

How Would Eliminating the Individual Mandate Affect Health Coverage and Premium Costs?

One of the most politically charged provisions of the Patient Protection and Affordable Care Act of 2010 (ACA) is the individual mandate. It requires that most Americans either obtain health coverage or pay an annual fine. Supporters of the mandate contend that by encouraging young, healthy people to get coverage, the individual mandate spreads costs and risks across a larger, healthier group. Without the mandate, supporters argue, the health insurance exchanges (state-based marketplaces for buying and selling small group and individual health insurance policies) established under the ACA will suffer from “adverse selection”—that is, only sicker, higher-risk individuals will sign up for coverage, leading to higher per-member health care costs and, therefore, higher insurance premiums. If pushed to its extreme, this effect could lead to catastrophic failure for health insurance markets as soaring premiums render coverage unaffordable for more and more people.

Opponents of the mandate dispute its constitutionality. They assert that it is unconstitutional to mandate the purchase of a private good (in this case, health insurance). To them, the mandate represents an infringement on individual rights. As a result of a lawsuit filed by 26 states, the individual mandate now faces a Supreme Court test. Oral arguments will occur in March 2012, and a decision will follow some time later.

How would eliminating the individual mandate affect coverage and costs under the ACA when it is fully implemented? To address this

Key findings:

- Analysis using RAND’s COMPARE model estimated the effects of implementing the Affordable Care Act (ACA) without an individual mandate.
- Results showed that 12.5 million people who would have otherwise signed up for coverage will be uninsured.
- Premium prices will increase by 2.4 percent.
- Total government spending will increase from \$394 billion to \$404 billion.
- The amount of government spending per newly insured individual will more than double, from \$3,659 to \$7,468.

question, a RAND team used the COMPARE microsimulation model. Developed by RAND, this model uses publicly available data to estimate how coverage-expansion policies affect (1) the number of people with coverage and (2) insurance costs and spending. Specifically, the team examined how the lack of an individual mandate would affect

- the number of insured people
- premium costs for those who are newly insured through the exchanges
- government spending on health coverage.

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This research highlight summarizes RAND Health research reported in the following publication:

Eibner C and Price CC, *The Effect of the Affordable Care Act on Enrollment and Premiums, With and Without the Individual Mandate*, Santa Monica, Calif.: RAND Corporation, TR-1221-CMF, 2012 (http://www.rand.org/pubs/technical_reports/TR1221.html).

Key Results

The RAND team used the COMPARE model to simulate the effects of the ACA without the individual mandate. The analysis predicted the following outcomes if the individual mandate is voided:

- 12.5 million people who would have otherwise signed up for coverage will be uninsured.** The RAND team estimated that if the individual mandate is repealed, 15 million instead of 27.5 million will obtain coverage for the first time (see the figure, Chart A). Under an ACA with no individual mandate, 239.7 million Americans will have coverage in 2016; under the ACA with the individual mandate, this number grows to 252.2 million. Those most likely to remain uninsured in the absence of an individual mandate are people with lower incomes that are still too high to qualify for Medicaid or federal subsidies offered through the ACA.

- Premium prices will increase, but only modestly.** If the mandate is eliminated, premiums for people with policies bought through the exchanges will increase by only 2.4 percent. This estimate is smaller than the increase predicted by other models because the RAND team used an approach to estimating premium increases that takes the age of enrollees into account.
- Government spending per enrollee will sharply increase.** If the mandate is eliminated, *total* government spending will increase slightly, caused by higher premiums, the loss of revenue from mandate penalties, and increased spending on care for the uninsured (see the figure, Chart B). But because so many low-income Americans will forgo coverage, the amount of government spending *per newly insured individual* will more than double, from \$3,659 to \$7,468 (see the figure, Chart C).

Several studies, including one conducted by the Congressional Budget Office, have modeled the effects of eliminating the individual mandate on coverage and premium prices. RAND’s analysis uses different assumptions than those used in these other studies for modeling premium prices. The RAND model accounts for the difference in the age composition of plan enrollees with and without the mandate, which the RAND team believes produces a more realistic estimate of the change in premiums than any individual could expect in the absence of the individual mandate. When the RAND team ran its analysis of premium prices without taking age composition into account, its findings were similar to those of other groups. The table compares RAND’s results with those from the other studies. It also reports alternative findings from RAND’s analysis of premium prices using the same assumptions as the other studies.

