Lessons for the ACA

Expanding Dependent Coverage for Young Adults: Lessons from State Initiatives

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Abstract The Patient Protection and Affordable Care Act (ACA) requires that adults up to age twenty-six be permitted to enroll as dependents on their parents' health plans. This article examines the experiences of states that enacted dependent expansion laws. Drawing on public information from thirty-one enacting states and case studies of four diverse reform states, it derives lessons that are pertinent to the implementation of this ACA provision. Dependent coverage laws vary across the states, but most impose residency, marital status, and other restrictions. The federal Employee Retirement Income Security Act further limits the reach of state laws. Eligibility for expanded coverage under the ACA is much broader. Rules in some states requiring or allowing separate premiums for adult dependents may also discourage enrollment compared with rules in other states (and the ACA), where these costs must be factored into family premiums. Business opposition in some states led to more restrictive regulations, especially for how premiums are charged, which in turn raised greater implementation challenges. Case study states did not report substantial young adult dependent coverage take-up, but early enrollment experience under ACA appears to be more positive. Long-term questions remain about the implications of this policy for risk pooling and the distribution of premium costs.

The national debate leading to enactment of the Patient Protection and Affordable Care Act (ACA) in March 2010 was highly partisan and rancorous, a tone that remains today. Lawsuits and political positioning by opponents of the ACA threaten to undermine key features of the reform or to lead to repeal of the law entirely (Skocpol 2010; Hall 2011). Moreover, after the 2010 midterm congressional elections gave Republicans control of the House of Representatives and gains in the Senate, the debate over

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the ACA has grown even more contentious, as opponents have sought to repeal some key reform provisions and limit funding for others.

The main coverage features of the ACA will not take effect until 2014. A combination of the need to create new, complex institutional arrangements, such as health insurance exchanges and the imperative of federal deficit neutrality over ten years, makes the lengthy implementation period unavoidable. However, the delay in full implementation increases the risk that opposition to the law will gain traction, as large segments of the public remain ambivalent and uninformed. To mitigate this risk, proponents of the ACA in Congress and the White House sought to include "early deliverables" in the law.

Among the early coverage provisions, the ACA established age twenty-six as the upper threshold below which employer-sponsored and nongroup private health insurance plans must offer dependent coverage. This reform is appealing on two levels. First, it could reach a large number of uninsured individuals. In 2009 nearly 15 million adults aged nineteen to twenty-nine lacked health insurance coverage and represented the age group with the highest uninsured rate (Collins and Nicholson 2010). Second, unlike most other ACA coverage reforms, expanding dependent coverage is conceptually simple, with the virtue of not requiring an extensive new bureaucracy or substantial new public funding.

Under the ACA, all private insurance plans offering family coverage, including self-insured employment-based plans, must permit young adults up to age twenty-six to enroll under a parent's coverage. Unlike other insurance regulatory changes in the ACA that do not apply to existing "grandfathered" plans, no employer-sponsored plans are exempt from the young adult rules (Rosenbaum 2010). ACA dependent coverage rules are very broad; they do not require young adults to live with or be financially dependent on their parents. In addition, young adult dependents may be married or have children of their own, though spouses and grandchildren are ineligible for the expanded coverage. Like employer-sponsored coverage of minor dependents, adult dependent coverage may be funded with pretax income (Levin 2010). Firms are required to fold the cost of insuring young adults into group family premiums, and plans must provide the same benefits and identical premium and co-payment structures to young adults as they do to other plan enrollees. Employers were required to implement the expansion by the first policy renewal date after September 23, 2010, six months after enactment of the ACA.

Until 2014, the ACA will not require grandfathered group plans to offer dependent coverage to young adults who have access to an employer-

sponsored plan in their own name, but after 2014 when the individual mandate and exchanges become operational, any young adult may enroll as an adult dependent of an insured parent. The federal government estimates that approximately 2.37 million adults aged nineteen to twenty-six are eligible for expanded dependent coverage, including 1.83 million who are currently uninsured, with approximately 1.2 million projected to enroll in 2011 (U.S. Department of the Treasury, Internal Revenue Service; U.S. Department of Labor, Employee Benefits Security Administration; U.S. Department of Health and Human Services 2010).

Young adult dependent coverage was among the first of the reform provisions to be touted by the Obama administration as an early success. In fact, the administration spent a great deal of public relations energy to push insurers and employers to implement the expansions before the September 23, 2010, effective date of the requirement (see, e.g., U.S. Department of Health and Human Services [HHS] 2010). Despite some rumbling of opposition from business to the young adult dependent provisions of the ACA (see, e.g., Josten 2010), rolling back these rules does not appear to have been a high priority, and implementation appears to be proceeding apace (Galewitz 2011).

Prelude to the ACA: State Young Adult Expansions

The focus on young adult dependent coverage as a policy strategy for reducing the number of uninsured residents did not begin with the ACA. In fact, seven years before the ACA, a wave of state laws expanded eligibility for dependent coverage in private health insurance. After New Mexico and Texas expanded coverage in 2003, twenty-seven other states followed suit.[1] In 2007 alone, fourteen states raised the age of eligibility. The states adopting young adult dependent coverage reforms represent every region of the country. A recent analysis identified state characteristics predicting enactment of dependent coverage policies in 2003 or later, including having a lower percentage of young adults in the state's population, a greater population share with at least a college degree, a higher unemployment rate, more health insurance mandates, and democrats holding the governorship or either house of the state legislature (Monheit et al. 2011).

1. Two states enacted young adult dependent coverage laws well before the recent wave of enactments that is the subject of this article: Utah in 1994 and North Dakota in 1995.

This article examines the experiences of states that enacted adult dependent coverage expansion laws. Drawing on a detailed review of public documents from these states and on case studies of four reform states with diverse socioeconomic circumstances and political cultures, it derives lessons that are pertinent to the implementation of this ACA provision. The section below presents a description of study methods, followed by a summary of the timing and details of dependent coverage reform laws in the states. Next, case study findings delve into the forces shaping policy design and implementation and examine stakeholder perceptions about the intended and unintended impacts of the laws. The final section identifies implications from these findings for the ACA and future state efforts to create additional affordable private insurance options for young adults beyond those in the ACA.

