

# How Does the ACA Individual Mandate Affect Enrollment and Premiums in the Individual Insurance Market?



**The Affordable Care Act (ACA)** uses a “carrot-and-stick” approach to encourage Americans to obtain health insurance. The “carrot” consists of subsidies in the form of tax credits that help low- and middle-income individuals buy coverage in the individual health insurance marketplaces (where consumers buy directly from insurers rather than through an employer). The “stick” is the individual mandate, which requires most individuals either to have health insurance coverage or pay a fine.

## WHAT IS THE INDIVIDUAL MANDATE?

The individual mandate, which took effect on January 1, 2014, is a requirement of the ACA that most citizens and legal residents of the United States have health insurance. People who do not have health insurance must obtain it or pay a penalty.



The mandate is enforced via the income tax. In 2015, for the first time, Americans will feel the mandate's effects during tax season. Adults without insurance will pay the greater of \$95 or 1 percent of their income above the tax-filing threshold (\$13,050 for a head of household in 2014), but no more than the lowest-priced bronze option in the marketplaces. By 2016, the annual fine will increase to the greater of \$695 or 2.5 percent of income above the tax-filing threshold, also no more than the cost of the lowest-priced bronze option in the marketplaces.



**T**he individual mandate remains one of the ACA's most politically charged provisions. It survived a Supreme Court challenge in 2012, when the Court ruled that it was a tax and therefore constitutional. However, numerous policy alternatives have proposed to amend or abolish the individual mandate, and some commentators have claimed that

the mandate is unnecessary to advance the ACA's goal of near-universal health coverage. (See Avik Roy, *Transcending Obamacare: A Patient-Centered Plan for Near-Universal Coverage and Permanent Fiscal Solvency*, Manhattan Institute for Policy Research, 2014, for an example of the former, and Peter Ubel, "Do the Obamacare Insurance Subsidies Make the Individual Mandate Unnecessary?" *Forbes*, March 25, 2013, for an example of the latter.)

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### How would eliminating the individual mandate affect coverage and costs under the ACA?

To address this question, a RAND team used the RAND COMPARE microsimulation model to estimate the effect of eliminating the individual mandate on the number of insured and premium prices in the individual market, assuming that other provisions of the ACA remain unchanged.

The analysis found that eliminating the individual mandate would cause relatively small increases in premiums, but large declines in the number of people insured. The relatively small effect on premiums suggests that the individual market would remain stable even without the individual mandate, owing largely to the effects of subsidies, which are structured to keep premiums low for eligible enrollees.



# Eliminating the individual mandate would . . .

## Reduce enrollment in the individual market

**19.8M** current ACA

**-20%**



**15.8M** no individual mandate

Adult enrollment would fall by 4 million

## Reduce the share of young adults in the individual market

**5.4M** current ACA

**-27%**



**3.9M** no individual mandate

A higher share of older, less healthy enrollees would remain

Enrollment and premiums for 2015 as estimated in the COMPARE model under the ACA and under an alternative scenario in which it is assumed there is no individual mandate. Estimates reflect enrollment and premiums for all ACA-compliant individual-market enrollees, including those enrolled on and off the marketplaces. Age-standardized premium reflects the silver premium for a 40-year-old nonsmoker.

## Reduce the number of insured Americans by 8 million

**244.9M** current ACA

**-3%**



**236.7M** no individual mandate

Total health insurance enrollment will decline

## Raise premiums

**\$3700**

**+7%**



**\$3400**

Age-standardized individual market premiums

Related analysis by the COMPARE team found that subsidies exert a more powerful effect than the individual mandate on both enrollment and premiums in the individual market (Christine Eibner and Evan Saltzman, "How Do ACA Tax Subsidies Affect Premiums and Enrollment?" RB-9812/1, 2015, [www.rand.org/t/RB9812z1](http://www.rand.org/t/RB9812z1)). Eliminating subsidies nationwide would cause individual market enrollment to decrease by about 13.5 million and premiums to increase by 43 percent. The smaller effect of eliminating the individual mandate results partly from the fact that the mandate penalty is small relative to the size of the subsidy tax credits. In 2015, the average penalty for enrollees who are eligible for tax credits would be \$320, compared with an average tax credit amount of \$2,650 among the same group. However, eliminating the individual mandate has a large effect on the total number of people with insurance because it affects decisions of people who have employer coverage, in addition to those with individual market coverage.



This brief describes work done in RAND Health documented in *Assessing Alternative Modifications to the Affordable Care Act: Impact on Individual Market Premiums and Insurance Coverage*, by Christine Eibner and Evan Saltzman, RR-708-DHHS, 2014 (available at [www.rand.org/t/RR708](http://www.rand.org/t/RR708)). To view this brief online, visit [www.rand.org/t/RB9812z4](http://www.rand.org/t/RB9812z4). The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. RAND® is a registered trademark. © RAND 2015.

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# What the Data Tell Us



## 1

Eliminating the individual mandate would have significant repercussions for enrollment in the individual market and more broadly across all sources of health insurance.

## 2

The federal government would face higher costs: Not only would it forgo tax revenue from the mandate, but it would also subsidize a more expensive population.

## 3

The individual mandate keeps a higher share of younger and healthier people enrolled in the risk pool and therefore helps to cushion against a situation in which a disproportionate number of older, less healthy individuals buy coverage.