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Reasonable Compatibility Policy Presents an Opportunity to Streamline Medicaid Determinations

By Jennifer Wagner

The Affordable Care Act (ACA) ushered in a new approach to determining eligibility for Medicaid with the goal of providing simplified and streamlined access to coverage. The new approach relies on electronic data sources to verify eligibility and minimizes the need for applicants and beneficiaries to submit paper documentation. When verifying income, state Medicaid agencies compare the sworn attestations that clients make on their application and renewal forms to available electronic data. The attestation and data source are considered “reasonably compatible” if they are both below, at, or above the eligibility threshold, even if the amount of income in the attestation is different from the amount in the electronic data source. Under reasonable compatibility, states can require documentation only when the difference between the attestation and data source affects eligibility. This increases the efficiency of eligibility determinations and decreases the number of eligible clients denied for procedural reasons.¹

Reasonable compatibility is a new concept for state policymakers and Medicaid eligibility workers. State policies should comply with federal requirements and be clear and easy to apply. States should use the flexibility they have under federal rules to maximize efficient use of electronic data in processing applications and renewals processing in some common complex situations not covered by the general reasonable compatibility rule. Implementing best practices that minimize the need for the submission of documents can expedite eligibility determinations, provide quicker access to coverage, minimize churn, and significantly reduce unnecessary burdens on Medicaid beneficiaries and eligibility workers.

Reasonable Compatibility Policy

ACA regulations require that states compare electronic data sources to income information provided by the applicant or beneficiary to determine whether the attestation and electronic data are

¹ States deny an application or close an active case for procedural reasons when a step in the eligibility determination process is not completed (as opposed to finding the client ineligible based on income or other factors). Procedural denials occur when a client does not submit a requested paper verification or an eligibility worker does not process a necessary document. States can reduce these denials through policies that increase reliance on electronic data sources and decrease the number of verification documents clients must submit.

“reasonably compatible.”² States don’t have to obtain additional documents from applicants or beneficiaries to determine eligibility if their attestations are “reasonably compatible” with the electronic data.

Under the regulations,³ Medicaid agencies must compare the applicant’s or beneficiary’s attestation to available electronic data sources and evaluate whether any difference affects eligibility. If both the attestation and the data source are at or below the eligibility threshold, the Medicaid agency finds the individual eligible. In these situations, the difference between the attestation and data source doesn’t affect eligibility, because the individual would be eligible using either the electronic data or the attestation.

With the approval of the Centers for Medicare & Medicaid Services (CMS), states can establish a *reasonable compatibility standard*, which applies when an attestation is below the eligibility threshold but data sources show income above the threshold.⁴ States may set an acceptable level of variance — either a percentage of income or a specific dollar amount — when the difference between the attestation and data source doesn’t have to be reconciled.⁵ For example, in a state with a 10 percent reasonable compatibility standard, if an applicant’s attestation of income is below the eligibility threshold and the data source is above the threshold, but within 10 percent of the attestation, the attestation and data source are considered reasonably compatible and the applicant is determined eligible.

If the attestation and data source are not reasonably compatible, the Medicaid agency must reconcile them by requesting a reasonable explanation of the discrepancy or other documentation.⁶ Table 1 demonstrates how reasonable compatibility policy applies to different situations.

² Reasonable compatibility applies to Medicaid and Children’s Health Insurance Program (CHIP) eligibility determinations in all states, regardless of whether the state expanded Medicaid under the ACA. The marketplaces use a different methodology for comparing reported income and data sources when determining eligibility for Premium Tax Credits. This paper focuses on reasonable compatibility for Medicaid and CHIP.

³ “Income information obtained through an electronic data match shall be considered reasonably compatible with income information provided by or on behalf of an individual if both are either above or at or below the applicable income standard or other relevant income threshold.” 42 CFR §435.952(c)(1).

⁴ States must submit eligibility verification plans to CMS specifying the methods they are using to verify eligibility, including choices for reasonable compatibility. State eligibility verification plans are available at <https://www.medicaid.gov/affordablecareact/provisions/eligibility-verification-plans.html>.

⁵ Thirty-four Medicaid agencies have established a reasonable compatibility standard and 17 have not adopted a standard. The majority of states with a standard (33 states) use a percentage threshold, most often 10 percent, while one state uses a dollar threshold. Tricia Brooks, *et al.*, “Medicaid and CHIP Eligibility, Enrollment, Renewal, and Cost-Sharing Policies as of January 2016: Findings from a 50-State Survey,” Kaiser Family Foundation, January 21, 2016, <http://kff.org/report-section/medicaid-and-chip-eligibility-enrollment-renewal-and-cost-sharing-policies-as-of-january-2016-tables/>.

