KENTUCKY HEALTH BENEFIT EXCHANGE
HEALTH INSURANCE
IS FOR EVERYONE. GET YOURS.

Income
Quick Reference Guide
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This Quick Reference Guide is designed to assist you to understand income information for Medicaid and Qualified Health Plan (QHP) applications.

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1. MAGI Methodology

What is Modified Adjusted Gross Income (MAGI)?

- The MAGI methodology defines household composition and how income is calculated using an individual's tax household as the basis for the income calculations.
- Modified Adjusted Gross Income rules were introduced by the Affordable Care Act (ACA) to determine income eligibility for health insurance programs.
- It provides a standard method for calculating income.
- MAGI factors in an individual's estimated yearly income and other factors to come to a final adjusted income calculation.
- Eligibility is determined based on: **monthly** earnings for **Medicaid** and **annual** earnings for **Eligibility for Advance Premium Tax Credit and Cost Sharing Reductions**.

2. MAGI Household Determinations

An individual's household is determined by using their expected tax household for the upcoming plan year.

Whose income must be counted (Eligibility Determination Groups* (EDGs)?

A. Does the individual expect to file taxes?

1. If No, continue to step B
2. If Yes, does the individual expect to be claimed as a tax dependent by anyone else?
   a) If No, the household consists of the taxpayer, a spouse living with the taxpayer, and all persons whom the taxpayer expects to claim as a tax dependent
   b) If yes, continue to step B

B. Does the individual expect to be claimed as a tax dependent?

1. If No, continue to step C
2. If Yes, does the individual meet any of the following exceptions?
   - The individual expects to be claimed as a tax dependent by someone other than a spouse or parent
   - The individual is a child (under age 19) living with both parents, but the parents do not expect to file a joint return
   - The individual is a child who expects to be claimed by a non-custodial parent

   I. If Yes, continue to Step C
   II. If No, the household is the same as the household of the taxpayer claiming him/her as a tax dependent
      a. Is the individual married? If yes, the household also includes the individual's spouse, if they are residing together.

C. For individuals who neither expect to file a tax return, nor expect to be claimed as a tax dependent, as well as tax dependents who meet one of the exceptions in step B.2., the EDG consists of the individual and any of the following if living together:

1. The individuals' spouse
2. The individual's children under the age of 19
3. If the individual is under age 19
   a. Include their parents

b. Include any siblings also under age 19

* EDG indicates the individuals whose income and resources will be used to determine eligibility. Eligibility groups identify who is considered in the household (household group), who must apply together (filing group), whose income and resources will be used to determine eligibility (financial group), whose needs are considered (need group) and who will receive benefits (benefit group).

3. Countable and Non Countable Income Types

The following table lists the types of countable and non-countable income used to determine eligibility. The income of dependents should only be counted if the dependent is required to file taxes.

Countable Income	Not Counted Income
Wages, salaries, tips, bonuses, awards	Veteran's disability benefits
Interest income (taxable and non-taxable)	Veteran's pension benefits
Ordinary dividends	Veteran's education benefits
Alimony Received/Spousal Support	Child support received
Business Income	Worker's compensation
Capital gains	SSI benefits
IRA distributions	TANF benefits
Pensions and annuities	Foster care and Adoption Assistance payments
Rental Income	Military allowances
Royalties	Education scholarships, awards, fellowship grants[1]
Partnerships/S-Corporations	Social Security benefits of dependents [2]
Trust Income (as reported on 1040, line 17)	Wages of minors [3]
Farm Income	Employer contributions to certain pretax benefits funded by an employee's elective salary reduction, such as amounts for a flexible spending account or contributions to a retirement account
Unemployment compensation	Black Lung benefits
Social Security benefits (taxable and non-taxable)	Cash rebates from a dealer or manufacturer
Railroad Retirement	Work study income
Gambling Winnings [5]	Refugee cash assistance
Jury Duty payments [5]	Native American benefits and payments
Foreign earned income	Income from a sponsor for a sponsored immigrant
Lump sum income (retro Social Security/Railroad Retirement)[5]	Fringe benefits provided on a pretax basis by an employer
Oil leases/mineral rights	Loans
Waiver payments issued to individual care providers received for a non-household member (related or non-related)	Waiver payments issued to individual care providers received for a household member (related or non-related)
Income derived from gifts/inheritances	Gifts and inheritances

Any remaining portion of a lump sum payment awarded for wrongful death, personal injury, damages, or loss of property not excluded for tax purposes [4,5]	Any portion of a lump sum payment that is awarded for wrongful death, personal injury, damage, or loss of property [4]
State agency payments received for child care	Earned income tax credits
Other income include on 1040, line 21	Employer reimbursement for mileage, meals, etc.

