



BENEFIT *Advisor*

In This Issue

In this third issue of the McGrawWentworth Benefit Advisor for 2014, we review the changes to Medicaid. Health care reform includes a voluntary expansion of Medicaid eligibility rules. States have the option to expand eligibility. About half of the states have decided to expand Medicaid eligibility.

Employers may want to inform employees that Medicaid can be an alternative to the employer-sponsored health plan. For low-income employees, Medicaid may be a more affordable health coverage option.

We welcome your comments and suggestions regarding this issue of our technical bulletin. For more information on this Benefit Advisor, please contact your Account Manager or visit the McGrawWentworth web site at www.mcgrawwentworth.com.

“Medicaid: An Opportunity?”

Medicaid was created to help cover the cost of health care for low-income individuals. It is run by states and funded by both state and federal governments. Before health care reform, the state determined Medicaid eligibility. Most states used complicated formulas that took income and assets into account. Very few low-income adults were eligible for Medicaid, unless they covered their family, were pregnant or disabled.



One way health care reform proposed to increase coverage for the uninsured was to expand Medicaid eligibility by standardizing the eligibility provisions across all states. States would have been required to expand Medicaid to cover anyone making less than 138% of the Federal Poverty Limit (FPL). However, the Supreme Court decision in 2012 made Medicaid eligibility expansion voluntary.

An expanded Medicaid may offer an opportunity to employers. They may be able to shift risk to Medicaid plans. For low-income employees, Medicaid may offer low cost, comprehensive coverage. However, employers can't force employees to take Medicaid coverage.

This *Advisor* examines the employers' key considerations and the Medicaid

coverage available for potential employees:

- Impact of the Supreme Court Ruling on Medicaid Expansion
- Details of Medicaid Coverage
- Medicaid Eligibility and Enrollment
- Employer Rules Related to Medicaid

Employers need to understand Medicaid. Medicaid can offer comprehensive low-cost health coverage to qualifying employees. If a qualifying employee selects Medicaid, employers shift the risk for that employee into a tightly managed, government-funded program. Employers need to be mindful of the strategies they can use to encourage employees to consider Medicaid.

Impact of the Supreme Court Ruling on Medicaid Expansion

Part of the Supreme Court decision in June 2012 affected the proposed expansion of Medicaid eligibility. Originally, health care reform simplified Medicaid eligibility rules and significantly expanded Medicaid eligibility. In general, individuals or families with household incomes at or below 138% of the FPL would be eligible for Medicaid.

States could either choose to adopt the expanded eligibility definition or lose all federal matching funds for their Medicaid program.

The Supreme Court ruled that the penalty for not expanding Medicaid eligibility was coercive. Most states would have been forced to expand Medicaid because they could not afford to lose their current Medicaid funding. As a result of the ruling, states can now refuse to expand Medicaid without losing their current federal funding.

Interestingly, the Supreme Court ruling created a potential issue for anyone with a low income living in a state that does not expand Medicaid. Health care reform subsidizes premiums to help people with low- and moderate-incomes buy health coverage through state Marketplaces. These subsidies are available to households earning between 100% and 400% of the FPL. In states that do not expand Medicaid, it's possible that some people making less than 100% of the FPL may not qualify for Medicaid or any subsidies in the state Marketplace.

Expanding Medicaid eligibility could increase costs for some states because it may dramatically increase the number of people enrolled. The federal and state governments currently share the cost of the Medicaid program. The federal government will initially pay the entire cost for expanding Medicaid to 138% of the FPL. The state share will slowly rise to 10% of the cost by 2020. Some states are concerned that the increased visibility of Medicaid will prompt some individuals that were previously eligible for Medicaid but

chose not to enroll to actually enroll in the program. States are concerned about any cost increases, especially the potentially substantial increases involved in expanding Medicaid eligibility.



States do not have a deadline on deciding whether to expand Medicaid eligibility. Kaiser Family Foundation tracks the state stance on Medicaid expansion state by state. That information can be found at <http://kff.org/health-reform/state-indicator/state-activity-around-expanding-medicaid-under-the-affordable-care-act/>.

