



# *ASPE*

## *ISSUE BRIEF*

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### **HOW STATES CAN IMPLEMENT THE STANDARDIZED MODIFIED ADJUSTED GROSS INCOME (MAGI) CONVERSION METHODOLOGY FROM STATE MEDICAID AND CHIP DATA**

#### **INTRODUCTION**

The Affordable Care Act changes the way income will be counted for determining Medicaid and CHIP eligibility. Historically, states have calculated eligibility using net income standards incorporating various disregards. After 2014, states, the District of Columbia, and territories (Note: hereafter any reference to “states” includes the District of Columbia and the territories) will assess eligibility using modified adjusted gross income (MAGI) for most populations, and current state specific disregards will be replaced by a general disregard of 5 percent of the current federal poverty level (FPL) for the applicable family size.

The December 28, 2012 State Health Official letter on Modified Adjusted Gross Income (MAGI) Conversion explains the purpose and options for conversions under Section 2002 of the Affordable Care.<sup>1</sup> As discussed in the letter, states utilizing the Centers for Medicare and Medicaid Services’ (CMS) recommended Standardized MAGI Conversion Methodology may choose to establish converted thresholds based on Survey of Income and Program Participation (SIPP) data, as calculated by CMS, or based on state data, as calculated by the states. This document explains various considerations for states deciding between SIPP and state data, how to use the eligibility templates provided by CMS for the conversion process, and the steps that states wishing to perform the conversions using state Medicaid and CHIP data will need to follow.

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<sup>1</sup>Available at <http://www.medicaid.gov/Federal-Policy-Guidance/downloads/SHO12003.pdf>

## CONSIDERATIONS FOR STATES DECIDING BETWEEN NATIONAL AND STATE DATA

States evaluating whether to use their own data or SIPP data should consider both the level of detail available in their state data and the effort required to organize and use their state data, as compared to the SIPP. Each data source has its own advantages and disadvantages, both because the availability of specific data elements within state data stores varies and because state policies (and therefore, the relative importance of certain data elements) vary.

As described in the ASPE companion brief, Data Sources for Modified Adjusted Gross Income (MAGI) Conversions, the Department of Health and Human Services (HHS) has developed a national model to simulate Medicaid eligibility for use in the recommended Standardized MAGI Conversion Methodology using SIPP data. A key feature of SIPP data is that it contains information on enrolled Medicaid beneficiaries as well as individuals who are likely eligible and therefore is better for estimating the effects of a converted threshold on the net number of people eligible. This model, however, does not capture state-specific, eligibility group-specific household composition, income counting, or disregard rules given limitations in the data the SIPP collects and the feasibility of programming for all states. The SIPP model uses one household composition configuration for all states and all eligibility groups, which includes parents, children and siblings. State data could capture these data points using multiple household composition configurations varying for family groups, such as section 1931, and for other AFDC-related eligibility groups [e.g., employing “prohibited deeming” financial responsibility rules under Section 1902(a)(17) of the Social Security Act (the Act)]. Similarly, state data would capture the rules employed by states that test multiple configurations of household compositions to give an applicant the greatest possible benefit before finding the individual ineligible.

The SIPP model has selected most frequently used disregards that are captured in the SIPP, which CMS believes will be sufficient for states that use typical disregards. State data has the potential to capture actual disregards used under the state rules, including less frequently used ones and ones not captured in the SIPP. Using state data gives states the opportunity to use a full year of data, if they choose, which could be important in states that experience seasonal variations in eligibility and/or disregards; whereas the SIPP model uses one month of data (the April 2012 cross section of the 2008 SIPP panel). State data will by definition capture the demographics of the enrolled population in the state. The SIPP model is approximating the demographics of each state using a re-weighting strategy whereby certain characteristics relevant for the income conversion process are given more or less weight for each state. Finally, for eligibility groups that have an asset test, the state data should capture this information, whereas the SIPP model will not be using an asset test when selecting cases to use for the calculations.

However, in performing tests with sample state data in our research, we found a number of challenges that states may also encounter. The Standardized MAGI Conversion Methodology requires individual-level data that includes information on eligibility category, income, and total disregard amount. There may be a substantial effort involved in extracting, transforming and loading the data. Some data may not be collected consistently; even if it is collected, it may not be maintained in history. Furthermore, some data elements present in SIPP may not be present

in state data sources, such as stepparent income and parent income for young adults living at home.

### **AFFECTED ELIGIBILITY GROUPS, MINIMUM AND MAXIMUM THRESHOLDS, AND ELIGIBILITY TEMPLATES**

In section III.A. of the March 23, 2012 Final Rule on Eligibility Changes Under the Affordable Care Act (March 2012 final eligibility rule), CMS consolidated eligibility groups included in multiple statutory provisions into the first three simplified regulatory sections listed below, and established the new eligibility group for low-income adults<sup>2</sup>:

- §435.110 - Parents and Other Caretaker Relatives<sup>3</sup>
- §435.116 - Pregnant Women<sup>4</sup>
- §435.118 - Children under age 19<sup>5</sup>
- §435.119 – Adult Group.

