Health Care Reform
LEGISLATIVE BRIEF

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# Q&A Regarding Coverage for Adult Children up to Age 26

The Affordable Care Act (ACA) made sweeping changes to the U.S. health care system, including an extension of health insurance coverage to young adult children up to the age of 26. The extension of coverage to young adult children took effect on the first day of the first plan year that began on or after Sept. 23, 2010.

***What plans are required to extend dependent coverage up to age 26?***

The ACA requires plans and issuers that offer dependent coverage to make the coverage available until a child reaches the age of 26. Both married and unmarried children qualify for this coverage. This rule applies to all plans in the individual market and to non-grandfathered group health plans. It also applies to grandfathered group health plans unless the adult child has another offer of employer-based coverage (such as through his or her job). Beginning in 2014, children up to age 26 can stay on their parents' employer plan even if they have another offer of coverage through an employer.

***Will young adults have to pay more for coverage or accept a different benefit package?***

Any qualified individual must be offered all of the benefit packages available to children who did not lose coverage because of loss of dependent status. The qualified young adult cannot be required to pay more for coverage than similarly situated individuals who did not lose coverage due to the loss of dependent status.

***Can plans or issuers who offer dependent coverage continue to impose limits on who qualifies based upon financial dependency, marital status, enrollment in school, residency or other factors?***

No. Plans and issuers that offer dependent coverage must provide coverage until a child reaches the age of 26. There is one exception for group plans in existence on March 23, 2010 (grandfathered plans). Those group plans may exclude adult children who are eligible to enroll in an employer-sponsored health plan, unless it is the group health plan of their parent. This exception is no longer applicable for plan years beginning on or after Jan. 1, 2014.

***Does the adult child have to purchase an individual policy?***

No. Eligible adult children wishing to take advantage of the new coverage will be included in the parents' family policy.

***Will Medicare cover adult children in the same way that private health insurance will?***

No. The dependent coverage requirement does not apply to Medicare.

***Are both married and unmarried young adults covered?***

Yes.

***Are plans or issuers required to provide coverage for children of children receiving the extended coverage?***

No.

***Why is there a special exception for group plans in existence on March 23, 2010?***

The intent of the new law is to cover as many young adults under the age of 26 as possible with the least amount of burden. If a young adult is eligible to purchase other employer-based health insurance such as through his or her job, the law does not require the parent or parents' plan to enroll that child if the parents' plan is a grandfathered health plan (that is, in existence on March 23, 2010). This exception is no longer applicable for plan years beginning on or after Jan. 1, 2014.

***What happens if a young adult under the age of 26 is not eligible for employer-sponsored insurance and both parents have separate plans that offer dependent coverage?***

Neither parent's plan can deny coverage.

***Does the law apply to plans or issuers that do not provide dependent coverage?***

No. There is no federal requirement compelling a plan or issuer to offer dependent coverage at this time. However, the majority of group health plans offer dependent coverage and many family policies exist in the individual market.

***I understand that there are tax benefits related to the extension of dependent coverage. Can you explain these benefits?***

Under a change in federal tax law included in the health care reform law, 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 for federal tax purposes. This tax benefit applies regardless of whether the plan or the insurer is required by law to extend health care coverage to the adult child or the plan or insurer voluntarily extends the coverage. However, state requirements may differ and state taxes may apply.

***When does this tax benefit go into effect?***

The tax benefit is effective March 30, 2010. Consequently, 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. **Note: States that conformed with federal tax law after March 30, 2010, may have a different effective date for state taxes.**

***Who benefits from this tax treatment?***

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.

***May employees purchase health care coverage for their adult child on a pretax basis through the employer's cafeteria plan?***

Yes. In addition to the exclusion from income of any employer contribution towards qualifying adult child coverage, employees may pay the employee portion of the health care coverage for an adult child on a pretax basis through the employer's cafeteria plan—a plan that allows employees to choose from a menu of tax-free benefit options and cash or taxable benefits.

***It seems like plans and insurers can terminate dependent coverage after a child turns 26, but employers are allowed to exclude from the employee's income the value of any employer-provided health coverage through the end of the calendar year in which the child turns age 26. This is confusing.***

Under the law, the requirement to make adult coverage available applies only until the date that the child turns 26. However, if coverage extends beyond the 26th birthday, the value of the coverage can continue to be excluded from the employee's income for the full tax year (generally the calendar year) in which the child had turned 26. For example, if a child turns 26 in March but is covered under the employer plan of his parent through Dec. 31 (the end of most people's taxable year), the value of the health care coverage through Dec. 31 is excluded from the employee's income for tax purposes. If the child stops coverage before Dec. 31, then the premiums paid by the employee up to the time the plan was stopped will be excluded from the employee's income.

*Source: Department of Labor*