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# Fact Sheet

## Community Living Exchange

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## Medicaid Financial Eligibility

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# Medicaid Financial Eligibility

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## **Introduction**

The Medicaid program serves low income individuals who qualify under one of the 25 eligibility groups or categories established by law<sup>1</sup>. The groups include elders, adults with disabilities, families, children and pregnant women. This brief describes the rules governing the way income and resources are treated in determining financial eligibility.

Medicaid applicants must qualify for an eligibility group. In most states, aged, blind and disabled individuals who receive Supplemental Security Income (SSI) or Optional State Supplements to SSI are automatically eligible for Medicaid<sup>2</sup>. States may also create eligibility groups for applicants with incomes at or below the poverty level, incomes below the special income level (up to 300% of the federal SSI benefit), individuals with high medical costs who spend down (medically needy) to a specified level, and individuals with a disability who are employed. Regardless of the category of eligibility, all applicants must meet income and resource limits. Applicants must meet the income and resource thresholds established for the most appropriate cash assistance eligibility group. For example, applicants who are aged, blind and disabled follow the rules for SSI. Children, families and pregnant women follow the rules set for the former Aid to Families with Dependent Children program.

## **How income is defined and treated**

Income limits have two components – the standard or threshold below which a person is eligible and the types and sources of income that are counted in determining eligibility. Income and resource definitions for categorical eligibility follow the definitions used by the Social Security Administration for the SSI program.

Earned income includes wages, net earnings from self-employment, income tax refunds and some royalties and honoraria. Unearned income is income from annuities, pensions and other periodic payments, alimony and support payments, dividends, interest, rents, death benefits, prizes, awards, gifts, inheritances and in-kind maintenance and support.

SSI rules allow applicants to disregard the following:

- The first \$20 a month in unearned income;
- The first \$65 a month of earned income plus one-half of the remaining amount;

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<sup>1</sup> Schneider, A., Elias, R., David Rousseau, & Wachino, V. The Medicaid Resource Book. The Kaiser Commission on Medicaid and the Uninsured. Washington, DC. July, 2002.

<sup>2</sup> States using Section 209b use income or resource criteria that are lower than the SSI standard.

- \$60 in unearned income and \$10 in earned income in a month if it is received infrequently and cannot be counted as a reliable source of income;
- Tax refunds, including payments from the Earned Income Tax Credit;
- Food stamps benefits;
- Housing and energy assistance;
- Home produce grown for consumption by the household;
- Disaster assistance;
- Interest earned on excluded burial funds or the appreciation in value of a burial fund;
- Certain interest and dividend payments;
- Retroactive social security benefits; and,
- Unearned income received to support a plan to achieve self-support for individuals who are blind or disabled.

## **How Resources are Defined and Treated**

SSI rules allow applicants to exempt \$2,000 in resources for a single applicant and \$3,000 for a couple. Resources include cash or other liquid assets or any real or personal property that an individual or spouse owns and could convert to cash for his or her support and maintenance. Liquid resources include those that can be converted to cash within 20 working days and typically include stocks, bonds, mutual funds shares, promissory notes, mortgages, life insurance policies, savings accounts, checking accounts, and certificates of deposit. Non-liquid resources require more than 20 days to convert to cash.

Resources available to spouses and the parents of children who apply for SSI may be deemed to the applicant. Children under age 18 who are disabled are not subject to deeming rules if they previously lived in a medical facility, are eligible for home and community based waiver services, and would otherwise be ineligible because of the parent's resources.

Resources exempt from the limits include:

- The value of a home;
- Household goods and personal effects;
- One automobile used for transportation of the individual or a member of the household;
- Property of a trade or business which is essential to the individual's support;
- Up to \$1,500 of the cash surrender value of life insurance owned by the applicant or spouse;
- Burial spaces and funds up to \$1,500;
- Up to \$6,000 in equity from income producing property if the property provides income that exceeds 6% of the equity in the property;
- Payments under other federal programs;
- Housing assistance;
- Tax refunds; and,
- Relocation assistance.