For each of the first three consolidated groups, the final rule requires states to use the highest converted MAGI-equivalent standard for any of the prior eligibility groups subsumed in the consolidated group to establish a new income eligibility standard for the consolidated group. For children, this income standard must be maintained at least until October 1, 2019. For adults, states may choose to maintain the converted income standard after Calendar Year (CY) 2013, lower their income standard to statutory minimums, or select a new income standard in between the minimum and the converted income standard.

As set forth in § 435.110, 435.116 and 435.118 of the March 2012 final eligibility rule, the converted income eligibility standards will be based on the highest income standards in effect on March 23, 2010 or December 31, 2013 for each included eligibility group under the Medicaid state plan or 1115 demonstration. States that currently cover optional eligibility groups that are not MAGI-exempt will also need to convert the income standards for those optional eligibility groups. These income conversions will set the maximum eligibility levels for the mandatory and optional MAGI groups in the state in CY 2014. Mandatory and optional groups for aged, blind,

<sup>2</sup> 77 FR 17143-17217 (March 23, 2012), available at <http://www.gpo.gov/fdsys/pkg/FR-2012-03-23/pdf/2012-6560.pdf>

<sup>3</sup> Eligibility under the following section of the Act would be included in the simplified parent/caretaker relative group: 1931 of the Act (low-income families).

<sup>4</sup> Eligibility under the following sections of the Act would be consolidated in the pregnant women group: 1902(a)(10)(A)(i)(III) (qualified pregnant women); 1902(a)(10)(A)(i)(IV) (poverty level related pregnant women); 1902(a)(10)(A)(ii)(I) (optional coverage of pregnant women who meet AFDC financial requirements); 1902(a)(10)(A)(ii)(IV) (optional coverage of institutionalized pregnant women); 1902(a)(10)(A)(ii)(IX) (optional coverage of poverty-level related pregnant women); and 1931 (pregnant women with no dependent children in low-income families).

<sup>5</sup> Eligibility under the following sections of the Act would be consolidated in the simplified kids group: 1902(a)(10)(A)(i)(III) (qualified children who meet AFDC financial eligibility criteria); 1902(a)(10)(A)(i)(IV) (children < 1 years old), 1902(a)(10)(A)(i)(VI) (children 1-5 years old), 1902(a)(10)(A)(i)(VII) (children 6-18 years old); 1902(a)(10)(A)(ii)(IX) (optional coverage of poverty-level related infants); 1902(a)(10)(A)(ii)(IV) (institutionalized children); and 1931 (children < 19 in low-income families).

or disabled individuals, the medically needy, and the Medicare Savings Program are MAGI-exempt; and current income and resource counting methods, standards, and disregards will continue to apply for these groups.

States that use an 1115 demonstration to increase the income standard for other MAGI-included populations above the minimum required levels under title XIX or title XXI or to cover adults without dependent children also will need to convert the income standards for such demonstrations, whether they continue such demonstrations beyond December 31, 2013 or transfer the populations into state plan coverage. The 1115 demonstration MAGI-based income standard will set the new maximum income standard allowed for the population covered under the 1115 demonstration, even if that maximum is applied only to a state plan eligibility group. For example, if a state covers parents/caretaker relatives in a mandatory state plan coverage group to 75 percent of FPL but in an 1115 demonstration up to 150 percent of FPL, the state would have to convert both of these income standards for parents/caretaker relatives. The higher converted income level would set the maximum income standard permitted for parents/caretaker relatives in the state plan under section 1931. If the state terminated its demonstration, the maximum income standard could be applied to the mandatory coverage group for parents/caretaker relatives.

For additional information regarding MAGI eligibility groups, see Attachment 1, [The Medicaid and Children’s Health Insurance Program Eligibility Groups in 2014](#).

Table 1, sets forth maximum income eligibility standards for each eligibility group that will need to be converted to a MAGI equivalent income standard, as well as the minimum income standards for section 1931 and for full coverage of pregnant women in accordance with the January 22, 2013 notice of proposed rulemaking, Medicaid, Children’s Health Insurance Programs, and Exchanges: Essential Health Benefits in Alternative Benefit Plans, Eligibility Notices, Fair Hearing and Appeal Processes for Medicaid and Exchange Eligibility Appeals and Other Provisions Related to Eligibility and Enrollment for Exchanges, Medicaid and CHIP, and Medicaid Premiums and Cost Sharing (78 FR 4594) (January 2013 proposed rule)<sup>6</sup>.

**Table 1. Maximum Allowable Eligibility Thresholds**

<b>Determining Maximum Allowable Eligibility Thresholds</b>		
<b>2014 eligibility group</b>	<b>Current eligibility groups</b>	<b>Maximum standard in 2014</b>
<b>MANDATORY ELIGIBILITY CATEGORIES</b>		
Parents and caretaker relatives (42 CFR 435.110)	Section 1931 Section 1115 demonstrations	Higher of: 1) The effective income standard as of 3/23/10 (or 12/31/13, if higher), converted to MAGI-based standard; or 2) The State’s AFDC income

<sup>6</sup> Available at <http://www.gpo.gov/fdsys/pkg/FR-2013-01-22/pdf/2013-00659.pdf>

