

AN INTRODUCTION TO MEDICAID

• What is Medicaid?

Medicaid is a joint, federal-state program that provides health care coverage to many needy individuals and families.

• Who receives Medicaid?

In order to qualify for Medicaid, you must meet both financial and non-financial criteria. People who receive Medicaid must fall in one of the many "categories" of Medicaid recipients that are allowed in Michigan. There are dozens of Medicaid categories, each of which has different rules related to income, assets, and other eligibility criteria. Because there are so many different rules, and because the same person may qualify under one category of Medicaid but not another, it is very important that DHS evaluate an application for Medicaid under as categories as possible before denying someone. ¹

Non-financial requirements:

In general, to receive Medicaid you must be one of the following:

- Disabled²
- Age 65 or older
- Age 21 or younger
- The parent or other relative raising a child under age 18³

Financial requirements:

In general, in order to qualify for Medicaid your countable income must be below a certain limit. Whose income is counted, how much income is counted (or how much is deducted or disregarded), and how much income is allowed will vary depending on the Medicaid category that is being considered.

Some Medicaid categories also have an asset or resource limit, while other categories look at income but not assets. Depending on the Medicaid category that is being considered, there are different rules on whose assets count, which types of assets count, and how many assets you can have.

• Who runs Medicaid?

At the federal level, the Medicaid program is administered by the Center for Medicare and Medicaid Services (CMS) of the Department of Health and Human Services (HHS).

The Michigan Department of Community Health (**DCH**) is responsible to the federal government for administering Michigan's Medicaid program in compliance with federal law. DCH receives the state and federal funding for Medicaid and sets Medicaid policies. However, most Medicaid eligibility determinations are done by the Michigan Department of Human Services (DHS), under an agreement between DHS and DCH.

• Who pays for Medicaid?

In Michigan, the federal government pays about 56% of the cost of providing medical care to Medicaid recipients. The remainder is paid with state funds.

¹ Medicaid eligibility is quite complicated. The details of Medicaid eligibility are beyond the scope of this article. This article contains only a general overview of Medicaid eligibility and does not explain all of the rules that may affect Medicaid eligibility. If you or someone you are working with has questions about their Medicaid eligibility, seek legal advice.

² Disability is usually evaluated according to the standards for receiving Social Security or Supplemental Security Income (SSI) disability benefits.

³ A parent or caretaker of a child age 18 who is in high school and expected to graduate before turning 19 may also qualify for Medicaid. In addition, some parents or caretakers of children age 18 or 19, attending high school and expected to graduate before turning 20, also qualify for Medicaid.

• Who sets the rules for Medicaid?

Congress enacts the federal laws that govern Medicaid (Title XIX of the Social Security Act). **CMS** issues federal rules that interpret and implement the federal laws passed by Congress. Michigan must operate its Medicaid program in compliance with the federal laws. In some areas, federal Medicaid laws give Michigan choices in the design of its Medicaid program. Under federal law, some groups of persons must be covered by Medicaid, while others are covered only at the state’s option. Similarly, some types of medical care and services must be covered under federal Medicaid law, while others are optional.

The Michigan legislature enacts state laws that govern the Medicaid program in Michigan. In addition to laws that are contained in the Social Welfare Act, the legislature passes an appropriations act to fund DCH each year (including funding for the Michigan Medicaid program), which usually contains boilerplate language that govern some aspects of Michigan Medicaid in that funding year. In addition, by deciding how much such state funding to provide for Medicaid in the year, the state legislature may limit the choices that DCH can make about who to cover under Medicaid and what services to provide to Medicaid recipients. All of the state laws must comply with federal law.

DCH issues policies that govern the day-to-day operation of Michigan’s Medicaid program. These policies must comply with both state and federal law. Many of the rules that affect clients can be found in the DHS Program Eligibility and Program Administrative Manuals, which are now posted on line at www.mfia.state.mi.us/olmweb/ex/html/.

UNDERSTANDING DEDUCTIBLE MEDICAID IN MICHIGAN

Perhaps the questions that are most frequently asked about Medicaid in Michigan are “Why are deductibles so high?” and “What can be done about it?” This article explains what Medicaid with a Deductible is, and provides some answers to these important questions.

I. BACKGROUND: SPENDDOWN MEDICAID GENERALLY

• What is “Medicaid with a Deductible”?

Medicaid with a deductible is Medicaid for individuals whose income is too high to qualify for other Medicaid categories, but who meet the non-financial requirements for one of the Medicaid Deductible categories, as well as the asset limit, if any.

