BEFORE THE ALASKA OFFICE OF ADMINISTRATIVE HEARINGS ON REFERRAL BY THE COMMISSIONER OF HEALTH

In the Matter of	)	
	)	
D. L.	)	OAH No. 25-3576-MDE
	)	

DECISION

I. Introduction

In October 2025, D. L. applied for Medicaid coverage.[1] In February 2026, the Division of Public Assistance (the "Division") denied her application, calculating that her income exceeded the permissible maximum for the month of October 2025, which is the sole eligibility month at issue.[2]

However, the Division's calculations included ten hours of wage income which, her employer testified, had been gratuitously disbursed to her by his payroll clerk – apparently as an unauthorized, end-of-employment gift offered in sympathy for her medical condition rather than as compensation for hours actually worked. At the merits hearing, her employer testified that he had formally initiated recoupment and an amended W-2 for Ms. L..

When Ms. L.'s monthly income is recalculated using the Division's methodology and omitting wages attributed to these ten hours, her monthly income falls within the maximum limits for her category. As a result, the Division's denial of her application for the month of October 2025 is REVERSED.

II. Facts

Ms. L. is 60 years old, has no tax dependents, resides alone, has no spousal tax filer, and is not claimed as a tax dependent.[3] Therefore, her Medicaid category is the MAGI Expansion Group.[4] To be eligible for this Medicaid category, a single applicant's household income may not exceed $2,167 per month.[5]

---

1 Exhibit 2; *Division position statement* (February 27, 2026), at pg. 1.
2 Exhibit 5; *Division position statement, id.,* at pg. 1.
3 Exhibit 4; Exhibit 10.9-10.10; *Division position statement, id.,* at pg. 2.
4 *Division position statement, id.,* at pg. 2
5 Exhibit 16; *Division position statement, id.,* at pg. 1.

Ms. L. sought a fair hearing to challenge the Division's denial of Medicaid coverage. A telephonic hearing was convened on March 5, 2026. The Division was represented by its Fair Hearing representative. Ms. L. was represented by her son and authorized representative, S. L.. Ms. L.'s former employer, G. C., co-owner of the City A Employer A franchise, also testified.

This case turns on the calculation of Ms. L.'s October 2025 household income.[6] Ms. L.'s sole income sources for October 2025 were wages from her job at Employer A and the 2025 Alaska PFD of $1,000 – pro-rated to a monthly amount of $83.33.[7] During October 2025, Ms. L. received three paychecks from Employer A. Those paychecks are summarized here:

Paycheck date	Base rate[8]	Hours	Gross pay	Exhibit #
October 2, 2025	**$17/hr.**	**80.85**	**$1,384.91**	**9.2**
October 16, 2025	**$17/hr.**	**70.7**	**$1,211.00**	**9.1**
October 30, 2025	**$17/hr.**	**30**	**$510.00**	**9**

The uncontradicted hearing evidence established that Ms. L. worked at Employer A up to October 9, 2025. On October 10, she experienced a serious medical event and was taken to the hospital.[9] Her last day of work at Employer A was October 9, 2025. Her former employer, Mr. C., testified that it was initially unclear if Ms. L. would be able to return to work. He testified that she was entitled to use accrued sick leave of 20 hours. She was carried as a current employee, and when her accrued leave was exhausted, and it became apparent that Ms. L. could not return to work, her employment was terminated.[10]

The Division representative testified that, where a wage earner receives three bi-weekly paychecks in a given month (as was the case for Ms. L. in October 2025), eligibility is calculated by adding the gross pay amounts of each bi-weekly check, dividing this sum by the number of paychecks to reach an average bi-weekly pay amount, and then multiplying that amount by a factor 2.15 to determine monthly income.[11] To this amount, the pro-rated Alaska PFD amount of

---

6 The facts captured in this section were established at the merits hearing by a preponderance of the evidence.

7 Division position statement, *id.,* at p.2.

8 Ms. L.'s October 2, and October 16 paychecks included less than three hours of overtime at a slightly higher hourly rate. *See* Exhibits 9-9.2.

9 S. L. hearing testimony.

10 G. C. hearing testimony.

11 Division representative hearing testimony, at 14:45-16:30; *Division position statement*, *id.,* at p.2 (utilizing averaging methodology). Bi-weekly pay is multiplied by a factor of 2.15 to reach a monthly income figure. 7 AAC 100.168(d).