## 209 (b) States

When Congress passed the SSI program in 1972, the SSI benefit levels were higher than the cash assistance payments available at the time in several states. Because of the connection between SSI and Medicaid, these states were allowed to continue to use their existing standards in order to protect them from increases in the number of Medicaid beneficiaries. States that chose to maintain different income or resource thresholds are: Connecticut, Hawaii, Illinois, Indiana, Minnesota, Missouri, North Dakota, New Hampshire, Ohio, Oklahoma, and Virginia<sup>3</sup>. For example, in 2000, Connecticut's income standard was \$476 per month compared to the SSI benefit of \$512 and the resource limit was \$1,600. Indiana set an income threshold above the federal SSI benefit but used a resource threshold of \$1,500<sup>4</sup>.

## Disregarding Income and Resources

States have the option under Section 1902(r)(2) of the Social Security Act to set disregard income and resources for determining Medicaid eligibility that are not allowed under the SSI or Aid to Families with Dependent Children (AFDC) rules. The Centers for Medicare & Medicaid Services (CMS) issued a series of questions and answers to clarify how states may use this section to serve more individuals with disabilities<sup>5</sup>. Section 1902(r)(2) allows states to disregard different kinds or greater amounts of income and/or resources than is permissible under the SSI or AFDC rules. The disregards must be applied to an eligibility group and cannot be used for applicants based on their living arrangement, except in limited circumstances that apply to individuals under age 21, and use of services. For example, disregards cannot be available only to individuals who are eligible for home and community-based waiver services.

The provision allows states to disregard a specific kind of earned or unearned income, such as Social Security Disability Insurance (SSDI) income, interest income from savings accounts or income that is used for a particular purpose, such as income put into a medical savings account, or income a person uses to maintain or repair a home<sup>6</sup>.

The provision may be particularly useful for states where the medically needy income threshold is below the federal SSI benefit standard or the state's Optional State Supplement standard. Individuals who have excess income "spend down" quickly in an institution. If they live in the community, they have to incur large medical expenses that reduce their income to the medically needy threshold. If they have sufficient expenses to do so, it may leave them without enough income to maintain their home. States may not disregard income or resources just for people who live in a nursing home, or just for people who live in the community. The disregard must be applied to all members of the eligibility group.

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<sup>3</sup> LeBlanc, A.J., Tonner, M.C., & Harrington, C. Medicaid 1915(c) Home and Community-Based Services Waivers Across the States Health Care Financing Review. Available at <http://www.cms.hhs.gov/review/00winter/00Winterpg159.pdf>

<sup>4</sup> Schneider, A. et. al.

<sup>5</sup> Medicaid Eligibility Groups and Less Restrictive Method of Determining Countable Income and Resources. Available at [www.cms.hhs.gov/medicaid/eligibility/elig0501.pdf](http://www.cms.hhs.gov/medicaid/eligibility/elig0501.pdf). May 11, 2001.

<sup>6</sup> Ibid.

## **Spousal Impoverishment**

The high cost of nursing home care can quickly deplete a person's income and resources. When a member of a couple enters a nursing home, the community spouse can be left without sufficient income to pay for his or her living expenses. Congress passed a provision in 1988 that allows spouses to protect income and resources. States also have the option to make spousal protection available when one member of the couple receives home and community-based waiver services. The law sets a minimum and maximum amount of income and resources that must be protected. Community spouses may retain all of their own income. For 2005, if the community spouse's own income is below \$1,561.25, or below \$2,377.50 per month if they have excess shelter expenses, income of the institutionalized spouse may be allocated to the community spouse. Community spouses may generally retain half of the couple's total resources within limits set by the States, according to guidelines in the federal Medicaid statute. The amounts increase each year. For 2005, states must provide that a minimum resource level of \$19,020 is protected for the community spouse, and may permit a maximum community spouse resource allowance of \$95,100. States may also set a minimum resource allowance in excess of \$19,040, up to the \$95,100 maximum<sup>7</sup>. The community spouse may seek a higher resource amount if it is needed to produce additional income to cover reasonable living expenses<sup>8</sup>.

## **Conclusion**

Federal rules establish the type and amount of income and resources that may be disregarded or retained by Medicaid applicants. The rules allow states some flexibility to disregard additional income and resources by filing a state plan amendment under Section 1902 (r)(2). Federal rules allow states to determine, within specified parameters, how much income and resources may be retained by a spouse of a Medicaid beneficiary living in an institution or receiving home and community-based waiver services.

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<sup>7</sup> The figures are adjusted annually to reflect changes in the cost of living.

<sup>8</sup> O'Keeffe, J., Smith, G., et. al. Understanding Medicaid Home and Community Services: A Primer. US Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation. October 2000.