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**SHO # 12-003**  
**ACA # 22**

December 28, 2012

**RE: Conversion of Net Income Standards to  
MAGI Equivalent Income Standards**

Dear State Health Official:  
Dear State Medicaid Director:

This letter is one of a series intended to provide guidance on implementation of the Patient Protection and Affordable Care Act of 2010 (Pub. L. No. 111-148), as amended by the Health Care and Education Reconciliation Act of 2010 (Pub. L. No. 111-152) (collectively referred to as the Affordable Care Act). The purpose of this letter is to inform states about the provisions under the Affordable Care Act for converting current net income eligibility thresholds to equivalent modified adjusted gross income (MAGI) thresholds (referred to in this guidance as "MAGI-equivalent" or "MAGI-based") in the Medicaid program and Children's Health Insurance Program (CHIP), the conversion methodology and process, and the timeframes for executing the conversions.

As discussed below, the Centers for Medicare & Medicaid Services (CMS) will provide substantial technical assistance to states as they undertake the conversion process, including actually calculating the final converted thresholds for states if the state chooses.

**Transition to Modified Adjusted Gross Income (MAGI)**

Currently, states' methodologies for determining Medicaid and CHIP income eligibility vary widely, primarily due to differences in the application of income disregards. To determine eligibility, the state first determines an individual's (or family's) gross income using a combination of state and federal rules on household or family composition, and then deducts, or disregards, income amounts that are not considered countable, such as childcare expenses. These income deductions or disregards can vary by state, type of income, and by eligibility group. The resulting net income is then compared to an income eligibility threshold (referred to as the net income standard) to determine whether the individual is income eligible for Medicaid or CHIP.

Effective January 1, 2014, a methodology for determining income based on modified adjusted gross income (MAGI) will apply to both Medicaid and CHIP eligibility for most enrollees, including children, pregnant women, parents and other caretaker relatives and the new adult group (as applicable in a state). As added by the Affordable Care Act, sections 1902(e)(14)(A) and 2102(b)(1)(v) of the Social Security Act (the Act) for the Medicaid program and CHIP, respectively, provide that states will use the MAGI-based methodology for determining the income of an individual and the individual's household, as applicable, for purposes of eligibility for Medicaid or CHIP under the state plan or an 1115 demonstration and for any other purpose

applicable under the plan or a demonstration project for which a determination of income is required. To promote coordination and avoid gaps or overlaps in coverage, the new methodology is aligned with the one that will be used to determine eligibility for the premium tax credits and cost sharing reductions available to certain individuals purchasing coverage on the Affordable Insurance Exchanges starting in 2014. Under the statute, MAGI-based income methodologies will not apply to determinations of Medicaid eligibility for elderly and disabled populations.

MAGI and household income are defined in section 36B(d)(2)(A) and (B) of the Internal Revenue Code (IRC). The MAGI-based methodology under the Medicaid statute includes certain unique income counting and household composition rules reflected in CMS regulations at 42 CFR 435.603 and discussed in section III.B. of the preamble to the eligibility final rule published in the Federal Register on March 23, 2012, (77 FR 17144, pages 17150-59; available at <http://www.gpo.gov/fdsys/pkg/FR-2012-03-23/pdf/2012-6560.pdf>.)

Under the statute, to complete the transition to the MAGI-based methodology, states will develop MAGI-based income eligibility standards for the applicable eligibility groups that “are not less than the effective income levels” that were used to determine Medicaid and CHIP income eligibility as of the enactment of the Affordable Care Act. The conversion of current income eligibility standards to equivalent MAGI-based income eligibility standards should account for any income disregards now used. Finally, under section 1902(e)(14)(E) of the Act, each state must submit to the Secretary for approval its proposed MAGI-equivalent income eligibility standards and the methodologies and procedures that support those proposed standards, for each applicable eligibility group. We refer to this submission as the state’s “MAGI Conversion Plan” which is discussed in greater detail below.

