Background

Given that such a large and growing share of young adults ages 19 to 26 lacks health insurance coverage, increasing policy attention has been focused on addressing coverage gaps among young adults.\(^1\) Fully 10.3 million young adults—or one in three (32 percent)—lack health insurance coverage. While young adults constitute 18 percent of the adult population, they make up 28 percent of the uninsured adult population (Exhibit 1). Almost half (49 percent) have employer-sponsored insurance (ESI) coverage, 10 percent have Medicaid/other public coverage, and 10 percent have non-group coverage (Exhibit 2).

As shown in Exhibit 3, as children transition to adulthood, they lose both employer-sponsored insurance (ESI) and Medicaid coverage at high rates.\(^2\) The sharp declines in ESI and Medicaid coverage are due to restrictions on employer policies that often limit dependent coverage to full-time students after age 18 or 19 and less expansive Medicaid/SCHIP eligibility policies for young adults compared to those for children ages 18 and under.\(^3\) As young adults move into their late 20s, they gain ESI coverage, which brings down their uninsured rates.\(^4\)

Among young adults, the likelihood of coverage varies across a number of different characteristics, including income, citizenship status, and whether or not they are full-time students. Young adults with incomes less than 200 percent of the federal poverty level (FPL) are 2.6 times more likely to be uninsured compared with those with higher incomes (44 vs. 17 percent) (Exhibit 2). While lower-income young adults are more likely to have Medicaid/SCHIP coverage relative to higher-income young adults (16 vs. 3 percent), they are much less likely to have ESI (29 vs. 73 percent). Young adults who are noncitizens are over twice as likely as those who are citizens to lack health insurance coverage (60 vs. 28 percent) but make up just 22 percent of all uninsured young adults (Exhibit 1).

Full-time students are half as likely as nonstudents to lack health insurance coverage (19 vs. 39 percent), and it appears that 1.9 million, or fewer than one in five, uninsured young adults are students (data not shown).\(^5\) Consistent with the patterns found among all adults, uninsured rates are higher among young adults who are Hispanic, noncitizens, and among those who are not married.\(^6\)

Lack of coverage lowers the likelihood that young adults get needed health care.\(^7\) For example, uninsured young adults experience many more access problems compared with young adults who have insurance coverage: They are more than twice as likely to not fill a prescription due to cost; not see a specialist when needed; not get a medical test, treatment, or follow-up; and not see a provider when they have a medical problem. Access problems may have particularly adverse consequences given the health risks (such as obesity and HIV infection) and the large number of pregnancies among young adults.\(^8\) In addition, young adults in low-income families who go without health insurance coverage are more likely to experience financial burdens and debt associated with meeting their health care needs.\(^9\) The health deficits and financial burdens that occur during young adulthood due to lack of insurance coverage may carry over, causing problems later in life.

This brief first examines the root causes of uninsurance among young adults. Policy options and tradeoffs associated with addressing coverage gaps for young adults are then explored.
Why Are Young Adults Uninsured at Such High Rates?

Young adults are uninsured at higher rates than older adults for a number of reasons. First, the characteristics of young adults with respect to their demographic and socioeconomic characteristics contribute to their low rates of employer-sponsored insurance coverage. Young adults are much more likely to be poor or near poor compared to older adults, which contributes to their lower coverage rates (Exhibit 1). Over half (54 percent) of all young adults have incomes below 200 percent of the FPL—30 percent live below the FPL and 24 percent have incomes between 100 and 200 percent of the FPL. In contrast, just 27 percent of adults ages 27 to 64 have incomes below 200 percent of the FPL, with just 12 percent below the FPL and 15 percent with incomes between 100 and 200 percent of the FPL. For both age groups, uninsured rates fall sharply as income rises. While uninsured rates appear about the same for poor adults in both age groups, young adults with incomes above the FPL are more likely than older adults in the same income group to lack coverage, suggesting the lower incomes of young adults do not entirely account for their lower coverage. However, the coverage differential within each income group is fairly small, at less than 6 percentage points.