Methods

To obtain information on state implementation and provision of expanded dependent coverage to young adults, we conducted a detailed search of the Web sites of state insurance regulatory agencies and state legislatures. Where requisite program information was not available online, members of the study team obtained such data from state officials via telephone. The assembled information, reflecting state policies implemented as of March 2011, was reviewed, and the guidelines for expanded coverage eligibility and establishing premiums were recorded. Likewise, the young adult coverage provisions of the ACA and its associated proposed rules were also reviewed (Pub. L. 111-148 §2714; DOT, IRS; DOL, EBSA; HHS 2010).

Four states with differing socioeconomic and political characteristics — Colorado, Maryland, Minnesota, and New Jersey — were selected for in-depth case studies based on our review of dependent coverage policies for young adults across the states and underlying health insurance market environments. Notably, these states were chosen to represent two different approaches for financing the cost of this coverage. The New Jersey and Colorado laws respectively require or allow insurers to charge separate premiums to parents to insure their young adult children, while Maryland and Minnesota (like the ACA) require that the cost of insuring young adults be included in the family premium for all children.

In each case study state, the study team began by identifying a senior state regulatory official who could speak in detail about dependent coverage reforms. At the conclusion of this initial interview, respondents were

asked to identify knowledgeable stakeholders representing the leading constituencies in their state that were involved in shaping young adult dependent legislation, including insurance (Maryland, Minnesota, and New Jersey), business (Colorado, Maryland, New Jersey), and consumers groups (Colorado). These stakeholders were initially contacted by e-mail with an introductory letter explaining the study and then reached by telephone for interviews. Informed consent was obtained at the beginning of each interview. Study subjects were informed that interviews would *not* be treated as confidential and that they might be identified and possibly quoted. In each state, either three or four organizations were included in case study interviews. Twenty-three regulators and stakeholders were interviewed for thirty to forty-five minutes each, representing thirteen organizations across the four states.

Semistructured interview protocols were used to guide questioning about the nature of the policy debate leading to enactment, issues and concerns that arose during implementation, and details about how regulations are interpreted and enforced. Additionally, information was ascertained on the extent of and strategies for promoting public awareness of the expanded dependent coverage, the extent of young adult dependent enrollment, impressions of the intended and unintended impacts of the law, and plans for changes in the law or associated regulations. The study protocol was deemed exempt from human subjects review by the Rutgers University Institutional Review Board. The study interview guide is available from the authors on request.

Findings

Limited Reach of State Laws Relative to the ACA

A total of thirty-one states have enacted laws increasing the maximum age of eligibility for dependent coverage. The provisions of these laws vary a good deal across the states (see table 1 and the appendix). Of these enactments, twenty-five states increased the age of eligibility for students and twenty-nine for nonstudents. The average increase in age limit was 4.8 years for students (not counting two states that eliminated the upper age limit for full-time students) and 6.2 years for nonstudents. Many of these laws require state residency for nonstudents but permit full-time students to live out of state. The state laws also generally limit expanded coverage eligibility to unmarried young adults, and a few exclude young adults with any dependents of their own. For those states permitting coverage

Table 1 Summary of Thirty-One State Young Adult Dependent Coverage Expansions Implemented through March 2011

Number of Expansions and Age Limits	Full-Time Students	Nonstudents
Number of states expanding dependent age limits	25[a]	29
Mean upper age limit	27[b]	25
Highest age limit	No limit	31
Average increase in maximum age limit	4.8[b]	6.2
Eligibility Requirements	Number of States	
Must be unmarried	28	
Must be childless	4	
Must be uninsured	9	
May not be eligible for own-employer coverage	4	
State Residency Requirements		
All in-state young adults meeting age requirements	14	
Out-of-state full-time and part-time students	2	
Out-of-state full-time students	9	
Must reside with parent	2[c]	
No residency requirements specified	15	
Premium Regulations		
Cost included in group premium	16	
Separate premium paid by family	9	
Mixed payment strategy or no rule	6	

Source: Authors' review of public documents
Notes:
[a] One additional state (RI) expanded dependent coverage only to part-time students.
[b] Two additional states (TX and IA) expanded dependent coverage to full-time dependent students of any age.
[c] In one state, this requirement applies only to nonstudents.

of the latter, the laws for the most part specifically proscribe coverage of the young adult's dependents. Three states (Colorado, Maryland, and Minnesota) allow coverage of young adult children (or other dependents) if they are financially dependent on policyholder grandparents. The laws in most of the reform states apply to all state-regulated health plans plus state worker benefit plans, with some exceptions. Minnesota, for example, excludes its state health benefit plan, and several states exempt the non-group or large-group markets.

Many of the states limit eligibility to young adults who are financially dependent on their parents, typically defined as receiving half of their sustenance from a parent. Several states impose other eligibility restrictions.

For example, several states require some form of creditable prior coverage, while others limit eligibility to uninsured young adults (or those ineligible for group coverage in their own name). Presumably, creditable coverage requirements are intended to prevent adverse selection, while uninsured waiting periods are intended to prevent crowd-out of other coverage.

The considerable eligibility restrictions in many state laws are largely absent from the ACA dependent coverage provisions. ACA rules do not distinguish young adults by student status or marital status, or by whether they live with or even in the same state as their parents, or by whether they are financially dependent on their parents. The ACA includes only one time-limited eligibility restriction, not requiring sponsors of grandfathered group plans to offer independent coverage to young adults who have access to employer-sponsored plans in their own name. This rule protects existing employer-sponsored plans from new costs of enrolling young adults, but beginning in 2014, even this restriction is eliminated.

Perhaps the greatest constraint on eligibility of young adults for dependent coverage under the state laws stems from the federal preemption of state jurisdiction over employee benefit plans under the Employee Retirement Income Security Act (ERISA) (Pierron and Fronstin 2008). Under ERISA, states may regulate the business of insurance but not self-funded employee benefit plans. The preemption effectively limits the reach of state dependent coverage reforms to plans where insurance companies, rather than employers, bear actuarial risk. As a result, the ERISA preemption leaves only about 44 percent of workers in private employer–based health plans nationally who are potentially subject to state regulations on dependent coverage (Agency for Healthcare Research and Quality [AHRQ] 2009a). In contrast, the ACA rules apply regardless of whether employers bear insurance risk.

