

medicaid and the uninsured

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How Will Health Reform Impact Young Adults?

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Executive Summary

The health reform law that was signed by President Obama on March 23, 2010, seeks to expand health coverage to nearly all Americans, including most of the 13.7 million uninsured young adults. Young adults, age 19-29, have the highest uninsured rate of any age group in the United States and represent 30 percent of the overall uninsured population.¹ Although most of the provisions in the health reform law do not specifically target young adults, their high uninsured rate means that they will be one of the groups that are most impacted by the legislation. This document provides a brief overview of health coverage for young adults and then explains how the key coverage provisions in the law will affect this population. While the major provisions of the law will not take effect until 2014, several smaller-scale changes to the health insurance system will begin impacting young adults in 2010.

The health reform law will make the following short-term changes to expand coverage to more young adults in 2010:

- Private insurers will be required to allow qualifying young adults up to age 26 to remain on their parent's insurance plan;
- Tax credits will be available to small businesses to encourage them to provide their employees with health insurance;
- Temporary high-risk pools will be created so that young adults with pre-existing conditions who have been uninsured for six months can obtain coverage.

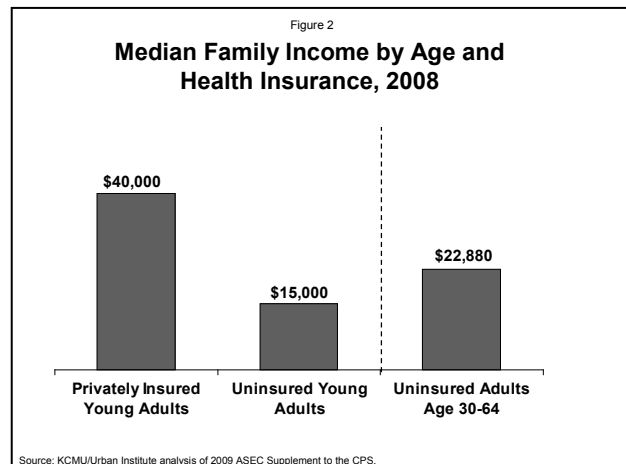
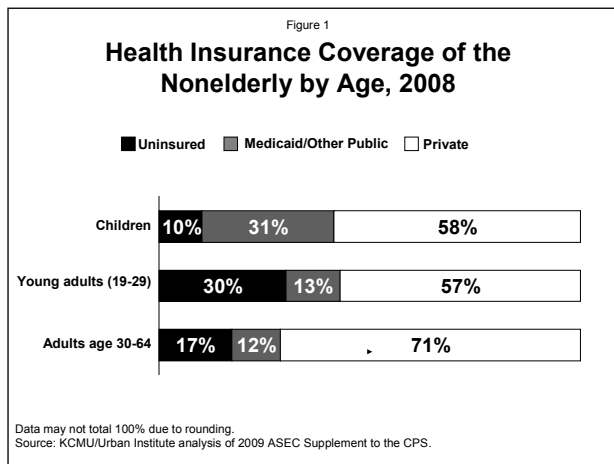
The more comprehensive coverage provisions in the law that will increase coverage options for young adults will be implemented in 2014:

- Medicaid will be expanded to 133 percent of the federal poverty level (\$14,404 for an individual) for all individuals under age 65. States have the option to provide this coverage prior to 2014 with federal matching funds.
- Young adults who do not have access to affordable employer coverage will be able to purchase coverage through a health insurance Exchange with premium and cost-sharing credits available for those who qualify. Small businesses will be able to purchase coverage through a separate Exchange.
- Employers will have to pay a fee for employees who receive tax credits for health insurance through an Exchange, with exceptions for small employers.
- New regulations will be imposed on all health plans to prevent health insurers from denying coverage to people due to health status or any other reason and from charging higher premiums based on health status and gender.

