

State Efforts to Extend Dependent Coverage for Young Adults

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Policy makers are becoming aware that young adults are the fastest growing group of uninsured in America. In fact, they are more likely to be uninsured than any other age group. Nearly one-third (30 percent) of young adults ages 19-29 are uninsured.¹ From 2004 to 2005, the number of uninsured adults ages 19-29 increased from 12.9 million to 13.3 million – an increase that accounted for 30 percent of the growth in the number of uninsured Americans under the age of 65 during this period.²

In an effort to address this issue, 19 states have passed laws that require some insurers to allow older dependents to remain enrolled in their parents' health insurance plans.³ Sixteen of these laws were passed in 2006 and 2007 (see Figure 1 for a map of states with such laws and Table 1 for year of passage).

These laws typically require insurers who offer health insurance for dependents up to a specific age to increase that age threshold, often to age 24-26.⁴ Many of the laws also apply to family coverage purchased through the individual market.⁵ It is not clear how many young adults have gained coverage because of these laws, because many of the laws are new and data are not yet available.

The growing number of uninsured and the lack of federal consensus about covering them has left states to develop options like these dependent coverage laws to fill gaps in coverage. These laws have emerged because of limited state options to cover young adults with federal Medicaid and State Children's Health Insurance Program (SCHIP) funds, and a shortage of affordable and comprehensive coverage options in the individual insurance market. This *State Health Policy Monitor* gives an overview of the key features of state laws designed to expand dependent coverage options for young adults.

Why Are Young Adults Likely To Be Uninsured?

There are many likely reasons for the large number of young, uninsured adults. Young adults often have entry level, part-time, or low-wage jobs where health insurance may not be an offered benefit.⁶ Healthy young adults may be able to purchase private, individual insurance, but even the least expensive plans can be out of reach for them.⁷ Forty-one percent of uninsured young adults had incomes below 100 percent of the federal poverty level (FPL) (\$9,570 for a household of one in 2005) and 72 percent had incomes below 200 percent FPL in 2005.⁸ Additionally, individual market plans may be inadequate for or unavailable to people with health problems.⁹ Short-term coverage and student plans with limited benefits

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A Closer Look: Experiences with Implementation in New Jersey

Enrollment in New Jersey's new program for young adults (referred to below as the "under 30 option") began in May 2006. Approximately 7,000 young adults are currently covered under this option. Following are some implementation details that may be helpful for policy makers in other states.

- This law applies only to group plans issued in the state. Plans issued in states other than New Jersey and ERISA-exempt, self-insured plans are not required to offer this coverage.
- Individuals must have been enrolled in a plan covered by this law on the date they would have aged out in order to be able to take advantage of the under 30 option. Consequently, if an individual is covered under a student health plan or her own ESI during the period in which she would have lost dependent status, she would not have the option of gaining coverage under her parents' plan at a later date. However, if that individual is on her parents' plan when she ages out and she does elect the under 30 coverage, she may subsequently drop coverage and rejoin later, assuming she meets all the eligibility requirements.
- If a dependent decides to purchase coverage through the under 30 option, she is unable to receive COBRA. If an individual loses eligibility through the under 30 option – for example, if he moves out of the state of New Jersey and is not a full-time student – it will not count as a qualifying event that triggers the option to get COBRA coverage.
- Only dependents who are unmarried and who do not have dependents of their own qualify for this extended coverage. For example, a pregnant woman who is covered under her parents' plan can continue to receive coverage through delivery of her child and initial hospitalization. However, once she is discharged from the hospital she will lose her coverage.
- The state has released guidelines on the methods insurers can use to determine how much to charge older dependents. One recommended process involves calculating the difference between the premiums charged for employee-only coverage and the premiums for employee and child coverage and dividing that difference by the average number of dependents per employee. Insurers may then charge 102 percent of this applicable portion of the premium.

Source: NASHP summary based on correspondence with R. Neil Vance and Gale Simon of the New Jersey Department of Banking and Insurance, and Chanell McDevitt and Ellen DeRosa of the New Jersey Individual Health Coverage and Small Employer Health Coverage Programs, October 2007; New Jersey Public Law 2005, Chapter 375; and New Jersey Department of Banking and Insurance Bulletins 06-06 (http://www.state.nj.us/dobi/bulletins/blto6_06.pdf) and 06-14 (http://www.state.nj.us/dobi/bulletins/blto6_14.pdf). Further details about the program, including frequently asked questions, can be found at <http://www.state.nj.us/dobi/dependentsunder30.htm>.