RAND Results Compared with Results of Other Modeling Analyses

	Number of Newly Insured Under the ACA with Individual Mandate (millions)	Number of Newly Insured Under the ACA Without Individual Mandate (millions)	Predicted Change in Individual Premium Price on Exchanges in Absence of Individual Mandate (%)
RAND COMPARE	27.1	14.6	+2.4 (+9.3 under assumptions used by other modelers)
Congressional Budget Office	32.0	16.0	+15–20
Jonathan Gruber (MIT)	32.0	8.0	+27
Lewin Group	30.9	23.1	+12.6
Urban Institute	23.9	10.5	+10

SOURCES:

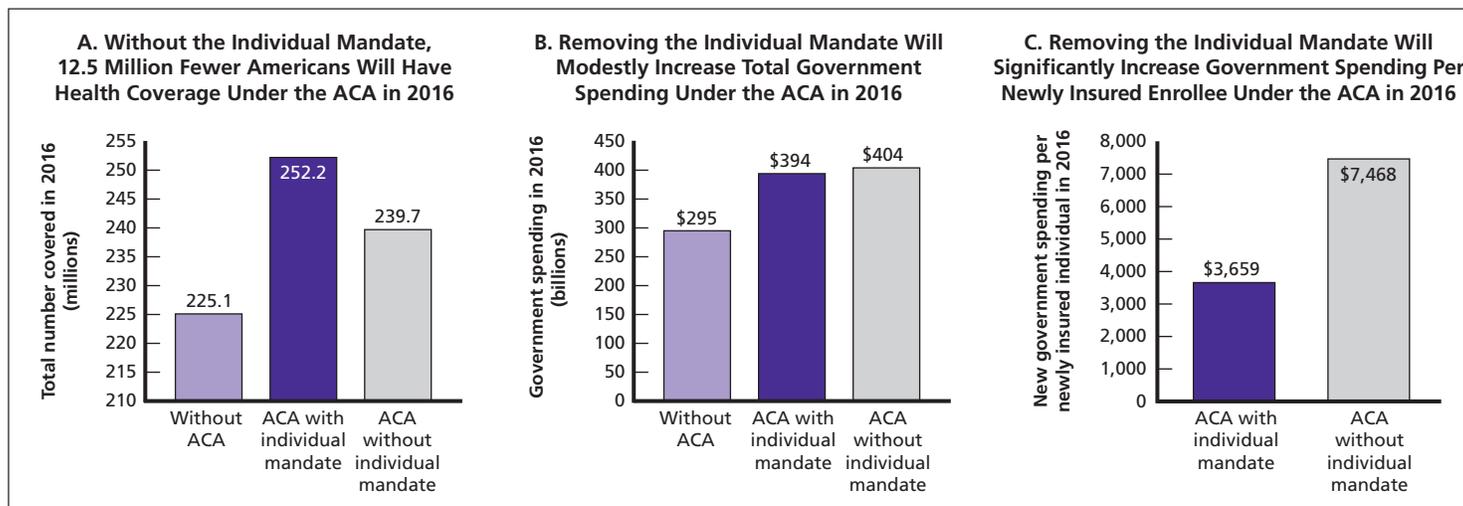
Congressional Budget Office, “Effects of Eliminating the Individual Mandate to Obtain Health Insurance,” Washington, D.C., 2010. As of August 30, 2011: http://www.cbo.gov/ftpdocs/113xx/doc11379/Eliminate_Individual_Mandate_06_16.pdf

Gruber, J., “Health Care Reform Without the Individual Mandate,” Center for American Progress Issue Brief, February 2011.

Sheils, J. F., and R. Haught (The Lewin Group), “Without the Individual Mandate, the Affordable Care Act Would Still Cover 23 Million, Premiums Would Rise Less Than Predicted,” *Health Affairs*, Vol. 30, No. 11, 2011, pp. 2177–2185.

Buettgens, M., and C. Carroll, “Eliminating the Individual Mandate: Effects on Premiums, Coverage, and Uncompensated Care,” Washington, D.C.: Urban Institute, 2012.

If the ACA Is Implemented Without the Individual Mandate, 12.5 Million More People Will Be Uninsured and Government Spending Will Increase



Conclusions

This analysis shows that the individual mandate contributes to achieving near-universal coverage for all Americans. Without it, an estimated 12.5 million fewer people will get coverage. However, repeal of the mandate will have only modest effects on premium prices for individuals buying insurance through the exchanges. In this regard, the RAND team’s results differ from those of other research groups that simulated the effects of eliminating the individual mandate (see the table). Moreover, the RAND team predicts that these relatively modest premium increases will not be enough to trigger catastrophic failure of the exchanges. Why? Because of insurance subsidies, many enrollees will perceive little or no change in the amount of their

contribution even when premiums increase. This reduces the chance of a large-scale exodus from the market. For federal costs, the picture is more complicated. Removing the individual mandate will increase federal spending by a relatively modest degree. However, because those who stay in the system will tend to be sicker—and require more federal subsidies—than those who exit, federal spending per new enrollee will be more than twice as high as it would be with an individual mandate. The mandate, therefore, contributes to achieving near-universal coverage by producing more “bang for the buck” in terms of the government spending per new enrollee. ■

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