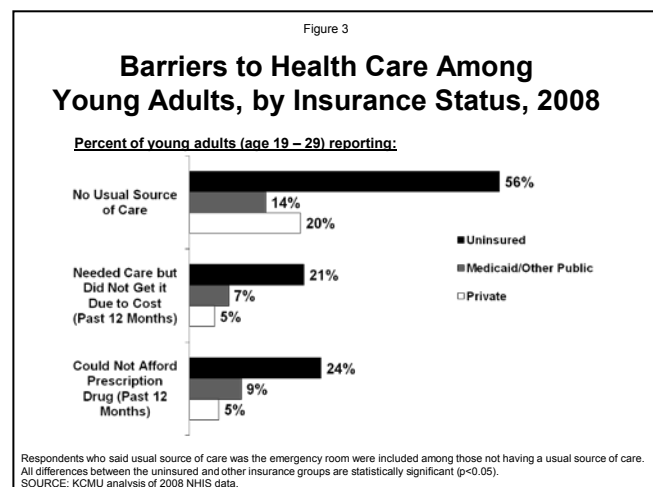
The health reform law seeks to expand coverage for all Americans, and young adults' high uninsured rate makes them a key beneficiary of the legislation. The law's efforts to expand access to affordable coverage will make it easier for uninsured young adults, who often have limited incomes, to gain coverage and access to needed care.

Overview of Uninsured Young Adults and Their Access to Care

Young adults are significantly more likely to be uninsured than older adults or children. In 2008, 30 percent of young adults were uninsured (Figure 1). Several factors contribute to young adults' increased risk of being uninsured. Specifically, the coverage they received as children through a parent's private plan or through a public program often terminates when they turn 19 years old. Gaining their own coverage is made more difficult because many young adults work in entry-level, low-wage, or temporary jobs that are less likely to provide health coverage to their workers. These young adults are just starting their careers and many have very low incomes. Half of uninsured young adults have family incomes below \$15,000 a year, making it difficult for them to afford health insurance (Figure 2).



The high uninsured rate for young adults has been a focus of policy efforts because uninsured young adults are at an increased risk of having difficulty accessing medical care. More than half of uninsured young adults have no usual source of care, compared to only 20 percent of those with private coverage and 14 percent of those with public coverage (Figure 3). About one-in-five uninsured young adults report that they were unable to get needed care due to cost within the past year. Similarly, about one-quarter of uninsured young adults said they could not afford a prescription drug they needed in the past year.



Young adult women have additional health needs and are particularly vulnerable when they are uninsured, as they are at an age when they require reproductive health services. Having health insurance and consistent access to the medical system may increase the likelihood that they receive timely pre-natal care if they become pregnant.

Health Reform Changes that Begin in 2010

Several provisions in the health reform bill will start helping many young adults in 2010. Beginning later this year, some young adults will be eligible to stay on a parent's health insurance plan until they are 26 years old. Young adults with a pre-existing medical condition who have been uninsured for six months will be able to purchase temporary coverage through a subsidized high-risk pool. Additionally, some young adults who work for small businesses may gain coverage through their employer because small businesses be eligible for tax credits for providing health coverage.

Extension of Dependent Coverage

Approximately 8.8 million uninsured young adults are between the ages of 19 and 25 and therefore may be eligible to continue receiving dependent coverage through a parent's health insurance plan until they turn 26 years old.² This option will only be available to young adults whose parents have private coverage that provides dependent coverage to children. Regulations issued by the U.S. Department of Health and Human Services state that young adults can qualify for this coverage even if they are not living with a parent, are not students, or are not dependents on a parent's taxes. Young adults are eligible for dependent coverage through a parent if they are married, but their spouse and children cannot qualify for this coverage. The health reform law also specifies that young adults can only qualify for dependent coverage through a group health plan that was in place prior to March 23, 2010 if they are not eligible for other employer-sponsored insurance.

