



Health Insurance Mandates to Cover Dependent Children

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Numerous press reports in recent weeks have focused on what actions Congress may take in the event that Obamacare is repealed, or struck down in its entirety by the Supreme Court. Many of these stories have focused on the law's new mandate requiring insurers to cover policy holders' children under age 26. Several Members of Congress have expressed support for this provision, and one has even proposed extending the mandate for coverage of dependent children to all those under age 31.¹ If the latter proposal passes, 28-year-old Mark Zuckerberg, with an estimated net worth of \$17.5 billion, would be one of those eligible for dependent coverage under his parents' health insurance.²

While the Obama Administration has attempted to use the under-26 mandate to sell their unpopular health law, the mandate itself is not without costs and perverse incentives, both to the health system and the economy as a whole. A closer examination of the costs of this new government mandate reveals it may not be the panacea supporters have claimed.

Impact on Costs: In its interim final rule implementing the under-26 mandate, the Administration claimed the provision would impose transfer costs of \$3.5-\$6.9 billion annually, and would raise premiums by 1 percent per year.³ However, a George Mason University study released in January found that the Administration omitted several key components in its regulatory impact analysis for this rule, understating its cost, potentially by billions.⁴ Given an average premium for employer-sponsored insurance of \$15,073 in 2011,⁵ an under-26 mandate raising costs by 1 to 3 percent would increase premiums by \$151 to \$452 per year.⁶ Conservatives have frequently criticized Obamacare for raising health insurance premiums, in direct violation of candidate Obama's promise to lower them.⁷ Even the Administration admits that the under-26 mandate has led to higher premiums for businesses and families.

Highlights

- ❖ *Prior studies suggest that, by raising health costs several billion dollars, the under-26 mandate has led to several hundred thousand individuals losing health insurance coverage.*
- ❖ *Economic evidence suggests that the under-26 mandate also discourages work, potentially increasing unemployment.*
- ❖ *Just as conservatives opposed extended unemployment benefits, some would argue that removing disincentives for young people to seek full-time work would encourage economic growth and job creation.*

Impact on Coverage: While many press reports have focused on the “children” obtaining coverage thanks to the under-26 mandate, fewer have examined how many individuals have *lost* coverage due to the federal requirements. However, studies suggest these numbers are not insignificant. For instance, multiple⁸ studies⁹ have suggested that every 1% increase in premiums increases the number of uninsured by approximately 200,000-300,000 individuals nationwide. With the under-26 mandate raising premiums by at least 1%, and potentially much more for some plans, it is reasonable to conclude that hundreds of thousands of individuals have lost coverage – because they were priced out of the individual market, or because their employers decided to stop offering coverage – as a result of the new requirements. These newly uninsured individuals represent what authors William Graham Sumner and Amity Shlaes famously referred to as the “Forgotten Men” – the individuals suffering harm as a result of government intervention.

Meanwhile, the mandate would turn one of the health market’s few remaining natural incentives on its heads, discouraging young adults from purchasing insurance for themselves. Instead of mandating that health insurance plans include family coverage for adult children, policy should encourage all young adults to purchase an individual health plan that they can afford and keep throughout their lives.

Impact on Jobs: The under-26 mandate could have a negative impact on jobs and the economy, in two respects. First, to the extent that businesses are forced to absorb the billions of dollars in costs associated with the mandate, they would prove less eager to take on additional workers, or increase hours for existing workers. Second, numerous¹⁰ studies¹¹ have illustrated that extended unemployment benefits tend to lengthen the average duration of unemployment, and increase the unemployment rate, by discouraging individuals from looking for work.

For similar reasons, some would argue that the under-26 mandate likewise provides financial incentives that discourage work, thereby increasing unemployment. Both the Congressional Budget Office and then-Speaker Pelosi have admitted that Obamacare’s health insurance provisions will hinder the labor market. The CBO stated that the law as a whole will “discourage work,”¹² reducing the labor supply by about 800,000 jobs.¹³ Pelosi encouraged young people to “leave your work” and “go be creative and be a musician or whatever,” because Obamacare would provide them with health insurance, thanks to the under-26 mandate and similar provisions.¹⁴

The heightened focus on under-26 coverage in many respects focuses on the symptom of a larger problem. Put simply, fewer Americans would need to remain on their parents’ health insurance if they had stable, full-time work. As of last year, a majority of firms, and more than five of six firms with more than 25 employees, offer insurance coverage to their workers.¹⁵ However, most firms do not offer health benefits to part-time or temporary workers.¹⁶ Recent surveys indicating that half of all recent college graduates are unemployed or under-employed – a devastating indictment of the Obama Administration’s failed economic policies – illustrate the real reason why the under-26 provision has attracted so much attention: Because millions of young Americans can’t find full-time work.¹⁷

Given prolonged economic stagnation and its toll on young Americans, economic growth and job creation – not new government mandates – should take precedence. Just as conservatives insisted on reducing the length of extended unemployment benefits as part of the payroll tax extension earlier this year,

removing disincentives for young people to seek full-time employment may be one ingredient necessary to restoring the job market to full strength.