$83.33/month is added.[12] From this sum, a "disregard" figure of $82 is subtracted.[13] This result is then compared to the maximum monthly household income limit for that eligibility category.[14]

In Ms. L.'s case, the Division calculated Ms. L.'s household income as follows:

October pay	**$1,384.91**
	$1,211.00
	$510.00
subtotal	**$3,105.91**
÷3 =	**$1,035.30**
x 2.15 =	**$2,225.89**
+	**$83.33 [PFD]**
subtotal	**$2,309.22**
subtracting $82 "disregard"	**$2,227.22[15]**

The Division calculated that this amount exceeded $2,167.00, the maximum permissible household income for Ms. L.'s eligibility category,[16] and concluded that Ms. L. was over-income.[17]

Prior to the merits hearing in this case, the L.s disputed this calculation.[18] Specifically, the L.s asserted that the final October 30, 2025 paycheck included compensation for ten hours of work which Ms. L. did not actually work.[19] Mr. L. testified that his mother did not work after October 9, 2025 – and therefore, inclusion of ten hours of wage income was incorrect.[20]

At the merits hearing, Mr. L. called G. C., the co-owner of the City A Employer A franchise. Mr. L. testified that following Ms. L.'s October 10, 2025 medical event, she was carried as a current employee on accrued sick leave – thus explaining twenty of the thirty hours of time on Ms. L.'s final paycheck. Mr. C. further testified that he had discovered that his payroll clerk had gratuitously padded Ms. L.'s final October 2025 paycheck by adding in ten hours of wages for work Ms. L. did not perform. Mr. C. testified that his payroll clerk, "felt bad for her [due to her

12 The 2025 Alaska PFD was $1,000. It is divided by 12 to reach a monthly figure. $1,000 ÷12 = $83.33.
13 7 CFR §§ 435.603(d)(4) (providing for "disregard" of 5% of the Federal poverty limit).
14 Division hearing representative testimony; Exhibit 14.2.
15 *Division position statement*, *id.,* at p.2; Exhibit 14.2.
16 Exhibit 16 (providing the maximum permissible income figure of $2.167).
17 *Division position statement, id*., at p.2
18 Fair hearing request.
19 S. L. hearing testimony.
20 *Id.*; Exhibit 12 (letter from employer documenting Ms. L.'s last day of work as October 9, 2025).

medical event] and decided to add in an extra ten hours… but she did not work those hours and she should not have been paid for them."[21]

Mr. C. testified that he intended to seek recoupment from Ms. L..[22] He testified that this extra wage income was added -- at his payroll clerk's initiative -- out of sympathy for Ms. L.'s medical condition, and that it was unauthorized. He testified that when the significance of the error was brought to his attention, he initiated recoupment and issuance of a revised W-2 form through his bookkeeper. He testified that he anticipated fees and perhaps, an IRS penalty for this action.[23] He characterized it as a "mistake on our part."[24]

III. Discussion

Ms. L. appeals the denial of her application for Medicaid coverage. Therefore, the burden is allocated to her, by a preponderance of the evidence, to establish her eligibility.[25]

Here, Mr. C.' testimony was credible, uncontradicted and persuasive: Ms. L.'s former co-worker gratuitously "padded" her final paycheck — perhaps motivated by sympathy for the serious medical event she had recently experienced.

Here, the uncontradicted evidence establishes that the "extra ten hours" were not compensation for hours Ms. L. actually worked. The ten hours included in her final October 2025 paycheck were not authorized by Ms. L.'s employer. He sought (and has apparently achieved) recoupment. He has initiated an amended W-2 form and is prepared for any administrative fine assessed against him due to this anomaly.

Thus, whether characterized as a gift, or an error, the $170 at issue here is excludable for two reasons: it is an atypical, non-recurring windfall, and it is a repaid recoupment of an overpayment.[26]

---

21 G. C. hearing testimony, at 2:26:19 (explanatory parenthetical added).

22 Id., at 2:27:07.

23 *Id.*, at 2:28:34.