[1] Count any taxable portion used for room and board
[2] Count if dependent has a tax filing requirement, there are some exceptions for Medicaid
[3] Count if dependent has a tax filing requirement, there are some exceptions for Medicaid
[4] Lump sum payments may include countable and non-countable income
[5] For Medicaid, this income is counted only in the month it is received

4. Working with Income Verification Documents

While assisting individuals with determining their eligibility for Insurance Affordability programs, it is often necessary to help individuals upload a variety of financial documents including tax records, check stubs, award letters, and statements from employers. Your responsibility is to help individuals upload their documentations in the kynect/benefind system. Please direct all individuals with income verification questions to DCBS. Below are some quick tips related to income for your reference.

A. MAGI Calculation

a. The calculation for Modified Adjusted Gross Income (MAGI) is the basis for eligibility for the Insurance Affordability Programs available. This section details the items that are factored into the calculation for MAGI.

AGI + certain income types – special exclusions for Medicaid purposes = MAGI

The chart below identifies the types of income and deductions which determine an individual's Adjusted Gross Income (AGI).

Adjusted Gross Income =

Include	Deduct
• Wages, salaries, tips, etc.	• Certain self-employed expenses
• Taxable interest	• Student loan interest deduction*
• Taxable amount of pension, annuity or IRA distributions and Social Security Benefits	• Educator expenses*
• Business income, farm income, capital gain, other gains (or loss	• IRA deduction
• Unemployment compensation	• Moving expenses
• Ordinary dividends	• Penalty on early withdrawal of savings
• Alimony received	• Health savings account deduction
• Rental real estate, royalties, partnerships, S corporations, trusts, etc.	• Alimony paid
• Taxable refunds, credits, or other offsets of state and local income taxes	• Domestic production activities deduction
• Other income	• Certain business expenses of reservists, performing artists, and fee-basis government officials

* See **Section 5: Deductions** below for more specific information, including the maximum limits allowed on these deduction types.

b. In order to determine a household's MAGI, it is necessary to modify the Adjusted Gross Income (AGI) by adding back certain types of income. These income types are listed below.

Income added back to the AGI

• Non-taxable Social Security Benefits
• Tax exempt interest
• Foreign earned income & housing expenses for Americans living abroad

c. For Medicaid eligibility it is necessary to further exclude the income types listed below.

Excluded for Medicaid eligibility

• Scholarships, awards, or fellowship grants used for education purposes and not for living expenses
• Certain American Indian and Alaska Native income derived from distributions, payments, ownership interests, real property usage rights, and student financial assistance
• An amount received as a lump sum is counted as income only in the month received

B. Working with tax records

A citizen's tax records can be an excellent source of information regarding the household's finances. Determining a household's MAGI from tax forms requires that the Adjusted Gross Income (AGI) be modified in the following manner:

Adjusted Gross Income + Non-taxable Social Security = Modified AGI

These figures can be found on the various tax forms at the lines designated below:

	Form 1040	Form 1040A	Form 1040EZ
Adjusted Gross Income	• Line 37	• Line 21	• Line 4
Non-taxable Social Security	• Line 20a minus Line 20b	• Line 14a minus Line 14b	• N/A

Note: If the tax forms are used as the source of verification of income, then any amounts of deductions claimed for alimony, student loan interest, tuition and fees, and educator expenses should **not** be entered in kynect/benefind as they have already been given consideration in the AGI.

C. Working with wage stubs

Wage stubs can be a valuable resource for determining an individual's income. When working with an individual's check stubs it is important to make sure to carefully review the stubs to capture the most accurate reflection of that individual's income. The following actions will help to ensure that income is correctly determined from wage stubs

a. Avoid using only one check stub whenever possible.
    - A single check stub may not be an accurate reflection of the total picture of an individual's income.
    - Using two months of check stubs is advised as this will provide a more accurate picture of an individual's income
b. Thoroughly review and compare check stubs to determine if there have been recent changes in the individual's income
    - Look for recent changes in hourly pay/or salary
    - Look for recent changes in work hours
    - If there have been changes to the income do not use any wage information that is not reflective of the current information
c. Use the gross income (pre-tax) income when entering income from wages into the application. Do not use the net (after-tax) amount
d. Do not use check stubs which do not show the gross amount of income as this will not create an accurate reflection of the individual's income
e. Do not annualize income based upon check stubs. Enter the wages based upon the frequency received.

