

Issue 85: INSIDER'S EDGE: Relationship-Based Rules—The Grey Area

Hey there, Insiders! With some dark and cloudy skies over Maryland these last few weeks, it seemed like the perfect opportunity to talk about a grey area in the MAGI rules and to shed a little light on the situation.



As you know from recent issues, under certain circumstances the relationship-based rules apply when making Medicaid eligibility determinations. But what happens in the grey area when an applicant is found ineligible for Medicaid under the relationship-based rules? Should the same relationship-based household construction be used to assess the applicant's eligibility for advanced premium tax credits (APTC) and cost-sharing reductions (CSR)? The short answer: no.

Two basic points to keep in mind:

- The relationship-based rules can be triggered by certain exceptions. They are **only** used to determine **Medicaid** eligibility.
- The standard tax-filing rules **always** apply for QHP determinations.

One more thing:

- When an applicant is not eligible for Medicaid but has a household income less than 400% FPL, they can be found eligible for a QHP with advanced premium tax credits (APTC) and cost-sharing reductions (CSR).

As always, it's a lot easier to explain the rules in action with a scenario, so here we go!

A Quick Refresher: Relationship-Based Rules (Readers in a Rush? Scroll Down for the Question!)

For purposes of determining eligibility for insurance affordability programs, including Medicaid, in most cases the household includes the people who file federal income taxes together for the taxable year in which the eligibility determination is made.

Tax filer household rules:

- Tax filer is head of household and usually the primary applicant;
- Tax filer's spouse (must file jointly for APTC/CSR);
- Anyone else the tax filer will claim as a tax dependent (i.e. claim a personal exemption deduction for) on that year's tax return.

- For example, the taxpayer's older children will count toward the family size if the taxpayer claims them as a dependent even if they don't live at home.

Under the tax dependent household rules, the following individuals must be included in the household:

- Tax dependent;
- Tax filer who is claiming the individual as a tax dependent (this could be two people if filing jointly);
- Tax filer's spouse, if living with the tax filer;
- Any other tax dependents the taxpayer(s) claim;
- The tax dependent's spouse if they live together.

There are a number of situations in which the household rules used to determine Medicaid eligibility are different from the general tax-based household rules. When these exceptions arise, the Medicaid household for the applicant is constructed based on the relationships between family members who live together and is not based on tax filing relationships.

So what exceptions trigger use of the relationship-based rules for Medicaid eligibility determinations?

Application of Relationship-Based Rules
1) Applicant is not planning to file taxes (and is not claimed as a dependent).
2) Individual is claimed as a dependent by person who is not a parent or stepparent, for example, a grandparent or other caretaker relative.
3) Child, under age 21, lives with both parents, but only one parent will claim the child as a tax dependent.
4) Child, under age 21, lives with a custodial parent but will be claimed as a tax dependent by a noncustodial parent.

If one of the exceptions above is triggered, how is the household constructed using the relationship-based rules?

For adults, a household must consist of:

- Adult applying for coverage;
- Adult's married spouse, if living with the applicant; and
- Adult's natural, adopted and stepchildren, or any child for whom they act as a caretaker, up to age 21, if living with the adult.

For children (under age 21), a household must consist of:

- A child applying for coverage.
- Any of the child's parents or stepparents (or adoptive parents), if living with the child.
- Any of the child's siblings or stepsiblings (or adoptive siblings) under age 21 and living with the child.

- If the child is married, the spouse (if the spouse is living with the child); and if the child has their own children, the children and step-children (if living with the married child).

The Scenario: Meet this Week's Family



Nancy and Wayne live together with their 3-year old son, Andrew. Nancy and Wayne are unmarried and file taxes separately. Wayne claims Andrew as his tax dependent. Nancy works as a school counselor and earns \$48,000 a year. Wayne is a groundskeeper for the school and earns \$17,500.

So what happens when we assess the family's eligibility for Medicaid and QHP with APTC/CSR?

- **Nancy (mother): Nancy = Household of 1**

In Nancy's case, the tax filer household rules apply. Nancy has no tax dependents so she is a household of 1. Her income of \$48,000 a year exceeds 400% FPL (\$46,680 is 400% FPL for 1 person); therefore, Nancy is not eligible for APTC or CSR. Nancy is eligible to purchase an unassisted QHP.

- **Wayne (father): Wayne + Andrew = Household of 2**

In Wayne's case, the tax filer household rules apply. As a tax filer, his household includes himself and his tax dependent, Andrew. His household size will be 2. Wayne's income of \$17,500 is less than 138% FPL (\$21,707 is 138% FPL for 2 people). Wayne is eligible for Medicaid.



- **Andrew (son): KEEP READING! This one's complicated!**

STEP ONE: Determine whether Andrew is eligible for Medicaid

Since Andrew's parents are unmarried, his situation triggers exception three to the household construction rules, **3) Child, under age 21, lives with both parents, but only one parent will claim the child as a tax dependent**; therefore, in order to determine his eligibility for Medicaid, the relationship-based rules apply.

For Medicaid purposes, Andrew's household includes himself, Nancy (his mother), and Wayne (his father). His household size is 3. Andrew's household income will include Nancy's income (\$48,000), Wayne's income (\$17,500), and Andrew's income (if he's required to file taxes). Andrew's household income under the relationship based rules is \$65,500. \$65,500 exceeds 322% FPL (\$63,724 is 322% FPL for a household of 3), so Andrew is not eligible for Medicaid, MCHP, or MCHP Premium.

Ok, Insiders, are you ready? Here comes the tricky part.

STEP TWO: Determine whether Andrew is eligible for an assisted QHP

Remember, the relationship-based rules are **only** used to determine **Medicaid** eligibility. The standard tax-filing rules **always** apply for QHP determinations. To determine whether Andrew qualifies for APTC or CSR, we need to determine his household income under the tax filing rules.

Since Andrew is claimed by his father as a tax dependent, for APTC/CSR purposes, Andrew's household size will be 2, himself and Wayne, his father. His household income will be the sum of his father's income (\$17,500) plus his own (if he's required to file taxes). Therefore, Andrew's income is \$17,500 under the tax filing rules. However, even though Andrew's income is less than 138% FPL for a household of two, he is NOT eligible for Medicaid.



Take a deep breath, I know a few of you are going to be scratching your heads at this outcome...

As shocking as the outcome is, remember, Andrew's Medicaid eligibility was determined under the relationship-based rules. Since Andrew is not Medicaid eligible and his income is below 400% FPL, he will be found eligible for QHP coverage with APTC and CSR.

Crazy as it sounds, that's how the rules work!

Additional Resources

For more scenarios involving the MAGI household construction rules, check out these back issues:

- *Issue 75: INSIDER'S EDGE: Issue 70 REVISED--When do the MAGI Relationship-Based Rules Apply?*
- *Issue 76: INSIDER'S EDGE: MAGI Relationship-Based Rules Continued*
- *Issue 77: INSIDER'S EDGE: Even MORE MAGI Household Construction Scenarios*
- *Issue 79: INSIDER'S EDGE: Unmarried Parents—MAGI Household Construction Rules Continued!*
- *Issue 83: INSIDER'S EDGE: Tax Dependents over Age 21*

Questions? Send them my way to dhmh.medicaidmarge@maryland.gov.