The lower incomes of young adults derive from their work patterns (the likelihood of full-time employment, tenure, and type of employment) and from their lower likelihood of being married.10 As a consequence, young adults are less likely than older adults to have an offer of employer coverage.11 Overall, just over a quarter (28 percent) of the uninsured in the 19 to 26 age group has an offer of employer-
sponsored insurance, either from their employer or from their spouse’s employer (Exhibit 4). In addition, as indicated above, many uninsured young adults are not students, which lowers the likelihood that they can qualify for coverage under their parents’ insurance plan in most states.

Second, in addition to having lower access to employer coverage, young adults are less likely to take up the employer coverage that is available to them. The lower take-up of ESI among young adults is likely due to their lower incomes but also to differences in their health status and attitudes about the importance of health insurance coverage. Young adults are healthier than older adults—they are more likely to be in excellent or very good health and less likely to be in poor or fair health, which likely affects both their demand for and access to health insurance coverage (Exhibit 1). For a given health status, young adults have higher uninsurance rates than older adults. In addition, older adults are more likely than younger adults to say that health insurance is needed—just 48 percent of adults ages 19 to 26 strongly agree that health insurance coverage is needed, compared with 70 percent of adults ages 27 to 64 (Exhibit 5). While some of this difference may result from a rational appraisal of the need for health insurance at different points over the life span, young adults seem to place a lower value on health insurance coverage relative to older adults, even controlling for health status differences across the two age groups (data not shown). This is an extension of the general finding that younger adults are less risk averse than older adults. Among adults ages 19 to 26, 25 percent disagree strongly that they are more likely to take risks than the average person, compared with 40 percent of adults 27 to 64 (data not shown).

Third, despite their low incomes, very few uninsured young adults are eligible for Medicaid or other public coverage. While more than two-thirds of the uninsured under age 19 qualify for Medicaid or SCHIP, it appears that just 13 percent of uninsured young adults ages 19 to 26 could be enrolled in Medicaid or other public coverage under current eligibility rules (Exhibit 4). Uninsured young adults who are poor and those who are under 21 are more likely than their higher-income, older counterparts to be eligible for public coverage—21 percent of all uninsured 19- and 20-year-olds can qualify compared with 11 percent of uninsured 21- to 25-year-olds. Almost 50 percent of uninsured 19- and 20-year-olds living below the FPL are eligible for Medicaid/SCHIP. Eligibility drops substantially for those at just slightly higher income levels; only 4 percent of uninsured 19- and 20-year-olds with income between 100 and 200 percent of the FPL appear eligible for Medicaid/SCHIP. Thus, the high uninsured

Exhibit 3. Insurance Coverage of Adults Ages 18 to 28, 2006

Exhibit 4. Access to ESI and Medicaid/SCHIP Coverage Among Uninsured Young Adults
rates among young adults reflect their low access to both employer coverage and Medicaid or other public coverage and the lower value they place on health insurance coverage. Developing effective policy solutions to address these problems depends on understanding the underlying causes of uninsurance among young adults.

**Policy Options**

**Expanded Employer Coverage of Dependents**

A number of policy solutions have been proposed to address the uninsurance problem among young adults. One frequently proposed approach is to require that employers allow parents to cover their children up to age 24 or 26 as dependents. The specifics of who cover their children up to age 24 or 26 require that employers allow parents to frequently proposed approach is to address the uninsurance problem among young adults. One

Another proposed policy solution is to extend Medicaid/SCHIP coverage to more students. As indicated above, this policy could reach 1.9 million uninsured young adults—less than one in five of all uninsured young adults. However, issues have been raised with respect to the quality of the coverage provided to students under some of these policies and whether the coverage is adequate and affordable, particularly for low-income students.

**Extending Coverage to more Students**

A third proposed strategy is for states to require insurance coverage for college students. As indicated above, this policy could reach 1.9 million uninsured young adults—less than one in five of all uninsured young adults. However, issues have been raised with respect to the quality of the coverage provided to students under some of these policies and whether the coverage is adequate and affordable, particularly for low-income students.

