

## ATTACHMENT 1

### **Definitions of “Counted” and “Not Counted” Income For Purposes of The Medicare Approved Drug Discount Card**

For purposes of the Medicare Prescription Drug Discount Card, we have defined “income” as money received through retirement benefits from Social Security, Railroad, the Federal or State Government, or other sources, and benefits received for a disability or as a veteran, plus any other sources of income that would be included the components of Adjusted Gross Income (AGI) reported for tax purposes.

#### **INCOME COUNTED**

*The following definitions of “Income Counted” include money received through retirement benefits from Social Security, Railroad, the Federal Government, or other sources, and benefits received for a disability or as a veteran:*

**Social Security Benefits and Equivalent Railroad Retirement Benefits** - Social Security or equivalent Railroad Retirement Benefits, must be included in the income of the person who has legal right to receive the benefits. Social Security benefits include any monthly benefit under title II of the Social Security Act and any part of a Tier I Railroad Retirement Benefit treated as a Social Security benefit.

**Railroad Retirement Benefits** - These benefits paid under the Railroad Retirement Act include Tier 1 Railroad Retirement Benefits that are more than the Social Security equivalent benefit, Tier 2 benefits, and vested dual benefits.

**Military and Government Disability Pensions - Armed Forces, PHS, NOAA, Foreign Service (Based on Date Pension Began, Combat-Related Pension, etc.)** - Amounts you receive as a pension, annuity, or similar allowance for personal injury or sickness resulting from active service in one of the following government services: The armed forces of any country, Public Health Service, National Oceanic and Atmospheric Administration, or The Foreign Service. If you receive a disability pension based on years of service, retroactive retirement pay based on VA disability rating, or disability payments received for injuries resulting from a terrorist or military action you must count these as income.

**VA Benefits** - Allowances paid by the Department of Veteran Affairs including:

- Education, training, and subsistence allowances;
- Disability compensation and pension payments for disabilities paid either to veterans or their families;
- Grants for homes designed for wheelchair living;
- Grants for motor vehicles for veterans who lost their sight or the use of their limbs;
- Veteran’s insurance proceeds and dividends paid either to veterans or their beneficiaries, including the proceeds of a veteran’s endowment policy paid before death; and

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- Interest on insurance dividends left on deposit with the VA.

*The following definitions of “Income Counted” include other sources of income that would be included the components of Adjusted Gross Income (AGI) reported for tax purposes:*

**Employee Compensation (Salary, Wages, Tips, Bonuses, Awards, etc.)** - Employee compensation includes everything you receive in payment for personal services. In addition to wages salaries, commissions, fees, and tips, it includes other forms of compensation such as fringe benefits and stock options.

**Unemployment Compensation** - Unemployment compensation includes any amount received under an unemployment compensation law of the United States or of a state. It includes the following benefits: Benefits paid by a state or the District of Columbia from the Federal Unemployment Trust Fund; State unemployment insurance benefits; Railroad unemployment compensation benefits; Disability payments from a government program paid as a substitute for unemployment compensation; Trade readjustment allowances under the Trade Act of 1974; Benefits under the Airline Deregulation Act of 1978; and Unemployment assistance under the Disaster Relief Act Amendments of 1974.

**Pensions and Annuities** - A pension is generally a series of definitely determinable payments made to you after you retire from work. Pension payments are made regularly and are based on such factors as years of service and prior compensation. An annuity is a series of payments under a contract made at regular intervals over a period of more than one full year. Pensions and annuities include the following types:

1. **Fixed-period annuities.** You receive definite amounts at regular intervals for a specific length of time.
2. **Annuities for a single life.** You receive definite amounts at regular intervals for life. The payments end at death.
3. **Joint and Survivor annuities.** The first annuitant receives a definite amount at regular intervals for life. After he or she dies, a second annuitant receives a definite amount at regular intervals for life. The amount paid to the second annuitant may or may not differ from the amount paid to the first annuitant.
4. **Variable annuities.** You receive payments that may vary in amount for a specified amount of time or for life. The amounts you receive may depend upon such variables as profits earned by the pension or annuity funds, cost of living indexes, or earnings from a mutual fund.
5. **Disability pensions.** You receive disability payments because you retire on disability and have not reached minimum retirement age.

**IRA Distributions** - Money withdrawn from an Individual Retirement Arrangement (IRA) must be counted as income.

**Interest (Checking Accounts, Savings Accounts, etc.)** - Interest on bank accounts, money market certificates, and deposited insurance dividends.

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**Ordinary Dividends (Stocks, Bonds, etc.)** - Distributions of money, stock, or other property a corporation pays you because you own stock in that corporation. You also may receive dividends through a partnership, an estate, a trust, or an association that is taxed as a corporation.

**Refunds, Credits, or Offsets of State and Local Income Taxes** - If you receive a state or local tax refund (or credit or offset), you must include it in your income if you deducted the tax in an earlier year.

**Alimony Received** - Any alimony payments you receive must be counted as income.

**Business Income** - If there is a connection between any income you receive and your business, the income is business income. You must count all income you receive from your business unless it is excluded by law.

**Capital Gains** - Income received from the sale of an investment such as stocks, bonds, mutual funds, real estate, or any other financial instrument.

