



Legislative Alert: Dependent Coverage Expansion

This week, BenefitMall would like to discuss the provision that dependent children can now be covered on their subscriber's health plan account up to age 26. While some insurers will begin complying with the new rule more quickly than others, all insurers that offer dependent coverage must comply by the first plan or policy year beginning on or after September 23, 2010.

In this alert we will cover the applicable change requirements to the group health plans and health insurance issuers, as well as the amendments to the IRC giving certain favorable tax treatment to adult children who have not attained age 27 as of the end of the taxable year and are effective March 30, 2010.

Purpose of Reform

A common theme you will see in all of the legislative alerts in the coming months is that the purpose for healthcare reform and the Patient Protection and Affordable Care Act is to insure millions of the now currently uninsured Americans. According to the Kaiser Family Foundation about 30% of all young adults are uninsured. This particular provision, according to Kathleen Sebelius, the Secretary of Health and Human Services, estimates about 1.2 million young adults will now gain coverage.

Many young adults lose their access to coverage when they either marry, graduate college, or no longer are an eligible dependent on their parents' tax return. This provision hopes to fill those coverage gaps.

Kathleen Sebelius is working closely with many of the nation's largest insurers to encourage early adoption of the rules rather than waiting until the required deadline. As a result many of the insurers have agreed to voluntary adoption of the rules to prevent the targeted group from falling off their health plans in the spring only to be reenrolled in the fall.

Summary of Health Plan Issuers

Under the Act, all plans and insurance issuers that offer dependent coverage must offer coverage to an enrollee's adult children whether married or unmarried until the child reaches age 26, even if the adult child no longer lives with the parents, is not a dependent on the parent's tax return, or is no longer a student.

- Plans that do not provide dependent coverage are not required to do so under the Act
- Extended eligibility does not apply to the adult child's spouse or children
- Expansion of eligibility is effective for plan or policy years beginning on or after September 23, 2010
- Calendar year plans will have to comply as of January 1, 2011
- For Grandfathered plans, if the adult child is eligible for another employer-based health plan other than the parents coverage, plans would generally not have to provide extended dependent coverage to that child until 2014

Summary of Internal Revenue Code (IRC) Amendments

As noted above, the Affordable Care Act amended the Public Health Service Act to add 2714, which requires group health plans and health insurance issuers that provide dependent coverage of children to continue to make such coverage available for an

adult child until age 26. Amendments to the coverage requirements in the PHSA do not parallel the tax free coverage rules provided by the Act's amendment of 105(b). For example 2714 of the PHS Act applies to children under the age of 26 and is effective for the first plan year beginning or after September 23, 2010, while the amendments to the IRC apply to children who have not attained age 27 as of the end of the taxable year and are effective March 30, 2010.

In an effort to keep these changes simple for communication purposes the following is a summary of changes that will affect tax free coverage for adult dependent children:

- Exclusion of Employer-Provided Medical benefits for Employee's Child under age 27
 - IRC section 105(b) generally excludes from an employee's gross income employer-provided reimbursements made directly or indirectly to the employee, employee's spouse, or employee's dependents (as defined in section 152 of the IRC).
 - As amended by the Affordable Care Act, the exclusion from gross income under 105(b) is extended to the employer-provided reimbursements for expenses incurred by the employee for the medical care for the employee's child (within the meaning of 152(f)(1)) who has not attained age 27 as of the end of the taxable year.
 - Effective date – retroactive to March 30, 2010
- Cafeteria Plans, Flexible Spending Accounts, and Health Reimbursement Arrangements
 - Section 125 allows for employees to elect between cash and certain qualified benefits, including accident or health plans, health flexible spending accounts.
 - As amended by the Affordable Care Act the exclusion of coverage and reimbursements from an employee's gross income is extended to the employee's child who has not attained age 27 as of the end of the employee's taxable year.
 - In general, a health reimbursement arrangement (HRA) is an arrangement paid for solely by an employer (not through a cafeteria plan) which reimburses an employee for medical care expenses up to a maximum dollar amount for a coverage period. The same rules that apply to an employee's child under age 27 will apply to the HRA.

Implementation of changes

Health Plan issuers will need to prepare for several implementation issues

- Communication of the new eligibility rules to members
- Modify dependent forms, letters, on-line communications
- Modify their eligibility computer systems
- Modify dependent process
- Train staff

Third Party Administrators will also need to prepare for implementation

- Cafeteria Plans may need to be amended to include employee's children who have not attained age 27 as of the end of the taxable year.
- Communication of the new eligibility to members
- Modify election, status change, reimbursement request forms

Upcoming Webinar

Want to learn more? Join us for our upcoming webinar in early August to discuss the grandfathered plans, dependent age coverage expansion and medical loss ratio. More information will be provided soon.

In order for you to conveniently share this information with your clients, please view the fillable document, [Dependent Coverage Expansion Letter](#).

Please visit www.BenefitMall.com to view past Legislative Alerts in the "Newsroom" section. Or, you may visit www.HealthcareExchange.com for blog posts, polls, surveys and numerous resources. If you have any questions, please contact your local BenefitMall Sales Team and they will be happy to assist you. Thank you for taking the time to read through this important notification.

Sincerely,



Michael Gomes
Executive Vice President

www.benefitmall.com

©2010 BenefitMall®. All rights reserved. BenefitMall, the circle "B" logo and the corporate logo are registered trademarks of Centerstone Insurance and Financial Services, Inc. California License #063979.

If you do not wish to receive any further e-mails from BenefitMall, please [click here](#) or contact BenefitMall Marketing at 4851 LBJ Fwy. Suite 100 Dallas, TX 75244.