



# How the Affordable Care Act Helps Young Adults

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Since being signed into law in 2010, the Affordable Care Act has already expanded access to high-quality, affordable health coverage for the millions of young adults who can now stay on their parent's health insurance plans. And beginning in 2014, even more young adults will gain health care coverage through the law's health insurance exchanges—private marketplaces where individuals can shop for health insurance—and the expansion of Medicaid.

Critics of the law ignore these facts and instead argue that the Affordable Care Act will increase health insurance premiums for young adults, especially in the nongroup, or individual, market. But our conservative estimates show that among all young adults, only about 3 percent of them might actually see a premium increase in the nongroup market—that is just 0.5 percent of all Americans.

This group consists of healthy young adults who have nongroup health coverage and whose incomes are too high to qualify for federal assistance that will offset any increase in premiums. But even these individuals will benefit from the law because with increased premiums come far greater benefits and security. Under the Affordable Care Act, health care plans will include benefits such as prescription drugs, maternity care, and mental-health care, which most nongroup plans exclude today. And this improved coverage will remain in place even as people age or become sick or injured. In other words, comparing the price of coverage before and after health care reform is just as unreasonable as comparing the price of Fred Flintstone's self-powered Stone Age automobile to a modern-day hybrid vehicle—the former only functions as long as you are healthy and capable of running everywhere you need to go, but the minute you break an ankle or become ill, you may as well have never had a car in the first place.

In fact, the real threat to young adults' access to affordable insurance coverage is not these possible premium increases, but the shortsighted decision by certain states to reject the law's Medicaid expansion. Nearly half of all currently uninsured young adults would qualify for Medicaid under full expansion, but they will remain uninsured unless their states participate.<sup>1</sup>

This brief reviews how the Affordable Care Act will affect health care coverage for young adults, looking at both the law's private insurance market and Medicaid expansion provisions.

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## The Affordable Care Act expands the health coverage options of young adults

Young adults ages 19 to 29 have historically been uninsured at higher rates than any other age group, not because of a lack of desire for health coverage but because they have lacked access to affordable health coverage<sup>2</sup>— only 64 percent of young adults had health insurance coverage in 2010.<sup>3</sup> Responding to a 2011 survey conducted by the Commonwealth Fund, a private foundation that aims to promote a high-performing health system, 41 percent of all young adults and 60 percent of uninsured young adults said they did not receive needed health care because of the cost of care.<sup>4</sup> Half of uninsured young adults also reported medical debt or problems paying medical bills, while 29 percent of insured young adults reported these problems due to the lack of sufficient health care coverage.<sup>5</sup>

One major reason why young adults have been uninsured at such high rates is because prior to the Affordable Care Act, many of them aged out of their insurance coverage when they turned 19—whether they had been covered under a parent's health plan or under Medicaid or the Children's Health Insurance Program, better known as CHIP.<sup>6</sup>

Second, a disproportionate number of young adults lack insurance because of the type of work they do. Many people in their early 20s work in low-income or temporary jobs—employment that rarely offers health insurance.

Third, this group also faced barriers to coverage in the broken individual insurance market prior to the Affordable Care Act, including discrimination based on pre-existing conditions and other practices that raised premiums or terminated coverage if a person became sick.

The Affordable Care Act tackles these problems in several ways. First, the law allows young adults to stay on their parents' plans until they reach age 26. As of June 2012 more than 3 million young adults gained insurance coverage because of this change<sup>7</sup>— a 10.4 percent increase in the number of insured young adults from 2010.<sup>8</sup> Of the 13.7 million young adults with this source of coverage, about 6.6 million would not have had this option before the Affordable Care Act.<sup>9</sup>

Second, the law expands Medicaid to all adults with incomes at or below 138 percent of the poverty level—currently \$15,856 for individuals.<sup>10</sup> Until Medicaid expansion is in place in 2014, most states limit Medicaid coverage for nondisabled adults to those with incomes well below 100 percent of the federal poverty level—\$11,490 for an individual

in 2013—unless the person is pregnant or parenting a minor child. These stringent eligibility criteria leave many low-income young adults, especially men—who are less likely to be parenting—without health insurance options.

