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Earned and Unearned Income

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Revision Date:

07/01/2021

Background:

This section provides a listing of earned and unearned income.

Purpose:

This section was reformatted and update instructions for Temporary Census Income. In addition, information regarding the use of a Federal Income Tax Return as income verification was moved to Medi-Cal Program Guide (MPG) 04.07.02.

Policy:

It is necessary to determine if income is earned or unearned to apply the correct exemptions and deductions, calculate a customer's income eligibility and, if applicable, to compute the Share of Cost (SOC). Once earned and unearned income have been identified, evaluate it for exempt status (see MPG 10.03).

10.02.01A Gross Earned Income

Gross earned income includes, but is not limited to:

- Wages, salaries, bonuses, and commissions from an employer or business enterprise.

Waiters, cooks, bussers, and other food service employees often have the cost of meals included in the gross income. The meal cost is added to their wages by their employer for tax purposes and may not always be identified as a meal allowance on their pay stub. Use the total gross income, including the meal allowance, in the income computations.

- Net profit from self-employment. See MPG 10.05.03 for determining the net profit from self-employment.
- Earnings under Title I of the Elementary and Secondary Education Act.
- Payments received under the Job Training Partnership Act (JTPA).

Exception: Payments which are identified by the local JTPA office as an incentive payment or training allowance will be considered as gross unearned income. Additionally, see MPG 10.03.05 for regulations regarding exempt JTPA payments.

- Payments under the Economic Opportunity Act.
- Training incentive payments and work allowances under ongoing manpower programs.
- Income received for having provided In-Home Supportive Services (IHSS) (for example, caregiver).

Exception: In-home caregiver wages received by a spouse or parent for care of a spouse or minor child (under 21) in receipt of federal, state, or local government in-home services program are exempt as income. See MPG 10.03.01 regarding exemption.

- Net income from real or personal property which is the result of continuous and appreciable effort on the part of the customer. This includes income from:
 - Room and board.
 - The rental of rooms which requires daily effort on the part of the beneficiary.
 - A business enterprise.

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- The sale of produce, livestock, poultry, dairy products, and other similar items.

Please see MPG 10.05.02 for the treatment of Income from Property.

- Earnings from public service employment. This excludes Temporary Census Income effective January 1, 2020.
- Strike benefits paid to union members who are required to perform a union function, such as picketing, to receive these benefits. As these benefits are contingent upon the performance of a union function, the striker cannot be required to obtain such benefits (see 10.02.01B, for regulations regarding treatment of strike benefits as unearned income).
- Therapeutic wages of persons in Long-Term Care (LTC) (see MPG 01.01 for definition).
- Post-Adoptive Services Payments are considered earned income if received by a beneficiary as a service provider unless documentation can be provided to show that it is a reimbursement of expenses.

Tips

Tips received for the performance of work activities, despite the amount calculated by the employer for tax withholding purposes are considered earned income.

Tips are added to gross wages to calculate federal income tax withholding. When tips are added to the wages and the same amount is a deduction on the pay stub, the tip amount on the pay stub is not income. Instead, use the customer's actual reported tips to calculate total earnings. This is true whether the customer reports more or less tips than are entered by the employer on the pay stubs. The customer must complete a sworn statement to describe the reason for any discrepancy between the pay stubs and the amount reported.

Earned Income Tax Credit (EITC)

EITC payments received either as a tax refund or an advance payment are considered earned income in the month received **for Aged, Blind, or Disabled (ABD) cases only**. This income is exempt for the Aid to Families with Dependent Children (AFDC)-Medically Needy (MN) and Medically Indigent (MI) programs.

Temporary Workers' Compensation (TWC)

TWC payments are treated as earned income when both of the following conditions are met:

- The customer is not an ABD-linked MN person and is either an AFDC-linked MN/MI person or in the same Medi-Cal Family Budget Unit (MFBU) with an AFDC-linked MN/MI person.
- The customer continues to be employed by the employer for whom they were working when the injury causing the TWC payments was incurred.