⁶ 42 CFR §435.952(c)(2).

TABLE 1

Application of Reasonable Compatibility Policy to Common Scenarios

Assume a state is determining the eligibility of a single adult. The eligibility threshold is 138 percent^a of the federal poverty line (FPL), which is \$1,366/month. The state has adopted a 10 percent reasonable compatibility standard.

Scenario	Client Attestation	Data Source	Reasonably Compatible?	Outcome
Both below eligibility threshold	\$297/month (30% FPL)	IRS data - \$7,128/year (\$594/month) (60% FPL)	Yes	Eligible – count \$297/month
Both above eligibility threshold	\$1,485/month (150% FPL)	Work Number ^b - \$1,683/month (170% FPL)	Yes	Ineligible – refer to marketplace
Within reasonable compatibility standard	\$1,346/month (136% FPL)	Quarterly wage data - \$4,218 (\$1,406/month) (142% FPL)	Yes – Data source is within 10% of attestation	Eligible – count \$1,346/month
Not within reasonable compatibility standard	\$1,337/month (135% FPL)	Work Number - \$1,782/month (180% FPL)	No – Data source is more than 10% above attestation	Request explanation

^a Adults are eligible for Medicaid under the Medicaid expansion if their income does not exceed 133 percent of the poverty line, but in applying the threshold, states must disregard an amount of income equal to 5 percent of the poverty line.

^b The Work Number is a commercial data source that collects wage information that many states and the federal government use to verify income.

Common Areas of Confusion in State Reasonable Compatibility Policies

A review of state reasonable compatibility policies shows common areas of confusion have resulted in policies at odds with the regulations.

The reasonable compatibility standard applies only at the eligibility threshold. States may apply a reasonable compatibility standard only when attested income is *below* the eligibility threshold and data sources show income *above* the threshold. However, a significant number states incorrectly apply their reasonable compatibility standards when both the attestation and the electronic data are below the eligibility threshold.

For example, if an applicant attests to income at 40 percent of the poverty line and data sources show income at 95 percent of the poverty line (and the eligibility threshold is 138 percent of the poverty line), the attestation and data source are reasonably compatible even though they differ by more than 10 percent, because they are both below the eligibility threshold. States should not apply their reasonable compatibility standards in this situation. When the attestation and data source are both below the eligibility threshold, they are reasonably compatible and the applicant is eligible, regardless of the size of the difference between the attestation and the electronic data.

States shouldn't require additional documents to determine FMAP. The Federal Medicaid Assistance Percentage (FMAP), which is the percentage the federal government pays for medical care delivered to eligible beneficiaries, varies for some adults depending on whether they would have

been eligible under the eligibility thresholds the state used before health reform. The federal government contributes a larger share to cover newly eligible adults than those who were already eligible, but CMS does not allow states to verify whether income puts an individual above or below the old income threshold solely for purposes of determining FMAP.⁷

Consider a state where parents were eligible before 2014 if their incomes were below 46 percent of the poverty line, but the eligibility threshold is now 138 percent of the poverty line. If an applicant attests to income of 30 percent of the poverty line but data sources show income of 70 percent of the poverty line, the state may not request additional verification from the applicant since the attestation and data source are both below the current eligibility threshold. The state must determine the parent eligible and calculate the FMAP based on the income recorded in the case file.⁸

States should have clear policy on the source of information recorded in the case file.

When the client's attestation and electronic data don't match but are reasonably compatible, states should generally record the attested income in the case file. Reasonable compatibility requires the use of electronic data sources to confirm the client's attestation, not replace it. This is especially important when the state is applying its reasonable compatibility standard. If the client attests to income below the eligibility threshold and the data sources show income above the eligibility threshold, but within the reasonable compatibility standard, the state must use the attested income and find the individual eligible for Medicaid. Recording the higher income would lead to a finding of ineligibility. (See the third example in Table 1 above.)