The law stipulates that the dependent coverage extension is effective for new plan years beginning on or after September 23, 2010. Therefore, young adults may have to wait for the next plan year that begins on or after that date before they can be added to a parent's policy. However, some insurers have said that they will begin to make the extension of dependent coverage available prior to September 2010 for young adults who would otherwise lose their coverage.³

Premium Costs

The Department of Health and Human Services' regulations specify that young adults who qualify for the extended dependent coverage cannot be charged higher premiums 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. Additionally, the Treasury Department recently issued guidance stating that employer contributions towards premiums for this extension of dependent coverage are excluded from an employee's taxable income.⁴

Interaction of State and Federal Laws

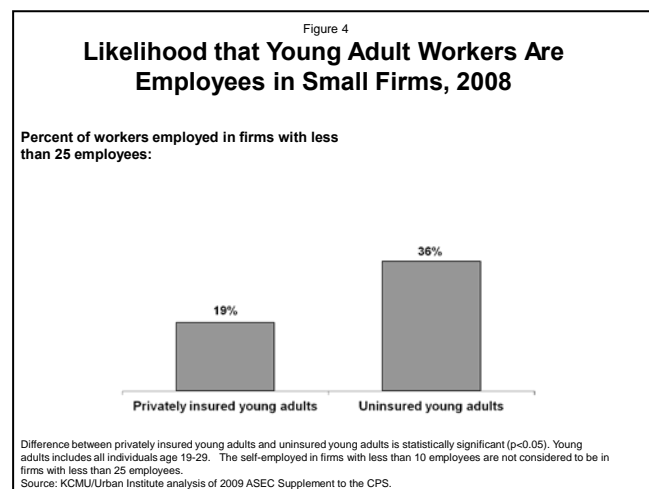
The new federal health reform law will apply to all states, including the approximately 25 states that have already expanded dependent coverage to some young adults. The state laws that are already in place vary widely, with some states only extending coverage to young adults who are students or who are living in the same state as the parent from whom they are receiving coverage. The new federal law will provide a guarantee of access to dependent coverage for eligible young adults regardless of where they live, but states can have more generous dependent

coverage policies beyond that minimum. Currently, most of the states that have these policies in place extend coverage to young adults up to age 25, but some states have gone further, such as New Jersey, which extends the dependent age to 30. State requirements to extend coverage to dependents do not apply to insurance plans that are self-funded. Self-funded plans are plans that insure employees by paying health care claims themselves and contract with insurers to handle the administration of health claims. A recent study suggests that 57 percent of employees are in self-insured plans, which are common among larger employers.⁵ The federal requirements in the health reform law are designed to apply to these self-funded plans along with other private insurance plans.

Small Business Tax Credit

Beginning in 2010, employers with no more than 25 employees and average annual wages of less than \$50,000 will be eligible to receive a federal tax credit if they provide health insurance for their employees. From 2010 to 2013, a tax credit worth up to 35 percent of the employer's contribution towards employee premiums will be available if the employer contributes at least half of the total premium cost or half of the cost of a benchmark premium. The full tax credit will be available to employers with 10 or fewer employees and average annual wages below \$25,000. The credit will phase out for firms with more employees and higher wages.

This tax credit is designed to help small firms offer coverage in the years before the health insurance Exchanges for small employers are in place. In 2008, 36 percent of working uninsured young adults were employed in small firms with less than 25 workers (Figure 4).⁶ Uninsured young adults working for small firms that currently do not offer coverage may find that the tax credit enables their employer to being to offer insurance. Young adults working for small firms that already offer health coverage may also benefit from this tax credit if it either enables their employer to continue offering coverage or allows the employer to lower the employee's share of the premium.



Temporary High-Risk Pool

Young adults and others with a pre-existing medical condition who have been uninsured for at least six months may be able to purchase subsidized coverage through a temporary national high-risk pool program. Given that about one in seven uninsured young adults (14 percent) has been diagnosed with a chronic condition, some young adults may benefit from this temporary coverage.⁷ This coverage will begin on June 21, 2010, 90 days after health reform was enacted. The premiums for this coverage will be determined as if for a standard population and therefore will not be higher due to the health problems faced by high-risk pool beneficiaries. Younger individuals will generally be charged lower premiums for an insurance policy in the high-risk pool than those who are older, but the premiums will not be permitted to vary more than a four-to-one ratio due to age. The premiums will not be subsidized based on income, however, and many uninsured young adults will likely find that the premiums are difficult to afford.