Third, the Affordable Care Act's market reforms and new health insurance exchanges will help young adults purchase quality, affordable health insurance. The exchanges are new marketplaces where individuals will purchase health insurance. Young adults without access to other health insurance will be able to go online to one site and compare their health insurance options, and the exchanges will also determine eligibility for financial assistance or Medicaid.

Young adults will find that the quality of coverage offered in the exchanges is vastly improved over most current insurance options in the individual market. These exchange plans, for example, will include prescription drug and mental-health benefits. Having access to quality insurance through the exchanges gives this group greater flexibility to explore different career and educational paths without being tied to a job for the sake of having health insurance. With guaranteed access to health insurance, young adults will be free to accept lower-wage or entry-level jobs that do not offer health insurance. They can also start their own businesses or pursue educational opportunities.

Thanks to these changes, the rates of health coverage for young adults should increase dramatically beginning in 2014. And if every state participates in Medicaid expansion, young adults would reach near universal health care coverage.<sup>11</sup> Unfortunately, a number of states plan to reject Medicaid expansion.<sup>12</sup>

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### Young adults will find affordable health care options on the new health care exchanges

The argument that young adults are harmed by the law because they may pay higher premiums is misleading. This claim fails to take into account many of the provisions of the Affordable Care Act that make coverage more affordable. For many young adults, these financial and consumer protections will lower their overall health care costs and improve their health and wellness.

Consider the following: Lower- and middle-income young adults who purchase health insurance through the exchanges qualify for different levels of financial assistance. The law offers premium tax credits on a sliding scale for individuals with incomes up to 400 percent of the federal poverty level—\$45,960 for an individual in 2013.<sup>13</sup> In addition, the law provides cost-sharing subsidies to individuals up to 250 percent of the federal poverty level—\$28,725 for an individual in 2013—which reduces out-of-pocket costs for covered benefits. The law also includes out-of-pocket limits that are more generous at lower income levels.<sup>14</sup> Finally, many of the preventive care services that young people

need more frequently than other medical services will be covered at no cost. Together, these provisions offer far more financial protection than most policies currently available in the nongroup market.

The Affordable Care Act’s “catastrophic plans” are another option for young adults who might still find premiums in the nongroup market unaffordable.<sup>15</sup> In the past, catastrophic coverage plans only protected individuals in emergency circumstances. These plans would typically not have included routine primary care or preventive services, and in cases in which these services were covered, the plan-holder would first have had to meet a very high out-of-pocket deductible. The catastrophic plans offered in the exchanges still have high deductibles, but those deductibles do not apply to the no-cost preventive services or up to three primary care visits.<sup>16</sup> The Henry J. Kaiser Family Foundation estimates that premiums for a person in their 20s will be 29 percent less in catastrophic plans than in bronze plans, which have the lowest-priced premiums for most people shopping for insurance in the exchanges.<sup>17</sup>

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## Debunking rate shock for young adults in the nongroup market

Currently, health insurers in the nongroup insurance market charge people approaching retirement up to five times as much for premiums as they charge younger people because of a practice known as age rating.<sup>18</sup> The Affordable Care Act includes a 3-to-1 age-rating band, which limits what insurance companies can charge a 64-year-old for premiums to three times what a 21-year-old may be charged for the same coverage. As a result, more risk is shifted from older enrollees to younger enrollees.

Insurance-industry-sponsored studies claim that this limit will drastically increase premiums for young people, contributing to a scenario called “rate shock.” Opponents of the health reform law claim that these increased premiums will, in turn, discourage young, healthy people from buying insurance. If this group stays out of the exchanges, it would leave a disproportionately greater number of older, sicker individuals in the risk pool, ultimately driving up prices for those remaining until coverage becomes totally unaffordable—a phenomenon referred to as the “death spiral.”

But there are two major problems with these studies.<sup>19</sup> First, their authors have not disclosed in any detail the pricing assumptions that underlie their assessment of age rating on premiums. Second, they often fail to take into account other policies implemented through the Affordable Care Act that mitigate the impact of changes in age-rating practices, such as the financial assistance detailed above and the risk-adjustment provisions of the law that serve to stabilize the health insurance market.<sup>20</sup> Even those that do account for the premium tax credits do not take into account other financial assistance and protections, such as cost-sharing subsidies or out-of-pocket caps, or the increased value of coverage that itself reduces out-of-pocket costs. As

a result, these studies vastly overstate the potential for rate shock and significantly downplay the benefits of the Affordable Care Act.