Premiums Faced by Young Adult Dependents

One other important source of variability among the state laws is how insurers are required to establish premiums for enrolled young adult dependents. Like the ACA, sixteen of the reform states require that insurers fold the cost of covering new adult dependents into standard family premiums (the "group premium" approach), while nine other states allow or require separate premiums for newly eligible young adults (the "separate premium" approach). A few state laws allow employers to determine who pays to enroll young adult dependents. The implications of these rules are substantial, as illustrated by the premiums faced by young adults in

Table 2 Illustration of Monthly Premiums Available to Young Adults in New Jersey

	Total Premium	Out-of-Pocket Premium
Employer-sponsored insurance		
Single coverage[a]	$427	$91
Family coverage[b]	$1,116	$296
Young adult rider[c]		$299
Nongroup market		
Standard PPO[d]		$370
"Basic and essential" plan[e]		$159

Notes:

[a]Average total small-group (under fifty workers) single premium, 2009 (AHRQ 2009b).

[b]Average employee share of small-group (under fifty workers) family premium, 2009 (AHRQ 2009c).

[c]Based on the assumption that young adult rider premiums in New Jersey are about 70 percent that of small-group single premiums (see text).

[d]Comprehensive preferred provider plan with $2,500 deductable/20 percent coinsurance in-network and $5,000/30 percent out-of-network, May 2011 (NJDOBI 2011a).

[e]Limited benefit plan, e.g., maximum benefits of ninety hospital days and $700 physician visits annually and substantial cost sharing, age-sex-region rated, male, aged 25–29, Central NJ, May 2011 (NJDOBI 2011b).

typical New Jersey health plans in the small and nongroup markets shown in table 2.[2]

Where separate premiums are charged, as is the case under the New Jersey law and those of eight other states, families enrolling young adults bear the full marginal cost of covering these dependents. Rules for determining this incremental premium vary from state to state. In New Jersey, which uses a typical approach for calculating separate premiums, the monthly premium for adding a young adult by rider to a family plan is about is $299 (table 2).[3] While this strategy does not lead to higher premiums for employers or workers not enrolling young adult dependents, charging separate premiums adds administrative burdens for employers

2. We use New Jersey for this illustration because premiums in that state's nongroup and small-group markets are publicly available, and standardization in those markets makes comparing coverage options feasible, unlike those of most other states. In fact, New Jersey's rating rules and plan standards are more like those of the ACA than are current regulatory regimes in other states.

3. New Jersey regulations require that the young adult dependent premiums be set equal to 102 percent of the cost of a standard dependent (P.L. 2005, c. 375). This rate is typically 60 to 80 percent of the single employee premium. A rating factor of 70 percent of the single premium is used in the calculation shown in table 2 (N. Vance, NJDOBI, personal communication, May 5, 2011).

and insurers who must modify payroll and billing systems to collect this new category of premiums.

Under the group premium approach, the marginal cost to the family of adding a young adult to its plan would be zero for those who already pay family premiums (e.g., those covering both adult and minor dependents). The added costs of covering young adult dependents would increase family premiums for the group as a whole, but these costs are borne broadly, not just by families enrolling adult dependents. However, under the group premium rule, the costs faced by those who would not otherwise pay family premiums would not be zero. Specifically, an employee with single coverage wishing to enroll a young adult dependent would have to switch to family coverage, with the attendant increased cost. In the table 2 example, this switch would increase the total monthly premium by $689 (from $427 for single coverage to $1,116 for family coverage), including an increase of $205 in the family out-of-pocket portion of the premium (from $91 for single coverage to $296 for family coverage).

Although economists generally assume that the employer share of premiums is ultimately shifted back to workers in the form of lower compensation, family purchasing decisions are likely to be made based on the cost of out-of-pocket premiums faced at the time of the purchase decision (Buchmueller and Monheit 2009). Thus, in this example, the family would compare the incremental premium of $205 from moving to family coverage to the out-of-pocket premiums of alternative sources of coverage for the young adult in deciding what coverage to purchase, if any. Young adults with an offer of employer-sponsored insurance (ESI) from their own employer would face out-of-pocket premiums of just $91 to take a policy in their own name versus an increase in out-of-pocket premiums of $205 to sign on to their parent's plan as a dependent, clearly suggesting that coverage in the young adult's own name is a better deal.

The nongroup market is the main alternative source of coverage for young adults without access to ESI through their own employer who might consider joining a parent's plan under expanded dependent rules. The cost of covering a young adult in this market may be higher or lower than the premiums under a young adult dependent option, depending on a complex set of factors. In the illustration in table 2, a standard nongroup plan premium for a single young adult in New Jersey would cost nearly 25 percent *more* than a typical young adult dependent plan though a small employer, even though standard nongroup plans typically have more cost sharing than group plans. On the other hand, New Jersey's limited benefit option in the nongroup market, called the "Basic and Essential" plan, has pre-

miums nearly 50 percent *less* than a typical small-group adult dependent plan, but with limited covered benefits and substantially higher out-of-pocket exposure for enrollees.[4] The comparison of premium options for young adults is even more complex in other states that permit medical underwriting and risk rating (New Jersey does not).[5] Nongroup market choices available starting in 2014 will be influenced by the ACA, which will provide tax credits for persons below 400 percent of the federal poverty level and will make limited-benefit catastrophic plans available to young adults under age thirty and certain other individuals.

The relative cost of adult dependent coverage compared with other insurance options is likely to influence take-up under expansion policies. Even when young adult dependent coverage is the lowest cost option, it may remain financially out of reach for many. For example, a young adult who earns $16,000 per year (just above the ACA Medicaid income standard) would have to pay over 22 percent of income to be added as a dependent to a parent's plan in the New Jersey example. Even at an annual income of $40,000, the family in this example would have to pay 8.9 percent of the young adult's income in premiums. These amounts exceed the ACA affordability standard of 8 percent of income. Once the ACA is fully implemented in 2014, most individuals at these income levels will be eligible for subsidies in health insurance exchanges, which would bring nongroup premiums under the ACA affordability threshold. Specifically, the young adult with an annual income of $16,000 would face an approximate after-subsidy premium of just $45 per month, while a young adult with income at $40,000 would face a monthly premium of about $317.[6]

4. The New Jersey Basic and Essential plan covers only ninety hospital days, $600 for preventive services, $700 per year for physician office visits for illness or injury, and $500 for out-of-hospital testing (NJDOBI n.d.).

5. In fact, the New Jersey case discussed here is also more complex than this example illustrates because rating rules vary among different market segments. For instance, premiums for standard nongroup plans in New Jersey vary only by enrollee age, while premiums for B&E plans are allowed to vary by age, sex, and region of the state. Thus the relative prices of options facing young adults depend on where they live, their gender, and their age. Prior to 2014 when the ACA will impose some standardization, permissible premium rules vary widely across the states and may include health status as well as demographic and geographic factors.

