FOCUS on Health Reform

THE HENRY J. KAISER FAMILY FOUNDATION

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Determining Income for Adults Applying for Medicaid and Exchange Coverage Subsidies: How Income Measured With a Prior Tax Return Compares to Current Income at Enrollment

Introduction

A major goal of the Affordable Care Act (ACA) is to significantly expand coverage and reduce the number of uninsured. Beginning in 2014, the ACA establishes a new continuum of coverage that will provide assistance to people with incomes up to 400% of the federal poverty level. Under this expansion, Medicaid eligibility will be expanded to a national floor of 138% of poverty and premium tax credits will be available to eligible individuals with incomes between 139% and 400% of poverty to purchase coverage through new Health Insurance Exchanges.

The law standardizes the definition of income used to determine eligibility for Medicaid and the tax credits to Modified Adjusted Gross Income (MAGI). However, there are important distinctions related the timing of income used to determine eligibility. Under the ACA, individuals may claim advance payments of the premium tax credits based on income measured by the most recent tax return available, potentially updated with more current information. Eligibility for Medicaid, however, remains based on current income at the time of enrollment. This analysis examines how income for adults measured with a prior tax return compares with current income and the implications for enrollment processes under reform.

Background

The ACA establishes a new national floor of Medicaid coverage at 133% of poverty level with a standard 5% of income disregard that effectively raises the limit to 138% of poverty, which will be fully implemented by 2014. Further, beginning in 2014, individuals with incomes between 139% and 400% of poverty who do not have access to employer-sponsored insurance or public coverage will be eligible for tax credits to offset the cost of purchasing private insurance through new state-based Health Insurance Exchanges. People with incomes between 139% and 250% of poverty will also be eligible for reduced cost-sharing in Exchange plans (Table 1).

Table 1:
Premium and Cost Sharing Limits for Individuals up to 400% of Poverty Under Health Reform

Income (% FPL)	Coverage	Premiums and Cost Sharing
≤138% FPL	Medicaid	• No premiums • Cost sharing limited to nominal amounts for most services
139%-250% FPL	Exchange	• Sliding scale tax credits limit premium costs to 3-8.05% of income. • Sliding scale cost-sharing credits
251%-400% FPL	Exchange	• Sliding scale tax credits limit premium costs to 8.05-9.5% of income. • No cost sharing credits

Notes: Exchange coverage and tax credits are limited to lawfully residing individuals who do not have access to employer-sponsored insurance. Lawfully residing individuals who are barred from enrolling in Medicaid during their first five years in the U.S. may receive Exchange coverage and tax credits. Premium credits will adjust annually.
Source: “Summary of New Health Reform Law”, Focus on Health Reform, the Kaiser Family Foundation, June 18, 2010.

The law also includes requirements designed to create a streamlined, seamless enrollment system to connect people with the appropriate health coverage program that maximizes the use of electronic data exchange and technology. The law envisions a "no wrong door" system, meaning that individuals seeking coverage will be screened for all health subsidy programs and processed through enrollment without requiring additional application forms or multiple eligibility determinations.

In developing this seamless, no wrong door system, one key issue to address is how income will be measured to establish eligibility for Medicaid and advance tax credit payments when a person applies for coverage. Under the law, income eligibility for the tax credits and Medicaid will be based on MAGI, which is defined by the Internal Revenue Code. Using MAGI standardizes and simplifies the definition of income used to determine eligibility across states and between Medicaid and Exchange coverage. However, there are distinctions related to the time when income is measured in determining eligibility for the different types of assistance.

- ***Income eligibility for advance tax credit payments may be determined using income as reported on the most recent tax return available.*** Under the law, individuals eligible for premium tax credits can apply for advance payments of the credits, which will be paid directly to their insurer. This is important for helping to make coverage affordable at the time it is needed. The ACA provides that income eligibility for advance payments may be determined using income as reported on the most recent tax return available, which for many people may reflect income for two years prior to the year for which assistance is being requested. The law also requires that procedures be in place to collect more current income information from people who experience a change in their financial situations or family circumstances since filing a return, or do not file a tax return.

- ***Income eligibility for premium tax credits ultimately will be based on an individual's annual income for the year in which credits were received.*** At the end of the year, any advance premium credit payments received will be reconciled against the credits for which individuals are eligible based on their annual income that year, which will be determined based on their annual MAGI as reported on the tax return. If the advance payments exceed the amount of credit for which individuals are ultimately eligible, some or all of the overpayment must be repaid.[1] This could cause a financial burden for families and discourage some individuals from applying to receive advance payments of the subsidy.