As policymakers ponder the fate of the law in the wake of the Supreme Court's ruling, Congress would be wise to consider the economic impacts listed above. Re-instituting a government mandate on the private sector would have significant economic costs, and would also undermine the cause of individual liberty in the process. A welfare state administered by the private sector, yet mandated by government, remains a welfare state at its core.

¹ Louise Radnovsky, Naftali Bendavid, and Sara Murray, "Tension in GOP Over Health Care Response," *Wall Street Journal* May 23, 2012, <http://online.wsj.com/article/SB10001424052702304019404577420210854278188.html>.

² "Mark Zuckerberg," *Forbes 400 Profile*, <http://www.forbes.com/profile/mark-zuckerberg/>.

³ "Interim Final Rules for Group Health Plans and Health Insurance Issuers Relating to Dependent Coverage of Children to Age 26 Under the Patient Protection and Affordable Care Act," *Federal Register* May 13, 2010, <http://www.gpo.gov/fdsys/pkg/FR-2010-05-13/pdf/2010-11391.pdf>, Tables 1 and 5, pp. 27127-29.

⁴ 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 Working Paper 12-01, January 2012, [http://mercatus.org/sites/default/files/publication/Beware the Rush to Presumption PartA ConoverEllig.pdf](http://mercatus.org/sites/default/files/publication/Beware%20the%20Rush%20to%20Presumption%20PartA%20ConoverEllig.pdf), pp. 14-15, 40-49.

⁵ 2011 Kaiser Family Foundation/HRET Employer Health Benefits Survey, <http://ehbs.kff.org/pdf/2011/8225.pdf>, Exhibit 1.1, p. 1.

⁶ Bruce Japsen, "Young Adults' Coverage May Cost Parents Even More," *New York Times* Prescriptions blog, November 23, 2011, <http://prescriptions.blogs.nytimes.com/2011/11/23/young-adults-coverage-may-cost-parents-even-more/>

⁷ Freedom Eden, "Obama: 20 Promises for \$2,500," <http://freedomeden.blogspot.com/2010/03/obama-20-promises-for-2500.html>.

⁸ Todd Gilmer and Richard Kronick, "It's the Premiums, Stupid: Projections of the Uninsured through 2013," *Health Affairs* Web Exclusive, April 5, 2005, <http://content.healthaffairs.org/cgi/content/full/hlthaff.w5.143/DC1>.

⁹ Government Accountability Office, *Impact of Premium Increases on Number of Covered Individuals is Uncertain* GAO Report HEHS-98-203R, July 7, 1998, <http://archive.gao.gov/paprpdf2/160930.pdf>, pp. 3-4.

¹⁰ Bhashkar Mazumder, "How Did Unemployment Insurance Extensions Affect the Unemployment Rate in 2008-10?" *Chicago Fed Letter No. 285*, April 2011, http://www.chicagofed.org/digital_assets/publications/chicago_fed_letter/2011/cflapril2011_285.pdf.

¹¹ Lawrence F. Katz and Bruce D. Meyer, "The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment," NBER Working Paper No. 2741, October 1988, <http://www.nber.org/papers/w2741.pdf>.

¹² Congressional Budget Office, "The Budget and Economic Outlook: An Update," August 2010, <http://cbo.gov/sites/default/files/cbofiles/ftpdocs/117xx/doc11705/08-18-update.pdf>, Box 2-1, Effects of Recent Health Care Legislation on Labor Markets, pp. 48-49.

¹³ Lester Feder and Kate Nocera, "CBO: Health Law to Shrink Workforce by 800,000," *Politico* February 10, 2011, <http://www.politico.com/news/stories/0211/49273.html>.

¹⁴ Nicholas Ballasy, "Pelosi to Aspiring Musicians: Quit Your Job, Taxpayers Will Cover Your Health Care," *CNS News* May 14, 2010, <http://cnsnews.com/node/65950>.

¹⁵ 2011 Kaiser Family Foundation/HRET Employer Health Benefits Survey, Exhibit 2.3, p. 37.

¹⁶ *Ibid.*, Exhibits 2.5 and 2.6, p. 39.

¹⁷ Associated Press, "Half of New Graduates are Jobless or Underemployed," *USA Today* April 23, 2012, <http://www.usatoday.com/news/nation/story/2012-04-22/college-grads-jobless/54473426/1>.