6. Estimate based on twenty-five-year-olds purchasing coverage through a health insurance exchange in a high-cost state at the respective annual income levels using the Kaiser Family Foundation's (2011) Health Reform Subsidy Calculator.

Four State Case Studies

Experiences of states' expansion of dependent coverage may predict how the ACA will affect coverage of young adults. Moreover, while the ACA does not permit states to modify eligibility or premium rules for adult dependents up to age twenty-six, state experiences under their own laws are directly relevant to decisions to expand dependent eligibility to young adults aged twenty-six or older, as nine states have already done. The following review of implementation experiences of dependent coverage reforms in four states draws implications for implementing the ACA and state expansions beyond the ACA age limit.

The four case study states, in the northeast, midwest, and southwest regions of the country, vary in their design of dependent coverage policies and their overall insurance regulatory environments (table 3). Colorado and New Jersey adopted their policies relatively early, in 2006; Maryland and Minnesota implemented reforms more recently, in 2008. Three of the states expanded dependent coverage up to age twenty-five, which is typical of the thirty-one state expansions. The other state (New Jersey) expanded coverage to age thirty and later to age thirty-one, the highest dependent coverage age threshold in the nation.[7] Two of the case study states either require (New Jersey) or allow (Colorado) insurers to charge separate premiums for young adult dependents, while the other two require that they be blended into family premiums paid by the group.

The health insurance regulatory environments vary considerably across the case study states. For example, as of 2009, the number of mandated benefits ranged from forty-five (New Jersey) to sixty-eight (Minnesota), and rating rules in the small-group and nongroup markets also vary (table 3). New Jersey and Minnesota limit premium variation in their nongroup market, with the former proscribing use of health status as a rating factor and the latter limiting premium variation by health factors. Such regulations tend to make individual coverage more expensive for healthy young adults, which is likely to make dependent coverage attractive. Colorado and Maryland permit health rating in their individual coverage markets. Each case study state, except New Jersey, permits insurers to exclude individuals based on preexisting conditions, instead opting to sponsor high-risk pools.[8] The impact of the federal ERISA preemption also varies

7. Texas and Iowa require insurers to allow full-time students of any age to enroll in a parent's plan.

8. In 2010 New Jersey implemented the Pre-existing Condition Insurance Health Plan under the ACA, but it has never had a traditional high-risk pool that accepts persons rejected for standard coverage by private carriers.

Table 3 Features of Young Adult Dependent Coverage Expansions and Insurance Market Regulations in Case Study States

	Colorado	Maryland	Minnesota	New Jersey
Year of implementation	2006	2008	2008	2006
Upper age limit[a]	25	25	25	31[b]
Premium rules	Separate young adult premium[c]	Include in family premium	Include in family premium	Separate young adult premium
Residency requirement	Lives with parent if not financially dependent	Lives with parent at least half the year or coverage through noncustodial parent	None	Lives in state or is a full-time student in any state
Financial dependence requirement	Law requires financial dependence if not living with parent	Law requires financial dependence	None	None
Other insurance	No rules	No rules	No rules	Must be uninsured
Markets affected	All fully insured and state employees	All fully insured and state employees	All fully insured private, excludes state employees	All fully insured and state employees
Percent of private-sector enrollment in fully insured plans (U.S. average = 43.9%)[d]	47.4%	38.0%	40.3%	42.7%

Table 3 (*continued*)

	Colorado	Maryland	Minnesota	New Jersey
Insurance mandates (U.S. average = 42)[e]	51	66	68	45
Small-group market regulation[f]	Modified community rating	Modified community rating	Health status rate bands	Modified community rating
Nongroup market regulation[f]	No rating restrictions, high-risk pools	No rating restrictions, high-risk pools	Health status rate bands, high-risk pools	Modified community rating, guaranteed issue
Percent of young adults (aged 18–24) uninsured (state rank, lowest = 1) (U.S. average = 27.2%)[g]	24.7% (31)	21.0% (13)	16.9% (3)	25.1% (24)

Notes: All four case study states require that the young adult be unmarried. Financial dependence is generally defined as receiving at least 50 percent of the young adult's subsistence from the parent. All four case study states have guaranteed issue in their small-group markets.

[a]Upper age limits in all four case study states do not vary by student status.

[b]New Jersey expanded coverage one additional year in 2009 and simplified some of the regulatory language to allow for greater ease in enrolling young adults.

[c]In Colorado the cost of young adult coverage can be charged separately according to the law. However, in the small-group market and among some medium-sized fully insured employers, the costs are folded into the family premium.

[d]AHRQ 2009a

[e]Bunce and Wieske 2009

[f]KFF n.d.

[g]U.S. Census Bureau 2010

among the case study states, with the share of private employer enrollment in fully insured, state-regulated plans ranging from only 38.0 percent in Maryland to 47.4 percent in Colorado. The percentage of young adults without coverage also varies. As of 2009, Minnesota had the third-lowest uninsured rate among those aged eighteen to twenty-four, while Colorado ranked thirty-first with a rate at roughly the national average. Maryland and New Jersey fell between the other two states in the percentage of uninsured young adults.

The ACA will bring more standardization of insurance markets across the states and is likely to reduce disparities in uninsured rates. It imposes a floor of consumer protection standards across the states with new regulations including rules eliminating preexisting condition exclusions, lifetime benefit limits, and unwarranted rescissions. A federally imposed essential benefit package will set minimum standards for benefit offerings, and actuarial standards for plans offered within the subsidized health insurance exchanges will improve consumers' ability to comparison shop. While these ACA guidelines will assure plans achieve a fairly high degree of comprehensiveness, individuals up to age thirty (as well as those deemed exempt from the enrollment mandate under affordability or hardship rules) will be permitted to purchase a catastrophic coverage plan that does not meet ACA actuarial standards. Like the New Jersey Basic and Essential plan discussed above, the catastrophic option will compete for enrollment with young adult dependent coverage.

