The Link Between Market Reforms and the Individual Mandate

Starting in 2014, the ACA requires health plans to cover everyone, including those with pre-existing conditions, and prohibits premiums from varying based on a person's health status. Without requiring everyone to purchase and maintain coverage, there is a powerful incentive for people to wait and purchase insurance only after they get sick or injured. In the 1990's, several states tried insurance market reforms without covering everyone and it failed. Premiums increased dramatically, consumers and employers had fewer coverage choices, and the number of uninsured increased.

Insurance Reforms and Individual Mandate are Inextricably Linked – Policymakers, health care experts, and editorial pages agree that the insurance market reforms included in the ACA cannot work without an individual mandate.

- President Barack Obama:
  - "The individual mandate is the only way that you can assure that people with pre-existing conditions are able to get health care like everybody else."  (NPR, 10/1/2013)
  - "Well, it turns out that if you don't — if you don't make sure that everybody has health insurance, then you can't eliminate insurance companies — you can't stop insurance companies from discriminating against people because of preexisting conditions. Well, if you’re going to give everybody health insurance, you’ve got to make sure it’s affordable. So it turns out that a lot of these things are interconnected.”  (ABC News, 01/20/2010)

- USA Today:  “At the heart of reform is a deal: Insurance companies will quit doing the things they do to save money and limit their own risk, such as refusing to cover people with pre-existing conditions or snatching away coverage on flimsy pretexts when people get sick. In return, insurers will get an influx of new customers, many young and healthy. Simply banning the noxious insurance practices would backfire because many people wouldn’t buy insurance until they got sick or injured. Premiums for more responsible people would skyrocket.”  (USA Today, Our view: Health law needs the individual mandate, 02/13/2010)

- Ron Pollack, Families USA:  “As a number of states have learned, insurance market reforms – as important as they are – cannot work without expanded health coverage. Insurance market reforms implemented alone will lead to skyrocketing premiums as sicker, older people secure coverage and younger, healthier people don’t.”  (Politico, Pollack: Scaled-back bill a “disaster”, 01/21/10)

The Administration’s Brief to the Supreme Court Highlights “The Link”:

“By contrast, the minimum coverage provision is essential to ensuring that the Act’s 2014 guaranteed-issue and community-rating reforms advance Congress’s goals. As Congress expressly found (and as experience in the States confirmed), those provisions would create an adverse selection cascade without a minimum coverage provision, because healthy individuals would defer obtaining insurance until they needed health care, leaving an insurance pool skewed toward the unhealthy. Premiums would increase significantly under that scenario, and the availability of insurance would decline – exactly the opposite of what Congress intended in enacting the Affordable Care Act. The guaranteed-issue and community-rating provisions are therefore inseverable from the minimum coverage provision.”
Studies from independent experts, including the Congressional Budget Office (CBO), Center for American Progress CAP, Urban Institute, Lewin Group, and RAND Corporation, have found that severing the individual mandate but retaining ACA market reforms would result in a dramatic rise in the uninsured population and increases in health insurance premiums compared to health reform with a mandate.

**Lessons Learned from the States** – In the 1990’s, eight states experimented with insurance market reforms without covering everyone and that resulted in significant disruption in their insurance markets: Premiums increased dramatically, consumers and employers had fewer coverage choices, and the number of uninsured did not go down – and in some cases increased dramatically. For example:

- After **Washington enacted their reforms** in 1993, the number of uninsured increased by 30 percent. In 31 of 38 counties in the state it was impossible for someone to buy health insurance in the individual market.

- In **Kentucky**, there were 43 health insurers offering coverage in the state prior to enacting reforms in 1994. By 2000, just two plans remained.

- In both cases, policymakers had to go back and amend or repeal these laws because of the significant impact on consumers in those states.

**Impact of Premium Subsidies on Enrollment** – While the ACA provides premium tax credits and cost-sharing subsidies to help low- and moderate-income Americans afford coverage, the subsidies alone are not sufficient to ensure broad participation in the market:

- **Millions of Americans are not eligible for subsidies.** According to the Congressional Budget Office (CBO), more than 40 percent of people purchasing coverage in the individual market today would be ineligible for premium subsidies.

- **Many individuals who receive subsidies will still pay more for their coverage than they do today.** An article in *Contingencies* by actuaries at Oliver Wyman found that “young, single adults aged 21 to 29 and with incomes beginning at...roughly $25,000...can expect to see higher premiums than would be the case absent the ACA, even after accounting for the presence of the premium assistance.”

- **As premiums increase, many younger, healthier people may wait to purchase coverage until they need it – driving up costs for everyone else.**

- **Experience in Massachusetts shows that subsidies alone are not sufficient to encourage younger and healthier people to purchase coverage.** Massachusetts’ health reform was implemented in a phased-in approach with subsidized coverage made available a year before the individual mandate took effect.

  - A study in the *New England Journal of Medicine* found that, prior to the implementation of the individual mandate, those that enrolled into subsidized coverage were “nearly 4 years older, were almost 50% more likely to be chronically ill, and had about 45% higher health care costs than those who signed up once the program was fully effective [including the mandate].” By contrast, once the individual mandate became fully effective, “there was an enormous increase in the number of healthy enrollees and a far smaller bump in the enrollment of people with chronic illness.” The study concludes that “mandating coverage might well play an even larger role in encouraging the healthy to participate in health insurance markets nationally than in Massachusetts.”

  - According to Harvard professor Amitabh Chandra, the Massachusetts 2006 reform law reveals two important things: “Healthy people don’t purchase insurance until they’re forced to by the mandate,” and “subsidies are not enough to get people to purchase health insurance.” He also noted that in the ACA, “the economic grounds for a mandate are even stronger because the subsidies are much less generous than they are in Massachusetts.”