Robert Wood Johnson Foundation

Health Policy Snapshot
Health Insurance Coverage

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ISSUE BRIEF
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What are the effects of the individual mandate?

Takeaways:

- The individual mandate is an integral but controversial part of the health insurance reforms under the Affordable Care Act.
- Studies show the mandate will reduce the number of uninsured Americans, lower premiums for people buying insurance in the individual and small-group markets, and reduce the government's cost of subsidizing coverage for newly insured individuals.
- Suggested alternative approaches have appeal but are expected to be less effective and potentially more costly to the government than the individual mandate.

Overview

Beginning in 2014, the Affordable Care Act of 2010 (ACA) requires most Americans to have health insurance or face financial penalties. This individual mandate has become enormously controversial. Supporters say the mandate is necessary to ensure that nearly all Americans have health care access and coverage and to help keep insurance premiums and government costs stable. Opponents see the mandate as a financial burden and an unconstitutional encroachment on individual liberty.

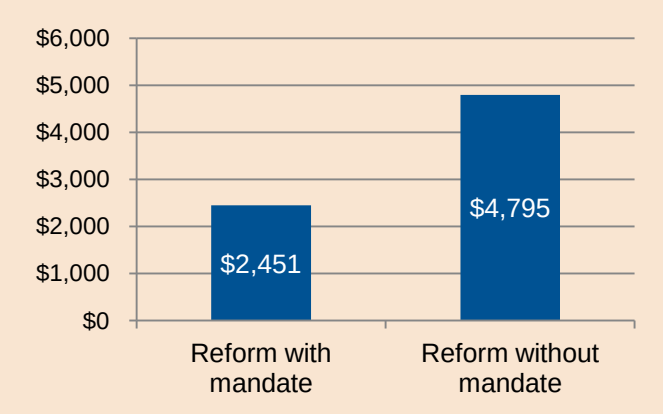
CRITICAL COMPONENT OF ACA

Insurance experts say the mandate – or some mechanism to get most Americans, including younger and healthier people, into the insurance pool – is an essential part of the ACA's insurance market reforms.[1] If health plans must take all comers, cover preexisting conditions, and not charge older and sicker members much higher premiums, people can't be allowed to sign up only when they need health care. Otherwise plans would experience what's known as adverse risk selection and suffer very high costs. The Congressional Budget Office estimated that keeping the ACA's insurance reform rules but removing the mandate would lead to the enrollment of less healthy people on average.[2] Overall nongroup premiums would increase by 10-25 percent.[3]

Under the individual mandate, most Americans will have to obtain health coverage or pay a penalty that will be collected through the Internal Revenue Service. The penalty is phased in over three years beginning in 2014. By 2016, the penalty for not obtaining coverage will be $695 per adult, and up to $2,085 per family or 2.5 percent of family income, whichever is greater.[4]

The ACA made other changes to help Americans acquire this mandatory health insurance. Eligibility for the Medicaid program was expanded to include families with higher incomes and adults without children. Health plans must accept all applicants without regard to preexisting medical conditions, and must offer comprehensive coverage. State-based health insurance exchanges will offer a menu of health plans. Individuals and families with incomes up to 400 percent of the federal poverty level will receive sliding-scale refundable tax credits for buying coverage through the exchanges.

Government Cost per Newly Insured



Source: *http://www.rwjf.org/files/research/71601.pdf*

IMPACT ON COSTS

Urban Institute researchers estimated that overall individual and employer spending for health coverage would increase by $11 billion each with the mandate mostly because of higher premiums and increased enrollment in employer health plans driven by greater demand for coverage in an environment where everyone is expected to have insurance. Without the mandate there would be decreases in government, employer, and individual spending as a result of lower coverage. However, costs do not decrease proportionally with declines in coverage, and the government would only spend about 3 percent less without the mandate for less than half the increase in coverage.[3]

ALTERNATIVES TO THE MANDATE

A primary goal of the ACA is to reduce the number of Americans without health insurance. According to the Congressional Budget Office, the mandate and other features of the law will reduce the number of non-elderly Americans without health insurance in 2019 from 55 million to about 23 million—raising the insured rate from 80 percent to 92 percent. If undocumented immigrants, who are not eligible for Medicaid or to purchase coverage through the exchanges, are excluded, the insured rate is expected to be 95 percent.[5] More than two-thirds of the reduction in the uninsured rate can be attributed to the individual mandate. The Congressional Budget Office estimates that if the mandate were eliminated, 16 million more people would be uninsured in 2019.[6]

WANT TO KNOW MORE?

- *America Under the Affordable Care Act (Urban Institute)*
- *Individual Mandate (RWJF/Health Affairs Policy Brief Series)*
- *Why the Individual Mandate Matters (Urban Institute)*
- *Eliminating the Individual Mandate: Effects on Premiums, Coverage, and Uncompensated Care (Urban Institute)*

[1] *http://www.nejm.org/doi/full/10.1056/NEJMp0904729*
[2] *http://www.cbo.gov/ftpdocs/113xx/doc11379/Eliminate_Individual_Mandate_06_16.pdf*
[3] *http://www.rwjf.org/coverage/product.jsp?id=73812*
[4] *http://www.kff.org/healthreform/upload/8061.pdf*
[5] *http://www.cbo.gov/ftpdocs/121xx/doc12119/03-30-HealthCareLegislation.pdf*
[6] *http://www.cbo.gov/ftpdocs/113xx/doc11379/Eliminate_Individual_Mandate_06_16.pdf*