How Will the Patient Protection and Affordable Care Act of 2010 Affect Young Adults?

Timely Analysis of Immediate Health Policy Issues

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More options for getting affordable health insurance for 20-somethings – and penalties for opting out – will dramatically change the face of the uninsured.

Health reform is expected to lead to substantial gains in health insurance coverage among young adults age 19 to 29, the age group that had the highest uninsurance rates pre-reform, which in turn should increase access to needed health care and improve their health and functioning.[1,2] Fully 30 percent of young adults age 19 to 29 lack health insurance coverage, which is almost twice as high as the uninsurance rate among all non-elderly.[3,4] Young adults should benefit from a number of the policy changes that were introduced as part of health reform, particularly the Medicaid expansion, the subsidies offered for coverage through the health insurance exchanges, the expansion in dependent coverage and the health insurance market reforms.[5] While many young adults are expected to benefit from health reform, some with income above 133 percent of the federal poverty level (FPL) will face penalties for opting out of coverage or will spend more on coverage than they would have otherwise chosen. However, young adults will also benefit from other health care investments being made as part of health care reform.

Dependent Coverage Expansion

One of the first provisions of the Patient Protection and Affordable Care Act (PPACA) to be implemented is the expansion of dependent coverage to young adults up to age 26 in all plans that offer dependent coverage (both employer plans and those purchased in the non-group market). Many large insurers have agreed to offer coverage to adults younger than age 26 on their parents' employer health plans effective June 2010, in advance of the required implementation date.[6] While it is not clear how many uninsured young adults will gain coverage through this provision, it should provide benefits to some who lack an offer of employer coverage but who have parents with employer coverage.[7]

Young Adults below 133 Percent of the FPL

The single most important way that uninsured low-income young adults will gain health insurance coverage under reform is through the expansion of Medicaid eligibility to all adults with income below 133 percent FPL who meet immigration requirements. The Medicaid expansion, which is scheduled to go into effect in January 2014, has the potential to provide coverage to millions of poor and near poor uninsured young adults age 19 to 29.[8] States will have a strong incentive to enroll this population in Medicaid since the federal government will pay the vast majority of the costs associated with their health care.[9,10] Young adults who enroll in Medicaid under reform will be eligible for a benchmark benefit package that includes "essential health benefits" consistent with what will be available through the health insurance exchanges but with lower cost sharing.[11] In addition, children in the foster care system who are covered by Medicaid when they turn 18 will be eligible for Medicaid coverage with a comprehensive benefits package (including Early and Periodic Screening, Diagnostic and Treatment Services) until they turn 26, regardless of income. This will likely reduce uninsurance among these young adults as they age out of foster care and will provide them with affordable access to comprehensive health care.

Young Adults above 133 Percent of the FPL

For uninsured young adults with income above 133 percent of the FPL, the impacts of health reform may be mixed. Many will be eligible for subsidized health insurance coverage through the new exchanges; however, others will face penalties for opting not to enroll in insurance coverage, and some will spend more on coverage than they might have otherwise chosen. Adults deemed to have affordable coverage available to them (i.e., a premium contribution for qualified coverage less than 8 percent of income)[12] will face a penalty if they do not have health insurance

coverage, unless they qualify for a hardship, religious or other exemption.[13] Penalties will increase over time, reaching the greater of $695 or 2.5 percent of income above the minimum tax filing threshold by 2016 for an individual.

The millions of uninsured young adults with incomes between 133 percent and 400 percent of the FPL who do not have access to affordable employer coverage will benefit from the subsidies for coverage provided through health insurance exchanges.[14] Subsidies are designed to cap individuals' premium costs at 2 to 9.5 percent of income, with the caps increasing as income rises. Subsidies to lower out-of-pocket costs will also be available to those with incomes at or below 250 percent of the FPL. However, those with an offer of employer coverage that meets minimum federal requirements and is deemed affordable will not be eligible for subsidies through the exchanges, regardless of their income. They will therefore be required to purchase their employer's plan, purchase full-cost coverage in the exchange, or pay the penalty for forgoing coverage.