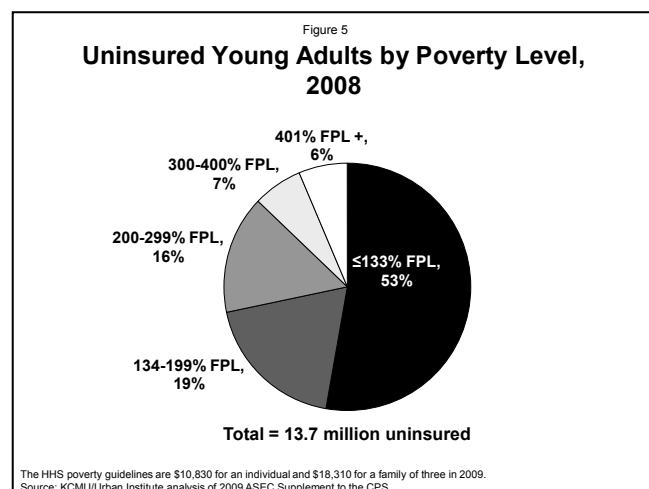
Health Reform Changes that Begin in 2014

Most of the major provisions in the health reform law that seek to expand coverage to nearly all Americans will be implemented in 2014. Once these provisions are in place, all of the lowest income young adults will qualify for Medicaid and many of those with moderate incomes will be able to purchase subsidized coverage through a health insurance Exchange. Beginning in 2014, individuals who do not have health insurance will be required to pay a tax penalty (which will be phased-in from 2014-2016), with certain exceptions. The expansion of Medicaid coverage and the premium subsidies in the Exchanges should substantially increase the number of young adults with health insurance.

Medicaid Expansion

Starting in 2014, all individuals with incomes at or below 133 percent of the federal poverty level (\$14,404 for an individual or \$24,352 for a family of three) will be eligible for Medicaid. While Medicaid and the Children's Health Insurance Program currently provide coverage to children beyond 133 percent of the poverty level in all states, many adults at this income level do not qualify. Medicaid coverage for parents in many states does not currently extend up to 133 percent of the poverty level, and in 34 states Medicaid eligibility levels for working parents are set below 100% of poverty.⁸ Prior to the enactment of the health reform law, states were only permitted to extend Medicaid coverage to childless adults through a waiver or a fully state-funded program. In more than half of states, public coverage is currently not available for childless adults, and some states that provide coverage for these adults offer them much more limited benefits or have programs that are not accepting new beneficiaries.⁹ Under the new health reform law, all states can now receive federal Medicaid matching funds to cover childless adults with incomes at or below 133 percent of poverty without applying for a waiver. However, this coverage will not become a required part of Medicaid until 2014 and most states are unlikely to begin Medicaid programs for childless adults before that deadline due to budget constraints.

Slightly more than half of uninsured young adults have incomes at or below 133 percent of the poverty level, and therefore will be eligible for Medicaid based on income.¹⁰ These young adults will be guaranteed coverage that provides a defined set of essential benefits, including mental health and prescription drug coverage. To improve Medicaid patients' access to providers, the federal government will provide temporary funding to increase Medicaid payments to primary care providers. The Medicaid coverage that newly eligible young adults receive will likely have less cost-sharing than private insurance and will not have premiums, which will help these very low-income young adults and other lower-income individuals access needed medical care. Starting in 2019, Medicaid coverage will also be available to all former foster children up to age 25 who were in foster care for more than six months.



Health Insurance Exchanges

Individuals will be eligible to purchase health insurance in a state-based health insurance Exchange beginning in 2014. These Exchanges will allow individuals to shop for coverage in a regulated marketplace where plans would cover a minimum set of health benefits as determined by the Secretary of the U.S. Department of Health and Human Services. Out-of-pocket costs for insurance policies purchased through an Exchange will be capped at \$5,950/year for individuals and \$11,900/year for families, excluding premiums.

