



# A Closer Look

## Simplifying Enrollment and Eligibility with Modified Adjusted Gross Income (MAGI)

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### Introduction

The Affordable Care Act makes major strides in expanding health coverage as well as streamlining and simplifying enrollment and eligibility in health coverage programs. Starting in 2014, people with incomes below 133 percent of the federal poverty level (\$24,645 for a family of three in 2011) will qualify for affordable health coverage through Medicaid, and those with incomes above this level will be able to enroll in plans offered in the new health insurance exchanges. The Children's Health Insurance Program (CHIP) will continue to serve children in families with incomes between the Medicaid eligibility level and at least 200 percent of poverty in most states.<sup>1</sup> In addition, some states may choose to take up the Basic Health option to create a separate program for people who are not eligible for Medicaid and who earn up to 200 percent of poverty (\$37,060 for a family of three in 2011).

In order to align eligibility and coverage among this complicated patchwork of health coverage options, the Affordable Care Act requires states to make changes to the way that they determine eligibility for Medicaid and CHIP. This requirement will align the income counting rules for Medicaid and CHIP with those of Basic Health and the premium tax credits so that all programs use the same methodology to calculate an individual's or a family's income. This new income methodology, which is defined in the U.S. tax code, is called Modified Adjusted Gross Income (MAGI).<sup>2</sup>

MAGI is essentially the amount of income a household reports on their annual federal tax form (with a few exclusions that will not affect the majority of households applying for coverage in 2014).<sup>3</sup> Using the same income definition for all programs will make it easier to determine which program an individual is eligible for and how much assistance he or she is eligible to receive.

## How Income Is Calculated Today

Currently, each state sets its own rules for how income is counted to determine eligibility for Medicaid and CHIP. The definitions vary widely from state to state and even between different populations in the same state. For example, although all but four states have eliminated asset tests for children's coverage in Medicaid and CHIP, and all but seven states have eliminated asset tests for pregnant women in Medicaid, 27 states still have asset tests in place for parents in Medicaid.<sup>4</sup> States also vary as to the kinds of income they "disregard" or exclude when determining if an individual or family is financially eligible for Medicaid and CHIP. Most disregard some portion of earned income as well as child care expenses and child support payments. In most cases, people are required to submit a significant amount of paperwork when they apply for Medicaid or CHIP so that the state can verify the various pieces of information needed to determine their income. This process can be complicated and confusing for applicants, and the paperwork burden can deter some people from applying in the first place.

## Transitioning Medicaid and CHIP to MAGI

As coverage is expanded in 2014, states will need to transition from their current income counting rules in Medicaid and CHIP to MAGI. Although MAGI will apply to most people eligible for Medicaid, states must retain existing income methods for certain populations: people eligible for Medicare, people in the Medicaid medically needy category, people with disabilities, and those who are eligible for Medicaid because of their eligibility for another program.<sup>5</sup> As states transition to MAGI, they will have to make two major changes to the way they calculate income for Medicaid and CHIP:

- **Eliminate asset tests.** All states will need to eliminate asset tests for all populations subject to MAGI.<sup>6</sup> Asset tests are burdensome for applicants, difficult and costly for states to administer, and can cause delayed eligibility determinations.<sup>7</sup> Often, people are kept out of the programs that they are eligible for because asset tests are an administrative barrier. As noted above, although very few states still have an asset test requirement for children in Medicaid or CHIP or for pregnant women in Medicaid, more than half of states still require asset tests for parents in Medicaid.<sup>8</sup> Eliminating asset tests in Medicaid and CHIP will drastically simplify the application process for families and will also help states save money.
- **Implement a single 5 percent disregard.** All states must apply a single 5 percent across-the-board income disregard in Medicaid and CHIP.<sup>9</sup> This 5 percent disregard effectively raises the expanded Medicaid eligibility threshold for all states to 138 percent of the federal poverty level. This new way of counting income does away with complicated disregards that vary from one state to another and between different eligibility groups within a state.

## Enabling Seamless Eligibility and Enrollment

Transitioning to a simpler, more standardized way of counting income supports the vision of the Affordable Care Act—to reduce gaps in coverage and get every eligible person enrolled in the appropriate program. This coverage expansion is historic; millions of Americans will be newly eligible for coverage in 2014. Significantly simplifying the enrollment process is necessary to ensuring that all newly eligible people are quickly and easily enrolled in coverage, and the shift to MAGI is integral to this simplification. MAGI will help simplify eligibility and enrollment in the following ways:

- **Preventing gaps in coverage.** Without a standard definition of income, there could be gaps where coverage programs come together. For example, without a standard income definition for all programs an individual's income could be determined to be too high for Medicaid, according to Medicaid's income definition, yet too low for exchange coverage, according to the exchange's income definition. While there are some differences between how income will be calculated for Medicaid and CHIP and how it will be calculated for the exchange-eligible population, overall, those few deviations from the tax code will not affect the vast majority of people applying for insurance affordability programs in 2014.<sup>10</sup> In fact, ensuring a straightforward, simple way to determine income for all health coverage programs will make it easier for states to conduct real-time eligibility determinations and to achieve the “no wrong door” approach to enrollment, which ensures that every agency administering a coverage program can make eligibility determinations for other programs. This will ensure that eligible individuals are enrolled in the appropriate coverage program without delay.
- **Reducing the paperwork burden on applicants.** The Affordable Care Act requires that individuals be given the option to apply for coverage online, over the phone, by mail, or in person.<sup>11</sup> Since MAGI does not allow asset tests, it will be easier for people to apply using any of these methods and get a faster eligibility determination because they will not have to provide paperwork to document their assets. The verifications required for an asset test would have made the application process more complex, making it difficult, if not nearly impossible, for states to develop a simple and consumer-friendly enrollment process.<sup>12</sup> Using MAGI will simplify the application and make it easier for states to automate their eligibility systems, particularly because all the necessary income information for a household might already exist in state or federal databases, which would eliminate the need for the applicant to provide paper documentation of his or her income.<sup>13</sup>