Employers need to know whether the states where they have employees have expanded Medicaid. Michigan has approved the Medicaid expansion. The expansion is scheduled to take effect April 1, 2014.

Details of Medicaid Coverage

States administer Medicaid coverage and plans vary from state to state. In general, the plans provide comprehensive coverage at low or no cost to members. Most state plans have a very restricted network of providers that Medicaid participants can use. Medicaid plans are often provided through insurance carriers that are designed to tightly manage the risk. Different plan options may be available in different areas of the state.

Medicaid offers a number of different programs. For example, each state has a program specifically for children. These programs, called the Children's Health Insurance Program (CHIP), have broader eligibility provisions. They were created to ensure children had access to health coverage even if their parents were not eligible for

Medicaid. There is also a separate Medicaid plan that coordinates with Medicare. Other programs may be included under the Medicaid umbrella in various states as well.

Health care reform also changed Medicaid benefits. Just like individual insurance policies and small group insurance policies, Medicaid programs need to cover essential health benefits. Essential health benefits include coverage for the following:

- Ambulatory patient services
- Emergency services
- Hospitalization
- Maternity and newborn care
- Mental health and substance use disorder treatment services, including behavioral health treatment
- Prescription drugs
- Rehabilitative and habilitative services
- Laboratory services
- Preventive and wellness services and chronic disease management
- Pediatric services, including oral and vision care

In Michigan, the expanded Medicaid coverage is called the "Healthy Michigan Program." Many of the details on the Healthy Michigan Program have not yet been released. This program required federal approval because of some unique plan provisions. For example, the program does require copays for certain services. Participants will have a \$2 copay for physician office visits and urgent care center visits. In addition, participants with modified adjusted gross incomes between 100% and 138% of the FPL must contribute to a state-administered Health Savings Account (HSA). Funds in the HSAs will be used to pay for cost-sharing required under the Healthy Michigan Program.

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Participants can also reduce their income-based premiums by making healthy lifestyle choices recommended by a physician.

The Healthy Michigan plan will be delivered through a number of plan options that will be made available throughout the state. For example, in Oakland County, there are seven different plan options. The different plans will have different provider networks. Wayne County has eight different Healthy Michigan plans.

More information on the Healthy Michigan plan can be found at www.michigan.gov/healthy_michiganplan.

Medicaid Eligibility and Enrollment Process

For states that do expand Medicaid eligibility, the provisions have been simplified. No longer will they need to use complicated formulas looking at income and assets. Instead, the Modified Adjusted Gross Income (MAGI) will determine eligibility. This is the same income used to determine eligibility for subsidies in the Exchange.

States can determine the MAGI by looking at the Adjusted Gross Income on tax forms. The following income is included in the MAGI:

- Wages, salaries, tips, and so on
- Taxable interest
- Taxable amount of pension, annuity, IRA distributions, and social security benefits
- Business income, farm income, capital gains
- Unemployment compensation
- Ordinary dividends
- Alimony received
- Rental real estate, royalties, partnerships, S corporations, trusts

- Taxable refunds, credits or offsets of state and local income taxes
- Other income

MAGI would not include:

- Certain self-employed expenses
- Student loan interest deduction
- Educator expenses
- IRA deductions
- Moving expenses
- Penalty on early withdrawals of savings
- Health Saving Accounts (HSAs) contributions
- Alimony paid
- Certain business expenses of reservists, performing artists, and fee-basis government officials

To determine the MAGI, the taxpayer must add non-taxable social security benefits, tax-exempt interest, and foreign earned income and housing expenses for Americans living abroad.

For the Medicaid expansion, states determine eligibility based on the MAGI for the household, the size of the household and the Federal Poverty Limit (FPL). In 2014, a single person with a household MAGI of roughly \$16,000 will be eligible for Medicaid. A family of four with a household MAGI of roughly \$32,900 would be eligible for Medicaid.