Under reform, health insurers will be constrained in how much the premiums they charge for a new policy in the non-group or small group markets can vary with age.[15] This means that the unsubsidized price of coverage for young adults will be higher than if greater age-rating in premiums were permitted. However, because many young adults without employer health insurance offers also have quite low incomes, most would be eligible for subsidies in the exchange, which would substantially offset the effects of limited age rating.[16] New federal benefit standards in the small group and non-group markets mean that comprehensive policies will be available to all, regardless of health status. Thus, young adults and others with health conditions that would have resulted in higher premiums, coverage limitations, or outright denials of coverage in the non-group market pre-reform will be guaranteed access to coverage beginning in 2014. Those in excellent health will thus have to share in those costs to a greater degree than has been true in the past.

Young women will particularly benefit from the new prohibition on gender rating in the non-group and small group markets; in the past most states allowed women of child-bearing age to be charged significantly higher premiums than their male counterparts of the same age and health status. The elimination of very limited benefit policies (e.g., cancer-only policies, per diem hospital payment policies, etc.) as well as the broad availability of comprehensive policies for individual purchasers should translate into lower out-of-pocket costs on average and greater protection against unforeseen large expenses. For young adults who do not qualify for a high level of subsidy, the exchange premium will likely be higher than what they would face in the non-group market today, due in large part to the more comprehensive coverage offered.[17] Because current plans are "grandfathered" and are not subject to the new premium rating rules, young adults who are already enrolled in non-group coverage that provides them with lower premiums can stay in those plans if they choose.

Besides the plans that will be made available to all through the exchanges, a catastrophic plan will be an added option available to young adults under age 30. This plan will provide the same minimum coverage currently required of Health Savings Accounts but with the addition of prevention benefits and three primary care visits that will be exempt from the deductible. While the catastrophic plans will be less expensive than the other plans, they may or may not provide affordable access for enrollees when they need medical care due to the higher cost-sharing requirements associated with them.

Approximately 1 million uninsured young adults age 19-29 currently have incomes above 400 percent of the FPL.[18] These young adults will not be eligible for subsidized coverage and may or may not be subject to the individual mandate, depending on whether they have affordable coverage options available to them. Those with affordable options will have to choose between paying for coverage and paying the penalty, and some will choose the latter, possibly cheaper, option. However, because growing numbers of young adults are burdened with chronic health problems, more and more young adults will likely want to insure themselves against the high costs associated with treating these conditions.[19] These young adults will also benefit from the ban on annual and lifetime limits and the elimination of coverage exclusions for preexisting health conditions.

Massachusetts Experience

The experience under health reform in Massachusetts suggests that an individual mandate, new subsidies for coverage and a broader array of options available to young adults may contribute to greater take-up among this age group.[20] However, young adults still have higher uninsured rates in Massachusetts than most other age groups, and many young adults purchasing coverage through

Commonwealth Choice have chosen to purchase the less comprehensive, catastrophic plans that are available for young adults.[21]

Other Benefits

Finally, other health care reform provisions could also have positive impacts on the lives of young adults. In particular, a new Public Health Fund devoted to health improvement, prevention and wellness initiatives; new public health activities including screenings and immunizations; care coordination for Medicaid enrollees with chronic conditions; and demonstration programs to address behaviors associated with chronic conditions such as obesity and diabetes, could have positive impacts on the health and well-being of young adults.

Summary

Health reform will give young adults several new options for health insurance coverage, which should reduce uninsured rates and improve access to care for this age group. While most young adults will qualify for low- or no-cost coverage, some higher-income young adults will face penalties for opting out of coverage or will spend more on coverage than they would have otherwise chosen.

Notes

[1] Institute of Medicine. "America's Uninsured Crisis: Consequences for Health and Health Care." Washington, DC: National Academy of Sciences, 2009.