**Farm Income** - Income from farming includes amounts you receive from cultivating, operating, or managing a farm for gain or profit either as owner or tenant. This includes income from operating a stock, dairy, poultry, fish, fruit, or truck farm and income from operating a plantation ranch, range, or orchard. It also includes income from the sale of crop shares if you materially participate in producing the crop.

**Rental Real Estate, Royalties, Partnerships, Trusts, etc.** - This includes income from rents and royalties, and interests in partnerships and S-corporations.

**Other Gains (Sale or Exchange of Business Property)** - Any taxable ordinary or capital gain you receive from the sale or exchange of business property.

**Other Income** - You must include any other taxable income you receive such as gambling winnings, lottery winnings (including annual installment payments), raffles, awards, and prizes.

### **INCOME NOT COUNTED**

*The following definitions of “Income Not Counted” include other sources of income that would not be included the components of Adjusted Gross Income (AGI) reported for tax purposes unless otherwise noted:*

#### **Inheritances and Gifts (Taxed to Estate or Giver if not Under Limits for Exemption)**

- Generally, property you receive as a gift, bequest, or inheritance is not included in your income. However, if property you receive this way also produces income such as interest, dividends, or rents, that income is counted. If property is given to a trust and the income from it is paid, credited, or distributed to you, that income is also counted. If the

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gift bequest or inheritance is the income from the property, that income would be counted.

**Interest on State and Local Government Obligations (Bonds)** - Interest you receive on an obligation issued by a state or local government does not count as income.

**Workers Compensation Payments** - Amounts you receive as workers' compensation for an occupational sickness or injury do not count as income if they are paid under a workers' compensation act.

**Federal Employees Compensation Act Payments** - Payments received under this act for personal injury or sickness, including payments to beneficiaries in case of death, does not count as income.

**SSI Benefits** - Do not count as income any Supplement Security Income (SSI) benefits received.

**Income from National Senior Service Corps Programs** - Do not include in your income amounts you receive for supportive services or reimbursement for out-of-pocket expenses from the following programs: Retirement Senior Volunteer Program (RSVP), Foster Grandparent Program, and Senior Companion Program.

**Public Welfare and Other Public Assistance Benefits** - Do not include in your income benefit payments from a public welfare fund.

**Proceeds from Sale of a Home** - Income excluded for tax purposes from all or part of any gain from the sale or exchange of a personal residence would not count as income for this program.

**Lump Sum Life Insurance Benefits Paid Upon Death of Insured** - Lump sum payments you receive from a decedent's employer as the surviving spouse or beneficiary may be accrued salary payments; distributions from employee profit sharing, pension, annuity, or stock bonus plans; or other items that should be treated separately for tax purposes. The treatment of income from these lump sum payments depends on the type of payment. If you are required to report any of these payments for tax purposes, you would count them as income for the Drug Discount Program; otherwise, they would be excluded.

**Life Insurance Benefits Paid in Installments** - If you receive life insurance proceeds in installments, you can exclude part of each installment from your income. To determine the excluded part, divide the amount held by the insurance company (generally the total lump sum payable at the death of the insured person) by the number of installments to be paid. Include anything over this excluded part in your income as interest.

**Accelerated Life Insurance Death Benefit Payments (e.g., Viatical Settlements, Terminal Illness, Chronic Illness)** - Certain amounts paid as accelerated death benefits

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under a life insurance contract or viatical settlement before the insured's death are excluded from income if the insured is terminally or chronically ill. Income excluded for tax purposes should be excluded from income for the Drug Discount Card Program.

**Medical Savings Account (MSA) Withdrawals for Medical Expenses** - Do not include as income amounts you withdraw from your Archer MSA or Medicare+Choice MSA if you use the money to pay for qualified medical expenses.

**Payments from Long-Term Care Insurance Policies (Subject to Limitation)** - Long-term care insurance contracts generally are treated as accident and health insurance contracts. Amounts you receive from them (other than policyholder dividends or premium refunds) generally are excludable from income as amounts received for personal injury or sickness.

**Accident or Health Insurance Policy Benefits** - Benefits you receive under an accident or health insurance policy on which either you paid the premiums or your employer paid the premiums but you had to include the premiums in your income, should be excluded from income for this program.

**Accident Compensatory Damages** - Compensation you receive for permanent loss or loss of use of a part or function of your body, or for your permanent disfigurement should be excluded from income. This compensation must be based only on the injury and not on the period of your absence from work. These benefits do not count as income even if your employer pays for the accident and health plan that provides these benefits.

**Child Support Payments Received** - You should not count child support payments received as income.

**Most Foster Care Provider Payments Received** - Payments you receive from a state, political subdivision, or a qualified foster care placement agency for providing care to qualified foster individuals in your home generally are not included in your income. However, you must include in your income payments received for the care of more than 5 individuals age 19 or older and certain difficulty-of-care payments. A qualified foster individual is a person who is living in a foster family home, and was placed there by an agency of a state or one of its political subdivisions, or a qualified foster care placement agency.

**Disaster Relief Grants** - Do not include post-disaster relief grants received under the Disaster Relief and Emergency Assistance Act in your income if the grant payments are made to help you meet necessary expenses or serious needs for medical, dental, housing, personal property, transportation or funeral expenses.

**Disability Payments as the Result of a Terrorist Attack** - You can exclude from income certain disaster assistance, disability, and death payments received as a result of a terrorist or military action that you would exclude from income for tax purposes.