<b>Determining Maximum Allowable Eligibility Thresholds</b>		
<b>2014 eligibility group</b>	<b>Current eligibility groups</b>	<b>Maximum standard in 2014</b>
		standard in effect as of July 16, 1996 increased by no more than the increase in the CPU-U between July 16, 1996 and the effective date of such increase.
Pregnant women – pregnancy related coverage (42 CFR 435.116)	Sections 1902(a)(10)(A)(i)(IV), 1902(a)(10)(A)(ii) (IX) Section 1115 demonstrations	Higher of: 1) The highest effective income standard in effect under the State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to MAGI-based standard; or 2) 185% FPL.
Pregnant women – full Medicaid coverage (42 CFR 435.116)	Section 1902(a)(10)(A)(i)(III) Section 1931	Highest effective income standard under section 1902(a)(10)(A)(i)(III) or under section 1931 in effect under the State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to a MAGI-based standard.
Children under age 1 (42 CFR 435.118)	Sections 1902(a)(10)(A)(i)(III) and (IV) Section 1902(a)(10)(A)(ii)(IX) Section 1931 Section 1115 demonstrations	Higher of: 1) 185% FPL; or 2) Highest effective income level in effect under the State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to a MAGI-based standard
Children ages 1 through 5 (42 CFR 435.118)	Sections 1902(a)(10)(A)(i)(III) and (VI) Section 1931 Section 1115 demonstrations	Higher of: 1) 133% FPL; or 2) Highest effective income level in effect under the State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to a MAGI-based standard
Children ages 6 through 18 (42 CFR 435.118)	Sections 1902(a)(10)(A)(i)(III) and (VII) Section 1931 Section 1115 demonstration	Higher of: 1) 133% FPL; or 2) Highest effective income level in effect under the

<b>Determining Maximum Allowable Eligibility Thresholds</b>		
<b>2014 eligibility group</b>	<b>Current eligibility groups</b>	<b>Maximum standard in 2014</b>
		State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to a MAGI-based standard
Adult group (42 CFR 435.119)	Parents/caretaker relatives, individuals aged 19 and 20, and childless adults; New group under Section 1902(a)(10)(A)(i)(VIII)	133% FPL
<b>OPTIONAL ELIGIBILITY CATEGORIES</b>		
Individuals with MAGI-based income above 133% FPL (42 CFR 435.218)	New optional group under 1902(a)(10)(A)(ii)(XX)	None--state-specified above mandatory limits.
Optional coverage of parents and other caretaker relatives (42 CFR 435.210)	Section 1902(a)(10)(A)(ii)(I)	Highest effective income level in effect under the State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to a MAGI-based standard
Optional targeted low income children (42 CFR 435.229)	Section 1902(a)(10)(A)(ii)(XIV)	Highest effective income level in effect under the State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to a MAGI-based standard
Reasonable classifications of individuals under age 21 (<18, 19, 20, or 21) (42 CFR 435.222)	Section 1902(a)(10)(A)(ii)(I)-(IV)	Highest effective income level in effect under the State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to a MAGI-based standard
State adoption assistance agreements (<18, 19, 20, or 21) (42 CFR 435.227)	Section 1902(a)(10)(A)(ii)(VIII)	Highest effective income level in effect under the State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to a MAGI-based standard
Independent foster care adolescents (<19, 20, or 21)	Section 1902(a)(10)(A)(ii)(XVII)	Highest effective income level in effect under the State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to a MAGI-based standard
Family Planning Services	Section 1902(a)(10)(A)(ii)(XXI) Section 1115 demonstration	Highest effective income level in effect under the State plan or waiver as of 3/23/10 (or

<b>Determining Maximum Allowable Eligibility Thresholds</b>		
<b>2014 eligibility group</b>	<b>Current eligibility groups</b>	<b>Maximum standard in 2014</b>
		12/31/13, if higher), converted to a MAGI-based standard
Individuals needing Tuberculosis-related services	Section 1902(a)(10)(A)(ii)(XII)	Highest effective income level in effect under the State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to a MAGI-based standard
Separate CHIP programs for children under 19, pregnant women, and/or unborn children	Title XXI Section 1115 demonstration	Highest effective income level in effect under the State plan or waiver as of 3/23/10 (or 12/31/13, if higher), converted to a MAGI-based standard

In addition to the required income conversions listed above, because the Act requires that MAGI be used for premium calculations as well, states will need to convert any income determination amounts for premium payments that the state employs in Medicaid or CHIP if those limits differ from the limits for eligibility. States will need to convert the upper income thresholds for pre-CHIP Medicaid as of March 31, 1997 if those income standards differ from the current Medicaid upper income thresholds for children, in order to ensure appropriate Title XXI enhanced FMAP claiming beginning in CY 2014. Finally, in the January 2013 proposed rule, CMS proposed that states convert the statutory minimum for section 1931 and for full coverage for pregnant women. This is equal to the AFDC payment standard by family size from May 1, 1988 in each state.

The rules set forth above indicate that states must determine the highest effective income level in effect under the state plan as of March 23, 2010 or December 3, 2013, if higher, converted to a MAGI-based standard. If the state has raised the income standard for the applicable group and disregards have not changed, states may do one conversion (the higher income standard) for the eligibility group. Similarly, for the three consolidated mandatory groups, if it is apparent on its face which is the highest income standard for the underlying eligibility groups, because the methodology is the same for all of them or because there is such a large difference between the highest and the next income standard, the state may only convert the highest of the underlying groups to establish a new income eligibility standard for the consolidated group.

