COLORADO
Department of Health Care
Policy & Financing

Frequently Asked Questions: Annualized Income

September 2016

Effective July 1, 2016, the Department implemented a policy to use annualized income for certain MAGI Health First Colorado (Colorado's Medicaid Program) and Child Health Plan *Plus* (CHP+) eligibility determinations. Annualized income is only used when the person has income from self-employment, commission-based employment, and/or seasonal employment, and is found financially ineligible for all MAGI Medicaid Assistance programs based upon their current monthly income.

Changes to implement this policy in the Colorado Benefits Management System (CBMS) and on Colorado.gov/PEAK were implemented simultaneously with the policy.

The following frequently asked questions seek to address questions regarding the Department's implementation of Annualized Income.

What is annualized income?

Annualized Income is a methodology for determining eligibility for MAGI Health First Colorado and CHP+ programs. It is used when an individual's current monthly income is too high to qualify for any MAGI based program that they would otherwise qualify for, **and** they have income from self-employment, seasonal employment, and/or commission-based employment, including tips. The Department has determined that these three income sources are likely to change from month to month, potentially impacting the individual's ability to qualify for medical assistance.

This methodology uses an annual amount for self-employment, seasonal employment, and of commission-based employment, as opposed to a monthly amount, to calculate an average monthly amount. That average monthly amount is then used in the individual's eligibility determination. The purpose of this policy change is to limit the impact that regular changes in the individual's income have on his or her eligibility.

Why use the annualized income methodology?

The primary goals of implementing annualized income are to promote continuity of care for individuals whose income changes on a monthly basis, to reduce churn between MAGI Medical Assistance programs and Marketplace programs, and to improve consistency between eligibility determinations for Health First Colorado/CHP+, and for financial assistance to purchase private insurance through the Marketplace, Connect for Health Colorado.

Why is the annualized income methodology not being applied to Non-MAGI Health First Colorado Programs?

The federal regulation that gives the Department the authority to implement the annualized income methodology is specific to MAGI based programs and does not give the Department the authority to apply this methodology to Medical Assistance that does not use the MAGI methodology.

What if the monthly income makes a child financially ineligible for the MAGI Child category but financially eligible for CHP+, would the annualized income methodology be used?

No, the annualized income methodology will not be used if the individual is found eligible for any MAGI-based program using the current monthly income. In this situation the child was found financially eligible for CHP+ which is a MAGI based program.

Is there a specific percentage of the Federal Poverty Level (FPL) that will be used to determine if a person is eligible when using annualized income?

No, the income guidelines or FPL when annualized income is used to determine eligibility are the same guidelines used when eligibility is determined using current monthly income.

When can individuals start reporting annualized income?

In most cases annualized income should be reported at the same time as the current monthly income when the individual applies, but Health First Colorado and CHP+ applicants and members can report annualized income at any time, including when there is a change to their income and/or at renewal. Members are required to report a change within ten days of the change.

What if the applicant/member does not know what the annualized income from their work will be?

The member/applicant should only enter in annualized income if they are reasonably able to predict the annualized amount. If they have no basis for making a reasonable prediction about the annualized amount, then they should enter in the current monthly amount and not the annualized amount.

What are some examples of situations when an individual can reasonably predict their annualized income?

Examples of when an individual can reasonably predict their annualized income include a prior history with income from this employer, a signed contract from their employer that states their income, and other documentation or evidence indicating what they are expected to earn from this income source.

Can the individual skip entering in a monthly income amount and just enter in annualized income?

No, the individual must enter current monthly income to be able to get an accurate eligibility determination.

Will annualized income be considered when a member reports a change?

If it is appropriate to use the annualized income methodology, as described above, then annualized income will be considered when a member reports a change.

What happens if an individual is financially ineligible based upon their monthly income but they don't report annualized income?

The system will automatically calculate the annualized income based on the monthly income provided. If a person is financially ineligible based upon their monthly income, and they do not provide an annualized income, in most cases they will be found financially ineligible based upon the system calculated annualized income.

The one anticipated exception where an individual does not enter an annualized amount and is found ineligible based upon their monthly income, but may be eligible based upon their system calculated annualized income is one-time payments. The system calculated annualized income for a one-time payment will be the same as the monthly amount for that one-time payment.

Self-Employment Questions About Annualized Income

If an individual's only source of income is self-employment and they currently have no monthly income from self-employment, will you use annualized income to determine their eligibility for Medical Assistance?

