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Health Care Reform and Extending Coverage for Young Adults

One of the main goals of the Patient Protection and Affordable Care Act (PPACA) signed into law in March, 2010 was to increase the number of Americans who have access to health insurance. Providing the opportunity for young Americans to acquire health insurance coverage is one of the first provisions to receive attention. The provision enables dependent children to remain on their parents' plan until age 26. In response to this law, the Internal Revenue Service in IRS notice 2010-38 expanded the definition of "dependent" under Section 105 of the tax code to provide tax favored treatment of employee health coverage contributions. Some key characteristics related to the dependent eligibility are as follows:

- ✓ Effective immediately, IRS 105 (b) was amended to provide tax free health contributions to a "child" who remains under age 27 as of the end of the taxable year.
- ✓ The IRS 105 change to the cafeteria plan rules will also apply to the reimbursement of eligible expenses in a Health Flexible Spending Account (FSA).
- ✓ IRS Section 152(f) (1) defines "child" as children, stepchildren, adopted children, and eligible foster children.
- ✓ Both married and unmarried young adults qualify for dependent coverage extension.
- ✓ Effective at the plan's renewal after September 23, 2010, PPACA allows young adults to remain on their parents' group health plan until the age of 26.
- ✓ State insurance laws which are broader than the federal law will remain in effect for fully insured plans. For example, Iowa allows full-time students to remain on the plan to any age.
- ✓ This federal law applies to both fully-insured and self-funded plans.
- ✓ An enrolled retired employee's children will have the same eligibility as an enrolled active employee's children.
- ✓ For "Grandfathered Plans", implementation of allowing dependents to extend their coverage to age 26 can be delayed to the plan year beginning in 2014. Carriers might dictate this implementation if the plan is fully-insured.

Under pressure from Health and Human Services (HHS) Secretary Kathleen Sebelius, many national insurance carriers have begun to change their health insurance policies to allow students graduating this spring to stay on their parents' policies. Since each carrier is applying their policy uniquely, please contact your health carrier for specifics.

Items you may want to consider in preparation for this change would be:

- ✓ Amend your cafeteria Plan Document and your health Plan Document to incorporate this eligibility change by the end of the plan year in which you plan to implement.
- ✓ Self-funded plans will need to determine when to implement the regulation, the cost of implementation and the contribution structure which could accompany this change.
- ✓ Determine how this will affect your other plan eligibility, like dental and vision.
- ✓ Consider how to respond to parents whose dependent will lose eligibility before the legislation is implemented.

As with the other provisions of the law, there are still many questions to be clarified with further guidance. Some of these are as follows:

- ✓ At what point will young adults, under the age of 26 who are not currently enrolled in the plan, be allowed to come back on the plan, i.e. at open enrollment?
- ✓ Can a married young adult be covered under their spouse's parents' plan?
- ✓ What will be the price for the coverage? Will carriers create a new rate tier to accommodate?
- ✓ When will the dependent be forced to come off the plan, i.e. at their birthdate or at the end of the calendar year following their birth date?
- ✓ How will gaps in coverage be handled for pre-existing conditions?
- ✓ Will this be applied to dental and vision coverage?