Dependent Coverage Laws: Pros and Cons

State laws that require insurers to allow older dependents to stay enrolled in their parents' group or other private-market plans are one approach to address the low rates of insurance among young adults. Dependent coverage laws appeal to states because they:

- Offer privately insured families the option of retaining older children on their plans.
- Improve continuity of coverage for young adults as they transition from school to work and job to job in the early years of their professional development. Access to comprehensive, portable health care during this period of transition is critical given the increased risk of substance abuse, mental health issues, pregnancy, and sexually transmitted diseases in this population.¹⁴
- Offer needed coverage for young adults who might not

otherwise find affordable, comprehensive coverage in the individual insurance market.

- Perhaps most important, generally allow states to expand coverage options without spending state dollars.

While these laws may help some young adults stay insured, they do have limitations. First, state dependent coverage laws offer no guarantee that affordable plans will be available. Some families may not have access to ESI or may have difficulty finding family plans that they can afford in the individual market. In 2007, workers are paying on average \$3,281 toward the premium for family ESI,¹⁵ which may be out of reach for some families.

It is also possible that these laws could increase the costs of health care. This could happen in one or both of the following ways. An employer could pass on the costs of these newly covered adults in the worker's share of the premium for family coverage. Additionally, because of the expense of insurance, even middle class families may be inclined to take advantage of these new coverage options only if their older dependents have serious health needs.¹⁶ This

adverse selection could add to the insurer's cost of covering dependents. These additional costs, particularly for expensive services like maternity and mental health care, may lead to increased premiums for all beneficiaries if insurers pass along the cost of covering this population to employers and individuals.

Even families that could afford to enroll their younger dependents in ESI may not be able to keep older children on their plans if employers structure the benefit as a rider and cut back their contributions to the premiums for this newly covered population. Workers currently pay 28 percent of the full cost of the annual premium for family coverage (\$12,106) in 2007.¹⁷ However, if families must pay the entire cost of covering an older dependent, it may be too expensive.

Second, these state laws are unable to reach more than half of the individuals covered by ESI. The Employee Retirement Income Security Act (ERISA) prohibits states from regulating employer-sponsored plans directly. While ERISA does allow states to regulate insurance products that insurers sell to employers, it does not allow states to regulate employers that self-insure.¹⁸ Therefore, these new dependent coverage laws do not reach the 55 percent of employees with ESI who in 2007 received coverage through a self-insured plan.¹⁹

Finally, many of these laws have additional eligibility requirements (see "Key Features of State Laws Extending Coverage to Young Adults"), so some young adults will not qualify even if their parents have insurance that is regulated by the state.

Key Features of State Dependent Coverage Laws

In drafting legislation to extend coverage to young adults, states have many policy options (see Table 1):²⁰

- **Age Limits** – Although the majority of states with dependent coverage laws in place require commercial insurers in the fully-insured market to provide coverage to dependents until they turn 25, two states mandate coverage only until the dependent's 24th birthday. An additional six states have higher age limits, including New Jersey, which extends the requirement through age 29. Idaho sets a higher age threshold for students than for non-students.
- **Student Status** – Two states only require insurers to cover older dependents who are enrolled in school on

a full-time or part-time basis. An additional four states only cover dependent children living out of state if they are students.

- **Family Status** – Rhode Island requires that older dependents not only be students, but also be unmarried if they want to remain on their parents' plans. Another 14 states limit the requirement to unmarried dependents. Three states limit coverage to those dependents who do not have dependents of their own.
- **Place of Residence** – In Colorado and Maryland at least some dependents must live with the policyholder to be covered by these laws. Connecticut's dependent coverage law for young adults only applies to individuals who reside within the state.
- **Other Restrictions** – Some states limit the coverage requirements to children who are financially dependent, according to various definitions, on the policyholder. Additionally, coverage mandates in some states do not apply to individuals who are enrolled in another insurance plan or who are eligible for another insurance plan at a comparable price. In at least one state, young adults must be covered under their parents' plan at the time they aged out of the program in order to take advantage of this extended coverage (see "A Closer Look: Experiences with Implementation in New Jersey" for more details).
- **Limitations on Premiums** – Many of the dependent coverage laws are silent on what premiums can be charged for coverage of older dependents. Other states tie the amount of the premium for older dependents to either 100 percent or 102 percent of the portion of the premium applicable to covered dependents (see "A Closer Look: Experiences with Implementation in New Jersey" for details on rate calculation in one state). States likely chose this way of limiting premiums in an effort to address affordability while trying to protect themselves from an ERISA challenge.²¹ In fact, in order to guard against a potential ERISA legal challenge, several of these laws explicitly state that nothing in the law requires the employer to contribute to the premium.