The following deductions may be applied against TWC income:

- \$90 Work Expense.
- Educational Expenses.
- \$30 Plus 1/3 Earned Income.
- Dependent Care.

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State Disability Insurance Benefits (SD/DIB)

SD/DIB payments are treated as earned income when received by an eligible or ineligible AFDC-MN/MI person in the MFBU.

The following deductions may be applied against SD/DIB income:

- \$90 Work Expense.
- Educational Expenses.
- \$30 Plus 1/3 Earned Income.
- Dependent Care.

See MPG 10.06 for additional allowable income deductions.

10.02.01B Gross Unearned Income

Gross unearned income includes, but is not limited to:

- Retirement, Survivors, and Disability Insurance (RSDI) payments from the Social Security Administration (SSA).
- Annuities, which are sums paid yearly or at other specific intervals in return for payment of a fixed sum by the annuitant.
- Pensions.
- Retirement payments.
- Disability payments from any source, other than SD/DIB are to be considered unearned income.
- Railroad Retirement and any other payments made by the Railroad Retirement Board (RRB).
- Unemployment Insurance Benefits (UIB).

Note: If the items listed above are received in a lump sum payment, the retroactive benefits may be treated as personal property. Refer to MPG 09.06.01 for treatment of lump sum payments.

- Proceeds from a life insurance policy received by the beneficiary upon death of the insured, which are more than the lesser of:
 - \$1,500.
 - The amount expended on the insured person's last illness and burial expenses.
- Other insurance payments.
- Loans which do not require repayment. Loans that require repayment, and are not exempt, are considered property in the month received rather than income.
- Gifts.
- Child/spousal support received, whether provided voluntarily or by court order.
- Inheritances which are in the form of cash, securities, stocks, bonds, mutual funds, Cash Surrender Value (CSV) of life insurance policies, savings accounts (including Individual Retirement Account [IRA], Keogh Plan, Certificate of Deposit [CD], Treasury Bill [T-Bill]), or other liquid assets.
- Contributions from any source. A contribution is any benefit in cash or in-kind for which the contributor has no legal liability.
- Prizes and awards.
- Net income from the rental of real or personal property which is not considered gross earned income as stated above.
- Dividends are considered unearned income, with the following exception:

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Effective August 1, 2005, dividends are exempt for the purpose of determining eligibility for ABD Medi-Cal and Medicare Savings Programs (MSP) when the interest or dividends are paid to an individual from their property, which has been counted in the property reserve (see MPG 10.03.08).

- Interest payments from any source, including trust accounts, trust deeds and contracts of sale are considered unearned income, with the following exception:

Effective August 1, 2005, interest is exempt for the purpose of determining eligibility for ABD Medi-Cal or Medicare Savings Programs (MSP) when the interest or dividends are paid to an individual from their property, which has been counted in the property reserve (see MPG 10.03.08).

- Royalties, including, but not limited to, payments to:
 - A holder of a patent or copyright, for the use of the invention.
 - The owner of a mine, oil well or similar holding, for the extraction of the product or other use.
- The portion of a Public Assistance (PA) recipient's income which is NOT used to determine their own grant.
- Incentive payments or training allowances under the JTPA. See MPG 10.03.05 for policy regarding exempt JTPA payments.
- Strike benefits paid to union members who are not required to perform any union function to receive these benefits, or to persons who perform union functions voluntarily. These benefits are unconditionally available income and strikers are required to take all action necessary to obtain them (see MPG 10.02.01A, for regulations regarding treatment of strike benefits as earned income).

Note: If the items, listed above, are received in a lump sum payment, the retroactive benefits are unearned income in the month received and property in the following month.

- Proceeds from the sale of blood are considered unearned income unless the income meets exemption criteria for irregular or infrequent income (see MPG 10.03.01).
- Cash payments from non-governmental agencies such as the American Red Cross, Easter Seals and The Shriners may be partially counted as property and partially counted as unearned income.

The amount specifically for medical and social services is considered property and is exempt in the month following the month of receipt. Count the excess amount as unearned income in the month of receipt (see MPG 09.06.01).

