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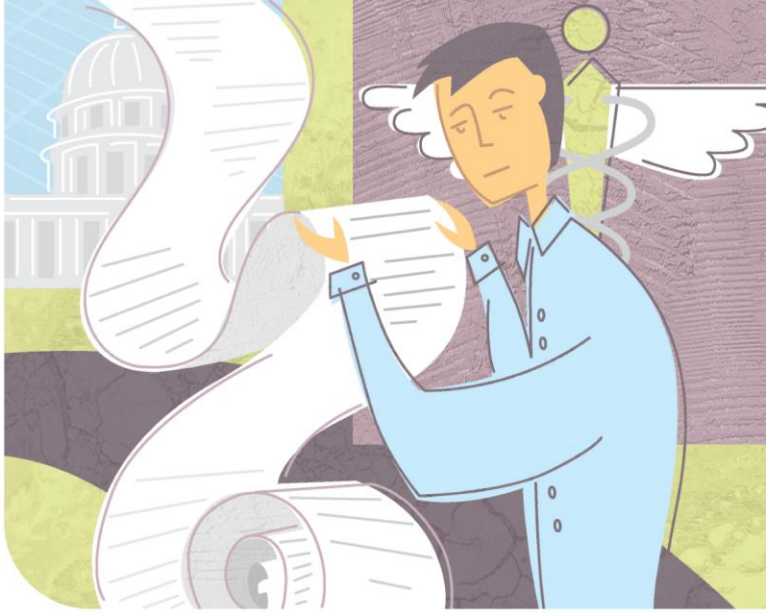

Health Care Reform: Extension of Dependent Coverage to Age 26

Common questions and answers about extension of health insurance coverage

The health care reform legislation makes changes to the U.S. health care system, including an extension of health insurance coverage to young adult children up to age **26.**

Who is Eligible?

The extension of dependent coverage applies to plans in existence on the date the health care reform legislation was passed (grandfathered plans) and new plans. Coverage must be made available to qualifying young adults up to age 26 whose parents carry private group or non-group health coverage.

Qualifying young adults include sons, daughters, stepsons, stepdaughters, adopted children (and possibly eligible foster children) of the parent, regardless of the qualifying young adult's marital status. It does not matter whether the qualifying young adults are tax dependents for federal income tax purposes. Parents may decide whether to add adult children to their plan, but there is no requirement to cover the child of a dependent child.

Tax-Free Coverage

Effective March 30, 2010, health coverage provided for an employee's child is not subject to federal tax for the employee or dependent during the tax year in which the child turns 26. Although the coverage requirement ends on the child's 26th birthday, employers can continue to offer the benefit on a tax-advantaged basis until the end of the taxable year in which the child turns 26. Note that state requirements may differ and state taxes may apply.

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The Internal Revenue Service announced that these changes immediately allow employers with cafeteria plans – plans that allow employees to choose from a menu of tax-free benefit options and cash or taxable benefits – to permit employees to begin making pretax contributions to pay for the expanded benefit. This guidance also applies to health FSAs and health reimbursement arrangements (HRAs).

When Does the Dependent Coverage Extension Begin?

The extension of dependent coverage provision takes effect for plan years beginning on or after September 23, 2010. That means that for October plans, the start date would be October 1, 2010. Plans that run on a calendar-year basis must cover an employee's young adult child up to age 26 starting on January 1, 2011. Plans that begin July 1 must cover dependents up to age 26 starting on July 1, 2011. Some insurers have said that they will begin to extend dependent coverage prior to September 23, 2010, for individuals who would otherwise lose coverage.

For grandfathered plans, before January 1, 2014, the extension of coverage will apply only with respect to dependent children not eligible for coverage under another employer's health plan. On and after January 1, 2014, the provision applies to all plans regardless of a dependent child's eligibility for coverage under another employer health plan.

How Much Will it Cost?

The provision does not specify how a parent's premium costs will be affected

by having a qualified young adult remain on their policy. Although, 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.

What if My State Already Extends Coverage to Young Adults?

More than two-thirds of states already have laws that require insured group health plans to cover dependents past age 18, often into their mid to late 20s and in some cases later. For example, in New Jersey, unmarried children can stay on a parent's plan until age 31. Such state mandates, including those requiring coverage past age 26, will continue to apply. Also, the favorable federal tax treatment applies only for adult children through the tax year in which they turn 26 and does not vary depending on state requirements. Employees in states that extend coverage past age 18, but not all the way to age 26, will now be able to take advantage of the federal extension.

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