Premium and Cost-Sharing Subsidies

Individuals who are ineligible for Medicaid and who are not offered employer-sponsored insurance or whose employer's insurance plan does not meet minimum standards or requires an employee share of the premium that exceeds 9.5 percent of income will be eligible for premium subsidies in an Exchange if their income does not exceed 400 percent of the poverty level (\$43,320 for an individual in 2009). Only six percent of uninsured young adults have incomes above 400% of poverty and therefore would not be eligible to receive any premium subsidy

Table 1:
Insurance Premium Limits in Exchanges

Income Level:	Premium (as a percent of income)	Percent of Uninsured Young Adults in Each Income Group
Up to 133% FPL	2%	53%
133-150% FPL	3-4%	7%
150-200% FPL	4-6.3%	12%
200-250% FPL	6.3-8.05%	9%
250-300% FPL	8.05-9.5%	6%
300-400% FPL	9.5%	6%
401% FPL+	No subsidies	6%

based on their income (Table 1). The remaining uninsured young adults have incomes that would qualify them for subsidies that would limit the share of their income that they would have to contribute toward their premium. Individuals with incomes at or below 400 percent of the poverty level will also benefit from caps on their total out-of-pocket costs that will increase the value of the insurance policy they purchase in an Exchange.

Young adults who currently purchase their own insurance in the non-group market may also benefit from the subsidies in the Exchanges. Only 15 percent of young adults now buying non-group coverage have incomes above 400 percent of the poverty level.¹¹ The remaining young adults with non-group coverage have lower incomes that would make them eligible for subsidies. However, the total premium for some young adults' insurance policies may be higher in an Exchange than their current premiums. These higher total premiums will be partially due to the more generous benefit package in the Exchanges compared to what is currently offered in the non-group insurance market. Additionally, there will be limits on how widely insurance premiums can vary based on age. Premiums will be allowed to vary by a maximum of three-to-one based on age, which may leave younger adults being charged higher total premiums than they would otherwise pay. The impact of these higher premiums will be at least partially mitigated by the subsidies that most young adults will receive in an Exchange.

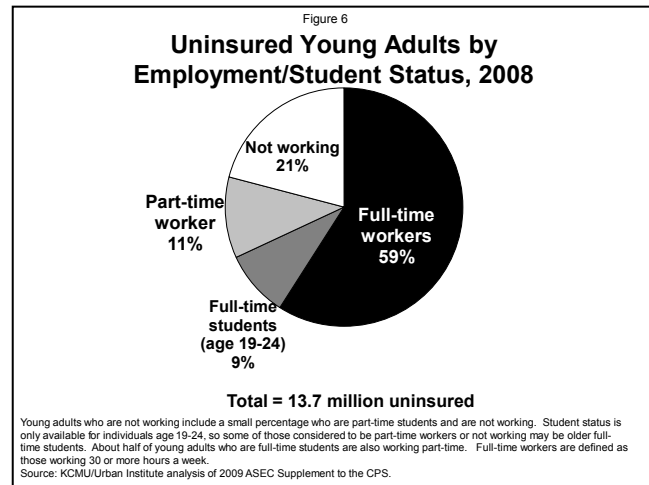
Catastrophic Coverage Plan

Young adults under age 30 will also have the option to purchase a catastrophic coverage plan in the individual market. These catastrophic plans will likely have lower premiums but higher cost-sharing and deductibles. Premium subsidies will not be available to help young adults purchase this catastrophic coverage. Therefore, it might be more affordable for a young adult to purchase

this catastrophic coverage. Therefore, it might be more affordable for a young adult to purchase other coverage through an Exchange and receive a federal subsidy than to purchase more limited catastrophic coverage. Although this coverage is referred to as “catastrophic coverage” in the health reform law, it will likely have a more comprehensive set of benefits than some of the policies now sold to young adults.

Strengthening Employer-Sponsored Coverage

Since more than half of uninsured young adults work full-time, the incentives in the health reform law that encourage employers to offer health coverage will likely help more young adults obtain coverage (Figure 6). Employers with 50 or more employees that do not provide coverage and have at least one employee who receives a premium tax credit in an Exchange will be assessed a fee of \$2,000 per full-time employee (with the first 30 employees excluded from this calculation). Large employers that offer coverage but have at least one employee who receives a premium credit through an Exchange are required to pay the lesser of \$3,000 for each employee who receives a premium credit or \$2,000 for each full-time employee (with the first 30 employees excluded from this calculation). Additionally, there will be a three-month maximum waiting period for employer-sponsored insurance after an individual starts a job, which will enable more young adults to obtain coverage soon after they become employed.