### **State Engagement, Solicitation of Public Input, and Criteria for Testing Methodologies**

In order to test various methodologies and develop this guidance for converting current income standards to MAGI-based standards, we consulted with states, solicited public comments through a request for information (“Solicitation”) in June 2012, and worked with ten pilot states to test the feasibility of potential conversion methodologies.

We evaluated potential conversion methodologies bearing in mind the statutory objective to establish a MAGI-based income eligibility standard for each eligibility group, on a state specific basis, that is not less than the effective income eligibility standard as applied on the date of enactment of the Affordable Care Act. We interpret this to mean a standard that, in the aggregate, neither systematically increases nor decreases eligibility overall. We applied various criteria in evaluating each of the potential conversion methodologies and associated data sources including:

- **Unbiased:** Across all eligibility categories, the method does not systematically increase or decrease the number of eligible individuals within a given eligibility group or systematically increase or decrease the costs to states.
- **Accuracy:** To the extent possible, the method minimizes changes in eligibility status by minimizing losses and gains in eligibility for a given category of coverage.
- **Precision:** The converted standard must be stable and repeatable. In other words, if the methodology to arrive at the converted standard were repeated, it would arrive at the

same result. For example, if a sampling methodology is used, the sample size must be large enough to ensure that the conversion method, if calculated on another sample, would in general yield the same converted standard.

- **Data quality:** The data used are representative of the income and disregards of the population so as not to bias the converted standard due to poor data quality.
- **Administrative burden:** The method minimizes demands on state administrative resources and capacity.

### **Applications of Converted Income Standards**

States will use converted income standards for the purposes described below to:

Establish the Applicable Income Eligibility Standards. Through the income conversion process, a MAGI-based income eligibility standard will be established for each existing eligibility group.

Follow the Minimum Eligibility Requirements. In addition to current income standards, certain minimum income standards will be converted. For adult groups, a state may lower the income standard after the maintenance of effort (MOE) provision for adults (under sections 1902(a)(74) and 1902(gg) of the Act) expires on January 1, 2014, subject to the applicable statutory minimum standards. For children's eligibility in Medicaid and CHIP, the converted state income standards will establish the MAGI-based state income eligibility standards until at least October 1, 2019, when the MOE provision for children expires.

Identify Premium Payment Income Thresholds. The income conversion process will also be used to establish new income thresholds for premium payments for states that tie premium payments to income under section 1916A.

Establish Income Levels for Determining Newly Eligible Adults. Beginning in January 2014, an enhanced federal medical assistance percentage (FMAP) will be available for the expenditures of certain individuals in the new adult eligibility group who are considered to be "newly eligible", as defined in section 1905(y)(2) of the Act. In general, in accordance with the statutory definition, "newly eligible" refers to an adult who would not be eligible for full benefits, benchmark benefits, or benchmark-equivalent benefits under a state's Medicaid program in effect on December 1, 2009. States will need to convert income eligibility standards in effect on December 1, 2009, that differ from those in effect when the Affordable Care Act was enacted, to MAGI-equivalent standards in order to identify newly eligible individuals in the adult group for whom the state can claim the increased FMAP. More detail on FMAP claiming for newly eligible individuals will be forthcoming in an upcoming regulation.

### **Options for Conversion to MAGI Eligibility Standards**

After evaluating a range of conversion methodologies and the associated process for establishing MAGI-equivalent standards, we identified two options states may use for income conversion. The first option is the "Standardized MAGI Conversion Methodology." The research data underlying the selection of this methodology will be made available, as discussed at the end of this letter. This methodology can be implemented with national survey data or with state data. The second option, the "State Proposal Option," allows states to propose and implement alternative methodologies and processes, with federal approval.

