CSHP
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Fact Sheet

Community Living Exchange

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Medically Needy Individuals

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Medically needy programs serve individuals whose income exceeds a state's regular Medicaid eligibility levels but who could be eligible if they can incur health care related expenses that, when subtracted from their income, reduce their income below a level specified by the state. This is known as "spending down" excess income or spend down. A state's medically needy income standard is limited to no more than 133 1/3 percent of the state's AFDC cash assistance payment in effect in June 1996. However, states can set a medically needy limit that is below the maximum allowed.

States determine an individual's spend down liability based on what is known as a "budget period." A budget period is a specified number of months for which the individual's income is compared to the state's medically needy income standard. States can establish a budget period of anywhere from one to six months. The amount of the required spend down is equal to the difference between countable income and the state's income standard, multiplied by the number of spend down months.

Briefly, here is how the process works. Let's assume a state has a one-month spend down period. The applicant has a monthly income of $800 and the eligibility standard is $600 a month. To meet the eligibility level, the applicant must incur health-related expenses of $200 before they are eligible for Medicaid. If the income standard is $400 a month, the applicant must incur $400 in medical expenses. To remain qualified, the applicant must incur enough health expenses to reduce their income to the eligibility standard each month. If the state is using a six-month budget period, all of the amounts in the above example would be multiplied by six.

Medically Needy Spend Down Examples			
	1 Month	**3 Month**	**6 Month**
Income	$800	$2,400	$4,800
Eligibility standard	$600	$1,800	$3,600
Excess income	$200	$600	$1,200
Spend down liability	$200	$600	$1,200

Incurred medical expenses

Federal rules identify the expenses that must be counted toward the spend down requirements:

- Expenses for Medicare and other health insurance premiums, deductibles and coinsurance;
- Expenses for necessary medical and remedial services recognized under state law but not included in the Medicaid state plan; and,
- Expenses for necessary medical and remedial services that are included in the Medicaid state plan, including those that exceed limitations on amount, duration or scope of services.

Beneficiaries need not have actually paid the bills which reduce their income to Medically Needy levels; they only have to incur a liability to pay the bills. Actual collection is the responsibility of providers. The Medicaid manual provides that “expenses used to meet spend down liability are not reimbursable under Medicaid. To the extent necessary to prevent the transfer of an individual's spend down liability to the Medicaid program, states must reduce the amount of provider charges that would otherwise be reimbursable under Medicaid.” Bills for small amounts (generally cost sharing for physician office visits or prescription drugs under in managed care arrangements) are often not collected. However, bills for home health or other community services are more likely to be collected since the provider is less likely to deliver services for which payment will not be made.

Some beneficiaries with large medical expenses may incur bills that they cannot pay and providers may not be willing to extend credit that would allow the person to incur the expense, obtain Medicaid eligibility and make payments over time. For example, an elderly person with high prescription drugs costs for multiple chronic conditions may exceed his spend down liability but the pharmacy is not able to fill the prescriptions unless payment is made. Since the beneficiary cannot incur the expenses, they cannot apply the costs to their spend down amount. Eligibility rules allow states to project expenses for institutional. However, medical and remedial costs that are incurred outside an institution cannot be projected.

States may set reasonable limits on the amount deducted for medical or remedial services recognized under state law but not included in the state Medicaid plan. Expenses incurred in the three month period prior to application for Medicaid can be deducted.

Pay in Option

Section 4723 of OBRA 1990 (P.L. 101-508) allows states to offer potential Medically Needy beneficiaries a “pay in” option. Under this approach, beneficiaries may pay an amount equal to the amount of their excess income directly to the Medicaid agency, in which case they are considered to have met their spend down liability for that budget period. .