D. Working with award letters

Award letters for individuals can be another valuable resource for evaluating a citizen's income. Some quick tips for working with award letters are listed below.

- **Social Security Income (RSDI)** - The amount which is countable is the full benefit amount that has been awarded to the individual before any deductions for Medicare Premiums or other deductions have been removed.
- **Unemployment benefits** – The countable amount is the maximum weekly benefit amount including any amount that is removed for tax purposes. Unemployment is typically paid bi-weekly.
- **Pensions/Retirement**– The countable amount of pension is the full gross amount awarded to the client including any amount deducted prior to being paid to the individual.

E. Working with written statements

Individuals will often provide handwritten or typed statements regarding their income. Some quick tips for working with written statements are listed below.

- While a written statement from the citizen can be used to document an individual's statement of their income it typically will not be accepted as verification of their income*
- In the case of no income, the written verification can be from a family member who is not in the household or another person who has knowledge of the person in the situation
- Review the document to determine who is providing the information (third party verification is preferred)

- Review the document to determine if it contains sufficient information to make an accurate evaluation of the individual's income

* There are some circumstances related to self-employment where a client's written self-attestation can be accepted as verification of their income.

5. Deductions

Deductions lower taxable income. Allowable tax deductions include:

- Certain self-employed expenses
- IRA deductions
- Moving expenses
- Penalty on early withdrawal of savings
- Health savings account deduction
- Alimony paid
- Student loan interest $2,500 per year

Note on Pre-Tax Deductions:

Wages included in the Modified Adjusted Gross Income (MAGI) are from the W-2 form, which excludes pre-tax deductions from gross income including:

- Cafeteria/flexible spending plans
- Contributions to 401k plans
- Flexible spending accounts
- Pre-tax retirement contributions
- Pre-tax insurance premiums

6. Interviewing for Income (Tips)

When working with individuals it is often necessary to ask a significant number of questions about their finances and income. Asking the right types of questions will lead to a better overall evaluation of the citizen's income and a more accurate determination of eligibility. Some general rules that will help with conducting all interviews are listed below.

- DO ask open-ended questions that will begin a conversation
- DO NOT ask questions that require only a yes or no response

A. Interviewing for income that fluctuates

Many individuals will have work that fluctuates due to a number of factors such as employer staffing needs, weather, availability of work etc. Below are some quick tips on the types of questions that are beneficial to ask when evaluating income.

For those with fluctuating hourly wages

- DO ask for specific details such as the average hours the individual works per week and their rate of pay
- DO ask about the frequency they are paid (weekly, bi-weekly, semi-monthly, etc.)
- DO ask if they receive any forms of tips, bonuses, or other income from the employment that may not be received all the time
- DO ask if there have been any recent changes to their income
- DO NOT ask "How much money do you make a week, month, or year?"

For those with self-employment income:

- DO ask how much they earned in the prior year, months, etc. as appropriate for the length of time they have been self-employed
- DO ask if the prior income is going to be reflective of their earnings for this year
- DO ask about seasonal variations in the income
- DO ask about business expenses
- DO NOT ask “How much do you make in a week, month, or year?”

B. Interviewing difference between Medicaid and APTC

Because Medicaid and APTC consider income differently, it will often be necessary to ask follow-up questions to arrive at an accurate evaluation of income for both programs. The primary differences between the income considerations are listed below.

- **Medicaid –** Determined on the current monthly earnings of the individual regardless of prior income within the tax year*
  - DO ask about the current income of the citizen
  - DO ask about start and end dates of income

- **APTC** – Determined based on the estimated income for the entire tax year
  - DO ask about income received during the year that may no longer be received by the citizen
  - DO ask about income the citizen expects to receive in the tax year that they may not have received yet

***PLEASE NOTE:** Self-employment income is typically considered on an annual basis for Medicaid purposes unless the self-employment enterprise has ended and will no longer be pursued.