



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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December 14, 2010

Senator Russ Decker
Senate Majority Leader
Room 211 South
State Capitol
P.O. Box 7882
Madison, WI 53707-7882

Representative Michael Sheridan
Speaker of the Assembly
Room 211 West
State Capitol
P.O. Box 7882
Madison, WI 53707-7882

Re: Social and financial impact report—Senate Bill 70 Coverage of Adult Children to 27

Dear Senator Decker and Representative Sheridan:

Pursuant to s. 601.423, Wis. Stat., I am submitting a social and financial report on 2009 Senate Bill 70, as incorporated and passed in 2009 Wisconsin Act 28, relating to mandatory insurance coverage of insureds' children until the age of 27.

Prior Wisconsin Law

Prior to the enactment of 2009 Wisconsin Act 28, which contained the provisions of 2009 Senate Bill 70, there was no mandatory coverage of insureds' children to any particular age. There were, however, several provisions related to dependent coverage, requiring that:

- If an insurer covers an insured's child, it must also cover the child's child until the insured's child reaches 18 years of age.
- If an insurer covers an insured's child to a certain age, it may not terminate coverage at that age if the child is incapable of self-sustaining employment due to mental or physical disability.
- If an insurer covers an insured's dependent because the dependent is a full-time student, the insurer may not terminate coverage when the dependent ceases to be a full-time student if the reason for the cessation is medically necessary, until one of a number of events occurs, for example obtaining other coverage.
- Insurers must cover an insured's newborn child for at least the first 60 days of life, but could cancel coverage after 60 days if parents did not notify the insurer of birth or if parents do not pay the additional premium associated with adding the child.

New Requirements

The mandatory coverage of insureds' children provisions contained in 2009 Wisconsin Act 28 maintain all of the previous provisions described above, but add several new requirements. After January 1, 2010:

- Insurers are required to cover an insured's child as a dependent if the child is unmarried, is under 27 years old, and is not eligible for coverage through his or her employer at a premium less than or equal to that of the dependent coverage under the parent's policy.
- If an insured's child is a full-time student that had his or her education interrupted, when he or she was under 27, by service in the national guard or reserves, the insurer must offer dependent coverage for as long as the child is a full-time student, regardless of age.

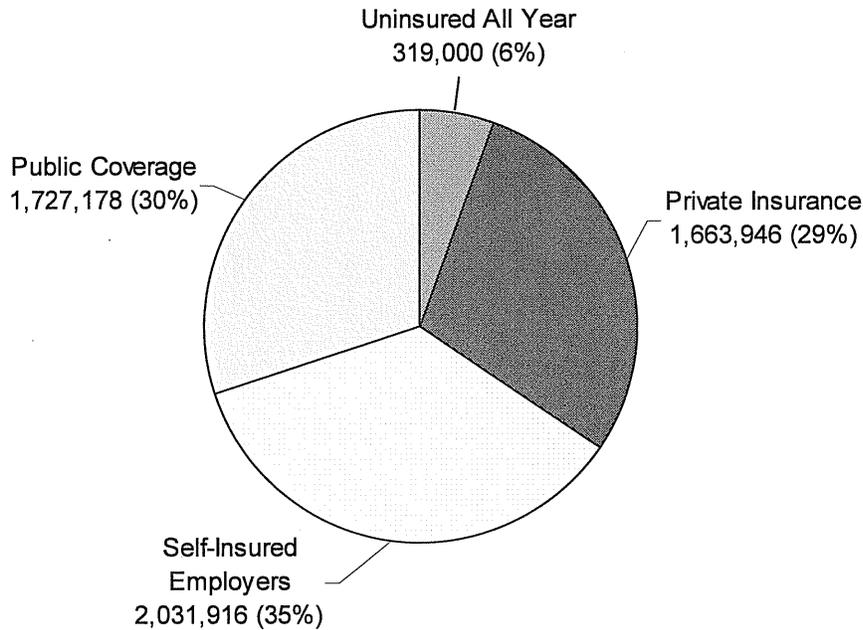
- Insurers must provide the coverage if it is requested, but insurers may require annual written documentation showing that the child is eligible under the statute.
 - Insurers must determine premium on the same basis as for dependents under eighteen.
- These new requirements apply to all non-exempt individual and group health insurance policies and plans, including those offered by the state, and self-insured policies of counties, cities, villages, towns, school districts, and the state.

Social Impact Factors

Fully insured health insurance products cover approximately 1.66 million Wisconsin residents, or about 29 percent of the population. This mandate expands coverage for those individuals. Individuals who are members of groups whose benefit plans are self-funded are exempt from state regulation by the Employee Retirement and Income Security Act of 1974 (ERISA) and will not be directly effected by the mandate. Indirect effects may influence the coverage provided by self-funded plans, but these impacts are indeterminate. For example, market pressures may result in a company choosing to provide the mandated coverage in order to continue offering a competitive benefits package. Self-funded plans cover approximately 35 percent of Wisconsin's population.

The exemption from state regulation does not apply to self-funded plans provided by a governmental entity other than the federal government. The law does require self-funded plans provided by the state or a county, city, village, town or school district to provide the mandated coverage.