Medicaid with a deductible allows some individuals to receive Medicaid by showing that their medical expenses are very high in comparison with their income. Each person is allowed a minimal amount of “protected” income each month. DHS expects that if you have income above this protected amount, you will use this “excess” income to pay your medical expenses. This amount of excess income is called your “deductible.” You can meet your “deductible” obligation by showing that you have medical expenses (either paid or unpaid) that equal to or more than the deductible amount. Once you show that you have met the deductible for a particular month, Medicaid will pay for all your Medicaid-covered medical expenses during the rest of the month.

Your ability to obtain payment for medical care under Medicaid deductible categories will depend on the amount of your medical expenses in any given month.⁴ This makes Medicaid with a Deductible different than

⁴ Note that you can use **unpaid** bills – even bills from **past months** -- to meet your deductible as long as these bills will not be paid by any other insurance (including Medicare). A large unpaid bill from a month in which you did not receive Medicaid can be applied to your Medicaid deductible for several months. (For example if your Medicaid deductible is

other categories of Medicaid where DHS focuses on the amount of income you have, and does not consider the amount of your medical expenses.⁵ A person may be eligible for one or more categories of Medicaid with a deductible, depending on whether the person is a child, a child’s caregiver, elderly or disabled.

• **How is the deductible amount calculated?**

Medicaid deductibles are calculated on a monthly basis. They are calculated by subtracting the Medicaid Protected Income Level (PIL) from monthly net countable income. The rules about whose income counts, and how much of it is counted, deducted, or disregarded, will vary depending on which category of Medicaid is being considered by DHS.⁶

The PIL that is used in calculating an individual’s deductible amount will vary depending on the number of persons included in the individual’s Medicaid group⁷ and the part of Michigan in which the individual lives (the “shelter area”). A chart of PILs for Michigan is included at the end of this article. You can also find the current PILs in the Program Reference Manual – Tables and Charts, in PRT Item 240. (See www.mfia.state.mi.us/olmweb/ex/html/). The shelter areas are listed in PRT 200.

Because the PILs are quite low, deductibles are often quite high. Even individuals who are struggling to pay for medical care, or who are finding that they cannot afford to pay for the medical care and treatment they need, may be unable to meet their deductible and thus unable to qualify for Medicaid.

II. WHY ARE PROTECTED INCOME LEVELS IN MICHIGAN SO LOW?

Theoretically, the protected income limit (PIL) is the amount needed to meet the group’s non-medical needs (food, shelter, clothing, transportation, etc.). Any income in excess of the PIL is then considered to be available for the group to meet its own medical expenses.

However, federal law sets the upper and lower limits for states to use in setting the Protected Income Level (PIL) or Medically Needy Income Level (MNIL) that is used to determine Medicaid deductibles in Michigan.⁸ Under the federal law, the PIL cannot be greater than 133 1/3% of the amount that was paid to families under the Aid to Families with Dependent Children (ADC in Michigan) program on July 16, 1996.

• **Can’t Michigan raise its protected income levels?**

Michigan currently uses PILs that are 133 1/3% of the ADC levels in effect on July 16, 1996. Michigan cannot make any significant increases to its PILs unless federal law is changed.

• **What else could be done to help individuals with high deductibles?**

In 2001, the federal Medicaid agency (CCJ) issued a federal regulation that would allow states to change the way that they count income in calculating a person’s Medicaid eligibility and deductible amount. The regulation⁹ allows the state to lower deductible amounts by reducing the amount of income that is taken into account when calculating a person’s deductible. States are allowed to apply the more liberal/less restrictive methodologies to

\$50 per month, a \$200 unpaid bill will meet the Medicaid deductible for 4 months. Note that once a bill has been applied to one or more months, it cannot be used again in the future.

⁵ The categories of Medicaid that use deductibles are sometimes referred to as “Group 2” Medicaid. Categories that look only at the amount of income you have are called “Group 1” Medicaid.

⁶ Rules on calculating net countable income are complicated and vary depending on the Medicaid category and the individual’s household family composition. Details on calculation of countable income are beyond the scope of this article.

⁷ Rules on determining who is included in the Medicaid group vary according to the Medicaid category being considered, and are beyond the scope of this article.

