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FAQs Regarding Coverage for Adult Children up to Age 26

The Affordable Care Act (ACA) requires plans and issuers that offer dependent child coverage to make the coverage available until the adult child reaches the age of 26. This extension of coverage to young adult children took effect on the first day of the first plan year that began on or after Sept. 23, 2010.

This extension of dependent coverage does not require plans and issuers to offer dependent coverage at all. It only requires plans that provide dependent coverage of children to make that coverage available for adult children up to age 26.

This ACA Overview includes a set of frequently asked questions (FAQs) issued by the Department of Labor (DOL) to help employers understand the ACA's extension of young adult coverage to age 26.

LINKS AND RESOURCES

- On May 13, 2010, the DOL, Health and Human Services (HHS) and the Treasury (Departments) published interim final regulations on the ACA's young adult coverage requirement.
- On Nov. 18, 2015, the Departments published final regulations to finalize provisions in the interim final regulations without substantial change.
- The DOL FAQs can be accessed on the DOL webpage.

HIGHLIGHTS

OVERVIEW

The young adult coverage requirement:

- Applies to both grandfathered and non-grandfathered group health plans; and
- Does not require plans and issuers to offer dependent coverage at all.

DEFINITION OF DEPENDENT

The mandate does not specifically define the term "child." However:

- A plan or issuer may not define "dependent" for purposes of eligibility for dependent coverage other than in terms of the child's age and the relationship between the child and the participant.
- For example, a plan or issuer may not deny or restrict coverage for a child who is under age 26 based on the child's student status, marital status or residency.

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What plans are required to extend dependent coverage up to age 26?

The ACA requires plans and issuers that offer dependent coverage to make the coverage available until a child reaches the age of 26. Both married and unmarried children qualify for this coverage. This rule applies to all plans in the individual market and to all employer plans.

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 and cannot be required to pay more for coverage than similarly situated individuals.

Can plans or issuers who offer dependent coverage impose limits on who qualifies based upon 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.

Does the adult child have to purchase an individual policy?

No. Medicare does not provide coverage for dependents. Dependents must be individually eligible in order to have Medicare coverage. This provision, therefore, does not apply to Medicare.

Does Medicare cover adult children in the same way that private health insurance does?

No. The dependent coverage requirement does not apply to Medicare.

Are both married and unmarried young adults covered?

Yes.

Are plans or issuers required to provide coverage for children of children receiving the extended coverage?

No.

I understand that there are tax benefits related to the extension of dependent coverage. Can you explain these benefits?

Under a change in federal tax law included in the ACA, the value of any employer-provided health coverage for an employee's child is excluded from the employee's income through the end of the taxable year in which the child turns 26 for federal tax purposes. 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

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the plan or insurer voluntarily extends the coverage. However, state requirements may differ and state taxes may apply.

When did this tax benefit go into effect?

The tax benefit took effect March 30, 2010. Consequently, the exclusion applies to any coverage that is provided to an adult child from March 30, 2010, through the end of the taxable year in which the child turns 26. **Note: States that conformed with federal tax law after March 30, 2010, may have a different effective date for state taxes.**

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 pre-tax basis through the employer's cafeteria plan, if an employer chooses to offer a cafeteria plan?

Yes. In addition to the exclusion from income of any employer contribution towards qualifying adult child coverage, employees may pay the employee portion of the health care coverage for an adult child on a pre-tax 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. IRS Notice 2010-38 provided that the cafeteria plan could be amended retroactively up until Dec. 31, 2010, to permit these pre-tax 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 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 parent through December 31 (the end of most people's taxable year), the value of the health care coverage through December 31 is excluded from the employee's income for tax purposes. If the child stops coverage before December 31, then the premiums paid by the employee up to the time the plan was stopped will be excluded from the employee's income.

I'm a young adult currently covered on my parents' health plan. What are my options for health coverage once I reach age 26?

Once an individual reaches 26 and "ages out" of his or her parents' coverage, the individual may have several options.

- **Other Employer-sponsored Coverage:** If the individual (or his or her spouse) is employed and that employer offers a health plan, the individual should ask whether he or she is eligible for coverage under that plan. Losing coverage under a parents' plan may qualify an individual for special enrollment in any other employer plan for which the individual is are eligible. Special enrollment in another employer plan must be requested within 30 days of loss of coverage.
- **COBRA or State Continuation Coverage:**
  - If the parents' plan is sponsored by **an employer with 20 or more employees**, the individual also may be eligible to purchase temporary extended health coverage for up to 36 months under the Consolidated Omnibus Budget Reconciliation Act (COBRA). To elect COBRA coverage, the individual should notify the parents' employer in writing within 60 days of reaching age 26. In turn, the plan should notify the individual of the right to extend health care benefits under COBRA. The individual will have 60 days from the date the notice was sent to elect COBRA coverage.
  - If the parents' plan is sponsored by **an employer with 20 or fewer employees**, the individual may have similar rights under state law, instead of under COBRA. The individual should ask the parents' employer or the state Insurance Department if this applies, and if so, how the individual would request the extended coverage.
- **Exchange Coverage:** The individual may be eligible for special enrollment in individual coverage purchased through the Health Insurance Exchange (or Marketplace). To special enroll in Exchange coverage, the individual must enroll within 60 days of aging out of the plan. For more information or to enroll, visit www.HealthCare.gov.

Source: Department of Labor

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