[2] Unless otherwise cited, all information contained in this brief is based on the authors' analysis of the Patient Protection and Affordable Care Act (PL 111-148).

[3] Holahan, J. and G. Kenney. "Health Insurance Coverage of Young Adults: Issues and Broader Considerations." Washington, DC: Urban Institute, 2008.

[4] Kaiser Commission on Medicaid and the Uninsured. "The Uninsured: A Primer." Washington, DC: Kaiser Family Foundation, 2009.

[5] Schwartz, K. and T. Schwartz. "How Will Health Reform Impact Young Adults?" Washington, DC: Kaiser Commission on Medicaid and the Uninsured, 2010.

[6] Colliver, V. "Young Adults Eager for Care on Parents' Plans." *San Francisco Chronicle,* 10 May 2010.

[7] Cantor, J. "The Impact of State Dependent Coverage Expansions on Young Adult Insurance Status: Further Analysis (Companion Brief)." Robert Wood Johnson Foundation, State Health Access Reform Evaluation. April 2010.

[8] Collins, S. and J. Nicholson. "Rite of Passage: Young Adults and the Affordable Care Act of 2010." New York: The Commonwealth Fund, 2010.

[9] Center for Children and Families. "Summary of Medicaid, CHIP, and Low-Income Provisions in Health Care Reform." Washington, DC: Georgetown University Health Policy Institute, 2010.

[10] Under health reform, the federal government will pay a much higher percentage of the expenses of those newly eligible (like young adults) for Medicaid than for those currently eligible.

[11] Essential health benefits include coverage for ambulatory patient services, emergency services, hospitalization, maternity and newborn care, mental health and substance use disorder services including behavioral health treatment, prescription drugs, rehabilitative and habilitative services and devices, laboratory services, preventive and wellness services including chronic disease management, and pediatric services including oral and vision care.

[12] Qualified coverage is defined as a health plan provided by public programs, state health benefits risk pools, employers, and the non-group market that provides comprehensive coverage and not coverage for a single type of service.

[13] Individuals with incomes below the tax filing threshold are exempt from penalties, as are incarcerated individuals, those in the country illegally, members of Indian tribes, and those whose gaps in coverage were less than 3 months.

[14]If an individual has an ESI offer with a contribution requirement that is 9.5 percent of income or less, they are generally not eligible for subsidies in the exchange, even if their income would otherwise make them eligible. However, if the actuarial value of the plan the employer offers is less than 60 percent, the family can access exchange subsidies if they are income eligible (100 to 400 percent of the FPL). For information on employee choice vouchers, see Buettgens, M. and L Blumberg. "Making Health Reform More Affordable for Working Families: The Effect of Employee Choice Vouchers." Washington, DC: Urban Institute, 2010.

[15] The premium for a 64-year-old cannot exceed three times the premium for an 18-year-old.

[16] Blumberg, L., M. Buettgens, and B. Garrett. "Update: Age Rating under Comprehensive Health Care Reform." Washington, DC: Urban Institute, 2010.

[17] Congressional Budget Office. "An Analysis of Health Insurance Premiums under the Patient Protection and Affordable Care Act." 30 Nov 2009; Urban Institute analysis using the Health Insurance Policy Simulation Model (HIPSM).

[18] Collins, S. and J. Nicholson. "Rite of Passage: Young Adults and the Affordable Care Act of 2010." New York: The Commonwealth Fund, 2010.

[19] Callahan, S., and W. Cooper. "Access to Health Care for Young Adults with Disabling Chronic Conditions." *Archives of Pediatrics and Adolescent Medicine* 2006; 160: 178-182.

[20] Long, S., A. Yemane, and K. Stockley. "Disentangling the Effects of Health Reform in Massachusetts: How Important Are the Special Provisions for Young Adults?" *American Economic Review* 2010; 100(2): 297–302.

[21] Kingsdale, J. Report to the Massachusetts Legislature: Implementation of the Health Care Reform Law, Chapter 58, 2006–2008. The Massachusetts Health Insurance Connector Authority. 2008.

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