- ***Income eligibility for Medicaid will continue to be based on current, point-in-time income.*** Income eligibility for Medicaid will also be determined based on MAGI. However, the law maintains the existing requirement that Medicaid eligibility be based on current, point-in-time income.

[1] See, "Reconciliation of Advance Payments for Health Insurance Subsidies," Focus on Health Reform, The Henry J. Kaiser Family Foundation, February 2011, www.kff.org for more information.

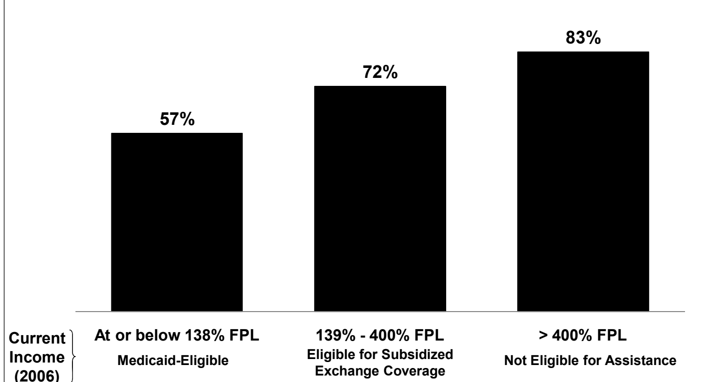
Given these different approaches to determining income, this analysis examines how income for adults measured on a current basis differs from the income that would be shown in the most recent tax return, and how any differences would affect which income eligibility category applicants would fall into for Medicaid and Exchange coverage at the time they apply for coverage. The analysis uses data from the 2004-2007 panel of the Survey of Income and Program Participation, for a comparison period from 2004 to 2006 because the most recent full-year panel data are from 2006. The analysis compares family income, measured as a percent of federal poverty, over the three-year period from 2004 to 2006. Income for 2004 represents income that would be shown on the most recent tax return ("prior tax income") and income for 2006 represents "current income" at the time of application. (See Appendix A for more details on methods). The analysis did not account for or examine changes in insurance status or access to employer-sponsored coverage between a tax year and the time of application, which would also impact eligibility for Exchange coverage.

Findings

For most adults, there is no difference in income eligibility based on income measured from a prior tax return and current income at application (Figure 1). Over 80% of adults above 400% of poverty based on current income also have prior tax income above that level. Further, nearly three in four (72%) of those between 139% and 400% of poverty based on current income also had prior tax income within that range. Adults eligible for Medicaid (at or below 138% of poverty) based on current income are the most likely to have a difference between prior tax income and current income, with more than four in ten (43%) having prior tax income above the Medicaid income threshold. However, more than half of these adults (57%) are below the Medicaid income limit based both on prior tax income and current income.

Figure 1

Percent of Adults with No Difference Between Current (2006) and Prior Tax Income (2004) at Application



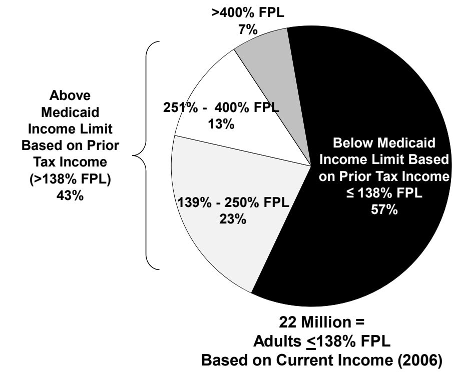
Source: KCMU analysis of SIPP 2004-2007 data; current income from 2006 and prior tax income from 2004; March 2011

More than four in ten (43%) adults who are below the Medicaid income limit of 138% of poverty based on current income would have income above the Medicaid threshold based on prior tax income (Figure 2). Of people eligible for Medicaid based on current income, 23% have income between 139% and 250% of poverty based on prior tax income, the income range for which premium tax credits and reduced cost sharing are provided for Exchange coverage. Another 13% have income between 251% and 400% of poverty, the income range in which individuals are provided premium credits (but no cost-sharing support). In addition, 7% are above 400% of poverty based on prior tax income, which is above the threshold for any coverage assistance.

