



Why We Need the Individual Mandate

Without a Mandate, Health Reform Would Cover Fewer with Higher Premiums

Jonathan Gruber April 8, 2010

Conservatives began discussing repealing controversial elements of the Patient Protection and Affordable Care Act, or PPACA, within moments of President Barack Obama signing the historic health care reform bill. One of those elements is the individual mandate. The new reform imposes a penalty on individuals who remain uninsured even though they can afford health insurance—if coverage costs less than 8 percent of their income. The penalty is a fixed dollar amount (rising from \$95 to \$695 from 2014 to 2016) or a percentage of income (rising from 1 percent of income to 2.5 percent of income from 2014 to 2016), whichever is larger.

This new requirement to purchase insurance is clearly a major innovation in U.S. public policy. But it is also a central pillar of health reform. Without the individual mandate, the entire structure of reform would fail. Removing the mandate would:

- Reduce the legislation's insurance coverage gains by more than two-thirds, so that reform would cover fewer than one-fifth of the uninsured
- Cause the reduction in employer-sponsored insurance to quadruple
- Raise individual premiums in the exchange by 40 percent

Why is the mandate so important?

Uninsured individuals impose major costs on the rest of society. These individuals do use medical care, and the latest estimates put the costs of uncompensated care at over \$50 billion a year in unpaid medical bills. These costs get passed on, raising private insurance premiums for those who are insured.

In addition, when those with better health opt out of risk pools, prices rise for those in poorer health, which leads to an “adverse selection” spiral that raises insurance prices for all. This is particularly important since one of the primary goals of health reform is to fix the enormous problems that arise in our insurance markets because of price discrimina-

tion based on health. Shared risk can lead to higher prices for healthy individuals who purchase insurance, and without a mandate those individuals might choose not to participate. This results in even higher prices for the ill, undercutting the very goal of reform.

This is not an idle conjecture. Five states have tried undertaking nongroup insurance market reforms such as those contemplated in the PPACA without an individual mandate. Those five states are now among the most expensive states in which to buy nongroup insurance.

Can the mandate work?

A common criticism of the mandate is that it is either administratively infeasible or will lead to public revolt. Fortunately, we can draw on Massachusetts' experience to address this concern. Massachusetts introduced an individual mandate in 2007, requiring all residents to purchase insurance so long as insurance was deemed "affordable." Individuals for whom insurance is too expensive relative to income are exempt from the mandate, much like the federal legislation, which does not require individuals to spend more than 8 percent of their income on health insurance. The penalty for not complying in 2007 was very low (\$219 per person), and in 2008 it rose to \$912 per person.

Massachusetts' mandate has been a success by any metric:

- Ninety-eight percent of tax filers complied with the mandate in its first year by either attaching proof of insurance, claiming an affordability exemption, or paying the penalty.
- The uninsurance rate in the state fell by two-thirds within a year of the mandate.
- The average cost of a nongroup insurance policy, which nationally rose by 14 percent from 2006 to 2009, fell by 40 percent in Massachusetts over that same time period.
- The program remains highly popular, with public support at about 70 percent in recent polls.
- Massachusetts' experience shows that a mandate can indeed work to serve the goals of fundamental reform.

What would happen if we repealed the mandate?

Some critics have suggested repealing the mandate embedded in the PPACA, while retaining most of its more "popular" provisions. But such a policy would be disastrous for both the cost of insurance and the number of people covered.

I have developed the Gruber microsimulation model to estimate how health reforms would affect insurance markets; this is a very similar model to the one the Congressional Budget Office used to score the PPACA, and my model derives very similar to CBO. I can use this model to consider what would happen if Congress removed the mandate while keeping all other aspects of the law intact. I find that:

- Total insurance coverage would rise by fewer than 10 million persons rather than the 32 million persons estimated by CBO. The number of uninsured would be reduced by less than 20 percent rather than by about two-thirds.
- Employer-sponsored insurance, which is projected to erode by about 5 million persons under reform, would instead erode by over 20 million persons.
- The fully implemented cost of the legislation in 2019 would fall by only about 20 percent—we would spend 80 percent as much to cover fewer than one-third as many people.
- Those who do not obtain coverage would be the healthiest individuals, causing enormous adverse selection in insurance markets. The average individual premium in the exchange would rise by about 40 percent without the mandate.

A post-reform world without a mandate would result in only a small minority of the uninsured gaining coverage, costs in the new exchanges that are 40 percent higher, and government spending that is only about 20 percent lower. This is a terrible tradeoff that illustrates the enormous value of the mandate as a pillar of reform.