In some cases, the state may choose to record the income from the data source if it considers the source exceptionally accurate and it is reasonably compatible with the client's attestation. For example, Work Number data⁹ and verified income from the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) are usually recent and precise (unlike quarterly wage and IRS data). For states that jointly administer Medicaid with programs such as SNAP, it may be important to use Work Number or SNAP income information in the eligibility system to be consistent across the combined SNAP and Medicaid case. However, states must not rely on these data sources when they are not reasonably compatible with the client's attestation. If a client reports no income but the Work Number shows income above the eligibility threshold, the Medicaid agency must request an explanation rather than use the Work Number data, as the applicant may have recently experienced a change in circumstances.

Reasonable compatibility applies to eligibility determinations for non-MAGI cases. Most new regulations and policies under the ACA focus on eligibility determinations using Modified Adjusted Gross Income (MAGI), which is applicable to children, parents, pregnant women, and newly eligible adults without dependent children. Reasonable compatibility, however, applies to

⁷ See Medicaid and the Affordable Care Act: FMAP Final Rule Frequently Asked Questions, August 29, 2013, <https://www.medicaid.gov/medicaid-chip-program-information/by-topics/financing-and-reimbursement/downloads/fmap-faqs.pdf>.

⁸ *Ibid.*, Question 4.

⁹ The Work Number is a commercial data source that collects wage information that many states and the federal government use to verify income.

both MAGI and non-MAGI eligibility determinations.¹⁰ Many states overlook the opportunity to simplify eligibility determinations for seniors and people with disabilities.

States should be clear whether the percentage in their reasonable compatibility standard applies to income or the poverty line. Some states apply their reasonable compatibility standard as a percentage of income, whereas others use a percentage of the poverty line. Consider a state with a 10 percent reasonable compatibility standard. Using a percentage of income approach, the state will find the attestation and data source reasonably compatible if the data source is no more than 110 percent of the attested income. Using a percentage of the federal poverty line, a worker would convert both the attestation and data source to a percentage of the poverty line, and find them reasonably compatible if the difference between the two numbers is less than 10 percent of the poverty line. (See Table 2.) CMS provides significant flexibility in setting the reasonable compatibility standard, so either approach is valid. To ensure correct eligibility determinations and avoid errors, however, states must be clear as to which approach they have adopted in their verification plans and policy.

TABLE 2

Application of the Reasonable Compatibility Standard

Assume a state is determining eligibility for a single adult who attests to income of \$1,346/month. The data source indicates income of \$1,460/month. The eligibility threshold is \$1,366 and the state has a 10 percent reasonable compatibility standard.

Standard	Reasonable Compatibility Range	Reasonably Compatible?	Outcome
Data source within 10% of attestation	\$1,346 to \$1,481 (Attestation + 10% of attestation)	Yes	Eligible
Data source within 10% of the poverty line of attestation	\$1,346 to \$1,445 (136% FPL to 146% FPL)	No	Request explanation

Best Practices for Approaching Complex Scenarios

States can significantly increase real-time or same-day application processing by relying on data sources and reducing document requests. Leaving applications pending while waiting for documentation requires additional review from an eligibility worker and can lead to procedural denials if a request is not received, or documents aren't returned or processed. The same principles apply at renewal. States must try to complete *ex parte* renewals by attempting to confirm ongoing eligibility by comparing information in the case file to electronic data sources. A state may only require a beneficiary to submit a renewal form when the case file and electronic data are not

¹⁰ See “Streamlined Eligibility and Enrollment for Non-MAGI Populations,” Medicaid and CHIP Learning Collaboratives, June 22, 2015, <https://www.medicaid.gov/state-resource-center/mac-learning-collaboratives/downloads/non-magi-populations.pdf>.

reasonably compatible.¹¹ By applying reasonable compatibility policy to *ex parte* renewals effectively, states can increase the percentage of cases that are successfully renewed without eligibility worker or beneficiary action, increasing continuity of coverage and reducing churn.

Although reasonable compatibility policy for scenarios such as those in Table 1 is relatively straightforward and well settled, Medicaid agencies commonly encounter complex household circumstances that eligibility workers must address.¹² States have flexibility to adopt policies for these situations that can minimize documentation requests.

The following best practices for complex scenarios, which can be applied at both application and renewal, can increase the timeliness and efficiency of eligibility determinations by reducing documentation requests.

Households report no earned income. Many Medicaid households don't have earned income, because they are between jobs or unable to work and rely on unearned income such as Social Security. In most of these cases, states find no matches for earned income in electronic data sources since no one in the household is working. In this situation, the Medicaid agency should find the attestation and data source reasonably compatible, and request no further documentation from the client.

