AMERICAN ACADEMY *of* ACTUARIES

Health, Long-Term Care & Health Retirement Issues Committee
Public Hearing: Resolution in Support of Extending Dependent Health Benefits for Young Adults
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Thank you Assemblyman Barclay, Representative Westrom and distinguished committee members for holding this hearing on the proposed resolution in support of legislation extending dependent health benefits for young adults. My name is Geoffrey Sandler, and I serve as a member of the American Academy of Actuaries'[1] Health Practice Council. The Academy is the non-partisan, public policy and actuarial professionalism organization representing actuaries of all specialties in the United States.

I appreciate the opportunity to provide this testimony today. My remarks will focus on some of the items that should be addressed in legislation that extends dependent health benefits. I will also discuss items that affect projected costs for the parties impacted by such legislation.

One major issue that should be addressed in legislation extending dependent benefits is how eligibility is defined. States that have already passed legislation regarding extended dependent benefits vary widely in their eligibility requirements. They may require that dependents are unmarried, are financially dependent on their parents or legal guardians, have no other insurance available to them (or no other affordable insurance available to them), live in their parents' or legal guardians' home, live in the state of residence of their parents or legal guardians, or some combination of these requirements (or others). Eligibility requirements should be defined to target the specific population in need of coverage in order to minimize incentives for individuals to switch from their own private health coverage, through the group or individual market, to their parents' or legal guardians' health coverage. In addition, how eligibility requirements are defined will affect the overall number of people who may be offered insurance coverage in connection with legislation extending dependent benefits. For example, a significant share of people ages 19 to 25 have limited access to affordable health insurance coverage, but a smaller share of people in that age bracket live at home with their parents or legal guardians. Note also that if the definition of "dependent" is broader than the definition of "dependent" in the Internal Revenue Code, the additional premium for this benefit could be considered taxable income to employees under group plans.

Another important issue that should be addressed in legislation relates to how the enrollment period is defined. Decisions will need to be made as to whether the enrollment periods for eligible dependents will follow those applicable under the Health Insurance Portability and Accountability Act (HIPAA) and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) or whether different rules will apply. For instance, in addition to annual open enrollment periods and special enrollment periods for

[1] The American Academy of Actuaries is a professional association with over 16,000 members, whose mission is to assist public policymakers by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

people who experience a change in status, such as a change in job or marital status, a special initial enrollment period may also be appropriate for people who have previously “aged out” of their parent’s or legal guardian’s policy but may be eligible for coverage under the new legislation. Limited enrollment periods are one way to prevent adverse selection (a circumstance in which the insured are more likely to suffer a loss than the uninsured) in a guarantee-issue situation such as group health insurance because they reduce the ability of individuals to sign up for coverage immediately after they are diagnosed with an ailment.

The resolution under consideration supports only a mandated offer to the master policyholder to purchase extended dependent benefits, but each state will have to decide in legislation whether to require that such coverage be offered or that such coverage be provided. In evaluating a mandated offer for employers, consideration should be given to the implications of selection because employers, especially in the case of small businesses, may already be aware of the health status of its employees’ children prior to the decision to extend benefits to them. In addition, when projecting the potential impacts of such legislation on the uninsured population, policymakers should keep in mind that state legislation mandating the extension of dependent benefits may not apply to self-insured plans because of the pre-emption in the Employee Retirement Income Security Act of 1974 (ERISA).

When determining the costs of legislation extending dependent benefits, especially costs to employers and those who already have insurance, a major determinant will be how the premiums are structured. Although young people ages 19 to 25 generally have lower claims costs than other age groups, increasing coverage to this group *will* increase claims. Therefore, someone will have to pay premiums to balance this risk. If a plan’s premium structure is such that there is just one premium for family coverage, then the premium costs for family coverage may increase. However, if premiums are charged on a tiered basis such as individual-plus-one, individual-plus-two, etc., then the addition of another dependent would be captured in the premium for that particular family. In this case, since the young person may have very low claims costs, the addition of the new dependent may decrease average premiums for dependent coverage overall. A similar set of possible outcomes exist for individually underwritten plans due to variations in premium structure. Finally, any adverse selection will also affect the average claims of these newly enrolled young people. As discussed above, adverse selection will vary in part depending upon how enrollment periods are defined. Clearly the cost impact of extending dependent benefits is going to vary from state to state, plan to plan, and employer to employer.

In summary, legislation to extend dependent benefits should address the issues of eligibility, enrollment periods, and whether to mandate the coverage or require an offer to purchase the coverage. Also, cost projections for such legislation will be complicated by variations in premium structure. Thank you again for giving me the opportunity to speak on this subject and I welcome your questions.