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POLICY NOTE

The Impact of Federal Health Care Reform on Young Adults in Washington State

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The new federal health care legislation will ultimately effect every person in the country, but it will have a unique impact on young adults. Washington state has approximately 1.5 million people ages 18 to 34.[1] This group represents about 23 percent of the state's population.

These 18- to 34-year-olds are the healthiest of all age groups and have the least need for medical care. Many of them are either still living at home, are in school, or are just starting out in the work force in lower paying, entry level jobs. At this stage of their lives, health insurance is a very low priority for them.

The new health care legislation redefines "child" as anyone under the age of 26. Starting this year, all family insurance plans must cover everyone up to age 26, and no one under the age of 19 can be denied coverage for pre-existing conditions.

Also starting this year is a new 10 percent tax on tanning services that are arguably used more by young adults than any other age group.

Health savings accounts (HSAs) and flexible savings accounts (FSAs) with high-deductible insurance plans are excellent choices for the young and healthy. Unfortunately, under a provision of the new health care law, starting in 2011, funds from these personal medical accounts cannot be used to purchase over-the-counter medications.

Long-term insurance, much like Social Security, begins in 2011 and obviously the younger generation will have many more work years ahead to pay into this government program before they receive any benefit from it.

New taxes on drug manufacturers begin in 2011. New taxes on medical devices start in 2013 and, like all of the taxes in the new federal health care law, they will be passed on to all consumers regardless of age.

Many of the key features of the federal health care reform begin in 2014. The individual mandate starts in 2014 and will force every adult to buy health

[1] "Forecast of State Population, Forecasting Division, Office of Financial Management, November 2009, at www.ofm.wa.gov/pop/stfc/stfc2009/stfc2009.pdf.

insurance or pay a fine or tax of either $695 or 2.5 percent of income per year, whichever is larger.

State-based insurance exchanges begin in 2014. Although states will be responsible for their administration, the federal government must first approve all prices and benefit packages offered by the exchanges. People who earn up to 400 percent of the federal poverty level ($43,200 for a single person and $58,280 for a married couple[2]) will be eligible for federal taxpayer subsidies if they buy insurance through an exchange. The law does allow state exchanges to offer catastrophic coverage for people up to age 31.

The new Medicaid program begins in 2014 and will provide taxpayer-funded health insurance for any adult who makes less than 133 percent of the federal poverty level ($14,400 for a single and $19,400 for a married couple[3]).

Two new insurance regulations start in 2014. Insurance companies must use community rating, where everyone regardless of age and health status pays roughly the same amount for comparable insurance coverage. Insurance companies are also bound by guaranteed issue rules, which means no matter how sick a person is, an insurance company cannot deny that person health insurance. Private insurance plans must also have government-approved "essential benefits".

Taxes on private insurance premiums begin in 2014 and will undoubtedly be passed on by insurance companies to consumers. Employees will be able to receive a 30 to 50 percent rebate on the cost of insurance, if their employer offers a wellness program approved by the government.

An excise tax on high-end private health insurance plans begins in 2018.

Policy Analysis

As a group, young adults are the least likely to need health care. They have survived childhood illnesses and, in general, are not old enough to suffer age-related diseases such as cancer and heart problems.

They represent a high percentage (up to 60 percent[4]) of the uninsured population simply because they are young and healthy and have financial priorities other than buying insurance.

The new federal health care legislation will force all 18- to 34-year-olds who are not covered by a family plan to purchase health insurance or pay a tax. Because of community rating, insurance premiums for young adults will be artificially high, to support older, sicker people in the insurance pool. Young adults will make an economic decision and decide whether it is cheaper to buy insurance or to pay the tax.

Young adults will also consider the fact that insurance companies must sell them policies regardless of pre-existing conditions. Young adults will have a strong incentive to wait until they are ill or in an accident before buying insurance.

[2] "Update of the HHS Poverty Guidelines," Office of the Secretary, Department of Health and Human Services, January 23, 2009, at www.aspe.hhs.gov/poverty/09fedreg.shtml

[3] Ibid.

[4] "Who are the uninsured?", by Michael Tanner, Senior Fellow, The Cato Institute, August 17, 2009, at www.cato.org/pub_display.php?pub_id=10449.

The new health care law allows catastrophic insurance policies for people under the age of 31. However, many states, including Washington, have been unwilling to allow catastrophic policies in the past. A low-cost, high-deductible, catastrophic plan coupled with an HSA would provide ideal coverage for most 18- to 34-year-olds, and is one workable solution to the exploding cost of health care. Only time will tell whether the "allowable" catastrophic policies will actually be offered as the new federal law is implemented.

People earning less than 400 percent of the federal poverty level will qualify for taxpayer subsidies in the insurance exchange. The Urban Institute estimates that 80 to 90 percent of 18- to 34-year-olds will qualify for these subsidies.[5] Of course, as these young adults grow older and enter their high-earning years, they will potentially lose that subsidy. Also, many 18- to 34-year-olds will eventually receive high-end insurance policies by 2018, when the excise tax on these plans begins.

All health care users, including young adults, will pay more because of the new taxes on drug manufacturers, medical devices and insurance companies. These taxes will be passed on to consumers in the form of higher drug, device and premiums prices.

Conclusion

The biggest impact on the younger generation is the high level of deficit spending by the federal government. Deficits simply pass the government's current cost from the older generation to the younger. The 18- to 34-year-olds are already facing an unfunded liability burden from Social Security and Medicare of more than $100 trillion.[6] The new federal health care law will continue to add to this liability, and will adversely affect the younger generation's standard of living and quality of life.

Data Sources:

National Association of Health Underwriters, How the Health Care Reform Legislation Will Impact Your Individual and Employer Clients, March 25, 2010.

The Kaiser Family Foundation, Health Reform Implementation Timeline, March 25, 2010.

Committee on Ways and Means Republicans, Timeline of Major Provisions in the Democrats' Health Care Package, March, 2010.

Coalition for Affordable Health Coverage, Health Reform Implementation Timeframe: Key Provisions, March 2010.

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[5] "Age Rating Under Comprehensive Health Care Reform: Implications for Coverage, Costs and Household Financial Burdens," by Linda J. Blumberg, Matthew Buettgens and Bowen Garrett, Urban Institute, October 1, 2009, at www.urban.org/publications/411970.html..

[6] "Social Security and Medicare Projections," by Pamela Villarreal, Brief Analysis, National Center for Policy Analysis, at www.ncpa.org/pub/ba662.