

Overview of the New Modified Adjusted Gross Income (MAGI) Methodology and Updates to the Medicaid Hierarchy

October 2013



Quick Reference Guide (QRG)

The New MAGI Methodology QRG



The New MAGI Rules QRG

The implementation of the Patient Protection and Affordable Care Act (PPACA), more commonly known as ACA, affects both consumers and employees of the state of Indiana. This QRG outlines some of the major policy and program changes affecting eligibility and enrollment that you need to know in order to transition to the new standards in Indiana beginning October 2013. The changes include:

- Streamlined eligibility including the new MAGI methodology for determining eligibility for some groups based on federal tax filing status including tax household relationships, and income and deductions based on tax filing rules, with a few exceptions.
- New Medicaid hierarchy containing MAGI Assistance Groups (AGs) and Non-MAGI AGs.
- Newly established consolidated aid categories, including new required eligibility groups.

The adoption of MAGI, which is based on adjusted gross income (AGI) as defined in the Internal Revenue Code (IRC) §36B(d)(2), will standardize the calculation of income across the nation (see Table 1). Additionally, since income will be based on an income tax definition, family size and household income will be based on tax filing unit. This is a change from the current methodology used by Medicaid.

Table 1: MAGI versus Non-MAGI

MAGI versus Non-MAGI			
	Income Methodology	Family Composition	Resources
MAGI	From IRS (Indiana-specific) and ACA Rules	Based on tax filing unit	Not counted
Non-MAGI	Current processing rules	Based on people in household and family relationships	Counted (except for new Indiana Foster Care group)

MAGI AGs

The MAGI methodology will only be used for certain eligibility groups which include children, parent/caretaker relative, pregnant women, and adults (Healthy Indiana Plan). Additionally, the family planning and Children’s Health Insurance Program (CHIP) aid groups will also be determined using MAGI methodology (see Table 2).

Table 2: MAGI AGs

Category	Description
MA Y	Children under age one
MA Z	Children age 1 - 5
MA 2	Children age 6 - 18
MA 9	Children age 1 - 18
MAGF	Parent/Caretaker relative group
MA T	19- and 20-year-olds
MA O	Children under age 21, residing in inpatient psychiatric facilities, who would be eligible for Temporary Assistance for Needy Families (TANF) if they were living at home
MAGP	Pregnant women
MAHN	Non-custodial parent/childless adult for HIP
MAHC	Parent Caretaker for HIP
MA14	Former foster children age 18 - 20
MA10	CHIP
MA E	Family Planning Services (FPS) for women and men

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Non-MAGI AGs

Indiana will assess eligibility using the MAGI methodology first for the Blind and Disabled (possibly even at redetermination for current MA D and B clients). You will continue to use the current financial methods to determine eligibility for those who do not fall under MAGI rules.

Non-MAGI categories include:

- Aged (MA A)
- Blind (MA B)
- Disabled (MA D)
- MEDWorks (MADW)
- Qualified Medicare Beneficiary (QMB), Specified Low-Income Medicare Beneficiary (SLMB)
- Long Term Care (LTC)

Instead, their eligibility will be determined in accordance with today's standards (see Table 3).

Table 3: Non-MAGI AGs

Category	Description
MA X	Newborn
MA F	Transitional Medical Assistance (TMA)
MA R	Room and Board Assistance (RBA)
MA A	Aged
MA B	Blind
MA D	Disabled
MADW	MED Works – Basic Coverage
MADI	MED Works – Medically Improved
MA15	Former foster children age 18 through 25 (new AG)
MA Q	Refugee Medical Assistance (RMA)
MA L	Qualified Medicare Beneficiary (QMB)
MA J	Specified Low-Income Medicare Beneficiary (SLMB)
MA I	Qualified Individual (QI)
MA G	Qualified Disabled Worker (QDW)

Newly Established Consolidated Aid Categories and New Required Eligibility Groups

MAGI and Non-MAGI populations have changed to align with a federal definition for all states. The newly established consolidated aid categories require that eligibility policy and practice reflect the new aid groupings. The aid category changes include the following:

- The number of aid categories changed from 33 to 24.
- Fourteen aid categories will become three required MAGI groups.
- Indiana will retain designators for current children's categories.