No, if someone applying has current monthly income below the income threshold they can be found financially eligible for Medical Assistance, and the annualized income methodology will not be used. Annualized income is only used after the person is found financially ineligible based upon their current monthly income.

Will the annualized income methodology be applied to self-employment expenses?

No, the annualized income methodology will only be applied to the monthly gross income from self-employment. The monthly gross income will be annualized and converted into an average monthly amount and the current monthly self-employment expenses will be deducted from the average monthly amount.

What if the individual just started their own business and only has income for the first month. What should they enter in for the year?

If the individual is not able to reasonably predict what they are going to earn for the year from the self-employment then they should only provide an amount for the current month.

How can members verify their annualized income from self-employment?

The documentation that the member provides needs to verify the gross annual amount. Documentation that could be used to verify the gross annual amount from self-employment includes:

- Ledger (unless questionable)
- Profit and Loss Statement
- Prior year's Schedule C (line 1-Income from Sole Proprietorship)
- 1099-Misc (Box 7-Non Employee Compensation)

What if the individual has more than one 1099-Misc form from multiple income sources?

If the individual is self-employed and received multiple 1099-Misc forms and they are using the 1099-Misc to verify their self-employment, they may need to provide all of the 1099-Misc forms that are connected to their self-employment to verify the annual gross income.

Note: Not all 1099-Misc forms will be connected with self-employment.

Commission-Based Employment Question About Annualized Income

What is commission-based employment?

Commission-based employment is employment where part or all of the earned income is based on a percentage of sales made or a fixed amount per sale.

Are jobs with tips considered commission-based employment?

Yes, jobs with tips such as restaurant server, baristas, and bartenders are considered examples of commission-based employment.

What are some other types of commission-based employment?

Other examples of commission-based employment include the following:

- Car salesperson
- Real estate sales agent
- Insurance agent

How can an individual verify their annualized income from commission-based employment?

First, the system will try to electronically verify this income. If it cannot verify the income electronically then the individual may receive a request to provide a reasonable explanation or documentation that verifies the income, within 90 days.

When documentation is provided it needs to verify the gross annual amount. If the documentation addresses the current monthly income but fails to address the annual amount then it is not be acceptable as verification of the annual amount.

Documentation that can be used to verify the annual amount from commission-based employment includes:

- Letter from Employer
- Prior year 1040 (Line 7)
- Prior year W-2 (Box 1)
- Signed Contract

Seasonal Employment Questions About Annualized Income

What is seasonal employment?

Seasonal Employment is work that is performed only for part of the year for a set period.

What is a set period?

A set period is a portion of time, usually less than six months. While the period can be longer than six months, it cannot last an entire year.

The period has to be set. This means that open-ended employment is not seasonal but employment that reoccurred from year to year could be.

Some examples of a set period include a set number of months, a season (such as spring, summer, autumn, or winter), or a school year.

Is teaching considered seasonal employment?

A teacher could be considered a seasonal employee, so long as their work is performed only for part of the year for a set period.

Note: There will be some teachers who fall under the definition of seasonal workers because they perform their work for nine months of the year, but they receive the same monthly compensation from their employer for all 12 months of that year. In this case it is expected that the annualized income methodology would come up with the same eligibility determination as their current monthly income.

What happens if an individual has 2 seasonal jobs, one in the summer and the other in the winter? Will both be annualized?

Seasonal job income is only annualized from a job which the individual is currently receiving income from. If the individual stopped receiving income from a summer job before the winter job began then the income from the summer job would not be annualized during the period when the individual was working the winter job.

However, if the individual was receiving income from two seasonal jobs at the same time then both would be annualized during that period.

What are some other types of seasonal employment?

Other types of seasonal employment include the following:

- Ski resort employees
- Seasonal farm workers
- Holiday retail sales associates

How can an individual verify their annualized income from seasonal employment?

First, the system will try to electronically verify this income. If it cannot verify the income electronically then the individual may receive a request to provide a reasonable explanation or documentation that verifies the income, within 90 days.

When documentation is provided it needs to verify the gross annual amount. If the documentation addresses the current monthly income but fails to address the annual amount then it is not acceptable as verification of the annual amount. Items that could be used to verify the annual amount from seasonal employment include:

- Letter from Employer with
    - Annual income amount; or
    - Indicating monthly amount and the period of employment
- Prior year 1040 (Line 7)
- Prior year W-2 (Box 1)

Examples of the Application of the Annualized Income Methodology

Example 1 Owen:

Owen (age 22) is applying for medical assistance coverage for himself. He is a waiter and applies in June and reports he currently earns $1,600 per month. Because Owen's job is tip-based he reports this income as commission-based income.