**Tax Credits or Deductions**

Tax credits have also been proposed as a possible solution for addressing uninsurance in the United States. For example, Senator John McCain has proposed tax credits of $2,500 for individuals and $5,000 for families for purchasing coverage in the non-group

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**Exhibit 5. Attitudes toward Health Insurance Coverage:**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Agree Strongly</th>
<th>Agree Somewhat</th>
<th>Uncertain</th>
<th>Disagree Somewhat</th>
<th>Disagree Strongly</th>
</tr>
</thead>
<tbody>
<tr>
<td>19-26</td>
<td>70.3*</td>
<td>22.0</td>
<td>14.1*</td>
<td>5.7*</td>
<td>4.5*</td>
</tr>
<tr>
<td>27-64</td>
<td>47.6</td>
<td>12.3</td>
<td>5.7*</td>
<td>2.5*</td>
<td>4.5*</td>
</tr>
</tbody>
</table>

* Indicates statistically significant difference from 19-26 age group at 95 percent confidence level.

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Source: Urban Institute tabulations of the 2002-2005 MEPS; the responses to the original questions have been transposed for ease of interpretation.
A tax credit of that magnitude could cover a high share of the costs of a typical young-adult policy, particularly for those who are healthy and live in low-cost states, assuming that no insurance reforms are implemented that would pool risks across age groups. In contrast, the tax-deduction proposal President Bush previously made would be less effective at promoting coverage for young adults, since such a large share of uninsured young adults have low incomes. They therefore have low marginal tax rates, which lowers the value of deductions. The disadvantage of a tax policy approach combined with the risk segmentation in the non-group market comes from the fact that there is little spreading of risk across age groups. While risk segmentation may promote greater take-up among young adults, it could raise costs for the older population. In addition, while tax credits could benefit the many uninsured young adults who do not have access to employer coverage through either their own or their spouse’s employer, they could undermine employer-sponsored coverage, causing healthy young adults with employer coverage to switch to non-group coverage, which would leave high risks in the employer pool.

One issue that would determine how effective tax credits would be at inducing more young adults to purchase coverage relates to whether insurance reforms are adopted that require guaranteed issue and modified community rating. These reforms, while intended to pool the cost of older and less healthy people with others, could adversely affect take-up among young adults by increasing the premiums they face. Community rating will increase costs relative to experience rating for young adults; that is, the young would have to pay significantly more than just the expected cost of their own care. Modified community rates (e.g., limited age rating) can mitigate the effect on young adults relative to pure community rating but will still mean higher premiums for young adults because risk pooling would still be greater than in an unregulated market.

**Individual Mandates**

Finally, there are proposals for an individual mandate, which would require all young adults, along with others, to obtain health insurance coverage. This would assure that all uninsured young adults, assuming full compliance, would be covered. Unlike tax credits, an individual mandate would most likely cause young adults (and other groups that are healthier than average) to pay more for coverage than they would before reform, even with modified community rating. As indicated above, young adults have very low incomes; thus, many would receive financial assistance under a mandate. Still others would not, raising equity issues. Specifically, should young adults be expected to pay more than their own expected cost of insurance in exchange for the guarantee of coverage later in life or in case of an unexpected event, and what responsibility should young adults have for providing some support to older Americans?

**Conclusion**

This brief has shown that young adults have very high uninsured rates and represent a disproportionate share of uninsured adults. In part, this is due to their relatively low incomes, low ESI offer rates, and low rates of Medicaid/SCHIP eligibility. Their high uninsured rates may also derive from the fact that young adults tend to be in excellent and very good health, placing a lower value on health insurance coverage relative to older adults. However, uninsured young adults experience significantly worse access to care compared with their insured counterparts.

Several policies could be implemented to address the uninsured problem among young adults. Such policies as tax credits used in unregulated insurance markets would be fairly attractive to young and healthy adults but would have negative ramifications for those who are older and less healthy. Medicaid expansions to poor young adults could cover many uninsured young adults and be reasonably well-targeted, but Medicaid expansions to higher-income young adults would need to address their higher rates of employer-sponsored insurance coverage. In contrast, insurance reforms like guaranteed issue and modified community rating would most likely exacerbate affordability problems for young adults without access to Medicaid, increasing health insurance costs for young adults because they would bear some costs for older and sicker adults. While an individual mandate would cover many, if not all, young adults, it could require them to pay more than they do now for coverage, depending on the subsidies that accompanied the mandate. A key question facing the nation with regard to young adults and mandates is whether having young adults pay more for coverage is a fair trade for guaranteed coverage and lower costs for health insurance as they age.