Opponents Shape State Eligibility and Premium Rules

In all four case study states, the movement toward legislating expanded dependent coverage stemmed largely from parents concerned about access to affordable coverage for children once they aged out of standard dependent coverage or finished college. Interested legislators often picked up on this theme and pushed to enact expansion laws. As stakeholders pointed out, many legislators have children in this age bracket themselves. In some instances, the impetus for the new laws came from individual legislator champions (e.g., New Jersey), and in others, consumer advocacy organizations assumed lead roles in promoting the reform (e.g., Colorado).

Young adult dependent legislation advanced toward enactment in each of the case study states without much difficulty, but these bills were not without opposition. In fact, differences in young adult policy provisions in the four states were shaped largely by opponents' concerns. Business

groups in all four voiced concerns about new coverage mandates and were either tacitly unsupportive or actively opposed to the legislation. Even the business representatives who believed the expansion costs would be small opposed the reforms because of concerns about the financial obligation of adding any new mandate.

In New Jersey the business lobby was appeased when the legislative sponsor amended the bill to require that the cost of young adult coverage be billed separately and in full to the employee rather than include the costs in the group family premiums. Colorado business interests remained concerned about the expansion despite a similar provision permitting insurers to charge families directly for the adult dependent coverage. This concern may have been well placed, since charging a separate premium is precluded by provisions of Colorado's small-group health insurance regulations that predated that state's young adult coverage law. Colorado respondents believe that, in practice, most fully insured firms include the cost of young adult coverage in their group family premiums. In 2009 the state briefly considered increasing the age for dependent coverage to thirty, but insurance and business lobbyists voiced strong opposition, and the idea was scrapped.

Compared with the other constituencies, insurers' support for proposed legislation varied more across the states. Though insurance representatives in all of the states voiced support for the idea of insuring more young adults, only Minnesota insurance representatives supported their state's young adult coverage law. These insurers were largely unconcerned about possible new burdens of the law and did not foresee significant new costs. Moreover, Minnesota informants reported very cooperative relationships among insurers, legislators, and regulators, and all appeared to see dependent coverage as a way to improve health insurance coverage in the state.

Insurance representatives in the other states voiced concerns about how the expansion would be implemented and its potential costs. Insurers in New Jersey had perhaps the greatest concerns. Premiums for young adults would be billed separately to employees, adding a new administrative burden for insurers. In addition, insurers were concerned about how premiums would be determined for these young adults and whether adverse selection would be significant. Like many states that require separate premiums for young adults, New Jersey eventually decided to establish premiums for young adults added to a family plan that were 102 percent of the nonadult dependent child's cost for coverage, and stakeholders report that experience has shown that this rate is actuarially appropriate for these young adults.

Insurers in both Colorado and Maryland focused on federal Internal Revenue Service (IRS) regulations that might make these insurance benefits for most young adults over age twenty-three subject to federal income tax. These insurers voiced concerns about the role they might have to play in determining young adult dependent eligibility in the eyes of the IRS.[9] Despite these concerns, no state reported that the IRS had sought to enforce young adult dependent rules for pretax payment of health insurance premiums. Ultimately, IRS rules promulgated after the enactment of the ACA clarified that young adult dependent premiums may be funded with pretax income up to a dependent's twenty-seventh birthday (U.S. Department of Labor 2010).

As noted, adjustments were made to address constituent concerns with proposed legislation, particularly in Colorado and New Jersey, but the debates were largely civil. Respondents in all four states reported little controversy leading up to enactment of their expansions. In three of the four states, dependent coverage expansions were limited to young adults up to age twenty-five, making the new mandate more palatable in the view of most stakeholders. New Jersey stakeholders focused more on shaping the specific provisions of their law (e.g., premium payment rules) rather than on the upper age threshold.

Limitations on dependent coverage eligibility and complex premium rules in many of the states are not part of ACA young adult provisions, suggesting that stakeholder concerns voiced at the state level did not hold sway in the design of the ACA. In fact, opposition to young adult provisions in the ACA appears to have been muted (Josten 2010). Perhaps opponents of the ACA were more concerned with muting the law's broader impacts on employers rather than the new young adult rules.

Experience with Administrative Complexity

In contrast to the comparatively smooth path to policy enactment across the case study states, experience with implementation varied more. In particular, provisions in the states governing how premiums were to be structured contributed to the level of complexity of implementation. Specifically, states that required including the cost in the family premium (Maryland and Minnesota) reported fewer implementation difficulties

9. Minnesota relied on an interpretation of IRS regulations used by the Massachusetts Department of Revenue (2007) that permits use of pretax earnings to pay for coverage of financially dependent relatives of any age. Minnesota officials presumed employers would verify (presumably by asking the employee) financial dependency.

than the states that allowed or required the cost to be charged separately (Colorado and New Jersey).

Informants in Maryland and Minnesota reported that including the cost of insuring young adult dependents in the family premiums required only a simple transaction. In these states, insurers reestimate family premiums for minor and adult children through age twenty-five. Depending on the number of young adults enrolled, average family size and resulting family premiums increased. Some respondents suggested that this approach can actually reduce administrative work for insurers, as they no longer have to verify whether the young adult is a student when he or she turns nineteen. They simply wait until the child is approaching age twenty-five to send a letter notifying parents that their child is aging out of their group plan and will need to consider other options for insurance coverage. Stakeholders in Maryland and Minnesota also reported that including the cost of young adults in the family premium reduces the risk of adverse selection among young adult enrollees because (as discussed above) many families do not face a change in premiums to cover their young adult. Parents must actively decide to exclude young adults from their family coverage when they exceed the age of standard dependent coverage. Thus they are more likely to keep young adults on the plan even if they are in good health.

In contrast, states with legislation permitting or requiring insurers to charge separate premiums to insure young adults experienced greater difficulty in implementing the legislation. Though insurers in Colorado and New Jersey supported charging the premium separately, extensive guidance from regulators was required when implementing the laws. In addition to promulgating formal rules, regulators in these states reported fielding numerous queries from insurers leading up to the implementation date.

The new law in Colorado appeared to conflict with existing small-group regulations, which did not permit charging separate premiums for dependents. Ultimately, all employers purchasing insurance through their small-group market were required to include the cost of young adult coverage in the family premium. Some other employers also do this because it is simpler. It is not clear how many employers in Colorado actually charge the premium separately. However, Colorado does not regulate what premiums insurers charge for this coverage.