No information found in data sources. An applicant or beneficiary may report earned income but there may not be a match in electronic data sources. This often occurs when individuals are self-employed, work for a small employer, or recently started a new job. State Medicaid agencies may consider the lack of contradictory information as reasonably compatible with the attestation, and determine eligibility based on the attestation.

Data sources show different information. Most states use multiple earned income data sources, such as the Work Number, quarterly wage data, and IRS data. These data sources cover different periods of time, which may lead to differences in information. Medicaid agencies should establish a hierarchy in which eligibility workers rely on the most recent data source for an eligibility determination. For example, a worker should rely on a Work Number match showing paycheck information from two weeks ago instead of quarterly wage data that is a few months old. Clarification of the data hierarchy will lead workers to rely on the best information available rather than finding the sources contradictory and unnecessarily requesting further documentation from the client.

Client attestation and data source show different employers. An applicant or beneficiary may attest to income from one employer, but a data source may have income from a different employer. This often is because an employer has different names — the applicant or beneficiary may report the common name, but wage data uses the parent company's name. Or the client may have switched from one low-wage job to another. States may treat this information as reasonably

¹¹ If a state is unable to complete an *ex parte* renewal and requires the beneficiary to complete and return a renewal form, the state must again apply reasonable compatibility policy in comparing the attestation on the renewal form to electronic data sources.

¹² See also "Reasonable Compatibility Scenarios," Centers for Medicaid and CHIP Services, <https://www.medicaid.gov/medicaid-chip-program-information/by-topics/eligibility/downloads/reasonable-compatibility-scenarios.pdf>.

compatible as long as both sources are below the eligibility threshold (or within the reasonable compatibility standard).

Income changes during eligibility period. Reasonable compatibility applies to income changes during a Medicaid eligibility period, including those reported by a beneficiary and those found through data matches. States should provide Medicaid beneficiaries clear information about the changes they should report. States may instruct beneficiaries that they only need to report income changes that affect eligibility, such as when their income exceeds the eligibility threshold.¹³ If a beneficiary reports a change, states should only request verification if the change will affect eligibility. For example, if a household that previously had no earned income reports a new job earning 85 percent of the poverty line, there is no need to request documentation of this change, because it doesn't affect eligibility.

States should also pay attention to how they deal with automated data matches during a beneficiary's eligibility period. States periodically match beneficiary files with electronic data such as quarterly wage data, and may have a "trigger" for flagging discrepancies between what is in the case file and what is in the data source. This trigger leads to review by an eligibility worker or an automatically generated request for verification to the beneficiary. States should not generate eligibility worker review or client notices based on discrepancies that will not affect eligibility; the system should only require worker or beneficiary action when the data source shows income in excess of the eligibility threshold. States should evaluate the criteria they use to ensure they are not placing unnecessary burdens on eligibility workers and beneficiaries.

TABLE 3

Best Practices for Complex Scenarios

Assume a state is determining the eligibility of a single adult. The eligibility threshold is 138 percent of the poverty line, \$1,366/month.

Scenario	Client Attestation	Data Source	Reasonably Compatible?	Outcome
Client reports no earned income	\$0/month	No information found	Yes	Eligible – count \$0/month
No information found in data source	\$1,000/month from small employer	No information found	Yes	Eligible – count \$1,000/month
Data sources show different information	\$1,200/month	Work Number – \$1,300/month; quarterly wage data - \$4,500 (\$1,500/month)	Yes	Eligible – count \$1,300/month (Work Number data is more current and reliable than Quarterly Wage Data)
Client and data source show different employers	\$800/month from KFC	Quarterly wage data - \$3,000 (\$1,000/month)	Yes	Eligible – count \$800/month

¹³ 42 CFR §435.916(c).

TABLE 3

Best Practices for Complex Scenarios

Assume a state is determining the eligibility of a single adult. The eligibility threshold is 138 percent of the poverty line, \$1,366/month.

		from Yum! Brands, Inc.		
Change during eligibility period	\$0/month (Information in case file from last application or renewal)	During eligibility period, quarterly wage data shows match of \$2,100 (\$700/month)	Yes	Take no action – new information does not affect eligibility

Application of reasonable compatibility to CHIP. Many states with a Children’s Health Insurance Program (CHIP) require different premiums based on bands of income, which complicates the state’s application of reasonable compatibility, because states must determine eligible children’s income level in order to assign a premium.¹⁴

When determining whether an attestation and data source are reasonably compatible, states should consider whether they both fall below, at, or above the top eligibility threshold for CHIP. The state should evaluate whether the difference affects eligibility, not where it falls on the thresholds that separate premium bands. Further, states that have elected a reasonable compatibility standard must apply that standard when the attestation is below the top threshold but the data source is above, but within the reasonable compatibility standard. If the attestation and data source are reasonably compatible, the child is eligible for coverage. After the state determines the child is eligible, it may then assign a premium level. The state should assign the premium level based on the client’s attestation, as confirmed by the data source.