### Option 1. Standardized MAGI Conversion Methodology

The Standardized MAGI Conversion Methodology adjusts the applicable Medicaid net income eligibility standard for each eligibility group by: (1) calculating the average size of the disregards for people whose net income falls within 25 percentage points of the federal poverty level (FPL) below the net income standard; and (2) adding this average disregard amount, expressed as a percentage of the FPL, to the net income eligibility standard, also expressed as a percentage of the FPL. The resulting sum is the MAGI eligibility standard for that eligibility group. The 25 percentage point band for calculating the average disregard was derived through research and data analysis in order to target the population for whom disregards most affects eligibility, without limiting the group so narrowly as to affect the stability of results.

For example, if the net income standard for a given state and eligibility category is 80 percent of FPL, the Standardized MAGI Conversion Methodology will estimate the average disregard for individuals with net income between 55 percent and 80 percent of FPL. If the average disregard for that group of people is 7 percent of FPL, then the converted standard would be 87 percent of FPL.

The standardized conversion methodology will not make any adjustment for differences between current Medicaid financial methodologies and certain aspects of the MAGI rules which address household composition and income counting. Our research determined that, for most individuals, there was no difference between MAGI-based income and gross income under current Medicaid rules; and, for other individuals, adjustments for MAGI rules which address household composition and income counting would be too imprecise.

This methodology can be implemented in two ways: using national survey data (which CMS will perform for all states); or using state data (which states will perform).

*National Survey Data.* Under this approach, the average disregard would be quantified for all individuals within 25 percentage points of the FPL below the net income standard in each applicable eligibility group for each state using data from the Survey of Income and Program Participation (SIPP) weighted to represent each state. The SIPP is a nationally recognized data source administered by the United States Census Bureau which contains detailed information on cash and non-cash income types, household composition, familial relationships, and other variables relevant to MAGI. To calculate converted income standards, CMS will use the SIPP by modeling relevant rules currently used to assess Medicaid eligibility for each applicable group in every state. To ease the implementation burden for states, CMS has identified the income eligibility groups and applicable methodologies for each state and has been confirming that data with each state. In addition, CMS will determine the converted MAGI-equivalent standards for each applicable eligibility group using the SIPP in all states, whether or not a state elects this implementation approach (see further discussion under Contingency Approach). States that do not retain gross and net income information, or do not wish to use their own data, should consider the SIPP data option. A schedule for when these conversions will be performed and reviewed by states is provided later in this letter.

*State Data.* States that retain data on gross and net income for individuals in their eligibility systems may have the information needed to determine the marginal disregard value of the Standardized MAGI Conversion Methodology necessary to establish the MAGI-equivalent

income standards for each eligibility group. Under this approach, a state would use administrative data to determine the average value of income disregards for individuals in each applicable eligibility group whose net income falls within 25 percentage points of the FPL below the state's net income standard. The average disregard amount from individuals in the marginal band would then be added to the net income standard for each applicable eligibility group to establish the MAGI-equivalent standard for the eligibility group. CMS will not perform the conversion for states using state data but will provide technical assistance.

### Option 2. State Proposal Option

In selecting the Standardized MAGI Conversion Methodology, we based our decision on the best national information available as well as our analysis of state data, as provided by collaborating pilot states. In some cases, individual states may have information that could allow them to deploy alternative methodologies that meet the criteria identified above. In addition, some states may have unusual disregards or income standards that make an alternative methodology as effective in their state. In those cases, states may propose alternative methods, including variations on the Standardized MAGI Conversion Methodology, and/or processes for establishing the converted MAGI-based income eligibility standards such as:

- Adjusting for differences in income counting and household composition rules (if a state adjusts for MAGI income and household composition rules, it must do so using all MAGI rules for all eligibility groups);
- Adopting a different marginal band based on its own state specific disregards, data, eligibility standards, and population analysis.

States wishing to propose alternative methods should review the information we will be providing shortly (discussed at the end of this letter) on our research and conclusions over the last year and take those results into consideration.