⁸ 42 CFR 435.811(c) and (e), 42 CFR 835.1007, 42 USC 1396b(f)(1)(B)(i),

⁹ 42 CFR 435.1007(f), implementing 42 USC 1396a(r)(2).

some but not all eligibility groups. Unfortunately, because of the state’s fiscal problems, Michigan has not used this option to increase health care coverage for persons who currently have very high deductibles.

Also, as described below, Michigan could choose to make Medicaid available to more people through one of the categories that do not have deductibles. Federal law gives states several options that they can use to make health care available to more people.

- **Why does a person suddenly have a deductible of hundreds of dollars when their income only goes up a few dollars?**

This happens when a person’s income goes just over the income limit for a Medicaid category that does not have a deductible (Group 1 categories). Many of these Group 1 categories have income limits that are much higher than the protected income level used for Medicaid with a deductible. Remember, eligibility for Medicaid categories that do not have deductibles is an “all or nothing” proposition. If your income is below the limits allowed for a particular category, you receive Medicaid and there is no deductible. If it is over the limit for the category, you no longer qualify for Medicaid under that category. You cannot “spend down” to the income limit for the Group 1 category. Instead, if you want Medicaid and do not qualify for any other Group 1 Medicaid categories, you must qualify by meeting a deductible that is based on the very low protected income level.

Example:

The “ADCare” Medicaid category provides Group 1 Medicaid coverage to all persons who are disabled or are age 65 or older, and who have income below the federal poverty level. If an ADCare recipient’s income goes even one dollar over the poverty level, she or he will no longer be eligible for ADCare and will, instead, be required to meet a deductible based on the PIL, which is only 37% - 59% of the poverty level, as shown in Appendix B.

Let’s assume “Steve” is disabled and receives countable income of \$690 per month in 2000. The poverty level for a single person in 2000 is \$696 per month so he qualifies for ADCare Medicaid. However, if Steve’s income increases by only \$10 to \$700 per month, he will lose ADCare Medicaid and have to meet a Medicaid deductible. The protected income level (PIL) for Steve (since he is a “group” of 1 person) is only \$341 - \$408 per month, depending on where he lives in Michigan. Let’s say Steve’s PIL is \$341. DHS will subtract Steve’s protected income level from Steve’s countable income to find his deductible amount ($\$700 - \$341 = \$359$). Therefore, even though Steve’s income only went up \$10 per month, he will now have to show paid or unpaid bills of \$359 for each month that he wants to receive Medicaid with a deductible.

III. IF MICHIGAN CAN’T CHANGE ITS PROTECTED INCOME LEVELS, ARE THERE OTHER WAYS TO PROVIDE MEDICAID TO LOW INCOME PERSONS WHO NEED MEDICAL CARE?

In addition to the option of Federal law includes important options that could help many needy persons qualify for Medicaid without having to meet a deductible. The following two options allow the state to expand Medicaid categories that provide categorical (Group 1) eligibility to certain groups of people. Individuals cannot qualify for these categories by meeting a deductible, because they are not medically needy (Group 2) categories.

- **Providing Medicaid Eligibility to More Low Income Working Parents**

Michigan has the option of changing the amount of income and assets that it counts when determining eligibility for Low Income Family (“LIF”) Medicaid – a Group 1 (non-deductible) Medicaid category known at the federal level as “section 1931 Medicaid”. Because financial eligibility for Medicaid is based on whether countable

income and assets are below limits for the particular category of Medicaid, changing the amount of income or assets that are countable would make more people eligible.

The income limits for LIF Medicaid are particularly low, because they cannot be more than 100% of the 7/16/96 ADC levels. Because of Michigan’s low ADC levels, this means that a family’s countable income must be below approximately 35% of the federal poverty level, depending on where they live. .

By disregarding (not counting) a larger portion of a family’s income from work or child support, Michigan could make more low income parents eligible for Medicaid. Following the passage of section 1931 in 1996, many Michigan organizations that work with low income families and children tried to convince the state to adopt a proposal that would have used this “section 1931 Medicaid” option to expand Medicaid eligibility for working parents, by disregarding a portion of the income of families with earnings. However, the proposal was never adopted in the legislature and the state has never chosen to use the section 1931 option to help uninsured, working parents.

• **Providing Medicaid to More Persons with Disabilities Who Work**

Michigan has the option of providing Medicaid to individuals who meet the Social Security Administration’s disability standard, but do not qualify for Supplemental Security Income (SSI) because of their earnings. These employed persons with disabilities would have to be 16 –64 years old, but they would not have to have received SSI in the past. Michigan can set the income and asset limit (if any), without any federal limitations.