New Medicaid Hierarchy Containing MAGI AGs and Non-MAGI AGs

When determining an individual's Medicaid eligibility category, the eligibility determination is system-generated and based on the Medicaid hierarchy. The hierarchy is designed so that an individual is first

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considered for the most comprehensive benefit package for which the individual might be eligible. For example, children are first considered for enrollment in Medicaid versus CHIP, and the Family Planning Eligibility Program is the last group on the hierarchy.

Medicaid Hierarchy

The Medicaid hierarchy goes from top to bottom through both MAGI and Non-MAGI AGs (see Table 4). Typically, if an individual applies, EDBC will attempt to place the individual in the first category for which the individual might be eligible. If the individual is not eligible in that category, then EDBC will attempt to place the individual in the next category for which the individual might be eligible until a category is determined. If, after moving through the entire Medicaid hierarchy, the individual is deemed not eligible, the failure reasons will be listed by each individual AG and reported to the federal health insurance marketplace. Note: Those failed for non-cooperation, such as not providing needed verifications, will not be referred to the federal marketplace.

Table 4: Indiana Health Coverage Hierarchy

Category	Description	Package	Coverage Type	MAGI versus Non-MAGI
MA X	Newborn	A	Full	Non-MAGI
MA Y	Children under age 1	A	Full	MAGI
MA Z	Children age 1 through 5	A	Full	MAGI
MA 2	Children age 6 through 18	A	Full	MAGI
MAGF	Parent/caretaker	A	Full	MAGI
MA F ¹	TMA	A	Full	Non-MAGI
MAGP	Pregnant women	A	Full	MAGI
MA T	19- and 20-year-olds	A	Full	MAGI
MA O	Children under age 21, residing in inpatient psychiatric facilities	Traditional	Full	MAGI
MA15	Former foster children age 18 through 25	Traditional	Full	Non-MAGI
MA14	Former foster children age 18 through 20	Traditional	Full	MAGI
MA 9	Children age 1 through 18	A	Full	MAGI
MA R	RBA	Traditional	Full	Non-MAGI
MA A	Aged	Traditional	Full	Non-MAGI
MA B	Blind	Traditional	Full	Non-MAGI
MA D	Disabled	Traditional	Full	Non-MAGI
MADW	MED Works – Basic Coverage	Traditional	Full	Non-MAGI
MADI	MED Works – Medically Improved	Traditional	Full	Non-MAGI
MA Q ²	RMA	Traditional	Full	Non-MAGI
MA L	QMB	N/A	Limited	Non-MAGI
MA J	SLMB	N/A	Limited	Non-MAGI
MA I	QI	N/A	Limited	Non-MAGI
MA G	QDW	N/A	Limited	Non-MAGI
MA10	CHIP (Children age 1 through 19)	C	Comprehensive	MAGI
MA E	Family Planning Services (FPS) for women and men	Fee-for-Service (FFS)	Limited-FPS Only	MAGI

¹ This assumes that TMA will be reauthorized by Congress and not sunset permanently on December 31, 2013. Per latest discussion with the Centers for Medicare & Medicaid Services (CMS), as the Medicaid adult expansion is optional for states, it is assumed that Congress will reauthorize TMA.

² This is awaiting further clarification from CMS on the future status of Refugee Medical Assistance (RMA).

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Category	Description	Package	Coverage Type	MAGI versus Non-MAGI
MA 4 ³	Title IV-E foster care	Traditional	Full	Enrollment AGs
MA 8 ³	Title IV-E adoption assistance	Traditional	Full	Enrollment AGs
MA12 ³	Breast and cervical cancer treatment	FFS	Full	Enrollment AGs

MAGI SFUs

AGs today contain multiple applicants/recipients, but in 2014 this will be changing. MAGI AGs will be single-person AGs, which means only one participating member (i.e., participating child or participating adult) will be present in those AGs. The other tax-related individuals will be included in the AG as non-participating members.