Income threshold for family size of 1 for MAGI Adult is $1,317[1].

The system will automatically calculate Owen's annual income from his job as a waiter to be $19,200 ($1,600*12=$19,200). Owen knows, based upon his prior work history at this job, that he averages $1,600 per month from his job for the months of June through August, but that he averages $1,200 per month for September through May. Owen reasonably knows the annual income is incorrect and reports that his actual annual income for the year is $15,600 (($1,200*9=$10,800) + ($1,600*3=$4,800) =$15,600).

The system will find that he is financially ineligible for MAGI Adult based on his current monthly income; however because he has indicated that he has commission based income, the system will apply the annualized income methodology. Applying the annualized income methodology to Owen will come up with an average monthly amount of $1,300 from Owen's job as a waiter ($15,600/12 = $1,300 (average monthly amount)). The average monthly amount of $1,300 would mean that Owen is under the income threshold for Adult MAGI category and is financially eligible for Health First Colorado (Colorado's Medicaid Program).

Example 2.a Ted, Theresa, Stacey, and Shawn:

Ted (age 28) is applying for Medical Assistance coverage for himself, his wife Theresa (age 26), his daughter Stacey (age 7), and his son Shawn (age 5). Ted has a seasonal job as a roofer, he earns $3,000 per month and is employed in March through September.

Income threshold for family size of 4: Parent/Caretaker $1,377, MAGI Adult $2,694, MAGI Child $2,876, CHP+ $5,265. [1]

He applies for coverage in November through PEAK and only reports that Theresa earns

[1] All Income threshold referenced in this document are based off of Monthly Maximum Income Guidelines effective April 1, 2016.

$1,000. Based upon a current monthly income of $1,000, Ted and Theresa would be financially eligible for the MAGI Parent/Caretaker category and Tracy and Terry would be financially eligible for the MAGI Child category.

In March, Ted's seasonal employment restarts and he reports that his current monthly income is now $3,000 and that it is seasonal employment. Theresa's income is still $1,000. The system calculates that Ted's annual income from his job as a roofer is $36,000 ($3,000*12=$36,000). Ted, based upon his prior years of employment at this job, knows that this is incorrect and reports that his actual annual income from his roofer job is $21,000 ($3,000*7=$21,000).

For the month of March, the current monthly income for all members of Ted's Household would be $4,000. For the kids (Stacy and Shawn) this amount would be above the income threshold for MAGI child; however, continuous eligibility[2] would apply and maintain their current coverage under MAGI Child. For the adults (Ted and Theresa) this amount would be above the income threshold for MAGI Adult program and they would be found financially ineligible. Since Ted and Theresa are financially ineligible based off of their current monthly income and Ted's income is from seasonal employment, the annualized income methodology will be applied to both.

Applying the annualized income methodology to Ted's income will come up with an average monthly amount for Ted's income of $1,750 ($21,000/12 = $1,750 (average monthly amount)). To determine Ted and Theresa's eligibility after applying the annualized income methodology we would add the average monthly amount from Ted's income to the current monthly amount from Theresa's income for an amount of $2,750 ($1,000+$1,750=$2,750). This amount is above the MAGI Adult threshold amount, but the 5% disregard will be applied which will make both Ted and Theresa income below the threshold and they will be found financially eligible for the MAGI Adult program.

Example 2.b Pregnancy reported for Theresa in June

In June, Theresa reports that she is pregnant and expecting one child. All other facts are the same as example 2.a.

Income threshold for family size of 5: MAGI Adult $3,153, MAGI Child $3,366, MAGI Pregnant $4,622, CHP+ $6,162

[2] For more information on continuous eligibility look at the continuous eligibility FAQ, found at: https://www.colorado.gov/pacific/sites/default/files/Continuous%20Eligibility%20frequently%20asked%20questions.pdf

Stacey and Shawn are currently covered under MAGI child due to continuous eligibility.

Ted and Theresa are currently covered by MAGI Adult after applying the annualized income methodology in March. In June their eligibility will be re-determined based upon a change in their family size from 4 to 5.