New Jersey appears to have had the most difficulty expanding coverage for young adult dependents. Some early confusion centered on how to determine who was eligible for the coverage and what premium would be charged. Initially, young adults qualified for the expansion only if they enrolled right after aging out of family coverage, and there was some

confusion about how to treat eligibility for the expansion versus eligibility for coverage under COBRA. Revisions to the law in 2008 clarified that expanded coverage was not limited to those aging out of standard dependent coverage. There was also disagreement early in the implementation process between regulators and insurers about how to establish premiums and how they should be charged to employees. Ultimately, regulators issued guidance requiring that premiums be billed directly to employees, who mail a separate check to insurers. Employers may collect the added premium from families of young adult enrollees if they choose, but they are not required to do so. These arrangements increased the complexity of insurer collection processes.

Finally, no problems were reported in enforcing young adult coverage regulations, largely because respondents in all four case study states reported little or no enforcement activity. State officials typically get involved in enforcement only when they receive complaints from consumers. Otherwise, insurers, employers, and employees are on the "honor system" when determining eligibility for coverage through the expansion and making it available to those who qualify. By contrast, the intricacies of eligibility rules did appear to have raised one notable difficulty. Regulators in each of the case study states reported dealing regularly with disappointed consumers who could not gain access to their state's expansion because of regulatory limitations, including the lack of state jurisdiction over self-insured plans because of ERISA. In all four states, employers were responsible for determining whether the young adult was a financial dependent, and it is the impression of stakeholders that employers face limitations in determining this, usually simply asking employees to enroll only qualified "dependents." Lack of regulatory enforcement of these expansions does not seem to bother any of the stakeholders interviewed in our case study states.

The much less complicated eligibility rules of the ACA will simplify the roles of states in enforcing the age limit of twenty-six. Still, many of the state implementation challenges will remain for states with laws covering older young adults. This is especially so in five of the nine states with dependent coverage for young adults aged twenty-six or older that require charging separate premiums for young adult enrollees.

Impacts on Coverage and Markets

New Jersey appears to be the only state that tracks enrollment of young adults as dependents on state-regulated plans, and even these data are col-

lected ad hoc. The other three case study states do not track enrollment, but stakeholders in those states believe that enrollment is not very high. Minnesota insurers report, for example, that they did not see a sudden increase in group size after the expansion. Instead, they observed a slow, steady increase in average group size. No case study informants could say for certain whether self-insured employers have extended dependent coverage in response to expansions in the regulated market, but some feel that a few have.

By the end of 2009 only about thirteen thousand young adults were enrolled in New Jersey's dependent coverage expansion, including about twenty-one hundred in the state health benefits program. This represents roughly 1 percent of young adults in the state (New Jersey Department of Labor and Workforce Development [NJDOLWD] n.d.). Consistent with these numbers, stakeholders in New Jersey see the adult dependent coverage option as having a modest impact, but many suggest that it is, nevertheless, a valuable option for those who elect to enroll. Limitations imposed by ERISA and statutory eligibility criteria in the state's adult dependent coverage law, in addition to low-cost but limited-benefit plans available to young adults through the nongroup market, were cited by stakeholders as reasons for the modest take-up.

The New Jersey experience suggests that the structure of the individual market may influence young adult dependent coverage take-up. As discussed above, New Jersey offers the limited-benefit Basic and Essential (B&E) option in its nongroup market that is attractive to young and healthy individuals. As of the third quarter of 2010, over seventy-five thousand individuals were covered in B&E plans, far outstripping adult dependent enrollment and accounting for nearly 60 percent of covered lives in the state's nongroup market (New Jersey Department of Banking and Insurance [NJDOBI] n.d.). Still, coverage through the dependent expansion is more comprehensive and offers the opportunity for continuous coverage on the same plan, as young adults age out of standard dependent coverage.

It is not clear how widely aware potentially eligible young adults are of the dependent coverage option under the state laws. Insurers in each of the case study states are required to include information about the expansion in membership materials sent to enrollees (the ACA includes a similar requirement), but none of the states did very much to publicize the expansion of dependent coverage in their fully insured markets. Informants in each state reported that the media covered the expansion at the time the laws were passed, but that there has been little coverage since. New Jersey

stakeholders indicate that in June of each year, the media seem to devote limited attention to health insurance coverage options targeting recent graduates. It is uncertain whether media coverage of the ACA young adult dependent coverage was greater than coverage of state expansions, but it is clear that there is a high level of public awareness of the ACA young adult rules. An April 2010 national poll showed that 70 percent of adults reported awareness of the ACA young adult dependent policy, equivalent to awareness of the individual mandate (71 percent) and well above awareness of other specific ACA insurance regulation changes such as prohibiting lifetime benefit limits (56 percent) (Kaiser Family Foundation [KFF] 2010).

In Minnesota and Maryland, where there is no added cost to covering young adults beyond standard family premiums, stakeholders feel that no special outreach is required. In those states, notification is not required until young adult dependents approach age twenty-five. In contrast, in New Jersey and Colorado where premiums are charged separately and enrollment requires an active decision by policyholders, information about the expansion must be communicated as underage dependents age out of standard family coverage. In New Jersey, carriers and employers are responsible for making employees aware of the option of continuing young adults on their plans. One insurer indicated that it sends out information to parents of young adults in the spring informing them of the various options for insuring their child. Information about coverage options for young adults is also available on the state insurance department Web site. Stakeholders in Colorado report that insurers are not required to notify families of this option when their young adult child is aging out of family coverage. Information about the option is simply included in membership materials. Most stakeholders in the four case study states did not express concern about low enrollment in these expansions, and none reported plans to increase outreach or public education about the option. Most view the expansion as merely one option available to insure young adults who wish to avail themselves of the opportunity.

Stakeholders were asked about several possible unintended consequences of state dependent coverage laws, but reported few. Whether there was any spillover from the state laws to self-insured plans is unclear. While none of the stakeholders know for certain, some in Maryland and Minnesota believe that a handful of self-insured firms in their states began offering dependent coverage to young adults as a result of the expansion in the fully insured market. Respondents in New Jersey and Colorado did not notice such an impact. Some stakeholders reported another sort of

spillover, suggesting that coverage for young adults older than the expansion threshold may improve as a result of these expansions because the young adults become used to being insured and often choose to continue coverage later.

Early concerns by some business and insurance stakeholders that dependent coverage expansions would lead to adverse risk selection or high costs more generally do not seem to have been borne out. Perhaps enrollment has been too low for such problems to manifest, but, in any case, none were reported by stakeholders in the four case study states. In fact, some insurers in states where the cost of adult dependents is factored into family premiums report favorable experience, as some policyholders continue to pay family premiums for a longer period of time than they otherwise would have.