- **Easing transitions between programs.** It is common for low-income adults and families to experience fluctuations in their incomes. Once the Medicaid expansion and exchanges are implemented in 2014, these fluctuations in income may cause individuals' eligibility to shift between Medicaid, CHIP, the premium credits, and Basic Health (where applicable). Without a unified approach to defining income across programs, these changes in circumstances could easily result in low-income individuals “churning” on and off coverage, even when they remain eligible. A recent study found that within a one-year period, half of adults with incomes below 200 percent of poverty are predicted to experience a shift from Medicaid to the exchange or the reverse.<sup>14</sup> Using the same income counting rules for Medicaid, CHIP, premium credits, and Basic Health will help ensure seamless transitions between these different coverage programs as eligibility fluctuates throughout the year.

## Conclusion

While the elimination of asset tests and the transition to new income counting rules are significant changes, they are necessary steps toward achieving the Affordable Care Act's vision for a simple, streamlined eligibility and enrollment system. Using this unified approach to defining income for Medicaid, CHIP, premium tax credits, and Basic Health eligibility will make it easier for people to apply for coverage, enroll in the appropriate program, and move between programs seamlessly as their circumstances change.

## Endnotes

<sup>1</sup> The Children's Health Insurance Program (CHIP) will continue at least through the end of fiscal year 2015. It will need to be reauthorized by Congress in order to continue after September 2015.

<sup>2</sup> *Patient Protection and Affordable Care Act*, Public Law 111-148 (March 23, 2010), as modified by the *Health Care and Education Reconciliation Act of 2010*, Public Law 111-152 (March 30, 2010), Title 2, Subtitle A, Section 2002.

<sup>3</sup> Sarah deLone, The Center for Medicaid, CHIP, and Survey and Certification, *The New World of MAGI*, Presentation at On the Road to 2014: Medicaid and CHIP Eligibility and Enrollment conference, Baltimore, MD, September 7, 2011.

<sup>4</sup> Martha Heberlein, Tricia Brooks, Jocelyn Guyer, Samantha Artiga, and Jessica Stephens, *Holding Steady, Looking Ahead: Annual Findings of a 50-State Survey of Eligibility Rules, Enrollment and Renewal Procedures and Cost-Sharing Practices in Medicaid and CHIP, 2010-2011* (Washington: Kaiser Commission on Medicaid and the Uninsured, January 2011), available online at <http://www.kff.org/medicaid/upload/8130.pdf>.

<sup>5</sup> *Patient Protection and Affordable Care Act*, Public Law 111-148 (March 23, 2010), as modified by the *Health Care and Education Reconciliation Act of 2010*, Public Law 111-152 (March 30, 2010), Title 2, Subtitle A, Section 2002 (a)(D)(i).

<sup>6</sup> *Patient Protection and Affordable Care Act*, Public Law 111-148 (March 23, 2010), as modified by the *Health Care and Education Reconciliation Act of 2010*, Public Law 111-152 (March 30, 2010), Title 2, Subtitle A, Section 2002 (a)(C).

<sup>7</sup> Vernon K. Smith, Eileen Ellis, and Christina Chang, *Eliminating the Medicaid Asset Test for Families: A Review of State Experiences* (Washington: Kaiser Commission on Medicaid and the Uninsured, April 2001), available online at <http://www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=13750>.

<sup>8</sup> Martha Heberlein, et al., op. cit.

<sup>9</sup> *Patient Protection and Affordable Care Act*, Public Law 111-148 (March 23, 2010), as modified by the *Health Care and Education Reconciliation Act of 2010*, Public Law 111-152 (March 30, 2010), Title 2, Subtitle A, Section 2002 (a)(B) and (a)(I).

<sup>10</sup> Sarah deLone, The Center for Medicaid, CHIP, and Survey and Certification, op. cit.

<sup>11</sup> *Patient Protection and Affordable Care Act*, Public Law 111-148 (March 23, 2010), as modified by the *Health Care and Education Reconciliation Act of 2010*, Public Law 111-152 (March 30, 2010), Title 1, Subtitle E, Section 1413 (b)(1)(A).

<sup>12</sup> Vernon K. Smith, et al., op. cit.

<sup>13</sup> Proposed federal regulations would allow states to accept an applicant's attestation of their income in lieu of presenting paper documentation. Centers for Medicare and Medicaid Services, *Medicaid Program: Eligibility Changes under the Affordable Care Act of 2010, Proposed Rule* (Baltimore: Department of Health and Human Services, August 2011).

<sup>14</sup> Benjamin D. Sommers and Sara Rosenbaum, "Issues in Health Reform: How Changes in Eligibility May Move Millions Back and Forth between Medicaid and Insurance Exchanges" *Health Affairs* 30, no. 2 (February 2011): 228-236.

**This brief was written by:**

*Christine Sebastian  
Health Policy Analyst*

**The following Families USA staff contributed to  
the preparation of this brief:**

*Kathleen Stoll, Deputy Executive Director,  
Director, Health Policy*

*Tara Bostock, Editor*

*Nancy Magill, Senior Graphic Designer*

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1201 New York Avenue NW, Suite 1100 ■ Washington, DC 20005

Phone: 202-628-3030 ■ Email: [info@familiesusa.org](mailto:info@familiesusa.org)

[www.familiesusa.org](http://www.familiesusa.org)