FOCUS on Health Reform

THE HENRY J. KAISER FAMILY FOUNDATION

MAY 2010

EXPLAINING HEALTH CARE REFORM: Questions About the Extension of Dependent Coverage to Age 26

The Patient Protection and Affordable Care Act signed into law in March 2010 requires private insurers that offer dependent coverage to children to allow young adults up to age 26 to remain on their parent's insurance plan. Extending dependent coverage has received a great deal of attention because it is one of the first provisions that goes into effect and because it increases the availability of health insurance to a population that currently has a high uninsured rate. This summary provides responses to basic questions about the dependent coverage expansion and explains how the new law will interact with current state laws.

Who is eligible for the extension of dependent coverage?

The health reform law will allow qualifying young adults whose parents have private group and non-group health coverage to remain on their parent's insurance policy up to age 26. Recently issued regulations specify that a young adult can qualify for this coverage even if he or she is no longer living with a parent, is not a dependent on a parent's tax return, or is no longer a student. Both married and unmarried young adults can qualify for the dependent coverage extension, although that coverage does not extend to a young adult's spouse or children. The law also states that young adults can only qualify for dependent coverage through group health plans that were in place prior to March 23, 2010 if they are not eligible for another employer-sponsored insurance plan. In other cases, a young adult can choose to remain insured through a parent's dependent coverage even if the young adult is eligible for other employer-sponsored coverage.

When will young adults be able to take advantage of this coverage and what should they do if they want to sign up?

The dependent coverage extension takes effect on September 23, 2010, six months after the health reform law was enacted. At that time, when insurance plans start a new plan year, they will have to abide by the new dependent coverage rules. The law stipulates that the dependent coverage extension is effective for new plan years beginning on or after September 23, 2010. However, some insurers have said that they will begin to make the extension of dependent coverage available prior to September 2010 for individuals who would otherwise lose coverage.

Parents must be provided with a written notice of the opportunity for their young adult children to re-enroll in a parent's coverage by the first day of the plan year that starts on or after September 23, 2010. Insurers must give young adults at least 30 days from the date of the new plan year to decide to enroll in the plan. Before the new plan year begins, parents can talk to their human resources department or to their insurer for information about when their next insurance plan year starts and whether their insurer is allowing some young adults to remain insured through dependent coverage before the new law takes effect.

Additional coverage options exist for uninsured young adults who are not able to take advantage of the early enrollment that some insurers are offering for certain young adults. These young adults may be able to remain on a parent's plan through COBRA if they aged off a parent's coverage within the last 60 days. Otherwise, they may be able to buy coverage in the non-group market or may qualify for the temporary high-risk pools created by the health reform law if they have a pre-existing condition and have been uninsured for six months or more.

How much will it cost for young adults to remain on a parent's insurance?

The Department of Health and Human Services issued regulations stating that young adults who will be gaining dependent coverage under the health reform law cannot be charged more for coverage than similar individuals who did not lose coverage due to the end of their dependent status. The regulations also state that young adults newly qualifying as dependents under the health reform law must be offered the same benefits package as similar individuals who were already covered as dependents. The value of employer-provided health coverage for this extension of dependent coverage is excluded from an employee's taxable income.

Do states currently allow young adults to remain on their parent's health insurance plan?

Approximately 25 states have extended the age that young adults can remain on their parent's health insurance plan, but policies regarding who is eligible for this coverage vary widely. Most of the states that have these policies in place extend coverage to young adults up to age 25, but some states extend dependent coverage to age 24 or 26 and New Jersey extends the dependent age to 30. Some states mandate that eligible young adults be unmarried, be students, or be living in the same state as their parent with private coverage. State requirements to extend coverage to dependents do not apply to insurance plans that are self-funded. The federal requirements in the health reform law are designed to apply to these self-funded plans, along with other private insurance plans.

The new federal health reform law will be applied to all states, including those who have already expanded dependent coverage to some young adults. Young adults in states with narrower eligibility criteria than the federal law will now be able to take advantage of the federal law. States that have broader eligibility for dependent coverage will be able to continue their current state policies, which will enable more young adults to qualify for dependent coverage in those states than would qualify under the federal law.

What happens to young adults with a pre-existing condition who join a parent's insurance plan?

Uninsured young adults with a pre-existing condition who join a parent's employer-sponsored coverage plan may face a pre-existing condition exclusion of up to 12 months if they were uninsured for 63 days or more prior to gaining coverage. Young adults joining a parent's individually purchased policy may also face a pre-existing condition exclusion. In this case, insurers can exclude coverage of pre-existing conditions to the extent that it is allowed by state laws governing health insurance policies purchased by individuals.[1] Starting in 2014, pre-existing condition exclusions will no longer be permitted in either employer-sponsored or individually purchased health plans.

For more information about the Patient Protection and Affordable Care Act, see the summary of the new health reform law at www.kff.org/healthreform/8061.cfm.

[1] A list of each state's individual market portability rules is available on statehealthfacts.org at www.statehealthfacts.org/comparetable.jsp?ind=355&cat=7 (accessed May 10, 2010).

This publication (#8065) is available on the Kaiser Family Foundation's website at www.kff.org.

THE HENRY J. KAISER FAMILY FOUNDATION www.kff.org

Headquarters: 2400 Sand Hill Road Menlo Park, CA 94025 650.854.9400 Fax: 650.854.4800

Washington Offices and Barbara Jordan Conference Center: 1330 G Street, NW Washington, DC 20005 202.347.5270 Fax: 202.347.5274