In the absence of general health care reform, an overarching issue is whether it makes sense to target health insurance reform efforts at young adults. On the one hand, young adults have high rates of uninsurance which may cause health deficits and financial problems that reverberate beyond young adulthood. In addition, young adults will be a low-cost group to cover, given that they tend to be in better health than older adults. On the other hand, if a particular age group is going to be targeted first, a case could be made for focusing resources on those between the ages of 55 and 64; while there are not as many uninsured in this age group, they tend to be in significantly worse health. Moreover, recent research suggests that providing coverage to the near elderly who are uninsured could improve their health status and reduce their Medicare spending. However, it may be more efficient, both in terms of reducing uninsured rates and improving the nation’s health, to concentrate health care reform efforts on the poor, regardless of age, since lower-income adults of all ages are much more likely to be uninsured and in worse health.
Notes


2 Coverage under the residual category, which includes private non-group coverage, Medicare, and other coverage increases from 10.2 percent among 18-year-olds to 15.2 percent for 21-year-olds and then falls to 5.4 percent among 28-year-olds.


4 Rates of ESI coverage appear to continue growing until young adults reach their early thirties.

5 These statistics pertain to both part- and full-time students ages 19 to 24 because student status is ascertained only up to age 24 on the CPS (http://www.census.gov/population/www/cps/cpsdef.html).


7 Collins et al., ‘Rite of Passage? Why Young Adults Become Uninsured and How New Policies Can Help.” Kronstadt et al., “State Efforts to Extend Dependent Coverage for Young Adults.”


12 Access to employer-sponsored insurance among the uninsured is higher among older age groups. For example, 34 percent of uninsured ages 27 to 34 have access to ESI. This estimate is based on a matched version of the March 2005 Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC), the February 2005 CPS Contingent Work and Alternative Employment Supplement, and the 2004 Statistics of Income (SOI) public use tax file. The data have been weighted to reflect national rates of insurance in the most recent March CPS ASEC, data-year 2006, and have been adjusted to account for the undercount of Medicaid enrollees in the CPS; Clemans-Cope, B., Garrett, B. Ghosh, S. Khatsatrakan, G. Leiserison, A. Lucas, C. Perry, and B. Shang. 2008. “The Health Insurance Policy Simulation Model (HIPSM, Version 1.0): Overview and Technical Documentation.” Washington, DC: The Urban Institute.

13 Estimates of eligibility for Medicaid/SCHIP coverage are derived from the 2006 ASEC to the CPS using a model that compares state level eligibility requirements with data on individuals’ family composition, work status, age, citizenship status, earned and unearned income, assets, child care expenses, and work expenses (see Dubay et al. 2007 for more information on the simulation approach.) These estimates reflect an adjustment to take into account that some noncitizen young adults cannot qualify for these programs despite meeting the income and resource requirements. In addition, they reflect an adjustment for the misreporting of public coverage on the CPS.

14 Information regarding views on the value of health insurance is not worth the cost compared to 35 percent among older adults strongly disagree that health insurance is worth the cost, but the differential between the two age groups is smaller: 43 percent of older adults strongly disagree that health insurance is not worth the cost compared to 35 percent among young adults.

15 These responses to the question on the value of health insurance coverage were transposed in the text and in Exhibit 5 for ease of interpretation. The original question was whether the respondent strongly disagreed, disagreed somewhat, agreed somewhat, strongly agreed, or was uncertain about whether health insurance was not needed.


17 Guaranteed issue requires that insurers cover all applicants, regardless of their risk rating or any preexisting conditions. Modified community rating permits premiums to vary based on certain characteristics, like age or gender, but not health status or claims history.


21 Ibid.


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