Kansas Department of Health and Environment
Division of Health Care Finance

Pre-tax & Federal Deductions Scenarios

1. Family Medical

Example 1: Application is received requesting coverage for two children. The PA reports $250 in monthly pre-tax income deductions. Worker accepts the amount from the income detail screen (or adds the record) based on self-attestation. The amount will be excluded from the gross income when EDBC is run, and with that amount the children are PLN eligible. No verification is required. PLN may be approved.

Example 2: Application is received requesting coverage for two children. The PA reports $250 in monthly federal deductions and $100 in pre-tax income deductions. Worker requests proof of the deductions as the total amount exceeds $300 (a tax form/tax return **and** paystubs/employer statement since both types of deductions were reported). If proof is received, the amount from the tax form/paystubs will be entered and used in the determination. If proof is not received, the deduction will not be entered into KEES, and the determination will be completed without it. A snippet will be included in the notices informing the PA that reported deductions were not used.

Example 3: Application is received requesting coverage for child. No pre-tax or federal deductions are reported on the application; however, paystubs are provided that show a pre-tax amount such as an HSA account. If the paystub/application includes enough information to determine frequency, the amount should be entered into the income detail screen in KEES as a pre-tax withholding, considered verified, and used in the determination.

Example 4: An old version of the application that does not include pre-tax/federal deduction sections is received from PA requesting coverage for self and child. Worker attempts a call to get self-attestation of any pre-tax or federal deductions but is unsuccessful. Worker sends out form KC-4530 requesting information. If not received, no further action needed – continue processing without deductions. If received with deductions reported, verification policies apply.

Example 5: An application is received requesting coverage for child. The PA reports deductions totaling $400.00. Using the SA of income, which is RC with data sources, the determination will be over income for all programs. In observing the income used by EDBC on the budget screen, it can be observed that even subtracting the $400.00 in deductions will not result in program eligibility. In this case, no verifications are required to complete processing. Reasoning should be clearly journaled.

II. Elderly & Disabled

Example 1: Individual over 65 requesting coverage reports $50 in monthly Cafeteria Plan and $200 Health Savings Accounts pre-tax income deductions. Worker accepts the amount from the income detail screen (or adds the record if it was rejected) based on self-attestation. Worker approves a Medically Needy spenddown and QMB with the $250 deduction accounted for.

Example 2: Disabled individual requests Medically Needy coverage and reports $525 in Health Savings Account (HSA) and $250 in Alimony totaling $775 in monthly federal deductions. Worker sends the verification request for proof since it is more than $300. The proof is not returned. The worker approves the Medically Needy spenddown with MSP. Since proof was not received, the deductions are not factored into the determination. The worker includes the standard copy and paste snippet in the approval NOA to let the consumer know that the determination was made without the deductions.

Note: If they don't provide proof of any and the amount exceeds $300, tax deductions will not be allowed at all. If the consumer returned proof of some of the deductions but not all of them, we would allow the ones they provided proof of.

Note: In 2021, the maximum limit for the Health Savings Account Federal Deduction is $3,600. This is the equivalent of $300 a month. If the HSA verification had been received, only $300 of the $525 would be used in the determination by KEES. Common Federal Deductions have the limits built into the system to account for this. Staff will have to make adjustments manually to not allow more than the limit for deductions if they are not calculated by the system.

Example 3: Individual over 65 reports earned income and submitted the old application that doesn't have the pre-tax and federal deductions listed. Worker attempts contact to get self-attestation of any pre-tax or federal deductions but is unsuccessful. Worker sends the KC-4530 Pre-tax and Federal Deductions – Information Request form to the individual. Individual does not return the form. Worker approves Medically Needy spenddown and MSP without the deductions since all other verifications were provided. The worker includes the standard copy and paste snippet in the approval NOA to let the consumer know that the determination was made without the deductions.

Example 4: Consumer is receiving HCBS. MSP/QMB is later added via case maintenance reports with the current process using existing income and resources on the case. The worker reviewed the case file and there were not any reports of deductions. At the next review, consumer reports $50 in Savings Early Withdrawal Penalty (Federal deduction) and $50 in Life Insurance (Pre-tax deduction) with a total of $100 monthly deductions. Since this is $300 or less and is less than the Federal deduction limit for Penalty on Early Withdrawal of Savings, worker adds the record taking self-attestation. The deduction will apply to the MSP program but not the HCBS share of cost per policy. Since the RMT is LTC, the system won't apply the deduction. As the deduction does not impact the consumers QMB eligibility,

the KEES provided workaround is not needed. The records are still added to KEES so that they will reflect correctly on the next review. The worker journals why the workaround was not needed in this case.