Employers will not be penalized if their part-time workers receive a subsidy in an Exchange. However, part-time employees will be included when calculating whether an employer has 50 or more full-time equivalent employees and therefore is large enough to pay a penalty if a full-time employee receives subsidized coverage in an Exchange. Thus, it is unclear whether the 11 percent of uninsured young adults who are working part-time will benefit from the fees that encourage employers to offer coverage. However, most of these uninsured young adults will either qualify for Medicaid or for subsidies if they purchase their own coverage in an Exchange.

Support for Small Businesses

Starting in 2014, small employers with up to 100 employees will be eligible to buy coverage in a state-based health insurance Exchange for small businesses. Half of working uninsured young adults currently work for firms with less than 100 employees.¹² The Exchanges will be a regulated marketplace designed to facilitate the process of buying health insurance for small employers and spread the health risk across a larger group. Plans in an Exchange will be required to cover an essential benefits package, but the level of cost-sharing will vary, with plans falling into one of four levels based on the percent of total health care costs covered by the plan. Insurers will not be allowed to charge higher premiums based on the health status of the workforce.

Conclusion

With the highest uninsured rate of any age group, young adults stand to benefit from many of the provisions in the health reform bill aimed at increasing access to affordable coverage. While the main coverage provisions in the law will not take effect until 2014, several measures will begin to increase access to coverage this year. Specifically, some young adults will be able to remain on a parent's health insurance as a dependent until they reach age 26. Additionally, the creation of a new high-risk pool and tax credits for small employers also aims to expand access to private insurance this year. In 2014, most uninsured young adults will either qualify for Medicaid or will be eligible for subsidies for coverage they purchase in a health insurance Exchange. The high cost of coverage is currently a major hurdle for young adults looking for coverage, and the expansion of Medicaid and the subsidies in the Exchanges are designed to make affordable coverage available to more uninsured young adults in 2014.

Young adults' current high uninsured rate puts both their physical and financial health at risk. The comprehensive health reform law uses a variety of mechanisms to reach uninsured young adults, along with other uninsured Americans. Through a mixture of expanded access to public and private health insurance, the law will likely enable many uninsured young adults to obtain affordable coverage. Gaining health insurance will extend medical care and provide additional financial security to young adults as they begin their adult lives.

¹ Details on uninsured rates for young adults and a profile of uninsured young adults are available in an appendix table.

² Kaiser Commission on Medicaid and the Uninsured. "Explaining Health Care Reform: Questions About the Extension of Dependent Coverage to Age 26." May 2010 (#8065).

³ Department of Health and Human Services. "Statement from HHS Secretary Kathleen Sebelius on Expedited Efforts By HHS To Work With Insurers to Voluntarily Provide Coverage for Graduating College Seniors and Young Adults under Age Twenty-Six in Advance of September Start Date in New Law." April 19, 2010.

⁴ Internal Revenue Service. "Tax-Free Employer-Provided Health Coverage Now Available for Children under Age 27." April 27, 2010.

⁵ Kaiser Family Foundation and Health Research & Educational Trust. *2009 Kaiser/HRET Employer Health Benefits Survey*, 2009 (#7790).

⁶ Due to the structure of the dataset, we could not include workers in firms with 25 workers along with workers in firms with fewer than 25 workers. Additionally, the self-employed in firms with less than 10 employees were not included as individuals working in firms with less than 25 employees because we could not determine which of these workers were self-employed with no employees. The tax credit is not available to the self-employed with no employees. In total, four percent of uninsured young adult workers are self-employed and work in a firm with less than 10 employees.

⁷ KCMU analysis of 2008 NHIS data. Young adults who said they had ever been diagnosed with diabetes, cancer, emphysema, heart disease, hypertension, stroke or had an episode of asthma in the past year were considered to have a chronic condition.

⁸ D. Ross, M. Jarlenski, S. Artiga and C. Marks, "A Foundation for Health Reform: Findings of a 50 State Survey of Eligibility Rules, Enrollment and Renewal Procedures, and Cost-Sharing Practices in Medicaid and CHIP for Children and Parents During 2009." Kaiser Commission on Medicaid and the Uninsured, December 2009 (#8028).