States and the ACA

For Colorado, Maryland, and Minnesota, the federal law will override their state dependent coverage expansions and add a year of dependency, up to age twenty-six. New Jersey will continue to require regulated plans to offer dependent coverage to young adults from their twenty-sixth to thirty-first birthdays. Insurers in Maryland and Minnesota anticipated that implementing the federal expansion would not be difficult, as it built on their current state expansion, although a few concerns remained. In both states, insurers have encouraged their administrative services only (ASO) self-insured groups to begin offering young adult dependent coverage as of June 1, 2010. However, some self-insured firms chose to implement the expansion retroactively to March 23, 2010 (the date of ACA enactment), while others are choosing to wait until the federal law requires them to extend dependent coverage to young adults. For employees with union contracts, this may be as late as September 2011. As a consequence, insurers must track and juggle multiple time frames for implementing the expansion. These differing time frames create some administrative complexities for insurers' customer service departments, as some groups will be governed by narrower state eligibility rules (e.g., lower age limit, marital status limitation) and others by federal rules.

Stakeholders also expressed concern about implementing the requirement that until 2014 permits many employers to exclude young adults with an offer of their own employer-sponsored health insurance from enrolling as dependents on a parent's plan. Insurers and employers may have difficulty verifying whether a young adult is eligible for other coverage. In

general, stakeholders in Maryland and Minnesota are optimistic about the federal expansion. Insurers in these states feel it is relatively easy to implement and expect only nominal increases in group rates as a result. Insurers in Colorado and New Jersey are more concerned about the impact of including young adult dependents in the group's family premium on health insurance costs for employers and employees.

The complexity of coordinating state with ACA dependent expansions may discourage additional states from increasing young adult dependent eligibility beyond the threshold of twenty-six years. Further, uncertainty about whether young adult expansions beyond the ACA regulations will be treated as a state-mandated benefit may make state policy makers hesitate when considering further expansions. Under the ACA, states will be required to subsidize state benefit mandates within health insurance exchanges if they are not included in the federal essential benefit package (Hayes 2011). If the federal government does, in fact, determine that young adult expansion coverage is a state-mandated benefit for this purpose, the cost and complexity of requiring separate premiums for enrolled young adults will increase manifold.

Discussion

Expanding dependent health insurance coverage to young adults is among the most popular and least controversial health policy initiatives in recent memory. In the context of a notoriously complex and contentious health reform debate, dependent coverage expansions are an appealingly simple and logical way to tackle the problem of the uninsured. It is therefore not surprising that this strategy has been so popular.

In some respects state-level experiences with expanding young adult coverage bode well for successful implementation of the ACA provisions. Despite the complexities and limitations described above, experiences with the expansions were largely positive among stakeholders across the four case study states, including state officials, insurers, business, and consumer groups. The business community in each state was perhaps the most concerned about these coverage expansions being a financial burden, but since implementation, businesses have not voiced complaints about such burdens. For the most part, insurers in the case studies expressed few concerns and have indicated that the expansions are "no big deal" for them. The response of the health insurance industry to the push by the Obama administration for early adoption of the ACA dependent eligibility suggests that this attitude prevails beyond the four study states.

While largely popular, or at least acceptable, the potential benefits of

the national expansion of young adult dependent coverage are unclear. State stakeholders did not report substantial young adult dependent coverage take-up (although, in most cases, they do not actually measure enrollment), but eligibility restrictions imposed by the states (e.g., residency requirements, marital status rules) as well as the ERISA preemption substantially limit the reach of state policies. Moreover, a lack of outreach and public education may have further dampened their impact. In this light, perhaps available econometric analyses showing no impact on the number of uninsured young adults in the first few years after implementation of state expansions should not be surprising (Monheit et al. 2011).

Early indications are that take-up of young adult dependent coverage under the ACA has significantly outpaced the early experiences of state reforms. A Gallup poll in early 2011 showed a four-percentage-point decline in the uninsured rate for persons aged eighteen to twenty-six, compared with a modest uptick in the number of uninsured aged twenty-seven to thirty-five (Mendes 2011). This trend is corroborated by media accounts of unexpectedly high enrollment by young adult dependents in commercial health plans (Galewitz 2011). Whether this apparent trend is due to higher visibility, broader eligibility, or premium payment rules is unclear. It is also unclear whether young adult dependent coverage will remain an attractive option in 2014 when the low-cost catastrophic plan becomes available for young adults and substantial premium subsidies become available.

Ultimately, the extent to which young adult dependent coverage contributes to solving the uninsurance problem in this age group will depend on the affordability of premiums. States that required families to pay the incremental cost of young adult coverage may have undermined their effort to tackle affordability. In addition, even when the cost of young adult dependents may not be separately charged, as under the ACA and in some states, families that do not already pay family premiums will face significant incremental premiums for adding young adults. In these cases, the added cost of dependent coverage is likely to be unaffordable for many.

Experiences of the states provide some lessons for policy implementation. In states where the cost of young adult coverage is included in the group family premium, some stakeholders report that insurers are actually better off because they can collect family premiums for a longer time and do not have to deal with the administrative complexities of determining student status for young adults. In states where the cost of coverage for young adult dependents is charged separately to parents, implementation of these expansions was burdensome even though ongoing administration has been uneventful. States appear to be taking a rather lax approach to enforc-

ing eligibility restrictions, but stakeholders appear unconcerned about the potential for abuse. These experiences suggest that decisions to use the family premium approach and employ broad eligibility rules (e.g., not limiting eligibility to unmarried young adults) in the ACA were wise.

The ACA largely charts the future of young adult dependent coverage, but some questions remain. If the popularity of this strategy among states prior to national reform is a portent, more states may look to expand their upper age thresholds beyond the ACA limit of twenty-six. This may be especially so beginning in 2014 when the ACA enrollment mandate increases the imperative of making affordable options available to young people. Nine states already have thresholds above the federally mandated age. If other states choose to follow suit, they would be wise to emulate the positive experiences of states with broad young adult eligibility rules and the comparatively simple strategy of including the expense of the expansion population in family premiums. Perhaps the positive experiences of states that did not encourage the establishment of separate premiums for young adult dependents will reduce demands from employers to add such restrictions to future state expansion laws. State rules that require additional costs to be factored into family premiums would also closely mirror the premium rules in the ACA, further minimizing new administrative burdens on insurers and employers. Whether states pursue dependent expansions for young adults aged twenty-six or older is likely to depend on whether the federal rules deem such expansions as mandates that must be subsidized within state health insurance exchanges.