Rather than just household relationships, now the tax relationships are collected and used by the Standard Filing Unit (SFU), which is an automated process used to calculate household relationships, to build MAGI households. Relationships will be formed for the following:

- Taxpayers
- Tax dependents
- Non-filers

Additionally, MAGI SFUs will be formed by ICES, display on the current ICES AEACC screen, and include the following:

- One participating child or adult
- Non-participating adult(s) or child(ren), if applicable

Note: An expectant mother's household size will include her unborn child(ren) only in the MAGP and ongoing MA M/MA N cases in 2014. When the mother is counted in the household size of other household members, the unborn child(ren) will not be counted.

ICES will form the potential category for the individual, and the system will determine if nonfinancial and financial rules for MAGI categories are met during EDBC.

SFU Rules

The first item to remember about SFU calculations is that it is for each individual who is applying for health coverage. As discussed above, each individual will have their own SFU household group. To determine who is allowed in that SFU you will use the rules outlined in Table 5 below. Start with Rule One and verify if the individual meets the requirements for that rule. How the individual can answer each rule will determine the next steps of stopping at Rule One or moving to the next rule to verify against it.

³ MA 4, MA 8, and MA12 are enrollment categories and thus not included in the hierarchy.

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Table 5: MAGI SFU Eligibility Rules

Rule One – Taxpayer	Rule Two – Tax Dependent	Rule Three – Non-Filer
<p>Is the individual a taxpayer who is not claimed as a tax dependent by anyone? If the answer is NO then proceed to Rule Two. If the answer is YES then stop. The SFU contains all of the following:</p> <ul style="list-style-type: none"> • The Taxpayer • The Taxpayer's Spouse, if living with the Taxpayer* • The Taxpayer's Claimed Dependents** <p>* When the tax filing status is married filing jointly, each of the spouses will be considered as a taxpayer when the individual's SFU is determined. **However, please note that there is an Indiana specific rule addressing claimed dependents outside the household. If taxpayer has any tax dependents outside the household, the household will be determined by Rule Three.</p>	<p>Is the individual claimed as a tax dependent? If the answer is NO then proceed to Rule Three. If the answer is YES then proceed with the following questions:</p> <ul style="list-style-type: none"> • Is the individual claimed by someone other than a spouse or a parent (biological, adopted or step)? • Is the individual a child, under the age of 19, who lives with both parents but the parents do not expect to file taxes jointly and only one parent claims the child as a tax dependent? • Is the individual a child, under the age of 19, who is claimed as a tax dependent by a non-custodial parent? <p>If the answer to any of the bulleted questions directly above is YES then proceed to Rule Three. If the answer to any of the bulleted questions is NO then stop. The SFU contains all of the following:</p> <ul style="list-style-type: none"> • The Tax Dependent • The Tax Dependent's claiming taxpayer if living with the individual • Their Claiming Taxpayer's other tax dependents if living with the individual • The Taxpayer's spouse if filing jointly and living with the individual • The Tax Dependent's spouse if living with the individual 	<p>If the individual isn't covered in Rule One or Rule Two, then the SFU includes all of the following (IF LIVING WITH THE INDIVIDUAL):</p> <ul style="list-style-type: none"> • The individual • The individual's spouse • The individual's children (biological, adopted and step) • If the individual is a child, under the age of 19, then include the individual's parent(s) and child sibling(s) (biological, adopted and step) <p><i>Please note that each individual will fall into one of the three rules. If the individual isn't Rule One or Two, then the individual always falls into Rule Three.</i></p>

Once you determine which rule the individual will fall into, you can use the list of individuals that are included in the SFU to determine who is in the individual's SFU. Knowing who is in an individual's SFU will allow you to begin the process of determining whose income can be counted for the individual.

Counting Income for MAGI

MAGI Income is also calculated for each individual's SFU. To do this, you need to verify for each SFU group which individuals can count their income. The below figure provides a representation of what needs to be asked for each person inside the SFU. Once a determination of whose income is counted is made, all that is required is to determine Federal Poverty Level (FPL) percentages for each SFU.

