ended with this grant. One of the issue briefs is posted online, as is Mathematica’s technical paper, a report and a webinar. See the Bibliography.

Prepared by: Linda Wilson
Reviewed by: Sandra Hackman and Molly McKaughan
Program Officers: Brian Quinn and Andrew Hyman
Program Area: Coverage
Grant ID#: 68232
Project Co-Director: John Czajka (202) 484-4685; jczajka@mathematica-mpr.com
Project Co-Director: Cheryl Camillo (301) 634-9528; camillo-cheryl@norc.org
BIBLIOGRAPHY

(Current as of date of the report; as provided by the grantee organization; not verified by RWJF; items not available from RWJF.)

Reports