⁹ S. Artiga, "Where Are States Today? Medicaid and State-Funded Coverage Eligibility Levels for Low-Income Adults." Kaiser Commission on Medicaid and the Uninsured, December 2009 (#7993).

¹⁰ This analysis does not take citizenship into account. Only U.S. citizens or legal residents who have been in the U.S. for at least 5 years are eligible for Medicaid. States have the option of extending Medicaid to legal immigrant children and pregnant women who have been in the U.S. for less than 5 years.

¹¹ KCMU analysis of 2009 CPS data.

¹² The self-employed with less than 10 workers are not included among workers in firms with less than 100 employees. Due to the structure of the dataset, we could not include workers in firms with 100 workers along with workers in firms with fewer than 100 workers.

Appendix
Uninsured Young Adults (Ages 19-29), 2008

	All Young Adults (millions)	Percent of All Young Adults	Uninsured Young Adults (millions)	Percent of Uninsured Young Adults	Uninsured Rate for Young Adults
Total - Young Adults	45.3	100.0%	13.7	100.0%	30%
Family Poverty Level¹					
≤133%	16.1	35%	7.3	53%	45%
134-199%	6.3	14%	2.5	19%	40%
200-299%	7.7	17%	2.1	16%	28%
300-400%	5.2	11%	0.9	7%	17%
>400%	10.1	22%	0.9	6%	9%
Family Income					
<\$20,000	17.9	40%	8.1	60%	46%
\$20,000 - \$39,999	11.7	26%	3.7	27%	32%
\$40,000 - \$59,999	5.9	13%	1.0	7%	17%
\$60,000 +	9.8	22%	0.8	6%	8%
Work/Student Status²					
Full-time worker (30+ hrs/week)	28.2	62%	8.0	59%	29%
Full-time student (age 19-24)	6.3	14%	1.2	9%	19%
Part-time worker	4.2	9%	1.6	11%	38%
Non-Workers	6.7	15%	2.9	21%	43%
Education					
Less than high school	5.5	12%	2.9	21%	52%
High school graduate	13.4	30%	5.3	39%	39%
Some college/Assoc. degree	17.1	38%	4.2	30%	24%
College grad or greater	9.2	20%	1.3	10%	15%
Gender					
Male	22.8	50%	7.9	58%	35%
Female	22.5	50%	5.8	42%	26%
Age					
Age 19-25	28.5	63%	8.8	65%	31%
Age 26-29	16.8	37%	4.8	35%	29%
Marital Status					
Married adults	11.3	25%	2.4	18%	22%
Not married	34.0	75%	11.2	82%	33%
Parent Status					
Parent	10.6	23%	2.9	21%	27%
Not a parent	34.8	77%	10.8	79%	31%
Health Status					
Excellent/Very Good	33.2	73%	8.9	65%	27%
Good	9.7	22%	3.9	28%	40%
Fair/Poor	2.3	5%	0.9	7%	38%
Citizenship					
Citizen	40.4	89%	10.9	80%	27%
Non-citizen, resident for 6+ years	3.0	7%	1.7	13%	58%
Non-citizen, resident for 0-5 years	2.0	4%	1.0	8%	53%
Race/Ethnicity					
White only (non-Hispanic)	27.6	61%	6.4	47%	23%
Black only (non-Hispanic)	6.1	13%	2.2	16%	36%
Hispanic	8.5	19%	4.1	30%	48%
Asian/S. Pacific Islander only	2.1	5%	0.6	4%	29%
Am. Indian/Alaska Native	0.3	1%	0.1	1%	40%
Two or More Races	0.7	2%	0.2	1%	30%

¹ The HHS poverty level guidelines for a single person in 2009 is \$10,830 per year. The threshold for a family of four is \$22,050. The term family as used in family income and family poverty level is defined as a health insurance unit (those who are eligible as a group for "family" coverage in a health plan).

² Student status is only available for young adults under age 25. Some of those age 25-29 considered to be part-time or non-workers may be older students. Also, those who are working full-time and attending school full-time are categorized as full-time workers.

Source: Kaiser Commission on Medicaid and the Uninsured and Urban Institute analysis of the 2009 ASEC Supplement to the CPS.

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