Exploring MAGI SFUs

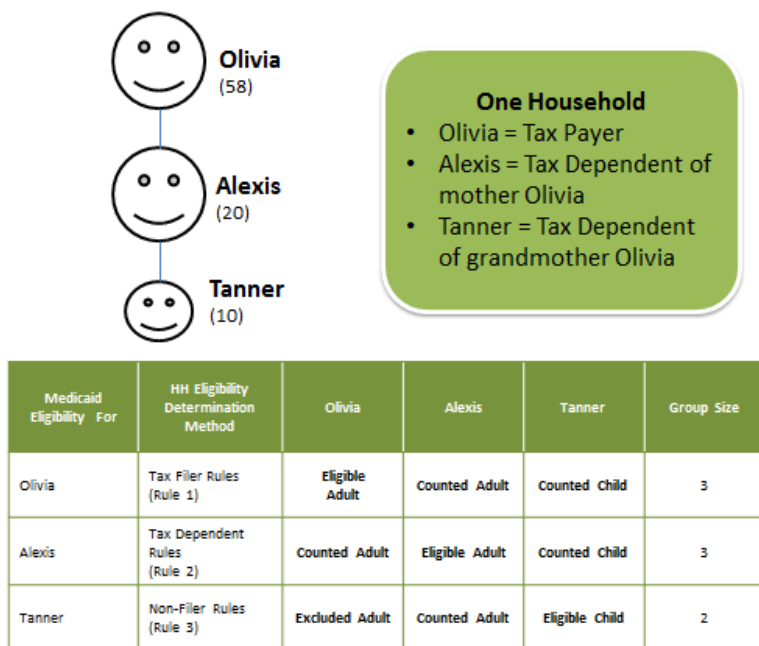
In order to better understand how SFUs and MAGI Income are calculated, the following scenario can be used. The scenario below represents one example of a common multi-generational household with Olivia, age 58, as the primary tax payer who has filed a Health Coverage application for her grandson. She has two dependents; Alexis, her 20-year old daughter, who is in college, and Tanner, her 3-year-old grandson. Once you have the appropriate household information about tax filing in ICES, the SFU rules will run for you to calculate each person's filing status. For each person, SFU will check the three primary

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rules about which you just learned (see Figure 1). The below figure gives an overview of the family and how each person would be seen as part of his or her individual SFU.

Figure 1: MAGI SFU Example



Let us review each rule and see how Tanner’s SFU was calculated:

As a dependent, we can omit Rule One just as we did with Alexis; but, does he fit into Rule Two like his mother? Let us review Rule Two’s questions and see how Tanner can respond:

- Is the individual claimed by someone other than a spouse or a parent (biological, adopted, or step)? **Yes, Tanner is claimed by his grandmother.**
- Is the individual a child under the age of 19 who lives with both parents, but the parents do not expect to file taxes jointly, and only one parent claims the child as a tax dependent? **No, Tanner only lives with his mother and she does not claim him.**
- Is the individual a child under the age of 19 who is claimed as a tax dependent by a noncustodial parent? **No, Tanner is not claimed as a tax dependent by a noncustodial parent.**

Rule Two asks that you identify if Tanner meets any of the previous questions. If the answer to any of the questions is YES, proceed to Rule Three. If the answer to all of the questions is NO, stop and use Rule Two SFU rules. Tanner was able to answer Yes to one of the sub-rules for Rule Two and must use the Rule Three non-filer rules.

Rule 3 states that if the individual is not covered in Rule One or Rule Two, the following SFU calculation can include all of the following:

- The individual
- The individual’s spouse (if living with the individual)
- The individual’s children (if living with the individual)
- If the individual is a child under the age of 19, includes the individual’s parent(s) and child sibling(s) (biological, adopted, and step) living with them.

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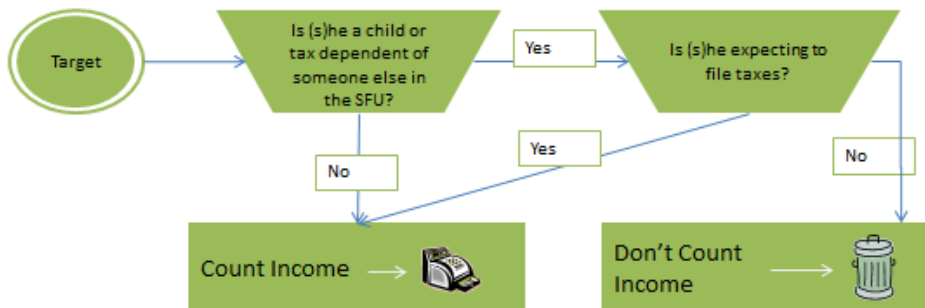
This means that Tanner can claim himself as the individual in the SFU and his mother who lives with him, but the non-filer rules will not count Olivia, his grandmother, as part of his household. This means his group size is 2. At this point you have a full picture of who each person can count as part of their household and can move onto MAGI Income calculations. The next section of the training will explore this further.