24 *Id.*, at 2:33:16. Following the hearing, the hearing record was kept open to permit submission of supplemental documentary evidence. S. L. submitted a copy of a cashier's check drafted in favor of "Employer A" in the amount of $156.14 – presumably, representing reimbursement of Ms. L.'s "extra ten hours" of wages, less withholding.

25 7 AAC 49.135.

26 *See Alaska MAGI Medicaid Eligibility Manual § 820-2*. That section provides, "Past payments that do not represent what is anticipated to occur in the period for which income is estimated, such as unusual payments not expected to continue, may be excluded in the calculation, for example, one-time overtime or a one-time increase in hours."; providing an example where one-time, unusually-high overtime hours are properly excluded; "The ET excludes the [high overtime pay] since it does not represent an amount that can be anticipated in the months for which

Therefore, Ms. L. is entitled to have these hours excluded from her household income calculation, and her eligibility re-calculated using the same methodology which the Division utilized in the Fair Hearing process.[27] With these hours excluded, Ms. L.'s October 2025 household income is calculated as follows:

October pay	**$1,384.91**
	$1,211.00
	$340.00[28]
subtotal	**$2,935.91**
÷3 =	**$978.63**
x 2.15 =	**$2,104.06**
+	**$83.33 [PFD]**
subtotal	**$2,187.39**
subtracting $82 "disregard"	**$2,105.39**

As this amount is less than $2,167.00[29] — the maximum permissible household income for her eligibility category. Thus, Ms. L. is eligible for Medicaid.

IV. Conclusion

Ms. L. has met her burden to establish, by a preponderance of the evidence, that the Division's denial was incorrect, because the Division mistakenly included excludable income in its eligibility determination.

---

income is being estimated…"; manual available at: http://dpaweb.hss.state.ak.us/manuals/MAGI2/); *See also In re W.C.*, OAH No. 17-0517-MDE (Alaska Comm'r Health & Social Services 2017) at pgs. 3-4 (excluding "overtime and holiday pay" as atypical, non-recurring compensation; recalculating eligibility) (decision available at: https://aws.state.ak.us/OAH/Decision/Display?rec=2188.

Similarly, the *Manual* directs that a repaid recoupment is excluded from income. "Monies [ ] received from any income source which are voluntarily or involuntarily returned, to repay a prior overpayment from that income sources (provided that the overpayment is not otherwise excluded) are exempt." *Alaska MAGI Medicaid Eligibility Manual § 819 D* ¶ 4.

Following the merits hearing in this case, the ALJ specifically directed the Division's attention to § § 819, 820-2 and *In re: W.C.* and invited the Division's post-hearing briefing. *Order*, March 6, 2026. In its *Supplemental Position Statement*, the Division did not directly address § 820-2 or attempt to distinguish *In re: W.C*, but conceded that recouped overpayments should be excluded. "Since overpaid and recouped wages will reduce taxable income if they are in fact recouped [ ] The Division would require proof of the recoupment being complete before any adjustment could be considered." *Division's Supplemental Position Statement* (March 20, 2026), at p. 2. This *Decision* concludes that Mr. C.' sworn hearing testimony, corroborated by the cashier's check the L.s submitted, establishes that point by a preponderance of the evidence.

[27] "Since Ms. L. received all scheduled payments in the month of application and all the payments cover a full payment period, we should estimate the monthly income by using the average payment amount. Since she was paid every other week, we would average the paychecks and multiply by the conversion factor of 2.15 to account for all 26 bi-weekly paychecks." *Division Supplemental Position Statement* (March 20, 2026), at p. 2.

[28] Ms. L.'s October 30, 2025 paycheck = $510 gross pay; $510 - $170 = $340.

[29] Exhibit 16.

Therefore, the Division's denial of Ms. L.'s October 2025 application for Medicaid coverage for the month of October 2025 is REVERSED.

DATED: April 6, 2026

SIGNED
James Fayette
Administrative Law Judge

Adoption

The undersigned, by delegation from the Commissioner of Health, adopts this Decision, under the authority of AS 44.64.060(e)(1), as the final administrative determination in this matter.

Judicial review of this decision may be obtained by filing an appeal in the Alaska Superior Court in accordance with Alaska R. App. P. 602(a)(2) within 30 days after the date of this decision.

DATED this 22nd day of May, 2026.

By: SIGNED
Name: James Fayette
Title: Administrative Law Judge