A state seeking to use an alternative conversion methodology must provide the necessary data to CMS and demonstrate how that methodology (combined with the proposed data source) meets statutory objectives. We will work with states as they develop their MAGI Conversion Plans and undertake the conversion calculations. States will be responsible for performing the conversion calculations under an alternative methodology. Before approving an alternative methodology, CMS will conduct a review of the methodology, data and results.

### **Contingency Approach**

CMS will proceed to calculate a state's converted standards under the Standardized MAGI Conversion Methodology, using SIPP data, for all states. These converted standards will be used if a state chooses this approach or in the case that a state's conversion based on state data or its alternative method is either not approved or is not completed by the deadline for MAGI Conversion Plans (see timeline below).

## **Timeline and Process for Submission of MAGI Conversion Plans**

The development of the MAGI Conversion Plans will include five steps:

- Step 1: MAGI Conversion Templates
- Step 2: Statements of Intent/Selection of Conversion Methodology
- Step 3: Data Analysis
- Step 4: Submission of MAGI Conversion Plan
- Step 5: State Plan Amendments/systems programming

Step 1: MAGI Conversion Templates due by January 15, 2013. Over the last several months, CMS has issued to every state a pre-populated “template” setting forth all of the income standards and other rules documented in the Medicaid and CHIP state plans and, as applicable, section 1115 demonstration Special Terms and Conditions (STC). These templates map states’ pre-2014 eligibility groups that will transition into new groups in 2014 and, once finalized, will document states’ income standards and capture other relevant information needed for income conversion. States are asked to review the templates, confirm that the information is accurate, and/or notify CMS of any discrepancies between the template and documented state practice by January 15, 2013; most states have already completed this review. CMS will work closely with states to resolve any discrepancies between policy and practice that might exist and when practice differs from approved plans or STCs will not pursue compliance action against states, provided the actual practice can be documented (e.g., through state regulations) and comports with federal law. (In these cases, to conform with current practice, the state plan and/or waiver terms and conditions may ultimately need to be modified.)

CMS will utilize the information from the templates for each state to develop converted income eligibility levels for all states using the SIPP data and the Standardized MAGI Conversion Methodology (see Step 3). This information will also be useful in assessing states’ alternative conversion methodology proposals, as described below.

Step 2: Statements of Intent/Selection of Conversion Methodology due February 15, 2013. States should consider the options presented in this guidance and submit by February 15, 2013 a non-binding statement of intent to CMS indicating which MAGI conversion methodology they intend to pursue. These statements should be sent via email to [IncomeConversion@cms.hhs.gov](mailto:IncomeConversion@cms.hhs.gov). This information will help us to prioritize the SIPP based conversions, plan for additional technical assistance, and allow us the opportunity to provide early feedback on the states’ planned direction.

Step 3: Data Analysis (on a rolling basis). CMS will be developing converted MAGI-based standards using the Standardized MAGI Conversion Methodology based on SIPP data for all states from January through April 2013. All states will have the opportunity to review the results of the CMS data analysis using SIPP data before finalizing the information in the MAGI Conversion Plans (see Step 4 below). We anticipate sharing the results of the SIPP data runs for eligibility purposes on a rolling basis; all states will receive their conversions for review no later than April 30, 2013. States will have 15 calendar days to review these recommended converted standards and bring any errors to our attention, so that CMS can review the calculations. For

example, if the state believes that a particular disregard was applied with the wrong frequency, in order to review the question and, if necessary, recalculate the recommended income standards, the state must bring that issue to our attention within 15 calendar days of receipt of the information.

Questions regarding recommended converted income standards should be submitted via email to: [IncomeConversion@cms.hhs.gov](mailto:IncomeConversion@cms.hhs.gov).