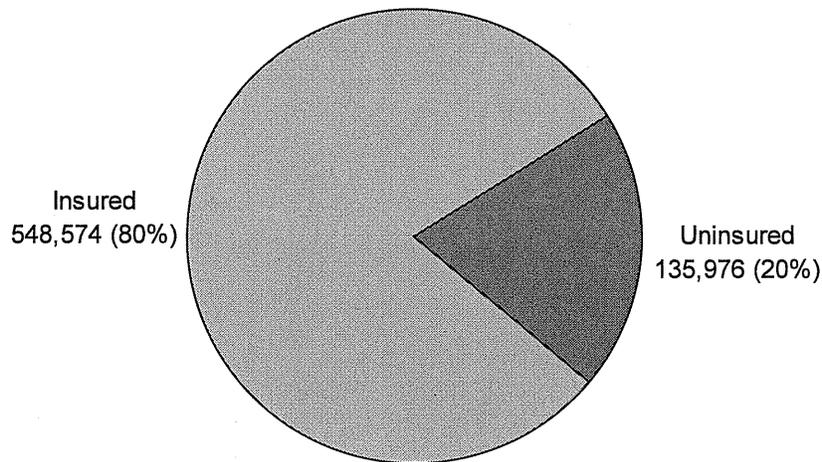
Wisconsin Health Insurance Coverage (2008)



Source: OCI, DHS, DOA, CMS, U.S. Census Bureau

Individuals impacted by the new coverage mandate are primarily ages 18 up to 27. According to the U.S. Census Bureau, there were 684,550 18-26 year olds in Wisconsin in 2009. Of these individuals, 135,976 (20 percent) were uninsured. Compare that to Wisconsin's children, ages 0-17, of which 6 percent were uninsured.¹ Young adults are one of the largest segments of the uninsured U.S. population.² This fact has led many states to enact legislation mandating coverage of adult children. Five states have legislation that equals or exceeds Wisconsin's age cut-off of 27, and at least 26 states have passed legislation mandating expansion of coverage of adult children to some extent.³

Health Insurance Status of Wisconsin Adults Aged 18-26 (2009)



Source: U.S. Census Bureau, 2009

At this time, the number of uninsured who are eligible for coverage under the mandate is indeterminate. Some portion of the 135,976 uninsured young adults in Wisconsin have a parent with a policy subject to the mandate, but there are no estimates of how large the portion may be. However, it is possible to estimate utilization rates. An informal survey of insurers with a combined 63 percent share of the Wisconsin group insurance market and 61 percent share of the individual market found that out of the entire policy membership, an average of 1.7 percent of large group policyholders, 1.4 percent of small group policyholders, and 0.8 percent of individual policyholders either added an adult child who had lost eligibility prior to the mandate back onto

¹ U.S. Census Bureau, 2009.

² Nicholson, J.L., et al., *Rite of Passage? Why Young Adults Become Uninsured and how New Policies Can Help, 2009 Update*, The Commonwealth Fund, August 2009.

³ Florida, to 30 if the adult child is unmarried and has no dependent children; New Jersey, to 31 if the adult child is unmarried and has no dependent children; New York, to 30 if the adult child is unmarried; Ohio, to 30 if the adult child is unmarried; and Pennsylvania, to 30 if the adult child is unmarried and has no dependent children. National Conference of State Legislatures, *Covering Young Adults Through Their Parents' or Guardians' Health Policy*, September 2010.

the policy or had an adult child on the policy who would have lost coverage had the mandate not been passed. Of note, the federal government has estimated that 1.2 million young adults will take advantage of a similar federal insurance mandate that covers adult children to age 26 (discussed below).⁴

Fiscal Impact

The fiscal impact of the mandate is estimated to be minimal for several reasons. First, prior to the mandate, nearly all policies covered adult children to some extent. Of the insurers surveyed in the course of preparing this impact statement, more than half of the policies covered adult children up to 25 years old if the adult child met certain conditions such as full-time student status, financial dependence, and unmarried status. Second, young adults are one of the healthiest segments of the population. On average, young adults are likely to be below average risk for insurers. Third, and perhaps most importantly, as of September 23, 2010, the federal government has mandated coverage of adult children up to age 26 as part of the Patient Protection and Affordable Care Act (PPACA).⁵ This overlapping federal mandate has major implications for the fiscal impact of the state mandate. In effect, the state mandate is only requiring one additional year of coverage than what insurance plans are subject to under PPACA.

According to a fiscal note prepared by the Department of Public Instruction (DPI), there are no state fiscal impacts and local fiscal impacts are indeterminate. DPI does note that approximately 10 percent of the state's 426 school districts are self-insured and would therefore incur a cost as a result of the mandate, but the magnitude of the cost increase is too difficult to estimate with existing data.

The fiscal note prepared by the Department of Employee Trust Funds (ETF) was unable to determine the magnitude of state and local fiscal effects, but predicted a cost increase. ETF found that the mandate applies to the state employee and Wisconsin Public Employer group health plans. ETF's consulting actuary estimated premium increases of 1.0 percent to 1.2 percent as a result of the mandate. ETF also estimated a one time administrative cost of about \$20,000. Approximately 3,000 additional individuals would enroll in coverage under the state employee program, and roughly 460 additional individuals would enroll in local government employee programs. However, the ETF fiscal note was prepared prior to the passage of PPACA—it does *not* take into account the federal requirement that insurers cover insureds' adult children to age 26. Therefore, actual costs of the state mandate are likely to be only a fraction of the originally estimated costs because the state mandate only requires one additional year of coverage beyond the requirements of PPACA.

Please contact Eileen Mallow at (608) 266-7843 if you have any questions regarding this report.

Sincerely,



Sean Dilweg
Commissioner

⁴ Caralyn Davis, *Extended Dependent Coverage Likely to Raise Premiums, Say Feds*, May 17, 2010, available through <http://www.fiercehealthpayer.com/story/>.

⁵ Patient Protection and Affordable Care Act ("PPACA"), Pub. L. 11-148, 124 Stat. 119 (Mar. 23, 2010).