Figure 2

Medicaid-Eligible Adults: Differences in Current and Prior Tax Income

Distribution of Income Based on Prior Tax Income (2004) as a Percent of the FPL:



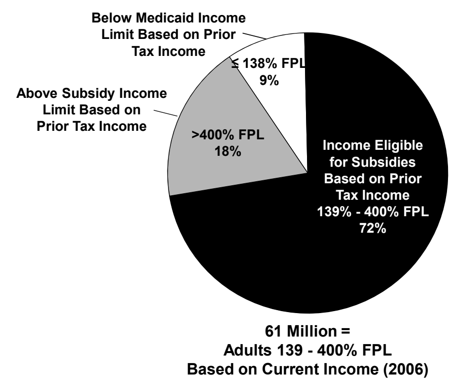
Source: KCMU analysis of SIPP 2004-2007 data; current income from 2006 and prior tax income from 2004; Totals may not sum due to rounding, March 2011.

Over one-quarter (28%) of adults with income between 139% to 400% of poverty based on current income—the range for which tax credits for Exchange coverage are provided—would fall into a higher or lower income category based on prior tax income (Figure 3). About one in ten (9%) adults with current income in the premium tax credit range would have lower income below the Medicaid eligibility threshold based on prior tax income, while 18% would have higher income above the threshold for any assistance based on prior tax income.

Figure 3

Adults Income Eligible for Subsidized Exchange Coverage: Differences in Current and Prior Tax Income

Distribution of Income Based on Prior Tax Income (2004) as a Percent of the FPL:



Source: KCMU analysis of SIPP 2004-2007 data; current income from 2006 and prior tax income from 2004; Totals may not sum due to rounding, March 2011.

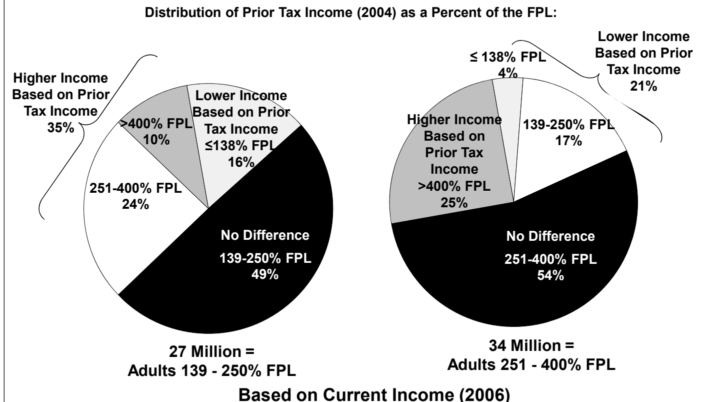
About half of adults with incomes between 139% and 250% of poverty and between 251% and 400% of poverty based on current income are in the same income category based on their prior tax income (Figure 4):

- ***Among adults between 139% and 250% of poverty based on current income, 49% are in the same income group based on prior tax income.*** More than one-third (35%) have a higher income based on prior tax income—24% would be between 251% and 400% of poverty, an income group that receives lower levels of premium credits and no cost sharing assistance, and 10% would be above 400% poverty, the limit for any assistance. On the other hand, 16% have a lower income based on prior tax income that is at or below the Medicaid threshold of 138% of poverty.

- ***For those between 251% and 400% of poverty based on current income, 54% also have prior tax income in that range.*** One in four (25%) have a higher income based on prior tax income that is above 400% of poverty, the threshold for any assistance. Another 21% fall into a lower income group using prior tax income—17% are between 139% and 250% of poverty, a group that is eligible for higher premium credits as well as cost-sharing credits, and 4% are at or below the Medicaid income limit of 138% of poverty.

Figure 4

Adults Income Eligible for Subsidized Exchange Coverage: Differences in Current and Prior Tax Income



Source: KCMU analysis of SIPP 2004-2007 data; current income from 2006 and prior tax income from 2004; Totals may not sum due to rounding, March 2011.

Implications

Using current income to assess eligibility will be important for assuring adults receive the appropriate coverage and levels of assistance when they apply for Medicaid and Exchange coverage. Overall, these findings suggest that use of prior tax income could serve as an accurate measure of income for most adults when they apply for coverage. However, a considerable share of adults have differences between their current and prior tax income that would affect which income eligibility category they would fall into at the time of application.