Note: Staff that work case maintenance reports to add MSP coverage to active recipient that is employed, and pre-tax/federal deductions are not on the case are expected to review the case file for verification of deductions from the last eligibility determination. If no documentation is found, then staff complete the case maintenance action and follow up on the deductions at review.

Example 5: Consumer has HCBS with MSP/LMB. At review, they report a health insurance premium of $145 as both a pre-tax deduction and an expense. The record is added as a pre-tax deduction. The worker uses the KEES provided workaround to change the consumer from LMB to QMB since it is an LTC program block which does not apply pre-tax or federal deductions. The health insurance premium expense continues to be allowed on the HCBS program as an expense since LTC programs do not use deductions.

Example 6: Consumer has Medically Needy spenddown with QMB. At review, they report a health insurance premium of $145 as both a pre-tax deduction and an expense. Since the consumer receives coverage on multiple programs, the premium is added as a deduction. The worker adds the pre-tax deduction to the earned income record and approves Medically Needy with QMB.

Example 7: Individual is applying for Working Healthy with MSP. They report BWE and a health insurance premium of $145 as both a pre-tax deduction and an expense. The deduction will be used as a pre-tax deduction because MSP doesn't use expenses. Without the deduction, the individual would qualify for LMB but with the deduction, they move to QMB. Since the RMT is Working Healthy which doesn't use deductions, a workaround is used to change the consumer from LMB to QMB.

Example 8: Consumer is receiving Working Healthy with LMB. At review, they report $150 in pre-tax deductions. As this is under $300 self-attestation is taken. The $150 deduction is added into the earned income record in KEES. Since the RMT is Working Healthy, the system will not apply the deduction to either program. The worker determines that the deduction would qualify the consumer for QMB instead of LMB. The KEES provided workaround is used to approve Working Healthy with QMB.

Note: If the case is LTC with MSP but the pre-tax/federal deduction does not change the MSP program, the workaround is not needed as it won't impact the determination.

Example 9: Individual over 65 applies for coverage. They report $250 in pre-tax deductions with $100 of it being the health insurance premium. They also report a health insurance premium expense of $100 and submitted proof of the expense. Worker applies the $250 as pre-tax deductions so that the Health Insurance Premium is not allowed twice. A Medically Needy spenddown with MSP is approved.

Example 10: A consumer applies for MSP only. They do not have any other active coverage. The application reports $200 in pre-tax deductions. The consumer is eligible for ELMB with the pre-tax deduction otherwise they would have been ineligible. The pre-tax deduction is allowed, and self-attestation is accepted due to it being $300 or less.

Example 11: Both parents and two children apply for coverage. One parent is disabled and the other has earned income. The application reports $100 in pre-tax deductions for the Health Insurance Premium and $200 in IRA federal deductions. The $100 Health Insurance Premium is also reported as an expense and proof has been provided. Since the reported amount is $300 or less, self-attestation can be used for deductions on the Family Medical program. The IRA Federal deduction is less than the Federal limit so the full amount can be used. The $200 in federal deductions and $100 in pre-tax deductions are applied to the case since there is a combination of programs that do and do not allow expenses.

Example 12: PA moves from LTC to Medically Needy as a case maintenance action. The worker reviews existing documents in the case file to see if pre-tax or federal deductions were reported since they were not allowable for LTC but are for Medically Needy. The worker does not find any report of the expense or pay stubs on the case and processes Medically Needy without the deductions. At the next review, pre-tax and federal deduction information is gathered on the review form and the worker will update these deductions if reported at that time using the Federal limits and verification process as appropriate.

Example 13: PA moves from LTC to Medically Needy as a case maintenance action. PA is not eligible for Medicare. The worker reviews existing case files and applications to see if pre-tax or federal deductions were reported since they were not allowable for LTC but are for Medically Needy. The worker finds that earned income was previously verified via Tier 1 with the last determination made which was in the same review period. After reviewing the paycheck stub, the worker finds that $100 in HSA and $115 in health insurance premiums are taken out of the check twice a month. The total amount is over the $300 threshold, however as hard copy verification is on file, additional documents are not required and should not be requested from the consumer. The deductions are under the Federal limits. The worker adds the $200 HSA deduction to the earned income record. They also see that the health insurance premium was allowed as a $230 medical expense while on LTC, so no additional action is required for the premium. EDBC is ran allowing the pre-tax deductions and medical expenses on the Medically Needy spenddown program.