¹⁴ Some states also charge income-based premiums or cost sharing to Medicaid beneficiaries and face similar challenges.

TABLE 4

Reasonable Compatibility for CHIP

Consider a household of three applying for coverage in a state with Premium Level 1 for children with incomes from 150-200% of the poverty line (\$2,520–\$3,360 per month) and Premium Level 2 for children with incomes from 201-250% of the poverty line (\$3,361–\$4,200 per month). The state has a 10 percent reasonable compatibility standard for income.

Scenario	Client Attestation	Data Source	Reasonably Compatible?	Outcome
Attestation and data source within same premium level	\$2,688 (160% FPL)	\$3,192 (190% FPL)	Yes	Eligible for Premium Level 1
Attestation above data source (both under eligibility threshold)	\$3,696 (220% FPL)	\$2,688 (160% FPL)	Yes	Eligible for Premium Level 2 – count \$3,696/month
Data source above attestation (both under eligibility threshold)	\$2,688 (160% FPL)	\$3,696 (220% FPL)	Yes	Eligible for Premium Level 1 – count \$2,688/month
Attestation and data source within reasonable compatibility standard	\$4,166 (248% FPL)	\$4,234 (252% FPL)	Yes	Eligible for Premium Level 2 – count \$4,166/month
Data source above top eligibility threshold – not reasonably compatible	\$2,688 (160% FPL)	\$4,368 (260% FPL)	No	Request explanation
Attestation and data above top eligibility threshold	\$4,620 (275% FPL)	\$4,452 (265% FPL)	Yes	Ineligible – refer to marketplace

Reasonable Compatibility Furthers Program Integrity Goals

Use of electronic data sources to verify eligibility increases the accuracy of determinations by providing reliable information to the eligibility worker and reducing procedural denials and cancellations. The simplified business processes and the use of third-party verification sources required by health reform likely decrease the number of incorrect determinations by reducing erroneous denials that occur when an individual is eligible but procedural hurdles prevent him or her from obtaining coverage. They also likely decrease erroneous approvals when an ineligible individual is found eligible based on incorrect documentation or faulty processing of documents.¹⁵

As error rate measurements for Medicaid evolve, CMS is taking into account increased reliance on electronic data and policies like reasonable compatibility. For fiscal years 2014 through 2016, all states are conducting Medicaid and CHIP Eligibility Review Pilots. In guidance for the pilots, CMS

¹⁵ Medicaid and CHIP Payment Access Commission, Report to the Congress on Medicaid and CHIP, Chapter 4, March 2014, https://www.macpac.gov/wp-content/uploads/2015/01/ACA_Eligibility_Changes_Program_Integrity_Issues.pdf.

makes clear it measures errors based on whether a state follows its documented policy.¹⁶ Evaluators must consider the information known to the agency at the time of the eligibility determination (including the individual’s attestation and the available data sources) and whether the state accurately applied its policy, including reasonable compatibility.¹⁷ Efficient and consumer-friendly reasonable compatibility policies do not increase the state’s risk of error, as long as they are clearly detailed in state policy.

¹⁶ “The case review process should assess whether caseworkers and all automated and manual processes followed state procedures (i.e., state verification plan), state policies, and federal policies while making the eligibility determinations. ... The focus should be on whether a determination was made appropriately, according to state and federal policies, and to ensure that appropriate processes were followed.” Medicaid and CHIP Eligibility Review Pilot Guidance, Centers for Medicare & Medicaid Services, January 2015, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Monitoring-Programs/Medicaid-and-CHIP-Compliance/PERM/Downloads/Round3MedicaidandCHIPEligibilityReviewPilotGuidance0316.pdf>.

¹⁷ See also 42 CFR §431.960(d)(3). “A State eligibility error does not result from the State’s verification of an applicant’s self-declaration or self-certification of eligibility for, and the correct amount of, medical assistance or child health assistance, if the State process for verifying an applicant’s self-declaration or self-certification satisfies the requirements in Federal law, guidance, or if applicable, Secretary approval.”