In fact, a recent study by the Robert Wood Johnson Foundation and the Urban Institute found that the current 5-to-1 age bands actually undercharge young adults relative to their expected expenses; the 3-to-1 age band is more consistent with this group's expected costs.<sup>21</sup> The authors of the Robert Wood Johnson study concluded that, "claims by anyone in the insurance industry that this change will have dramatic implications for the out-of-pocket costs of young adults are unfounded."<sup>22</sup> The study went on to note that few young adults will see an increase in premiums because of age rating and that those who do will only see small increases.

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### Census data show that among all young adults, only 3 percent might see premium increases in the nongroup market

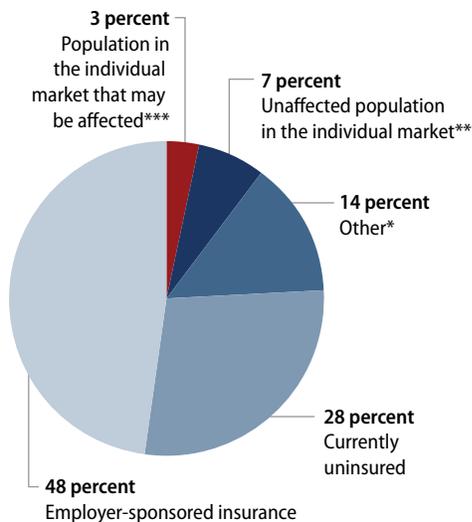
A very small group of young adults may see premium increases due to the Affordable Care Act's age rating and other market reforms. Data from the Census Bureau's Current Population Survey shows that, of the nearly 47 million young Americans between the ages of 19 and 29, only about 3 percent might see higher premiums in the nongroup market. These young adults have incomes that may be too high to qualify for federal subsidies to fully offset the premium increases.

To put this finding into a larger context, this group is less than 0.5 percent of the entire United States population. It includes approximately 789,234 young people with incomes between 250 percent and 399 percent of the poverty level—currently \$28,725 to \$45,845 for an individual—and 652,048 young people with incomes of 400 percent of the poverty level or higher—currently \$45,960 annually for an individual. Those with incomes below 400 percent of the poverty level will qualify for federal tax credits that will offset some increase in premiums.

The vast majority of young adults, however, will not see premium increases because they have employer-sponsored coverage or because they have incomes below 250 percent of poverty level—\$28,725 for an individual in 2013. Young adults with incomes below this level will either qualify for Medicaid under the expansion—if their states participate—or they will receive federal subsidies for premium assistance and cost sharing that will offset any premium increases.<sup>23</sup>

The figures in the above chart are conservative, and fewer young adults in this market are likely to experience higher health care costs. Some of this group may

**FIGURE 1**  
**Which young adults in the individual market may see premium increases?**



Sources: U.S. Census Bureau, Current Population Survey, young adult coverage source by federal poverty level.

\*Young adults enrolled in Medicaid, military health insurance, or Medicare.

\*\*Young adults in the individual market who have incomes below 250 percent of the federal poverty level.

\*\*\*Young adults in the individual market with incomes above 250 percent of the federal poverty level.

choose the less costly catastrophic coverage plan. Others may be enrolled in grandfathered plans that are exempt from many of the law's market reforms. In Maryland, for example, 60 percent of enrollees in CareFirst insurance plans—representing about 70 percent of the nongroup insurance market in the state— will not see any increases in premiums because they will be grandfathered in their current health plans.<sup>24</sup> It is also possible that some in this group may move to their parent's insurance plans.

As we discuss below, however, premium costs only tell one part of the story. Current premiums for healthy young adults in the nongroup market may be very low, but they contain large coverage gaps and have limited to no financial protections.

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### Why premium amounts are not the entire story: Flintstone car versus the modern hybrid vehicle

It is misleading to compare the cost of premiums before and after the Affordable Care Act. The value of the insurance that is available post-Affordable Care Act is as distant to pre-reform coverage as the self-powered Flintstone mobile is to a modern hybrid vehicle.

