More States Extend Age of Dependents to Boost Coverage of 20-Somethings

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A growing number of states are considering legislation that would lengthen the time that young adults could stay on their parents' health plans. New Jersey leads the country in this arena with a recently enacted law that extends coverage of dependents up to age 30. While such initiatives aim to boost coverage for difficult-to-insure 20-somethings, the financial implications for health plans are not yet known, stakeholders say.

Proponents of the measure in New Jersey argue costs will come down as the overall risk pool improves with more healthy, young people retaining coverage, says Kevin O'Hara, vice president of training and compliance at Corporate Synergies Group, Inc., a New Jersey-based benefits consulting and brokerage firm. On the other hand, some insurers contend costs could go up, as dependents with high medical expenses are more likely to opt for the extended coverage, he adds.

Health plans tend to be "very conservative by their nature," and believe only people who have high utilization and expenses will buy the insurance, O'Hara says. "Carriers always see the glass half empty: 'It's going to be a disaster. Only the 27-year-old diabetics who are racking up insulin charges are going to end up buying this coverage.' That is the prevailing view," he says, noting the pessimists contend the extended-dependents plan creates a so-called "adverse-selection" incentive.

It's the same theory that goes with coverage under the 1986 Consolidated Omnibus Budget Reconciliation Act (COBRA) health benefit provisions, he says. "The only people who buy COBRA are the people who know they're going to have at least that amount in expenses," he says of the plan provides former employees, spouses and dependents the right to temporary continuation of health coverage at group rates plus a small fee.

Previously in New Jersey, parents could provide coverage for dependents up to age 23 who lived at home. Under the new law, which was signed in January and took effect in May, health plans must offer continued coverage for dependents who are unmarried, have no dependents of their own, are residents of the state or enrolled in higher education, and have no other form of coverage. The law applies to fully insured groups, including those with HMOs and PPOs, and does not apply to individual products.

More than 20 states have introduced or passed legislation recently that also would raise the age of dependents, according to a new survey by the National Conference of State Legislatures (NCSL). Those that enacted laws include Delaware, Massachusetts, New Hampshire, Pennsylvania, South Dakota, Texas and Vermont.

O'Hara says it's too early to see how the New Jersey requirements will play out in the market. "But anecdotally, from my view, I don't necessarily see the adverse-selection problem occurring," he says. People are buying it who may use the coverage, as well as those who don't have any immediate utilization needs, he says of clients of Corporate Synergies. "It looks like a fairly decent spread of risk right now," he adds.

New Jersey Blues: Other Options Cheaper

Robert Meehan, vice president of consumer and senior markets at Horizon Blue Cross Blue Shield of New Jersey, agrees it's too early to pass judgment on the new dependent policy, although he notes that actuaries who have studied the law say it will lead to higher costs and utilization. Meehan says less expensive and "more appropriate" insurance options exist for the 19-to-30-year-old age group, such as limited-benefit plans.

Under the new dependent plans in New Jersey, the rate charged to the person (either the parent or the child) is a function of the adult single rate for that employer, Meehan explains. Horizon charges 68% of the adult single premium. "Sixty-eight percent of a $400 premium is still a lot of money," he contends.

One of the issues with the new dependent policy is that most employers, particularly in the Northeast, have fairly rich benefit plans, Meehan says. Still, Meehan adds, the new plans could draw 1,000 new members a month once it is up and running, and matures at bit.

Some plans are not waiting for state legislatures to extend the dependent age limit. Blue Cross Blue Shield of Arizona last month launched a plan that covers dependents up to the age of 29 under some policies. Previously, the insurer covered dependents until age 19, or until age 25 if they were full-time students.

"It wasn't the case of worrying about whether a legislature may or may not require it," says Richard Hannon, senior vice president of marketing and provider affairs at the Arizona Blues. "It was really a case of saying, 'We've got dependents currently covered. What additionally can we do that will make it as easy as possible for parents to keep their dependents covered? For individual members, this is a great peace-of-mind product."

The Arizona Blues expect strong demand for the plans, especially since they could save some members money. Previously, dependents over the ages of 19 or 25 had the option to sign up for their own product, which would be age and gender rated. Under the new policy, no additional charge will be levied to a contract if the dependent is over 25, for example, Hannon explains. In fact, premiums could come down for some families, compared with what they would pay if the dependent received coverage under a new individual plan. "We would expect on average savings to range somewhere between $15 to $25 a month," Hannon says.

The option is now available only to individual-plan members. For now the company will hold off offering the extended-age dependent plan to large employers, which already can choose to include coverage for dependents up to age 30 if they want to, Hannon says. "We will share with employers what we have done. But it is truly in the hands of the employers to how they want to construct their benefit plans," he says.

These efforts come amid new findings that young people account for an increasing share of the uninsured. In 2000, just under 40 million Americans did not have health insurance, according to NCSL. In five years, that population jumped by 6.5 million. "Nearly half of this increase is due to young people between the ages of 19 and 34," says NCSL.

Raising the age of dependents is one tool that states are using to address the uninsured, says Megan Foreman, research analyst at NCSL. State lawmakers are attracted to the fact that raising the age of a dependent is cost effective, she says. "The employers already have these plans, and the dependents already are on the plans," Foreman says. "If you're a parent of someone who is 22, and they are going to lose their insurance coverage, to be able to keep them on that plan is simple to the parent and a fairly low-cost option."