If a state uses a gross income standard, such as for a CHIP group, the gross income standard does not need to be converted. The state can continue to use the gross income standard in 2014.

CMS is working with every state to create Income Conversion Plan templates specifying the income standards and disregards that each state is currently using for the eligibility groups that it will be required to convert to MAGI. Templates consist of a Summary Form and an Excel Spreadsheet with three tabs and contain the information described below:

- Tab 1 has the income standards as of March 23, 2010 for each eligibility group that is considered a MAGI group as of March 23, 2010.
- Tab 2 has dollar income standards including the AFDC payment standard as of May 1, 1988, the AFDC payment standard as of July 16, 1996, any different 1931 income limits as of March 23, 2010. States will need to convert all the dollar income standards using the special conversions for dollar income standards described later in this document. A state may have multiple sets of 1931 or AFDC limits based on regions, household composition, etc., each of which will need to be converted.
- Tab 3 has the disregard information applicable to the AFDC payment standard as of July 16, 1996, to 1931 if the state uses more liberal financial methodologies for its 1931 group and for other AFDC-related groups, 1115's, CHIP and family planning groups.
- Summary Forms will set forth the income standards that will be required for what populations to be converted from the templates. It will also have the income determinations for premium conversions and the upper income thresholds for Pre-CHIP Medicaid as of March 31, 1997 if those income standards differ from the current Medicaid limits.

After the information on the templates is finalized, CMS will bold the highest income standard by group and date and the specific disregards that it will use to do income conversions using the SIPP. CMS will provide copies of these finalized templates to states. These templates are intended to be helpful to states doing conversions using state data and states will likely want to convert the same bolded income standards, but use all disregards captured in state data (not just the ones bolded by CMS on the templates). In addition, CMS will send ABD group related templates to states over the coming months to document relevant state variations for SSI-related groups. These templates will be used for FMAP related conversions.

## **HOW TO APPLY THE STANDARDIZED MAGI CONVERSION METHODOLOGY TO STATE DATA**

States that wish to apply the Standardized MAGI Conversion Methodology to their own data will need to follow several key steps:

- **Step 1:** Determine the income standards to be converted
- **Step 2:** Determine the time period to use
- **Step 3:** Select the appropriate records (this step includes data cleaning to ensure that no duplicate records are used in a given month)
- **Step 4:** Pull the necessary data elements for each record
- **Step 5:** Perform calculations

Each of these steps is discussed in more detail below. Because the method is based on state data, it will have to be applied by an analyst who is familiar with the states' eligibility rules and data systems. Alternatively, states may wish to pair a strong analyst with an expert on eligibility rules.

One important data requirement is that the Standardized MAGI Conversion Methodology requires individual-level data. That is, there should be data for each individual enrolled in the

Medicaid and CHIP programs that includes information on eligibility category, income, and total disregard amount. Total disregards may be calculated either by adding all applicable disregards for each enrollee, or by subtracting net income from gross income for each enrollee. States that do not maintain individual-level data in their systems will need to propose a method to attribute disregards appropriately to individuals within the household; otherwise, such states may not be able to use the Standardized MAGI Conversion Methodology with state data.

#### Step 1: Determine the income standards to be converted

Once states identify which MAGI groups they cover, they will need to select the appropriate eligibility group to convert. This means making a selection within consolidated eligibility categories (from the eligibility categories listed in Table 1).

For each of the consolidated groups--Pregnant Women §435.116 and Children Under Age 19 §435.118--states will need to select which income standard included in the consolidated group to use to determine the highest converted MAGI-equivalent standard for the consolidated group. In many cases, it will be clear on its face which of the original groups had the highest income standard because the groups in question will all be using the same financial methodologies. For example, if a state covers mandatory poverty-level related pregnant women (1902(a)(10)(A)(i)(IV)) at 185% FPL, and covers optional poverty-level related pregnant women (1902(a)(10)(A)(ii)(IX)) to 200% FPL, and employs the same disregards for both groups, the state need only convert 200% FPL to determine its new maximum income standard for pregnancy-related benefits.

Even in situations where different disregards are employed, it will likely be possible for states to select one for conversion, taking into account differences in income standards, disregards and household composition. In other words, if one threshold is clearly greater than the other, and if a reasonable person would look at the change in disregards and conclude that it is virtually impossible that the lower standard would, post-conversion, be greater than the higher standard, then only one conversion is needed. For example, if a state covers pregnant women under section 1931 up to 100% FPL and covers qualified pregnant women (Section 1902(a)(10)(A)(i)(III)) at its 1996 AFDC payment standards, even though different household composition rules and different disregards may apply to the two groups, the state should use the converted 1931 income standard to determine the new converted maximum income standard for full-benefit coverage for pregnant women.

Similarly, as set forth above, the maximum converted income standards will be based on the highest income standards in effect on March 23, 2010 or December 31, 2013, current for each included eligibility group under the Medicaid state plan or 1115 demonstration. Again, to the extent that the disregards are the same over time, it will be easy to select the highest income standard to convert. Even in situations where different disregards are employed, it will likely be possible for states to select one set of policies for conversion, taking into account differences in income standards, disregards and household composition. In other words, if one threshold is clearly greater than the other, and if a reasonable person would look at the change in disregards and conclude that it is virtually impossible that the lower standard would, post-conversion, be greater than the higher standard, then only one conversion is needed.