Related Laws

Other states have adopted laws to extend dependent coverage to specific groups of young adults.²² For example, in Illinois and Pennsylvania, insurers who offer coverage for full-time students up to a certain age also allow additional years of coverage for dependents who take longer to graduate because of

TABLE 1: KEY FEATURES OF STATE DEPENDENT COVERAGE LAWS

State	Dependent Coverage Until Age	Law limits premiums ^a	Restrictions			Year of Passage
			Must be full- or part-time student	Cannot be married	Cannot have own dependent	
Colorado	25			✓		2007
Connecticut	26	✓		✓		2007
Delaware	24	✓	FT*	✓	✓	2006
Idaho	21			✓		2007
	25		FT	✓		2007
Indiana ^b	24					2007
Maine	25		FT*	✓	✓	2007
Maryland ^c	25	✓		✓		2007
Massachusetts	26 ^d					2006
Minnesota	25			✓		2007
Montana	25			✓		2007
New Hampshire	26		FT or PT*	✓		2007
New Jersey	30	✓	FT *	✓	✓	2006
New Mexico	25			✓		2003
Rhode Island	25		PT or FT	✓		2006
South Dakota	29		FT			2007
Texas	25 ^e					2003
Utah	26	✓		✓		1994
Washington	25			✓		2007
West Virginia	25			✓		2007

* If not living in the state or not a state resident

Source: NASHP analysis of state laws, 2007: Colorado House Bill 05-1101; Connecticut Senate Bill 1484; Delaware House Bill 446; Idaho Senate Bill 1105; Indiana House Bill 1678; Maine Public Law, Chapter 115, Sec. 24-A; Maryland House Bill 1057; Massachusetts, Chapter 58 of the Acts of 2006; Minnesota House Bill 1078; Montana Senate Bill 419; New Hampshire House Bill 790; New Jersey Public Law 2005, Chapter 375; New Mexico House Bill 335; Rhode Island Senate Bill 2211; South Dakota Senate Bill 108; Texas Acts 2003, Chapter 1274; Utah Code 31A-22-610; Washington Senate Bill 5930; West Virginia House Bill 2940.

Notes:

- a. Most state laws are silent on the question of whether insurers can charge higher premiums for older dependents than they can for other dependents. These five states either prohibit insurers from charging more or limit how much more they can charge.
- b. Indiana's law only applies to the individual and small group market.
- c. In this same law, Maryland mandated that, upon the request of group policyholders, insurers must offer the same coverage to domestic partners and their dependents who live with them that is available to other dependents.
- d. In Massachusetts, the requirement extends until dependent children reach age 26, or two years after they lose dependent status under the Internal Revenue Code, whichever comes first.
- e. In some cases, dependent students over the age of 25 may be able to retain coverage.

military service. Several other states, including Maine, Michigan, Vermont, and Virginia, require that insurers who provide coverage for students must extend that coverage at least temporarily to individuals who cannot enroll in school due to mental or physical disabilities. Other states have gone further and mandated that insurers who cover dependent children must cover children with disabilities regardless of age.

Conclusion

States have sought to expand coverage to older dependents by increasing the age at which children are eligible for coverage under their parents' plans. These laws attempt to solve a serious problem, since young adults make up the largest share of

the uninsured population. While these laws may increase access to coverage for some young adults during a critical period of transition, they are limited in scope. Young adults living in low- and moderate-income households where employer-sponsored or direct purchase health insurance is not available or affordable are unlikely to benefit. Also, insurers or employers may pass on the cost of covering this group by increasing the cost of all health insurance premiums. Furthermore, these laws only apply to individual market and fully-insured ESI plans, yet 55 percent of covered employees are enrolled in some type of self-insured plan. While extending dependent coverage to young adults may help some young adults access health insurance, larger issues of access and affordability for this population remain.