Workers' Compensation Payments

Workers' compensation payments are counted as unearned income when received by an ABD-linked MN person, or a person who does not meet the earned income requirement above.

If received in a lump sum payment, the retroactive benefits are personal property.

Veterans Payments

The following veteran's payments are treated as unearned income:

- Pension based on need.
- Compensation payments.
- Education assistance.

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Veterans Education Benefits

The Veterans Administration (VA) currently provides education benefits under three education programs: General Issue (GI) Bill, Post 9/11 GI Bill, and the Veterans Educational Assistance Program (VEAP).

GI Bill

Eligible veterans who served on active duty in the military prior to January 1, 1977 are entitled to receive educational benefits from the VA under the GI Bill. The entire amount of educational benefits received under the GI Bill is considered unearned income for educational purposes. The educational expense deduction may be applied, see MPG 10.06.

Post 9/11 GI Bill

The post 9/11 GI Bill expands education benefits for military veterans who served since September 11, 2001. There are three payments associated with the Post 9/11 GI Bill:

- Tuition and Fees.
- Monthly Housing Allowance.
- Annual Book and Supplies Stipend of \$1,000.

Treatment of Post 9/11 Payments:

Type of Payment	Treatment
Tuition and Fees: Paid directly to the educational institution.	These payments are not counted as income to the veteran. This treatment applies to all Medi-Cal programs.
Monthly Housing Allowance: Paid directly to the veteran monthly.	The monthly housing allowance is treated as unearned income for all Medi-Cal programs.
Annual Books and Supplies Stipend of \$1,000: Paid directly to the veteran on a proportional basis based on enrolled units.	Two different treatments apply: <ul style="list-style-type: none"> • AFDC-MN/MI treatment: The annual books stipend is excluded to the extent that the proceeds are used to meet the non-tuition educational expenses. • ABD-MN treatment: The annual books stipend is excluded as income.

VEAP

The VEAP is a contribution matching program for persons entering active military service after December 31, 1976. People on active military duty voluntarily contribute to the VEAP educational fund. Upon discharge from the military, eligible veterans are entitled to receive educational benefits from the VA. The VEAP program consists of the government contributing \$2 for every \$1 contributed by active military personnel to an educational fund.

Two-thirds of the benefits received under the VEAP are considered unearned income for educational purposes (educational expenses may be deducted). The remaining one-third is exempt.

The veteran may elect to withdraw their contribution but forfeits entitlement to matching funds from the VA. When a veteran voluntarily withdraws their own contribution, do not count the money received as income because the funds are a return of the veteran's own money.

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The veteran's unused contribution to VEAP is counted as property upon withdrawal, since the withdrawal from VEAP means that the funds are no longer earmarked specifically for educational purposes.

See MPG 10.03.07 for regulations regarding exemption of Veterans Aid and Attendance payments and certain pension payments to LTC veterans.

If received in a lump sum payment, the retroactive benefits from the VA are considered **personal property**.

Note: Many types of unearned income are taxable under certain conditions. Some examples of unearned income which may be taxable are pensions, annuities, RSDI, alimony, prizes, lottery, and other gambling winnings. Human Services Specialists (HSS) must be alert to the possibility of taxes being withheld on unearned income and assure that the actual gross amount is verified and used in the SOC computation.

Procedure:

For verification and documentation procedures, see MPG 04.07.

Program Impacts:

Automation

Staff must enter appropriate fields in CalWIN to provide the appropriate level of benefits.

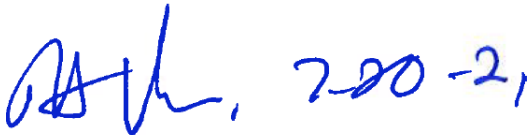
References:

ACWDL's 85-14, 87-34, 89-71, 95-63, 96-09, 04-22, 04-24, 04-25, 05-17, 05-20, 07-02, 12-15, 20-25
MEPM LTR's 310, and 274

Sunset Date:

This policy will be reviewed for continuance by 07/31/2024.

Approval for Release:



Rick Wanne, Director
Self-Sufficiency Services