We note one special rule regarding consolidated eligibility groups. To consolidate eligibility groups by category, Section 1931, mandatory qualified pregnant women and children (1902(a)(10)(A)(i)(III)), mandatory poverty-level related pregnant women and infants (1902(a)(10)(A)(i)(IV)), and optional poverty-related pregnant women and infants (1902(a)(10)(A)(ii)(IX)), were split between various regulatory provisions. For example, section 1931 individuals are now split between parents and caretaker relatives (42 CFR 435.110), pregnant women (42 CFR 435.116), children < 1 (42 CFR 435.118), children 1-5 (42 CFR 435.118) and children 6-18 (42 CFR 435.118). When converting a “split group” such as 1931, the original group should be converted as a whole unit if each subgroup shares the income standard and financial methodologies, resulting in one converted eligibility standard. In this case, the conversion of the 1931 income standard which is used for the mandatory Parents and Caretaker Relatives income standard does not impact conversion of the highest income standard for pregnant women and children’s groups because those conversions are done using the highest standard for each of those groups.

As stated earlier, as states receive copies of their finalized eligibility templates from CMS, the eligibility groups and relevant dates will be bolded for states’ convenience. In the event that a state would like to begin doing its conversions using state data before it receives a copy of its finalized eligibility templates, it should use the guidelines described above to select the appropriate income standards for conversion.

#### Step 2: Determine the time period to use

In general, states should use a time period of data that will produce unbiased results in their conversions. For example, if a state uses the most recently available year of data to accomplish the conversions from the effective date of the income standard to be converted, that would likely account for any seasonal variations income and/or seasonality of disregards applied. Thus, if the eligibility threshold for children ages 1 to 5 changed from 133 percent of Federal Poverty Level (FPL) to 150 percent of FPL between March 23, 2010 and December 31, 2013, the state could convert 150 percent FPL as the maximum income limit using the most recently available 12 months of data. If a state chose to use only one month of data, the state would have to demonstrate that the month selected did not lead to any biased results.

If allowable disregards have changed over time, and there is no way to ascertain which income standard will be higher post conversion, which is expected to be rare, states must use data that reflects the disregard structure in place for the key dates (March 23, 2010, and December 31, 2013) as necessary. Current eligibility levels may be used for the December 31, 2013 standard.

#### Step 3: Select the appropriate records to use in the analysis

A state must decide if it will use the entire universe of cases for each eligibility group undergoing income conversion or whether it will use a sample of cases. States may sample, and in developing their sampling plan, should evaluate other approaches used by the state for other purposes, such as PERM, with respect to sampling criteria, error rates, precision requirements and confidence levels. Once a sampling plan has been established, states may pull the sample using the OIG’s free statistical software package RAT-STATS which can be found at: <https://oig.hhs.gov/compliance/rat-stats/index.asp>.

The data file must contain a separate record for each person enrolled in each month. This means that most enrollees will appear in the data file in more than one month. Data should be restricted to individuals who are eligible and enrolled in the program in each month; in other words, data for individuals who applied for coverage but were not enrolled should not be used. Finally, data on all enrollees should be used, regardless of whether their most recent information reflects their initial application or a redetermination assessment.

In addition, states should apply the following data cleaning rules to ensure that the proper records are used in the analysis:

- Individuals should not appear multiple times *within the same month*. If the same person appears more than once in a given month, use the following rules to select a single observation for that individual, in that month:
  - If the individual qualified for multiple Medicaid/CHIP categories, select the observation from the category in which they were enrolled at the end of the month.
  - If the individual appears more than once within the same month and eligibility category, select the observation with the latest net income with its associated disregard amounts. If the latest net income equals \$0, the state should consider whether there is a problem with the data, and select the latest non-zero dollar amount for net income for the individual if there is reason to believe \$0 values represent missing or incomplete data.
  - If the individual appears multiple times with the same income and disregard information, randomly select a single observation to represent the individual in that month.

#### Step 4: Pull the necessary data elements for each record

Necessary data elements from states' data systems are as follows:

- Eligibility category
- Individual net income
- Total disregard amount for an individual: This can be determined either by summing the individual's disregards, or by subtracting net income from gross income (if gross income is retained in the data)
- Family/Household size

#### Step 5: Perform calculations

Below, we describe how to perform the conversion calculations separately for groups where eligibility is based on Federal Poverty Level (FPL) and groups where eligibility is determined based on a fixed dollar threshold.

### *Conversions for Groups for which Eligibility is Based on Federal Poverty Level (FPL)*

In cases where the eligibility standard is based on a percentage of FPL, the Standardized MAGI Conversion Methodology will be implemented by selecting individuals whose net income is within 25 percentage points of the FPL below the current income standards. For example, if the current standard is 80% of the FPL, the analysis will include people with incomes between 55 and 80% FPL. In cases where the eligibility group income standard is equal to or less than 25% FPL, the entire eligibility group will be selected. The next step is to calculate disregards as a percent of FPL for each selected individual. The resulting average disregard amount as a percent of FPL is added to the current net income standard to get the converted standard.