As a result of the differences, using prior tax income to assess eligibility would result in some adults falling into higher income categories that receive more limited assistance than they would be in based on current income. These adults may have difficulty affording coverage and/or paying required cost sharing to access needed care. Further, some adults would fall into lower income categories that receive broader assistance than they would be in based on current income. This would lead to added federal and potentially some state costs and increase the likelihood that individuals would need to repay premium credits at the end of the year. As noted, individuals will be required to pay back premium credits they receive in excess of the amount they qualify for based on income actually earned that year, up to specified limits. These repayments could create a significant financial burden for low- and moderate-income families and also could discourage individuals from choosing to receive advance premium credits to offset coverage costs. Without advance credits, coverage may remain unaffordable causing individuals to either forgo coverage or bear a substantial financial burden to obtain it.

Establishing simple procedures to collect current income when individuals apply for coverage will be a key component of creating eligibility and enrollment systems for Medicaid, CHIP, and Exchange coverage. As noted, the ACA includes requirements designed to achieve a streamlined, integrated eligibility and enrollment system for Medicaid, CHIP, and Exchange coverage that relies on electronic data exchange and technology. Under this system, there will be "no wrong door" for coverage, meaning that regardless of which avenues through which individuals apply for coverage, they will be screened for and enrolled in the appropriate coverage without additional application requirements or multiple eligibility determinations. This analysis suggests that building simple and effective procedures to collect current income into these eligibility and enrollment systems will be key for assuring individuals receive the appropriate coverage and levels of assistance when they apply for coverage. In developing these procedures, it will be important to minimize burdens on individuals and assure that they are enrolled in coverage without delay. To the extent possible, simplifying and aligning processes across coverage programs and automating collection of data from available sources will help streamline processes, minimize burdens, and prevent enrollment delays.[2]

Conclusion

In sum, while the ACA standardizes the definition of income used to determine eligibility for Medicaid and premium tax credits for Exchange coverage to MAGI, there remain important distinctions related to the timing of income used to determine eligibility. This analysis suggests that the timing of the income used to assess eligibility has important implications and that establishing simple procedures to collect current income will be key for assuring adults receive the appropriate coverage and levels of assistance when they apply for Medicaid and premium tax credits for Exchange coverage. Although not addressed in this analysis, changes in income and circumstances over the course of the year during which a person receives assistance also will have a significant impact on whether individuals receive the correct coverage and levels of assistance at the appropriate time. As such, it also will be important to have simple procedures in place to collect information about changes in income and circumstances over time.

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[2] Morrow, B. and J. Paradise, "Explaining Health Reform: Building Enrollment Systems that Meet the Expectations of the Affordable Care Act," Focus on Health Reform, The Henry J. Kaiser Family Foundation, October 2010, www.kff.org.

Appendix A: Methodology

The data presented in this paper are based on the U.S. Census Bureau's 2004 Panel of the Survey of Income and Program Participation (SIPP). SIPP is a nationally-representative survey of the civilian, non-institutionalized American population, with interviews conducted every four months over a period of four years. Throughout this paper, "prior tax income" is based on annualized 2004 income, while "current income" refers to income during the month of January in 2006. For this analysis, we used the SIPP 2004-2007 weights. Although the 2004-2005 two-year and 2004-2006 three-year weights yield a larger unweighted sample, the fluctuations in income held relatively constant across comparable windows of time irrespective of the panel weights used.

In each year analyzed, the following individuals were excluded: Medicare beneficiaries, foster children, SSI recipients (both Federal and state), non-citizens, and Americans older than 64. The exclusion of non-citizens decreased the observed income volatility, making our estimates more conservative. We also did not include Americans under the age of 19 in the analysis, but they were incorporated into federal poverty level calculations for adults.

Health Insurance Units (HIU) were defined as nuclear families including children up to the age of 26. Since SIPP designates a primary guardian to each child, Americans under the age of 26 with unmarried parents were assigned to the same HIU as their designated guardian. HIU poverty levels were based on the published HHS Poverty Thresholds, and HIU income reflected the sum of all reported earnings among the members of the HIU. The ACA Medicaid eligibility threshold was set at 138% of the federal poverty level, and the ACA Health Insurance Exchange cost-sharing subsidy eligibility limit was set to 250% of poverty.

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