Now that filing status and group size has been determined SFU will calculate income for each household member. There are two basic rules that govern when to count income:

- 1) If an individual is in his or her parent's SFU and is not expected to file, his or her income is not counted.
- 2) If an individual is in his or her Taxpayer's SFU and is not expected to file, his or her income is not counted.

A better explanation of this is in the below flow chart (see Figure 2).

Figure 2: SFU Rules Applied to Income



Tanner's SFU does not count Olivia because we determined in the previous section that she is not part of Tanner's SFU. In this case her income will not be considered.

Alexis is our first target. Without Olivia in Tanner's SFU, she is not considered a dependent and her income would be counted per our flow chart.

Tanner is our final target. He is a child, not a dependent, of Alexis and is not required to file taxes, so his income is not counted (see Table 6).

Table 6: Incomes Counted

Medicaid Eligibility For	Olivia	Alexis	Tanner	Group Size
Olivia	Counted	Not Counted	Not Counted	3
Alexis	Counted	Not Counted	Not Counted	3
Tanner	Not Considered	Counted	Not Counted	2

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Once a determination is made on whose income is included for each person, the actual income amounts need to be determined using the IRS rules and exceptions listed out below (see Table 7).

Table 7: Income Calculations

Align with Revenue Code	Income Exclusions	Category Exclusions
<ul style="list-style-type: none"> • Use a point-in-time measurement of income (monthly) • Income deductions will no longer be applied with the exception of a standard 5% disregard • Other income (follows Internal Revenue Code) • Social Security Income • Depreciation of business expenses • Child support • Worker's compensation • Veteran's benefits 	<ul style="list-style-type: none"> • Lump sum income will be counted in the month it is received • Educational scholarships and grants are not to be counted as income • American Indians and Alaska natives exceptions 	<ul style="list-style-type: none"> • Individuals blind and disabled or on LTC • Individuals age 65 or older • Individuals eligible for Medicare cost sharing

Using the IRS income calculations, which will be done for you in ICES, we get a picture of the income amounts and total counted income for our family (see Table 8).

Table 8: MAGI Income Example

Medicaid Eligibility For	MAGI	Olivia	Alexis	Tanner	Total Counted Income	FPL (before 5% disregard)	Group Size
Olivia	\$4,500/mo	Counted	Not Counted	Not Counted	\$4,500/mo	276%	3
Alexis	\$300/mo	Counted	Not Counted	Not Counted	\$4,500/mo	276%	3
Tanner	\$8/mo	Not Considered	Counted	Not Counted	\$300/mo	23%	2

With the household size and income amounts, we can calculate for federal poverty level and include the 5% disregard to determine MAGI eligibility, if needed.

Once the MAGI Income calculations are done for each household member, that total amount will be converted into Federal Poverty Level (FPL) percentages based on each group size. This is another automatic calculation done for you in ICES.

- Olivia and Alexis have an income of \$4500/mo, which is a little over \$2800/mo more than the FPL for a group of 3. This equals an FPL of 276% and even with an additional 5% disregard they are not eligible Medicaid, but may be eligible for premium tax credits and cost-sharing reductions through the federal marketplace. Their information will be electronically sent to the federal marketplace for further evaluation.

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- Tanner has an FPL of 23% because his \$300/mo income is almost \$1000 under the FPL, which means that he is eligible for state healthcare coverage, even before the 5% disregard, and will be assigned an AG category later in the ICES determination process.

Another way to look at the MAGI calculation process is represented below (see Figure 3).

Figure 3: Converting SFU Income to FPL