The average disregard is calculated as follows:

$$(1) \text{ Disregard (as a \% of FPL)} = \frac{1}{N} \sum_{i=1}^N \left( \frac{\text{Disregards}_{ij}}{\text{FPL}_j} \right)$$

Here, N is the total number of people in the top 25 FPL percentage points of the eligibility group,  $\text{FPL}_j$  is the monthly dollar value of the federal poverty level for an individual with family size j, and  $\text{Disregards}_{ij}$  is the actual monthly disregarded amount for each enrolled individual given his or her family size.

The monthly dollar value of FPL varies by family size and whether a family lives in the 48 contiguous states, Alaska, or Hawaii. For eligibility-related conversions, states should use the poverty guidelines published by CMS corresponding to the year of data used. Appendix 1 shows monthly Federal Poverty Guidelines for 2013.

Table 2 shows an example of how the Standardized MAGI Conversion Methodology would be applied for an eligibility group where the current income threshold is based on a percentage of FPL. In this example, the net income threshold on March 23, 2010 was 133 percent of FPL. For ease of illustration, we assume there are only 6 people currently enrolled in the eligibility group, although—in reality—enrollment numbers will be much larger. To apply the method, we first select everyone in the marginal 25 percentage point income range, which in this case is the band between 108 percent of FPL and 133 percent of FPL. In table 3, individuals 1, 2, 3, and 4 are in the marginal 25 percentage point band, but individuals 5 and 6 are not. We then take the dollar value of disregards in place on March 23, 2010 (shown in column 6), and divide by the monthly value of the applicable FPL (shown in column 7) to get the FPL-adjusted disregard amount (column 8). Although we have rounded for presentational issues, rounding should not be performed until the calculations are complete.

Next, we take the average of FPL-adjusted disregard amount across all individuals in the marginal 25 percentage point band to get the average disregard amount (bottom of table). The converted threshold is equal to the net income threshold (expressed as a percent of FPL), plus the average disregard amount (as a percent of FPL). In this example, the net income threshold of 133 percent of FPL converts to a gross income threshold of 141 percent of FPL (141=133+8.4, rounded to the nearest whole number). If the resulting converted number is not a whole number, states should use standard rounding methods to make into a whole number.

**Table 2: Percentage Disregard Example, Current Eligibility Standard=133% FPL**

(1) ID	(2) Number in Family	(3) Net Income	(4) Net Income, % of FPL	(5) In Marginal 25 Range (108- 133% FPL)?	(6) Total Disregards	(7) FPL	(8) Disregards/FPL (=Column 6/Column 7)
1	2	\$1,500	119%	Yes	\$140	\$1,261	11.1%
2	3	\$1,750	110%	Yes	\$140	\$1,591	8.8%
3	4	\$2,200	115%	Yes	\$265	\$1,921	13.8%
4	2	\$1,400	111%	Yes	\$0	\$1,261	0.0%
5	3	\$1,200	75%	No	\$65	\$1,591	NA
6	4	\$2,000	104%	No	\$265	\$1,921	NA
Average Disregard Amount							= $(11.1+8.8+13.8+0)/4$ =8.4%

Because the new threshold is established as a percentage of FPL, the dollar value of the threshold will increase each year as Federal Poverty Guidelines are adjusted to keep up with the changing cost of living.

#### *Special Case: Block Income Disregards*

States use block income disregards to effectively increase the income standard for particular eligibility groups. Block income disregards are permitted under 1902(r)(2) and under section 1931 for low-income families. If a state has a block income disregard in place for an eligibility group, this disregard should be added to the net income standard to calculate the effective income level (defined at 42 CFR 435.4), which is the starting point for the MAGI conversion. For example, suppose a state's income standard for a particular group was 133 percent of FPL, but people could qualify up to 185 percent of FPL via a block income disregard. The state should use 185 percent of FPL as the starting point for income conversion, and calculate the converted threshold by adding back in the average value of any other disregards for individuals with net incomes between 160 and 185 FPL.

Table 3 shows an example of how the method would be applied for an eligibility group with block income disregards after the individuals with net incomes between 160 percent of FPL and 185 percent of FPL have been selected. Again, for ease of illustration, we assume there are only 6 people enrolled. In this example, individuals 1, 2, and 3 have net incomes in the marginal 25 percentage point band, and the average disregard for these individuals is 7.2 percent of FPL. As a result, the income standard converts from 185 percent of FPL to 192 percent of FPL ( $185+7.2=192.2$ , or 192% of FPL after rounding). Individuals 4, 5, and 6 have net incomes below 160 percent of FPL, and are not used for conversion.

