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Health Care Reform: Extended Dependent Coverage Q&A

Sweeping changes expand coverage for young adult dependents

The Patient Protection and Affordable Care Act (PPACA, or the Affordable Care Act) brings 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.

How does the Affordable Care Act help young adults? The Affordable Care Act requires plans and issuers that offer dependent coverage to make the coverage available until the adult child reaches the age of 26.

What plans are required to extend dependent coverage up to age 26? The requirement to extend coverage applies to group health plans and health insurance issuers that offer dependent coverage. Both married and unmarried children qualify for this coverage. This rule applies to all plans in the individual market and to new employer plans. It also applies to existing employer 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 parent's employer plan even if they have another offer of coverage through an employer.

How can young adults under the age of 26 maintain coverage until their plan's effective date? Many

private insurance companies that cover the majority of Americans have volunteered to provide coverage for young adults losing coverage as a result of graduating from college or aging out of dependent coverage on a family policy. This stop-gap coverage,

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in many cases, is available now. Also, young adults may qualify for an open enrollment period to join their parents' family plan or policy on or after Sept. 23, 2010. Insurers and employers are required to provide notice for this special open enrollment period. Or, expect an offer of continued enrollment for plans that begin on or after Sept. 23, 2010. Insurers and employers that sponsor health plans will inform young adults of continued eligibility for

coverage until the age of 26. Young adults and their parents need not do anything but sign up and pay for this option.

My child is under 26, but lost coverage from my plan due to graduating from college. Can he/she get coverage? Yes. Check with your insurance company to see if they will provide that coverage to you now. If not, watch for the special open enrollment period and sign up then.

Now that the regulation is published, are plans required to immediately enroll eligible young adults in their parents' plan? No. The law says that the extension of dependent coverage for children is effective for plan years beginning on or after six months after the enactment of the law – that means plan years beginning on or after Sept. 23, 2010. However, the Obama administration has urged insurance companies and employers to prevent a gap in coverage for young adults aging off their parents' policy prior to this effective date. Check with your insurance company or employer to see if they are offering this coverage option.

Will young adults be given a special chance to enroll after Sept. 23, 2010?

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Yes. For plan or policy years beginning on or after Sept. 23, 2010, plans and issuers must give children who qualify an opportunity to enroll that continues for at least 30 days regardless of whether the plan or coverage offers an open enrollment period. This enrollment opportunity and a written notice must be provided no later than the first day of the first plan or policy year beginning on or after Sept. 23, 2010. Some plans may provide the opportunity before Sept. 23, 2010.

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 on 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. 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.

Why is there a special exception for group plans in existence on March 23, 2010? The goal 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 (ex: through his/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 (i.e., in existence on or before March 23, 2010). Of course, all group plans have the option to cover all adult children until the age of 26 or beyond. In 2014, this exception will no longer apply.

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 provision does not apply to Medicare.

Are both unmarried and married young adults covered? Yes.

Are plans or issuers required to provide coverage for children of children receiving the extended coverage? No.

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.

Are insurers doing anything to help young adults prior to the required implementation dates? Many insurance companies are beginning to cover young adults voluntarily before the implementation date required by the Affordable Care Act. Early implementation would avoid gaps in coverage for new college graduates and other young adults, and save on insurance company administrative costs of dis-enrolling and re-enrolling. An exhaustive list of companies offering stop-gap coverage can be found on the Department of Labor's website.

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 vast 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. What are these benefits? Under a change in tax law included in the Affordable Care Act, the value of any employer-provided health coverage for an employee's child is excluded from the employee's federal income tax through the end of the taxable year in which the child turns 26. 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 if the plan or insurer voluntarily extends the coverage. Note that 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. 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.

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 toward 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.

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The IRS provided in recent guidance that the cafeteria plan could be amended retroactively up until Dec. 31, 2010, to permit these pretax salary reduction contributions.

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 child's 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/her 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