Without the law's reforms, sicker consumers and those with pre-existing medical conditions had a difficult, if not impossible, time finding coverage in the nongroup market. Even if they were fortunate enough to find coverage, the cost could be exorbitant and the coverage extremely limited.

Because of the Affordable Care Act's reforms, insurance plans will offer a broader benefits package, known as essential health benefits. These changes may cause premium costs to go up, but once enrolled, the plans will pay for a greater share of medical costs, and consumers are protected by out-of-pocket limits. For these reasons, even young adults paying higher premiums may see their overall health care costs decline.<sup>25</sup>

To illustrate the point: A recent study cited by opponents of the law warns that a healthy 25-year-old with an income of 300 percent of the poverty level—currently \$34,470 per year for an individual—could see his or her premiums costs go up by \$783 a year because of the law's market reforms.<sup>26</sup> But even if this projection is accurate, it only tells a small part of the story. Before the Affordable Care Act, a young woman's yearly birth control and related doctor visits could have cost as much as \$600 to \$1,200.<sup>27</sup> But because of the health reform law all exchange plans must cover recommended preventive services, including birth control and yearly doctor's visits, at no cost. Because of this one benefit, young female enrollees will likely break even with or recuperate the difference in their premiums.

Let's look at two other examples: The Affordable Care Act ends the practice of insurers charging young women in the nongroup market as much as 150 percent more for the same insurance coverage as young men, even when the plan excludes coverage for gender-specific conditions such as maternity care. And post-reform, insurers may no longer categorize certain gender-specific conditions, such as past cesarean sections or injuries from sexual assault or domestic violence, as pre-existing conditions.

But even young, healthy men, who have historically had the lowest health care premiums, are likewise already seeing substantial benefits from the Affordable Care Act. This group has had particularly large coverage gains specifically because the law now allows them to stay on their parents' health plans until they reach age 26. The percentage of young men ages 21 to 25 with insurance coverage has increased from 57.9 percent to 72 percent since the law's passage.<sup>28</sup> And young men in the individual market will benefit from the security of knowing that their coverage will remain constant even if they get sick or suffer an injury.

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### Rejecting Medicaid expansion threatens coverage for a large number of young adults, as those with low incomes are at the highest risk of being uninsured

The biggest threat to insuring young adults is not increased premium costs, but the fact that many states are still threatening to reject Medicaid expansion.

Most nondisabled, low-income children age out of Medicaid and CHIP on their 19th birthdays. But unlike their more affluent peers, these individuals generally do not have the option of staying on a parent's health plan or purchasing their own insurance: 69 percent of young adults in families with incomes at or above 400 percent of the poverty level found coverage under their parents' plan between November 2010 and November 2011, while only 17 percent of those with incomes under 133 percent of poverty did so.<sup>29</sup>

A 2011 survey conducted by the Commonwealth Fund found that young adults in moderate- to low-income households experienced the most difficulty affording insurance coverage: 70 percent of young adults with incomes that would allow them to qualify for Medicaid expansion reported a gap in insurance coverage in 2011, more than three times the rate of young adults with incomes at or above 400 percent of the federal poverty level. Of the 10.4 million currently uninsured young adults ages 19 to 29, 45 percent would gain coverage through the law's Medicaid-expansion provision.<sup>30</sup>

In states that refuse Medicaid expansion, some low-income young adults may find coverage through their employers, but many will remain uninsured.<sup>31</sup> Because policymakers planned for low-income young adults to gain coverage through Medicaid, eligibility for

the law's tax credits and other financial assistance to make the purchase of health insurance more affordable does not extend to young adults below the poverty level.

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## Conclusion

Those concerned about the prospect of young people lacking access to affordable health care coverage should focus on Medicaid expansion instead of the risk of higher premiums in the nongroup market. Only 3 percent of all young adults could face higher premiums in the individual market. Moreover, with this minimal increase in premium costs come significantly greater benefits. Meanwhile, a substantial number of states have threatened to reject or have already rejected Medicaid expansion, a much more concrete concern that leaves those young adults most in need of affordable health care without any options.

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