**Table 3: Block Disregard Example**

(1) ID	(2) Number in Family	(3) Net Income Limit=133% FPL	(4) Effective Income Limit After Incorporating Block Disregards=185%	(5) Net Income	(6) In Marginal 25 Range (160- 185% FPL)?	(7) Disregards (not including block income disregard)	(8) Disregards/FPL
1	2	\$1,677	\$1,261	\$2,200 (174% FPL)	Yes	\$85	6.7%
2	3	\$2,116	\$1,591	\$2,700 (170% FPL)	Yes	\$90	5.7%
3	4	\$2,555	\$1,921	\$3,250 (169% FPL)	Yes	\$175	9.1%
4	2	\$1,677	\$1,261	\$1,500 (119% FPL)	No	\$0	NA
5	3	\$2,116	\$1,591	\$850 (53% FPL)	No	\$65	NA
6	4	\$2,555	\$1,921	\$2,875 (150% FPL)	No	\$265	NA
Average Disregard Amount							$= (6.7 + 5.7 + 9.1) / 3$ $= 7.2\%$

*Conversions for Groups for which Eligibility is Determined Based on a Fixed Dollar Income*

For some categories, notably the 1931(b) group for low-income families, eligibility is often based on a fixed dollar standard by family size, rather than a percentage of federal poverty level. For eligibility groups and disregards with fixed dollar standards, states should use the following 5 steps.

- **Step 1:** Calculate the percentage of FPL that corresponds to the dollar value of each net income standard by family size.
- **Step 2:** For each family size category, determine the marginal 25 percentage point band by subtracting 25 percentage points from the standard expressed as a percent of FPL.
- **Step 3:** Combining all family size categories, calculate the average disregard amount as percent of FPL for individuals in the marginal 25 percentage point band.

- **Step 4:** Add the average disregard amount, expressed as a percent of FPL, back to the fixed dollar standard for each family size category, expressed as a percent of FPL.
- **Step 5:** Convert the standards, which are now expressed as a percentage of FPL, back into dollars, which will remain fixed over time.

Table 4 demonstrates the first two steps using a hypothetical fixed dollar eligibility category. Column 2 shows the fixed dollar standard applied under current law for each family size category, and column 3 reports the monthly FPL given family size. In column 4, we calculate the standard as a percent of FPL (**Step 1**) by dividing the state's current standard by the monthly FPL. Then, in column 5, we calculate the marginal 25 percentage point band by subtracting 25 percentage points from the standard expressed as a percent of FPL (**Step 2**). This band varies by family size category, since, in this example, the fixed dollar standards do not scale linearly with FPL.

**Table 4: Calculating the Marginal 25 Band for Fixed Dollar Categories**

(1) Family Size (j)	(2) Dollar-Value Standard (D <sub>j</sub> )	(3) Monthly FPL given family size (FPL <sub>j</sub> ) (using 2012 guidelines)	(4) Standard as a % of FPL (D <sub>j</sub> /FPL <sub>j</sub> )	(5) Marginal 25 Band
1	\$600	\$930.83	64.5%	39.5% FPL to 64.5% FPL
2	\$725	\$1,260.83	57.5%	32.5% FPL to 57.5% FPL
3	\$890	\$1,590.83	55.9%	30.9% FPL to 55.9% FPL

The next step (**Step 3**) is to determine which individuals fall into the marginal 25 band and calculate the average value of their disregards. Table 5 shows an example for a hypothetical eligibility category with 7 current enrollees.

**Table 5: Calculating the Average Disregard for Fixed Dollar Categories**

(1) ID	(2) Number in Family	(3) Net Income	(4) Net Income, % of FPL	(5) Marginal 25 Range	(6) In Marginal 25 Range	(7) Total Disregards	(8) FPL (using 2012 guidelines)	(9) Disregards/FPL
1	1	\$400	43%	39.5- 64.5%	Yes	\$90	\$931	9.7%
2	1	\$500	54%	39.5- 64.5%	Yes	\$0	\$931	0.0%
3	2	\$700	56%	32.5- 57.5%	Yes	\$220	\$1,261	17.4%
4	2	\$625	50%	32.5- 57.5%	Yes	\$50	\$1,261	4.0%
5	2	\$400	32%	32.5- 57.5%	No	\$90	\$1,261	NA
6	2	\$325	26%	32.5- 57.5%	No	\$115	\$1,261	NA
7	3	\$450	28%	30.9- 55.9%	No	\$290	\$1,591	NA
Average Disregard Amount								= $(9.7+0+$ $17.4+4)/4$ $=7.8\%$

Individuals 1, 2, 3, and 4 have incomes in the marginal 25 band, and therefore contribute to the calculation of the average disregard, while individuals 5, 6, and 7 are not in the marginal 25 band and are excluded from the calculation.

As illustrated in Table 5, the average disregard amount is calculated by pooling individuals from multiple family size categories. This approach is necessary to insure that there is adequate sample size in each family size category to accomplish a conversion. In our hypothetical 7

person category, there is no one of family size 3 who is in the marginal 25 percent band. However, the standard for a family size of 3 can still be converted based on data from other family size categories. While states will generally have adequate data to accomplish conversions for small and medium family sizes, sample size may be an issue for very large family size categories. For example, many states report income standards for family sizes of up to 20, but few 20 person families are likely to exist in state data systems.

Once the average disregard is calculated, this amount is added back to the fixed dollar standards as expressed as a percent of FPL (**Step 4**). Mathematically, the equation used is as follows:

$$\text{Converted Standard (as a \% of FPL)} = (D_j / \text{FPL}_j) + (\text{Average Disregard as \% of FPL})$$

We then must translate the standard from an FPL-based number into a dollar-based number (**Step 5**), by multiplying the converted standard expressed as a share of FPL by the monthly poverty line. Steps 4 and 5 are illustrated in Table 6.