The current monthly income in June is still $4,000. Theresa would be found financially eligible because the current monthly income would be under the MAGI Pregnant income threshold for a family of 5. Ted would still be financially ineligible based upon the current monthly income because the $4,000 would still be above the MAGI Adult threshold for a family of 5. Since Ted is financially ineligible for MAGI Adult the annualized income methodology would be applied to determine his eligibility. As in example 2.a, Ted would be found financially eligible for MAGI Adult once the annualized income methodology was applied to him.

In October, Ted once again reports that his income has decreased to $0. All Household members would be financially eligible for Medicaid based upon their current monthly income, though Ted would now be financially eligible under MAGI Parent/Caretaker. There is no difference in benefits between MAGI Adult and MAGI Parent/Caretaker.

Example 3 Rossana and Robert:

Rossana (age 58) is applying for coverage for herself and her husband Robert (age 56). They own a farm (which counts as self-employment). They harvest and sell their crops twice a year (May and October) for $30,000 each month. They also make $500 a month from the sale of honey. They do not list any expenses.

Rossana applies for coverage in October and reports that their current gross monthly income is $30,500 ($30,000 from crops and $500 from monthly honey sales). The system calculates that their gross annual income from the farm to be $366,000 ($30,500*12=$366,000). Rossana knows from the many years of running the farm that this is wrong and reports that they expect the actual gross annual income from the farm will be $66,000.

Income threshold for family size of 2 for MAGI Adult is $1,776.

In October, the current gross monthly income for Rossana and Robert would be $30,500 which would make them financially ineligible for the MAGI Adult category. Since they are financially ineligible for the MAGI Adult category and they have self-employment income, the annualized income methodology is applied.

Applying the annualized income methodology to Rossana and Robert will come up with an average gross monthly amount of $5,500 from the farm ($66,000/12 = $5,500 (average monthly amount)). They would be found financially ineligible for the MAGI Adult category even after the 5% disregard is applied.

If Rossana and Robert choose to reapply in November, and update their current gross monthly self-employment income to $500 they will then be found eligible for the MAGI adult category based upon their current monthly income.

Example 4 Frank, Felicia, Edwin, and Elizabeth:

Frank (age 37) is applying for coverage for himself, his wife Felicia (age 37), his son Edwin (age 14), and his daughter Elizabeth (age 8). He applies in February and reports that he receives $2,500 for the current month and that his job is commission-based employment. Frank also reports that Felicia is self-employed, she has $250 in self-employment expenses and is getting $1,000 gross income from her self-employment. Felicia's current monthly net income from self-employment is $750 ($1,000-$250=$750 (net income)). The system calculates that Frank's annual income from his job is $30,000 ($2,500*12=$30,000) and that Felicia's gross annual income from her self-employment is $12,000 ($1,000*12=$12,000). Frank, knows that he is not going to make $30,000 for the year because his employment is ending in February so he attests that his actual annual income is $5,000.

Income threshold for family size of 4: MAGI Adults $2,694, MAGI Child $2,876, CHP+ $5,265.

For February, the current monthly income for all members of Frank's household would be $3,250 ($2,500+$750=$3,250 (household income)). The household size for each member of the household is 4. For the kids (Edwin and Elizabeth), the current monthly income would be below the income threshold for CHP+ which would make them financially eligible for CHP+. For the adults (Frank and Felicia) the current monthly income would be above the threshold for MAGI Adult (even with the 5% disregard applied) which would make them financially ineligible for the MAGI Adult program.

Even though Edwin and Elizabeth are financially ineligible for MAGI Child, the annualized income methodology will not be applied to them because they qualify for CHP+. However, Frank and Felicia have been found financially ineligible for the MAGI Adult program, and they have income from both commission-based employment and self-employment, so the annualized income methodology will be employed for them.

The system will apply the annualized income methodology to Frank and Felicia's income. For Frank the average monthly income will be $416.66 ($5,000/12=$416.66 (Frank's average monthly income)). For Felicia because she did not report an actual gross annual amount different from the system calculated gross annual amount, the average gross monthly income from her self-employment will be the same as her gross monthly income from her self-employment $1,000 ($12,000/12=$1,000 (Felicia's average monthly income)). The amounts that would be taken into consideration are Frank's average monthly amount from his commission- based job plus Felicia's average gross monthly amount from her self-employment, minus Felicia's current monthly expenses from self-employment for a total amount of $1,166.66 (($416.66)+($1,000-$250)=$1,166.66). They would be found financially eligible for MAGI Adult.

For more information contact

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