Notes

- 1 S.R. Collins et al., *Rite of Passage? Why Young Adults Become Uninsured and How New Policies Can Help* [Issue Brief] (New York, NY: The Commonwealth Fund, 2007).
- 2 Ibid.
- 3 These laws typically extend to any entity providing health insurance in the state, including commercial insurers, nonprofit health service corporations, and HMOs.
- 4 In several states, prior to these new laws, insurers who offered coverage to dependents based on their age were required to do so up to age 19 for non-students and up to age 23 to 25 for students.
- 5 This *State Health Policy Monitor* does not focus on plans purchased through the individual market because only 6.6 percent of nonelderly Americans are covered by plans purchased in the individual market, compared to 62.9 percent who are covered by employer-sponsored insurance. (U.S. Census Bureau, Table H105, Health Insurance Coverage Status and Type of Coverage by State and Age for All People: 2006. Retrieved 15 Nov. 2007. <http://pubdb3.census.gov/macro/032007/health/toc.htm>.) Additionally, some states, like New Jersey, do not include insurers in the individual market in their law because there are already protections in the individual market that guarantee that all residents would have a plan offered to them (Correspondence with R. Neil Vance and Gale Simon of the New Jersey Department of Banking and Insurance, and Chanell McDevitt and Ellen DeRosa of the New Jersey Individual Health Coverage and Small Employer Health Coverage Programs, Oct. 2007).
- 6 Collins, op cit. Previous research suggests that insurance rates also vary by family structure, with unmarried young adults more likely to be uninsured. Among 19-29-year-olds in 1999, 41 percent of single childless adults not living with their parents were uninsured, while 28 percent of single parents, 25 percent of married individuals without children, and 22 percent of married young people with children were uninsured (Kevin Quinn, Cathy Schoen, and Louisa Buatti, *On Their Own: Young Adults Living Without Health Insurance* (New York, NY: The Commonwealth Fund, 2000)).
- 7 Premiums for such plans have a wide range in cost, from \$1,200 to more than \$4,200 annually. Cost estimates reflect average premiums among the plans designated as “best sellers” on ehealthinsurance.com for counties in Alabama and New York City, respectively. Estimates are based on a non-smoking, 22-year-old female without preexisting conditions. Plans are available that are both more and less expensive in both of those locations. Plans vary in the services they cover, their deductibles, and copayments.
- 8 Collins, op cit.
- 9 Individual market plans can have high deductibles or limited benefits, and in most states insurers can charge higher premiums, refuse to cover services related to a preexisting condition, or deny coverage altogether to people with health problems. Gary Claxton, *How Private Insurance Works: A Primer* (Menlo Park, CA: Kaiser Family Foundation, 2002). Retrieved 24 Sept. 2007. <http://www.kff.org/insurance/2255-index.cfm>.
- 10 Medically Needy Programs allow states to cover children with significant health costs by letting families spend down to income thresholds. Under the Ribicoff program, states have the option to extend coverage to children up to age 21 who meet asset and income tests but are otherwise ineligible.
- 11 H.B. Fox, S.J. Limb, and M. McManus, *The Public Health Insurance Cliff and Older Adolescents* (Washington, DC: InCenter Strategies, 2007).
- 12 Ibid. This is a much smaller share of the uninsured population than is the case for younger adolescents, where estimates are as high as 70 percent of uninsured individuals ages 17 and 18 are eligible for coverage.
- 13 Eliot Fishman, “Aging Out of Coverage: Young Adults with Special Health Needs,” *Health Affairs* 20, no. 6 (2001): 254-266.
- 14 National Institute for Health Care Management, *Young People’s Health Care: A National Imperative* [Issue Paper] (Washington, DC: 2006). Retrieved 3 July 2007. http://www.nihcm.org/pdf/YoungPeoples_HCFINAL.pdf.
- 15 Kaiser Family Foundation and Health Research and Education Trust, *Employer Health Benefits: 2007 Annual Survey* (Menlo Park, CA: 2007). Retrieved 24 Sept. 2007. <http://www.kff.org/insurance/7672/upload/EHBS-2007-Full-Report-PDF.pdf>.
- 16 Presentation of Deborah Chollet, Mathematica Policy Research, Inc., at State Innovations in Health Coverage, A Workshop for State Officials, Aug. 3, 2007, Denver, Colorado.
- 17 Kaiser Family Foundation and Health Research and Education Trust, op cit.
- 18 ERISA’s “savings clause” allows states to regulate insurance coverage if a company purchases the insurance through a third-party that assumes the risk of covering medical claims (fully-insured plans). Employers who self-insure, on the other hand, assume the financial risk of paying the medical claims of their employees, even though a third-party administrator or insurer usually administers the plan on contract. These self-insured plans do not fall under the “savings clause” of ERISA, and therefore states are preempted from regulating them. For more information about ERISA, see www.nashp.org.
- 19 Kaiser Family Foundation and Health Research and Education Trust, op cit. Some self-insured plans might follow the lead of the rest of the market and allow older dependents to stay enrolled, but states could not ensure it.
- 20 This section and Table 1 draw from state laws, as well as the following:
 - Collins, op cit.
 - National Conference of State Legislatures. *The Changing Definition of ‘Dependent’: Who is Insured and for How Long?* Retrieved 12 Sept. 2007. <http://www.ncsl.org/programs/health/dependentstatus.htm>.
 - State Coverage Initiatives. *Matrix Glossary: Dependent Coverage Matrix*. Retrieved 7 July 2007. <http://statecoverage.net/matrix/dependentcoverage.htm>.
- 21 Under ERISA, states cannot directly require employers to provide coverage or to contribute a certain amount toward the premium. For more information about ERISA, see Pat Butler, “ERISA Implications for State Health Care Access Initiatives: Impact of the Maryland ‘Fair Share Act’ Court Decision” (Portland, ME: National Academy for State Health Policy, Oct. 2006) and other ERISA resources at www.nashp.org.
- 22 National Conference of State Legislatures, op. cit.

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