**Table 6: Applying Conversions, Fixed Dollar Categories**

(1) Family Size (j)	(2) Dollar-Value Standard (D <sub>j</sub> )	(3) Monthly FPL given family size (FPL <sub>j</sub> )	(4) Standard as a % of FPL (D <sub>j</sub> /FPL <sub>j</sub> )	(5) Average Disregard as % of FPL	(6) Converted Standard (as % of FPL) =(4)+(5)	(7) Final Converted Standard, in Dollars =(6)*(3)
1	\$600	\$930.83	64.5%	7.8%	72.3%	\$673
2	\$725	\$1,260.83	57.5%	7.8%	65.3%	\$823
3	\$890	\$1,590.83	55.9%	7.8%	63.7%	\$1,013

### Converting “Add-On” Amounts

In some cases, states have an “add-on” amount that can be applied for family sizes that exceed a certain level, which may vary by state and eligibility category. Similarly, the federal government publishes an FPL add-on amount for households of more than 8 persons for 100% FPL. To convert the state add-on amount, we add the average disregard amount calculated in Step 3 to the state add-on amount, expressed as a percentage of the federal add-on amount.

Specifically, to convert the state add-on amount we use the following formula:

$$(2) \quad \text{Converted Add On} = \left\{ \left( \frac{\text{Add On}^{\text{State}}}{\text{Add On}^{\text{Fed}}} \right) + (\text{Average Disregard as \% FPL}) \right\} * \text{Add On}^{\text{Fed}},$$

where both state and federal add-on amounts are expressed in monthly (as opposed to annual) terms. Rearranging, the add-on conversion simplifies as follows:

$$(3) \quad \text{Converted Add On} = \text{Add On}^{\text{State}} + \{(\text{Average Disregard as \% FPL}) * (\text{Add On}^{\text{Fed}})\}.$$

In the hypothetical case illustrated in Tables 5 through 7, the state has published eligibility standards for family sizes of 1, 2, and 3. Assume that, for family sizes greater than three, the state adds a fixed amount of \$150 per person. In 2012, the federal add-on amount under the FPL guidelines was \$3,960 annually, or \$330 per month for 100% FPL. So, in our example, the state add-on amount converts to  $\$150 + (0.078 * 330) = \$176$ .

Note that the federal poverty levels and add-on amounts must correspond to the year of data used by the state. Since our examples above apply the 2012 federal poverty guidelines, we are implicitly assuming that the underlying data used in our hypothetical examples reflect state enrollment in 2012.

## Appendix 1

**2013 POVERTY GUIDELINES**  
ALL STATES (EXCEPT ALASKA AND HAWAII) AND D.C.

## ANNUAL GUIDELINES

FAMILY SIZE	PERCENT OF POVERTY GUIDELINE								
	100%	120%	133%	135%	150%	175%	185%	200%	250%
1	11,490	13,788	15,281.70	15,511.50	17,235.00	20,107.50	21,256.50	22,980.00	28,725.00
2	15,510.00	18,612.00	20,628.30	20,938.50	23,265.00	27,142.50	28,693.50	31,020.00	38,775.00
3	19,530.00	23,436.00	25,974.90	26,365.50	29,295.00	34,177.50	36,130.50	39,060.00	48,825.00
4	23,550.00	28,260.00	31,321.50	31,792.50	35,325.00	41,212.50	43,567.50	47,100.00	58,875.00
5	27,570.00	33,084.00	36,668.10	37,219.50	41,355.00	48,247.50	51,004.50	55,140.00	68,925.00
6	31,590.00	37,908.00	42,014.70	42,646.50	47,385.00	55,282.50	58,441.50	63,180.00	78,975.00
7	35,610.00	42,732.00	47,361.30	48,073.50	53,415.00	62,317.50	65,878.50	71,220.00	89,025.00
8	39,630.00	47,556.00	52,707.90	53,500.50	59,445.00	69,352.50	73,315.50	79,260.00	99,075.00

For family units of more than 8 members, add \$4,020 for each additional member.

## MONTHLY GUIDELINES

FAMILY SIZE	PERCENT OF POVERTY GUIDELINE								
	100%	120%	133%	135%	150%	175%	185%	200%	250%
1	957.50	1,149.00	1,273.48	1,292.63	1,436.25	1,675.63	1,771.38	1,915.00	2,393.75
2	1,292.50	1,551.00	1,719.03	1,744.88	1,938.75	2,261.88	2,391.13	2,585.00	3,231.25
3	1,627.50	1,953.00	2,164.58	2,197.13	2,441.25	2,848.13	3,010.88	3,255.00	4,068.75
4	1,962.50	2,355.00	2,610.13	2,649.38	2,943.75	3,434.38	3,630.63	3,925.00	4,906.25
5	2,297.50	2,757.00	3,055.68	3,101.63	3,446.25	4,020.63	4,250.38	4,595.00	5,743.75
6	2,632.50	3,159.00	3,501.23	3,553.88	3,948.75	4,606.88	4,870.13	5,265.00	6,581.25
7	2,967.50	3,561.00	3,946.78	4,006.13	4,451.25	5,193.13	5,489.88	5,935.00	7,418.75
8	3,302.50	3,963.00	4,392.33	4,458.38	4,953.75	5,779.38	6,109.63	6,605.00	8,256.25

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