Young Adults and the Affordable Care Act:
Protecting Young Adults and Eliminating Burdens on Families and Businesses

The Affordable Care Act allows young adults to stay on their parents' health care plan until age 26. Before the President signed this landmark Act into law, many health plans and issuers could and did in fact remove young adults from their parents' policies because of their age, leaving many college graduates and others with no insurance. This helps to explain problems like:

- **Young adults have the highest rate of uninsured of any age group.** About 30% of young adults are uninsured, representing more than one in five of the uninsured. This rate is higher than any other age group, and is three times higher than the uninsured rate among children.

- **Young adults have the lowest rate of access to employer-based insurance**. As young adults transition into the job market, they often have entry-level jobs, part-time jobs, or jobs in small businesses, and other employment that typically comes without employer-sponsored health insurance. The uninsured rate among employed young adults is one-third higher than older employed adults.

- **Young adults' health and finances are at risk.** Contrary to the myth that young people don't need health insurance, one in six young adults has a chronic illness like cancer, diabetes or asthma. Nearly half of uninsured young adults report problems paying medical bills.

Providing Relief for Young Adults

The Affordable Care Act requires plans and issuers that offer coverage to children on their parents' plan to make the coverage available until the adult child reaches the age of 26. Many parents and their children who worried about losing health insurance after the children moved away from home or graduated from college no longer need to worry.

The Departments of Health and Human Services, Labor, and Treasury have issued regulations implementing the Affordable Care Act by expanding dependent coverage for adult children up to age 26. Key elements include:

- **Coverage Extended to More Children.** The goal of this new policy is to cover as many young adults under the age of 26 as possible with the least burden. Plans and issuers that offer dependent coverage must offer coverage to enrollees' adult children until age 26, even if the young adult no longer lives with his or her parents, is not a dependent on a parent's tax return, or is no longer a student. There is a transition for certain existing group plans that generally do not have to provide dependent coverage until 2014 if the adult child has another offer of employer-based coverage aside from coverage through the parent. The new policy providing access for young adults applies to both married and unmarried children, although their own spouses and children do not qualify.

- **Effective for Plan or Policy Years Beginning On or After September 23, 2010.** Secretary Kathleen Sebelius called on leading insurance companies to begin covering young adults voluntarily before the implementation date required by the Affordable Care Act (which is plan or policy years beginning on or after September 23rd). Early implementation would avoid gaps in coverage for new college graduates and other young adults and save on insurance company administrative costs of dis-enrolling and re-enrolling them between May 2010 and September 23, 2010. Over 65 companies have responded to this call saying they will voluntarily continue coverage for young adults who graduate or age off their parents' insurance before the implementation deadline.

- **All Eligible Young Adults Will Have A Special Enrollment Opportunity.** For plan or policy years beginning on or after September 23, 2010, plans and issuers must give children who qualify an opportunity to enroll that continues for at least 30 days regardless of whether the plan or coverage offers an open enrollment period. This enrollment opportunity and a written notice must be provided not later than the first day of the first plan or policy year beginning on or after September 23, 2010. The new policy does not otherwise change the enrollment period or start of the plan or policy year.

- **Same Benefits/Same Price.** Any qualified young adult must be offered all of the benefit packages available to similarly situated individuals who did not lose coverage because of cessation of dependent status. The qualified individual cannot be required to pay more for coverage than those similarly situated individuals. The new policy applies only to health insurance plans that offer dependent coverage in the first place: while most insurers and employer-sponsored plans offer dependent coverage, there is no requirement to do so.

Access to Insurance: What Young Adults and Parents Need to Do:

- **Check for Immediate Options:** Private health insurance companies that cover the majority of Americans have volunteered to provide coverage earlier than the implementation deadline for young adults losing coverage as a result of graduating from college or aging out of dependent coverage on a family policy. This stop-gap coverage, in many cases, is available now. Ask your employer and insurer about this option.

- **Watch for Open Enrollment:** If early coverage is not an option with your employer or insurance company, then young adults will qualify for an open enrollment period to join their parents' family plan or policy beginning on or after September 23, 2010. Insurers and employers are required to provide notice for this special open enrollment period. Watch for it or ask about it.

- **Expect an Offer of Continued Enrollment:** Insurers and employers that sponsor health plans will inform young adults of continued eligibility for coverage until the age of 26. To get the coverage, young adults and their parents need not do anything but sign up and pay for this option.

New Tax Benefits for Adult Child Coverage

The new regulation complements guidance issued by the Treasury Department on April 27, 2010, on the tax benefits provided for such coverage through the Affordable Care Act. Under a new tax provision in the Affordable Care Act and the Treasury guidance, the value of any employer-provided health coverage for an employee's child is excluded from the employee's income through the end of the taxable year in which the child turns 26. This tax benefit applies regardless of whether the plan is required by law to extend health care coverage to the adult child or the plan voluntarily extends the coverage.

Key elements include:

- **Tax Benefit Continues Beyond Extended Coverage Requirement.** While the Affordable Care Act requires health care plans to cover enrollees' children up to age 26, some employers may decide to continue coverage beyond the child's 26th birthday. In such a case, the Act provides that the value of the employer-provided health coverage is excluded from the employee's income for the entire taxable year in which the child turns 26. Thus, if a child turns 26 in March but stays on the plan through December 31st (the end of most people's taxable year), all health benefits provided that year are excluded for income tax purposes.

- **Available Immediately.** These tax benefits are effective March 30, 2010. The exclusion applies to any coverage that is provided to an adult child from that date through the end of the taxable year in which the child turns 26.

- **Broad Eligibility.** This expanded health care tax benefit applies to various workplace and retiree health plans. It also applies to self-employed individuals who qualify for the self-employed health insurance deduction on their federal income tax return.

- **Both Employer and Employee Shares of Health Premium Are Excluded from Income.** In addition to the exclusion from income of any employer contribution towards qualifying adult child coverage, employees can receive the same tax benefit if they contribute toward the cost of coverage through a "cafeteria plan." This benefit is available immediately, even if the cafeteria plan document has not yet been amended to reflect the change. To reduce the burden on employers, they have until the end of 2010 to amend their cafeteria plan documents to incorporate this change.