The state Marketplace determines whether applicants are eligible for Medicaid. Eligible applicants are then transferred to the state department in charge of Medicaid. Applicants eligible for premium subsidies are told that subsidies are available.

They can then choose a Qualified Health Plan and use the subsidies they receive to offset the required premiums.

The challenging launch of the Marketplaces affected Medicaid enrollment. Many states had to modify the enrollment process when the Marketplaces were not working properly. The Marketplaces are still trying to improve that process. The intention is that the Marketplace is one stop for

evaluating all available health insurance options and obtaining individual insurance coverage. It will evaluate individual situations and direct

people to the appropriate options, including Medicaid and potential premium subsidies.



Employer Rules Related to Medicaid

Employers can benefit from expanded Medicaid eligibility. If employees elect Medicaid, employers will not have to cover them under their health plan. Employers will not have to pay any penalties under health care reform.

The government does not want to encourage employers to shift the risk to government-funded programs. Employers cannot refuse to cover Medicaid-eligible employees under their plan. They also need to be careful about encouraging employees to choose Medicaid instead of employer health coverage. Incentives specifically intended to encourage employees to choose Medicaid over employer plans violates federal law. However,

some employers do offer opt-out bonuses to employees that elect other group health coverage, such as coverage available through a spouse's employer. An employer could offer this opt-out bonus to employees that elect Medicaid without violating the federal rules.

Employers with low-income employees may choose to inform them about Medicaid. It may be difficult to provide specifics on the programs. With different vendor options for the program, it is hard to provide specific information. However, with the changes health care reform requires, you can explain Medicaid's comprehensive coverage of essential health benefits. Employees interested in Medicaid need to go to www.healthcare.gov to determine whether they are eligible and get details on the plans available.

Employers should not focus on only low-income employees. Many employers are looking at increasing contributions for spouses or dependent children coverage. The CHIP may offer more affordable coverage to dependent children. The eligibility requirements for CHIP are broader than the Medicaid program. Employees may find it more cost-effective to cover their children under the state CHIP option.

Medicaid may be a great option for low income employees struggling to afford health coverage.

Concluding Thoughts

The expanded Medicaid eligibility provides a great opportunity for low-income individuals to enroll in a low-cost, comprehensive health plan. Many uninsured individuals have taken advantage of the broadened eligibility. It is difficult to get updated enrollment numbers for Medicaid. States that have expanded Medicaid are seeing increased enrollment in the program.

According to the Congressional Budget Office, by 2016, Medicaid enrollment is expected to increase by 12 million. Overall, an estimated 29% of the current 47.6 million uninsured are eligible for Medicaid in their state. It is clear that expanding Medicaid does help cover people who may not be able to afford health insurance otherwise.

The expansion will affect Michigan. Before the expansion, Medicaid covered one in five Michigan residents, mainly low-income children, pregnant women, people with disabilities and some poorer working adults. Now approximately 470,000 uninsured Michigan residents will be eligible for Medicaid.

There are drawbacks to the Medicaid program. Most programs have a restricted network of providers. Those who expect choice in a health plan will struggle with the Medicaid restrictions. In addition, the Medicaid program has a certain stigma attached to it. People in income brackets that fall into Medicaid eligibility don't always think of themselves as "low-income" or needing Medicaid. Many times they are sole proprietors who have variable income situations. These individuals are disappointed that Medicaid eligibility is closing off their eligibility for subsidies and other coverage alternatives offered through the Marketplace.

Employers as well as employees may benefit from Medicaid expansion. As employers increase contributions or reduce benefits, the plan or care can become unaffordable to very low-income employees. Medicaid does offer comprehensive coverage at a very low cost. Even with a limited panel of providers, for those that can't afford coverage or care, Medicaid is important. If an employee qualifies for Medicaid and chooses to enroll in it, the employer will not be penalized.

Low-income individuals need to understand the benefits of the Medicaid program. Please contact your McGraw Wentworth Account Manager with any questions. **MW**

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