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YOUNG ADULTS GAIN NEW COVERAGE OPTION

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Under the health reform law, young adults up to their 26th birthday can obtain health coverage through their parents' health insurance plans. This marks an important shift from the rules in effect now, under which young adults usually lose access to their parents' coverage once they turn 19 or graduate from college. This brief explains the details and the impact of the new policy, as outlined in regulations recently issued by the U.S. Department of Health and Human Services.

What Makes a Young Adult Eligible for Coverage on a Parent's Plan?

In general, young adults who meet the new age requirement can be covered as dependents on a parent's plan. Requirements that most insurers and employers have imposed in the past — that the young adult is a student, lives with the parent, and/or depends financially on the parent — will no longer apply. There is one important caveat: If a parent has employer-sponsored coverage that is considered "grandfathered" coverage (because it existed as of March 23, 2010 when the health law was enacted), then dependent coverage would only be extended to young adults without other access to employer-sponsored coverage, such as through their own jobs. This limitation remains in effect until 2014.

Which Health Insurance Plans are Subject to this Reform?

The new rule applies to any insurance plans that offer dependent coverage; there is no requirement, however, for plans to cover young adults if they do not provide dependent coverage. The reform applies both to health coverage offered by small and large employers, including self-insured plans, and to plans people purchase on their own in the individual insurance market. It applies to both new and grandfathered plans in each of these markets.

When Does the Change Take Effect?

The law requires insurers and employers to make the change for plan years beginning on or after September 23, 2010. For example, plans that operate on a calendar-year basis (from January through December) are required to cover these young adults beginning January 2011. If the plan year runs from November to November, then the extended dependent coverage would have to begin in November 2010. In practice, many health insurers say they will implement the policy sooner than the law requires, which will allow some young adults who would otherwise lose health insurance — for example, because they are graduating in 2010 — to remain insured without a gap in coverage.

Can a Young Adult Who Lost Coverage Before the Change Takes Effect Re-Enroll?

Yes. Insurers and employers are required to notify all young adults who became ineligible for coverage because of their age and give them an opportunity to reenroll. This transitional enrollment opportunity must last at least 30 days and would occur outside of the plan's usual open enrollment period if necessary.

Can Insurers or Employers Charge Higher Premiums for Adding a Young Adult?

Insurers and employers cannot impose any charges for the new dependent coverage beyond what they would otherwise charge for adding an additional dependent (such as a young child) to the coverage. This means that the insurer or employer cannot impose a special surcharge for adding a 20-year-old dependent to a parent's plan above the amount required for adding a 10-year-old dependent to the plan. Insurers that charge a higher premium for adding a dependent to a plan could continue to do so, as long as similarly situated dependents are treated consistently.

Is the Extended Coverage Provided through Employer-Sponsored Insurance Taxable?

No. As with any contributions employers make towards the cost of health insurance provided to employees and their dependents, the contributions employers make to the cost of dependent coverage for young adults would be excluded from an employee's income for purposes of income and payroll taxes. The exclusion would apply for the entire tax year in which the young adult turns age 26. Self-employed people, who can already deduct the cost of their premiums for individual market coverage, can deduct the portion of the premium attributable to coverage of young adults.

Will this Change Expand Coverage?

HHS estimates that 680,000 to 2.12 million young adults will gain coverage in 2011 as a result of this provision — mostly through new enrollment in employer-sponsored plans. The mid-range enrollment estimate, which assumes moderate take-up of the new coverage option, is that 1.24 million young adults will gain coverage in 2011. Slightly more than half of this group will have been previously uninsured, HHS estimates. The rest are expected to come from coverage in the individual insurance market and will shift to a parent's employer-sponsored insurance, which tends to be more comprehensive and affordable.

Does this Reform Result in Higher Overall Premium Costs?

Yes, though the increase in overall premium costs is expected to be quite modest. If the additional cost of covering older dependents in employer-sponsored coverage is distributed evenly across family policies, family premiums in this market would slightly rise by 0.7 percent in 2011, 1.0 percent in 2012, and 1.0 percent in 2013, according to HHS estimates in its mid-range take-up scenario.

In the individual insurance market, HHS expects that the people adding young adults to their insurance policies will bear most of the additional cost in their own premiums. (To quantify the potential impact, HHS estimated that, if the additional costs were instead distributed across the entire individual market, there would be slight premium increases of 0.7 percent in 2011, 1.0 percent in 2012, and 1.2 percent in 2013.)

HHS also expects that as the new young adult coverage reduces the number of uninsured people, costs for uncompensated care will drop, leading to somewhat lower premiums for the insured population overall. Premiums for insured people are higher than they otherwise would be as a result of uncompensated care; medical providers charge higher amounts for services provided to people with insurance in order to help cover their costs in treating uninsured people. These savings are not factored into the HHS estimates of modest premium increases and may offset those increases to some extent.

What Happens in States that Already Extend Coverage to Young Adults over 18?

Some states had already extended coverage to older dependents in their individual and small-group markets, but unlike the new reform, those state reforms have not applied to self-insured employer plans. (Self-insured plans, which are federally regulated, are those for which the employer takes the financial risk of providing benefits.) If a state's law is more expansive than the new federal rules, for example because it requires dependent coverage up to age 30, then it will continue to apply. If states have rules in place that are less expansive than the new federal rules — for example, a requirement that the young adult live with the parent to have coverage — then the federal rules would take precedence.