The early experiences of the states do not yet appear to have produced promising results for enrollment of young adults in voluntary markets. However, in its first year of implementation, indications are that the broader reach of expansions under the ACA may prove more effective. The individual mandate beginning in 2014 is likely to increase families' interest in extending dependent coverage, as this option is likely to be comparatively affordable for many. The ability of states to implement additional dependent coverage provisions around the base of federal law may also affect the source of coverage among young adults.

The longer-term implications of the availability of young adult dependent coverage, once health insurance exchanges and federal subsidies become available in 2014, are uncertain. Given that enrolling young adults in a parent's plan will be free, at the margin, for many families, it is likely to be a popular option (as already appears to be the case). Despite the fact that many young adults are likely to be eligible for subsidies in exchanges because they are early in their careers and have comparatively low incomes, the no-cost

dependent option is likely to draw many young adults out of exchanges into parents' group plans. The wisdom of maintaining the federal expansion will very likely depend on the key issues of who will bear the costs of covering young adults and how risks will be spread in light of this reform provision. On the one hand, the federal government would presumably save subsidy dollars by maintaining the expanded dependent option, as young adult coverage costs are shifted to employer groups and the budget impact of reform reduced. On the other hand, maintaining the young adult expansion policy would remove healthy young adults disproportionately from exchange risk pools, likely increase average risk and cost in those pools, and exacerbate concerns about risk selection against exchanges. These dynamics have welfare implications—federal subsidies are more equitably financed than employer premiums (Cantor 1990), but a rising enrollee risk profile can threaten the viability of the exchanges. They also have implications for the extent to which employers may choose to expend political capital on challenging expanded dependent coverage provisions. Apart from these considerations, if enrollment in expanded dependent coverage remains popular, as early trends suggest, policy makers may be compelled to make this provision a permanent feature of the coverage landscape.

Although expanding coverage for young adults represents an incremental policy response to a long-standing gap in health insurance, it is not without broader social implications. Should this option become popular in the post–health reform landscape, it could have significant long-term equity implications. As noted, the expansions are likely to alter the incidence of who, in fact, bears the cost of coverage. Moreover, young adults in families with access to employer-sponsored coverage will be able to enroll nearly effortlessly and often at no added cost to the family. This advantage is extended further to families with the means to provide their adult children with a college education, as many states raise the age threshold for dependent coverage if the young adult is a student. By contrast, those without such access—largely less-privileged young adults—will face the costs of navigating through the considerable red tape of enrolling in Medicaid or obtaining tax credits for an exchange plan.

Finally, the dependent coverage expansions also raise the thorny issue of extending dependency well into the early adult years. Specifically, some young adults could potentially gain access to good jobs with their own employer-sponsored coverage and have the ability to pay for such coverage themselves. But the ability to remain as a dependent on a parent's health plan can undermine the need for young adult dependents to assume this responsibility on their own.

Appendix State Young Adult Dependent Coverage Expansion Laws, as of March 2011

State	Expansion Implementation Date	Upper Age Limit (Student/Nonstudent)	Premium Rules	Eligibility Criteria
Colorado	1/1/2006	25/25	Group—Small group Parent—Other markets	Unmarried
Connecticut	1/1/2009	26/26	Group	Unmarried All in-state and out-of-state full-time students
Delaware	6/1/2007	24/24	Parent	Unmarried and no dependents In-state and out-of-state full-time students
Florida	7/1/2007 10/1/2008	25/25 30/30	Parent	Unmarried and no dependents Lives with parent or is a student (2007) All in-state and out-of-state students (2008)
Idaho	7/1/2007	25/21	Group	Unmarried
Illinois	6/1/2009	26/26	Parent	Unmarried
Indiana	7/1/2007	24/24	Group	None
Iowa	7/1/2008	No limit/25	Either	Unmarried Lives in-state and out-of-state full-time students
Kentucky	7/15/2008	26/26	Either	Unmarried
Louisiana	1/1/2009	24/21	Group	Unmarried
Maine	9/20/2007	25/25	Group	Unmarried and no dependents All in state and out-of-state full-time students
Maryland	1/1/2008	25/25	Group	Unmarried
Massachusetts	1/1/2007	26/21	Group	All in-state and out-of-state full-time students
Minnesota	1/1/2008	25/25	Group	Unmarried
Missouri	1/1/2008	25/25	Either	Unmarried Resides in state
Montana	1/1/2008	25/25	Group	Unmarried

Appendix (*continued*)

State	Expansion Implementation Date	Upper Age Limit (Student/Nonstudent)	Premium Rules	Eligibility Criteria
New Hampshire	9/15/2007	26/26	Parent	Unmarried All in-state and out-of-state students
New Jersey	1/1/2006	30/30	Parent	Unmarried and no dependents
	1/1/2009	31/31		All in-state and out-of-state full-time students
New Mexico	7/1/2003	25/25	Group	Unmarried
New York	9/1/2009	30/30	Parent	Unmarried Must reside or work in state or in insurer service area
North Dakota	7/1/1995	26/22	Group	Unmarried Nonstudents must reside with parent
Ohio	7/1/2010	28/28	Either	Unmarried All in-state and out-of-state full-time students
Pennsylvania	9/1/2009	30/30	Parent	Unmarried All in-state and out-of-state full-time students
Rhode Island	1/1/2007	25/19	Group	Unmarried
South Dakota	2005	24/19	Parent	Unmarried
	7/1/2007	30/19		
Texas	1/1/2004	No limit/25	Group	Unmarried All in-state and out-of-state full-time students
Utah	1/1/1995	26/26	Parent	Unmarried All in-state and out-of-state full-time students
Virginia	7/1/2007	25/25	Group	None
Washington	1/1/2009	25/25	Either	Unmarried
West Virginia	7/1/2007	25/25	Group	Unmarried
Wisconsin	1/2/2010	27/27	Group	Unmarried

Source: Authors' review of state regulatory guidance and interviews with state officials

Note: State expansions generally apply to all regulated insurance markets and the state's health benefit plan for public employees, with two exceptions: Idaho expansion applies only to the individual and small-group markets; Minnesota expansion excludes the state health benefit plan.

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