“Freedom to Work” Medicaid, which allows persons with disabilities who are working to continue receiving Medicaid by disregarding their earnings in determining income eligibility, was established by the Michigan legislature and opened for enrollment in January 2004. The eligibility criteria were narrowly drawn to prevent individuals who had not qualified for Medicaid in the past (including those who could only qualify by meeting a deductible) from being able to qualify under this category. As of November 2007, there were just over 1,000 Michigan residents receiving Medicaid under this category. All had been eligible for Medicaid (without a deductible) immediately prior to their enrollment in Freedom to Work Medicaid.

Michigan could expand eligibility for Freedom to Work eligibility, to help more persons with disabilities who want to work.

Appendix A: Protected Income Levels (PILs) in Michigan

Shelter Area

| <i>Group Size</i> | I | II | III | IV | V | VI |
|---|----------|-----------|------------|-----------|----------|-----------|
| 1 | 341 | 341 | 350 | 375 | 391 | 408 |
| 2 | 458 | 466 | 475 | 500 | 516 | 541 |
| 3 | 493 | 502 | 512 | 532 | 547 | 567 |
| 4 | 528 | 538 | 548 | 563 | 578 | 593 |
| 5 | 624 | 634 | 644 | 659 | 674 | 689 |
| 6 | 757 | 767 | 777 | 792 | 807 | 822 |
| 7 | 833 | 843 | 853 | 868 | 883 | 898 |
| 8 | 909 | 919 | 929 | 944 | 959 | 974 |
| 9 | 985 | 995 | 1005 | 1020 | 1035 | 1050 |
| 10 | 1061 | 1071 | 1081 | 1096 | 1111 | 1126 |
| EACH ADDITIONAL PERSON ADD | 76 | 76 | 76 | 76 | 76 | 76 |

SHELTER AREAS

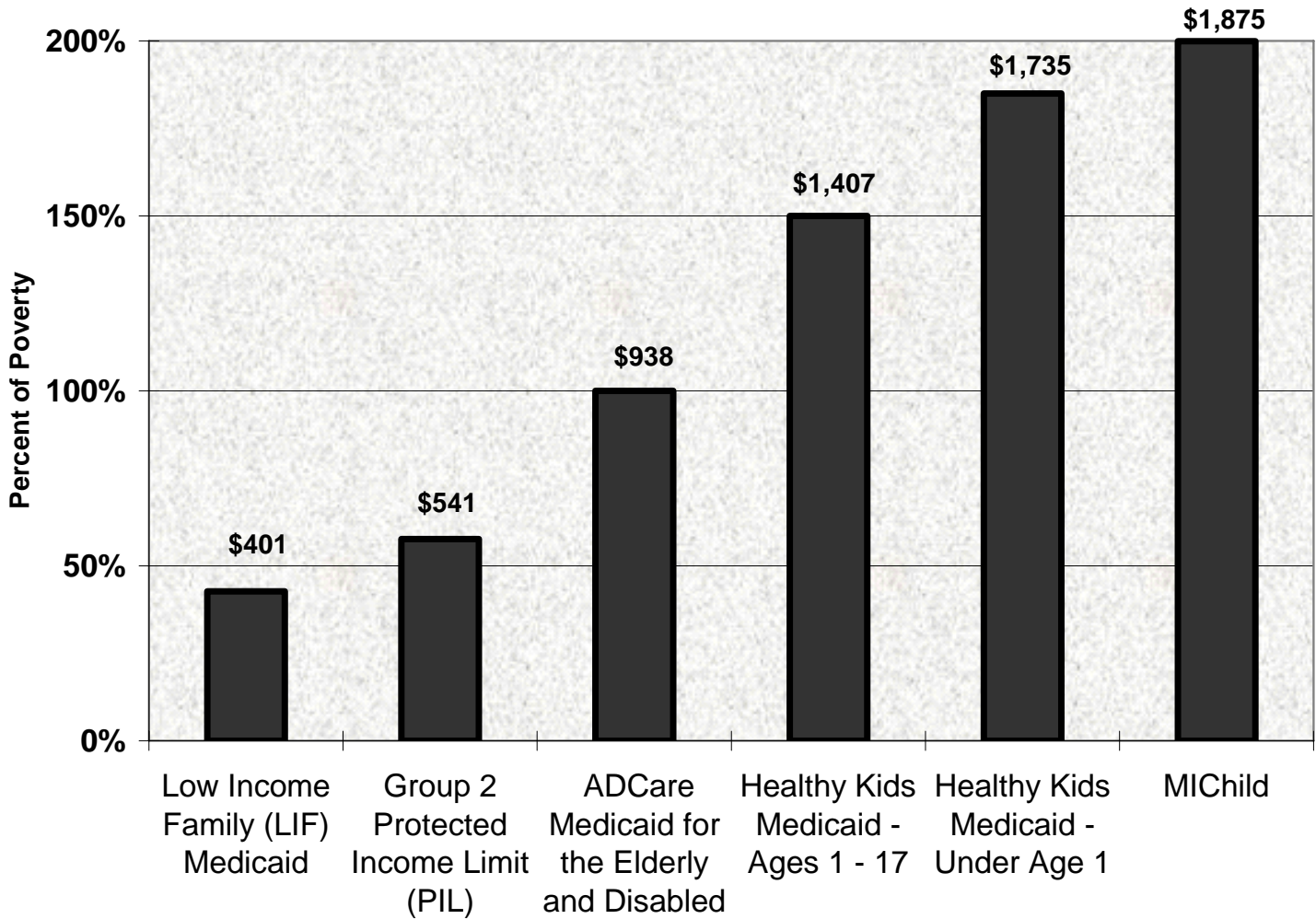
| I | II | III | IV | V | VI |
|--------------|-----------|------------|-------------|----------------|------------|
| Alger | Arenac | Alcona | Allegan | Barry | Genesee |
| Baraga | Chippewa | Benzie | Alpena | Bay | Ingham |
| Gogebic | Delta | Cheboygan | Berrien | Clinton | Livingston |
| Huron | Houghton | Crawford | Branch | Eaton | Macomb |
| Iron | Iosco | Dickinson | Calhoun | Grand Traverse | Monroe |
| Keweenaw | Lake | Gladwin | Cass | Kalamazoo | Oakland |
| Luce | Manistee | Hillsdale | Charlevoix | Kent | St. Clair |
| Mecosta | Oceana | Jackson | Clare | Lapeer | Washtenaw |
| Menominee | Ontonagon | Kalkaska | Emmet | Leelanau | |
| Presque Isle | Osceola | Mackinac | Gratiot | Lenawee | |
| Schoolcraft | Oscoda | Mason | Ionia | Midland | |
| | | Missaukee | Isabella | Otsego | |
| | | Montcalm | Marquette | Ottawa | |
| | | Muskegon | Montmorency | Saginaw | |
| | | Newaygo | Roscommon | Van Buren | |
| | | Ogemaw | St. Joseph | | |
| | | Sanilac | Shiawassee | | |
| | | Wexford | Tuscola | | |
| | | | Wayne | | |

