



Congressional Budget Office

Effects of Eliminating the Individual Mandate to Obtain Health Insurance

by

Jessica Banthin

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Eliminating the Individual Mandate

Estimate from new March 2012 baseline would probably differ

Most recent CBO estimate published March 2011 as budget option

See Reducing the Deficit: Spending and Revenue Options

<http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12085/03-10-reducingthedeficit.pdf>



Eliminating Individual Mandate

Relative to ACA with a mandate:

- Less healthy individuals would be more likely to remain insured
- Healthier and younger individuals would be more likely to go uninsured
- Premiums in nongroup would be about 15-20 percent higher

Adverse selection into exchanges mitigated somewhat by:

- Subsidies in exchanges
- Annual enrollment period



Eliminating the Individual Mandate

- Relative to ACA with a mandate, about 16 million fewer insured in 2021
 - 4 million fewer in ESI
 - 6 million fewer in nongroup
 - 6 million fewer in Medicaid

- Net Decrease in Deficit of \$282 Billion, 2012-2021
 - Loss of \$27 Billion individual mandate penalties
 - Offsetting savings of \$309 billion
 - Federal spending on Medicaid lower by \$149 billion
 - Exchange subsidies lower by \$69 billion
 - Higher tax revenues of \$80 billion
 - \$11 billion of increased employer penalties and reduced tax credits for small businesses



Modeling the Individual Mandate

CBO and JCT consider the impact of the individual mandate and associated penalty from three different perspectives, based on the literature of health economics, tax compliance, and behavioral economics

For more details, see:

Will Health Insurance Mandates Increase Coverage? Synthesizing Perspectives from the Literature in Health Economics, Tax Compliance, and Behavioral Economics by David Auerbach, Janet Holtzblatt, Paul Jacobs, Alexandra Minicozzi, Pamela Moomau, and Chapin White, 2010, CBO Working Paper 2010-05

<http://www.cbo.gov/publication/21600>



Modeling the Individual Mandate

Health economics perspective focuses mainly on the value of the penalty:

- An individual mandate with a penalty makes it more costly to be uninsured and thus raises demand for insurance
- The additional demand for insurance by consumers due to the mandate penalty is also a factor in firm-level decisions to offer employment-based coverage



Modeling the Individual Mandate

The tax compliance literature considers enforcement of the penalty:

- Compliance with the income tax system varies with likelihood of detection and enforcement
- Information reporting requirements and matching programs are likely to yield higher compliance rates
- The effective penalty may be less than the statutory penalty because of imperfect enforcement



Modeling the Individual Mandate

The behavioral economics literature considers nonfinancial aspects of behavior:

- Compliance increases with awareness of mandate
- Compliance is greater for penalties than for subsidies of the same size
- Compliance increases if mandate seen as social norm
- Exemptions from mandate penalties may weaken compliance among nonexempt because of spillover effects