Step 4: Submission of MAGI Conversion Plans. Section 1902(e)(14)(E) of the Act directs each state to submit to the Secretary for approval its proposed MAGI-based income eligibility standards, which should be accompanied by a description of the methodologies and procedures used in developing such standards; we are referring to this submission as the MAGI Conversion Plan. For a state that elects the Standardized MAGI Conversion, submission will be simple. The MAGI Conversion Plan will consist of the information from the eligibility groups template and a confirmation that the state intends to use the CMS-derived MAGI-based standards. CMS approval of the MAGI Conversion Plan will be pro forma when we have performed the conversion with SIPP data. States selecting this option should submit their MAGI conversion plans after they have completed their review of the SIPP-based conversion and after CMS has made and returned any necessary corrections, as discussed in Step 3, but in no case later than May 31, 2013. States will be notified of their approval or disapproval by June 15, 2013.

States deciding to utilize their own data, or an alternative methodology, should submit their MAGI Conversion Plans as soon as possible, but no later than April 30, 2013. This earlier timeline is necessary for sufficient review of the proposed alternative. We will provide additional details on the submission requirements in future guidance. Generally, however, the review will cover the explanations of the methodology (if different than the Standardized MAGI Methodology), details of the data used, and results. States will be notified of their approval or disapproval by June 15, 2013.

Step 5: Provision of MAGI-based Eligibility Standards to Eligibility Systems and State Plan Amendments by June 2013. Results of the MAGI income conversion will be programmed into the necessary eligibility systems. States will incorporate MAGI-based income standards into Medicaid and CHIP eligibility systems to ensure that the Medicaid agency can program the MAGI-based eligibility standards in sufficient time for testing before October 1, 2013. Under current Medicaid/CHIP and Exchange regulations, states have the option to delegate Medicaid/CHIP eligibility determinations to the Exchange (using the state's Medicaid and CHIP rules subject to policies regarding who makes final eligibility determinations), or have the Exchange make an assessment of Medicaid/CHIP eligibility (also based on the state's rules) and electronically transfer accounts of potentially eligible individuals to the state Medicaid or CHIP agency for final determination. Information in each state's MAGI Conversion Plan should be shared with the Exchange operating in that state (whether state based or federally facilitated) by June 2013, in order to support open enrollment on October 1, 2013.

Finally, the converted MAGI-based income standards for the MAGI groups will be memorialized through amendments to the state Medicaid and CHIP plans and/or section 1115 demonstrations, if applicable. We anticipate that states will submit these state plan amendments (SPAs) through the new, web-based system for submitting SPAs known as MACPro, which will become available in 2013. CMS will be working closely with states through the State Operations

and Technical Assistance (SOTA) process to discuss the timing of these SPA submissions in order to ensure their timely review and approval.

### **Technical Assistance Documentation**

CMS will make available technical assistance documents and artifacts on an ongoing basis. In particular, we will share the following items with states shortly:

- Research Results: Information about methods explored in our research, and the data results that led us to select the Standardized MAGI Conversion Methodology, the 25 percent band, and the decision not to make further adjustments for MAGI income counting and household composition rules.
- Eligibility Groups- Minimums and Maximums: Detailed descriptions of the eligibility groups that states will need to convert and the minimum and maximum allowable eligibility thresholds for each group.
- SIPP Information: Information about the SIPP, to support understanding and interpretation of SIPP based analysis.
- Guidance on Applying State Data: Information for states wishing to explore how to implement the Standardized MAGI Conversion Methodology using their own state data.

We hope that this guidance will be helpful to states as they move forward with implementation of the streamlined, seamless system of coverage envisioned by the Affordable Care Act.

We look forward to working closely with states on MAGI income conversion over the coming months. We will announce dates soon for webinars to review this information with states and the availability and content of technical assistance. Please contact Stephanie Kaminsky, at 410-786-4653 or via email at [stephanie.kaminsky@cms.hhs.gov](mailto:stephanie.kaminsky@cms.hhs.gov) with any questions.

Sincerely,

/s/

Cindy Mann  
Director

cc:

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