Appendix B: Comparison of Michigan's Protected Income Levels* and 2000 Federal Poverty Levels

| Group Size | Protected Income Level (PIL) | PIL as a Percent of Poverty | Poverty Level |
|-------------------|-------------------------------------|------------------------------------|----------------------|
| 1 | \$408 | 59% | \$696 |
| 2 | \$541 | 58% | \$938 |
| 3 | \$567 | 48% | \$1179 |
| 4 | \$593 | 42% | \$1421 |
| 5 | \$689 | 41% | \$1663 |
| 6 | \$822 | 43% | \$1904 |

* For comparison, this Table uses the highest Protected Income Levels (PILs) that are used in Michigan. These are the PILs used in Shelter Area VI.

Appendix C: MICHild and Selected Medicaid Categories -- Income Limit Compared to 2000 Federal Poverty Level



NOTE: This chart shows the highest Low Income Family income limit and Group 2 Protected Income Limit for a Group Size of 2, which are the limits used in Shelter Area VI.

Appendix D: Federal Law Governing Protected Income Levels

- The state must have a single set of Protected Income Levels/Medically Needy Income Levels (PIL/MNIL). 42 USC 1396a(a)(10)(C)(i)(III) and 42 CFR 435.811(a).
- The PIL/MNIL cannot be less than the lowest cash assistance level. 42 CFR 435.811(c).
- The PIL/MNIL cannot be more than the amount for which Federal Financial Participation ("FFP") is available. 42 CFR 435.811(e). To qualify for FFP, the PIL/MNIL cannot be more than 133 1/3 % of the highest payment to a family under the Title IV-A plan. 42 USC 1396b(f)(1)(B)(i) and 42 CFR 435.1007.
- The Title IV-A plan means the plan in effect 7/16/96. 42 USC 1396u-1(a)

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