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Health Reform and the Impact of Extending Dependent Coverage to Age 26

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Advocates of Obamacare claim that it is insuring more people under the age of 26, an accomplishment for which they are quite proud. Just this week, a report from the Department of Health and Human Services cites even greater success.[1] However, recent research shows that even with this provision, there are important, unrealized distortions and costs to the health care market.

In the case of insuring more young people, recent analysis shows that Obamacare encourages young adults to enroll in dependent coverage and drop their own coverage, causes employers to stop offering coverage, and will likely increase premiums. With Obamacare, as with everything else, there is no such thing as a free lunch.

Changes to Dependent Coverage. The Employee Benefit Research Institute (EBRI) released a study analyzing the early effects of a change to dependent coverage.[2] It concluded that the regulation increased the number of dependents age 19–25 with insurance. However, the study did note that there were other effects as well. One key finding suggests that the regulation on dependent coverage encourages young adults to seek dependent coverage instead of purchasing their own plans.

In the EBRI study, 20 percent of individuals had plans in their own names before Obamacare. After the regulation's implementation, this share dropped to 17.5 percent. The share of individuals with dependent coverage changed from 24.7 percent to 27.7 percent in the same period of time, likely due to the effect of the law.[3] As noted in the EBRI study, these are early effects, and more time will be necessary to understand the real impact that this provision has on the distributions of who is paying for health insurance. Nonetheless, the EBRI study is a good first step in understanding the real effects of this portion of the PPACA.

Regulation Encourages Young Adults to Drop Coverage in Their Own Name. Further analysis shows that employed young adults became more likely to switch from purchasing their own insurance from their employer to joining their parents' plan as an increasing number of states extended dependent coverage in response to Obamacare. In the years leading up to adoption of the Obamacare mandate, the probability to move into dependent coverage was 8 percent. The most recent Survey of Income and Program Participation (SIPP) data shows that employed youth are more than twice as likely (17.4 percent) to switch from employer-sponsored insurance in their own name to dependent coverage.

While it is too early to make a definitive connection, it appears that the regulation encourages young adults to switch from obtaining coverage on their own, where they will pay additional costs, to obtaining coverage as dependents, where parents and parents' employers will foot the bill. The regulation hence simply shifts costs from one group of people (young adults) to another (their parents and parents' employers). This sort of distortion contributes to increases in premiums that the Administration expects in response to the regulation.[4]

Other research shows a similar effect in regard to the extension of Medicaid coverage to children and

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pregnant women, estimating the effect to account for nearly 50 percent of the increase in Medicaid coverage.[5] This increase occurs because it was cheaper to switch to Medicaid, which encouraged individuals to drop their private coverage. In the case of dependent coverage, it is also likely that joining a family plan costs less, since the marginal cost of adding a healthier participant to a plan is less than the cost of purchasing a single plan.

Without acknowledging unseen effects, the Administration's expectation for only a 1 percent increase in premiums is likely understated. A Mercatus Center report suggests that the increase in premiums could be over 3 percent as the costs of Obamacare come to bear.[6] There are also implications to the availability of employer-sponsored insurance in general.

Again from the SIPP data, 15 percent of additional young adults cited that their employers did not offer health insurance. This evidence points to another expected outcome: Young adults looking to receive insurance from their own employers have found it increasingly difficult since Obamacare passed. While this effect could be in part due to the current economic situation, for young adults, this rate is significantly different than that of any other age group.[7]

While it is still too early to know the specific effect of the provision, it is clear that the law has affected employed young adults. As it becomes increasingly more expensive to insure a small group of young adults in their own names, premiums will rise, and an increasing number of employers will stop offering insurance coverage to young adults.

No Free Lunch. While the increase in dependent coverage is heralded as a success, evidence suggests that this regulation drastically distorts the employer-provided insurance market and encourages young employees under the age of 26 to have dependent coverage.

Regulations frequently create unintended and adverse consequences. Obamacare is no different, bringing with it costs and extreme distortionary effects that cannot be ignored. In the case of dependent coverage, Obamacare has shifted costs from young adults to their parents, and consequently, their parents' employers.

Lunch is not free with Obamacare. Someone is left paying for the provision. In order to reduce costs and prevent distortions, policy must focus on individual choice and market interactions. In the case of health insurance, individuals should be able to shop for insurance rather than being separated from the process. Until policies actually allow markets to operate efficiently, top-down solutions will continue to create unintended consequences for many Americans.

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1. Benjamin D. Sommers, "Number of Young Adults Gaining Insurance Due to the Affordable Care Act Now Tops 3 Million," U.S. Department of Health and Human Services, June 19, 2012, http://aspe.hhs.gov/aspe/gaininginsurance/rb.shtml (accessed June 20, 2012).
2. Paul Fronstin, "The Impact of PPACA on Employment-Based Health Coverage of Adult Children to Age 26," Employee Benefit Research Institute, January 2012, p. 2, http://www.ebri.org/pdf/notespdf/EBRI_Notes_01_Jan-12.PPACA-SpndDwn.pdf (accessed June 19, 2012).
3. Ibid.
4. *Federal Register*, Vol. 75, No. 92 (May 13, 2010), pp. 27127–27129, Tables 1 and 5, http://www.gpo.gov/fdsys/pkg/FR-2010-05-13/pdf/2010-11391.pdf (accessed June 19, 2012).
5. David Cutler and Jonathan Gruber, "Does Public Insurance Crowd Out Private Insurance?," *Quarterly Journal of Economics*, May 1996, pp. 391–430.
6. Christopher J. Conover and Jerry Ellig, "Beware the Rush to Presumption, Part A: Material Omissions in Regulatory Analyses for the Affordable Care Act's Interim Final Rules," Mercatus Center, January 2012, pp. 14–15, 40–49, http://mercatus.org/sites/default/files/publication/Beware_the_Rush_to_Presumption_PartA_ConoverEllig.pdf (accessed June 19, 2012).
7. Result is significant to 99 percent confidence.

Appendix

The data for this paper were pulled from the March 2011 and March 2010 supplements of the Current Population Survey and the Survey of Income and Program Participation (SIPP). Health care data were then organized and sorted by age group. At this point the comparisons are able to be made between the two time periods. Difference of means tests (simple t-tests) confirm that the results are statistically significant. Additionally, the results appear to be economically significant.

For the analysis of the SIPP data, transition matrices were created in order to calculate the percentages that people will move from each group. We then compared a time frame before and a time frame after the implementation of the under-26 provision. Then it was tested to see if the difference is statistically significant. The analysis concluded that the difference is statistically significant to 95 percent.

The SIPP is designed to be a nationally representative dataset that follows participants across time. With controls for early state implementation, the effect is increased and significant, but using the SIPP in this fashion is not necessarily appropriate. Other studies have been using the SIPP as state representative, but currently, there needs to be more analysis before this is deemed correct.