



Congressional Budget Office

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Modeling the Effects of the Individual Mandate on Health Insurance Coverage

Presentation at the 2017 Annual Meeting
of the American Academy of Actuaries
Breakout Session on Modeling the Individual Mandate

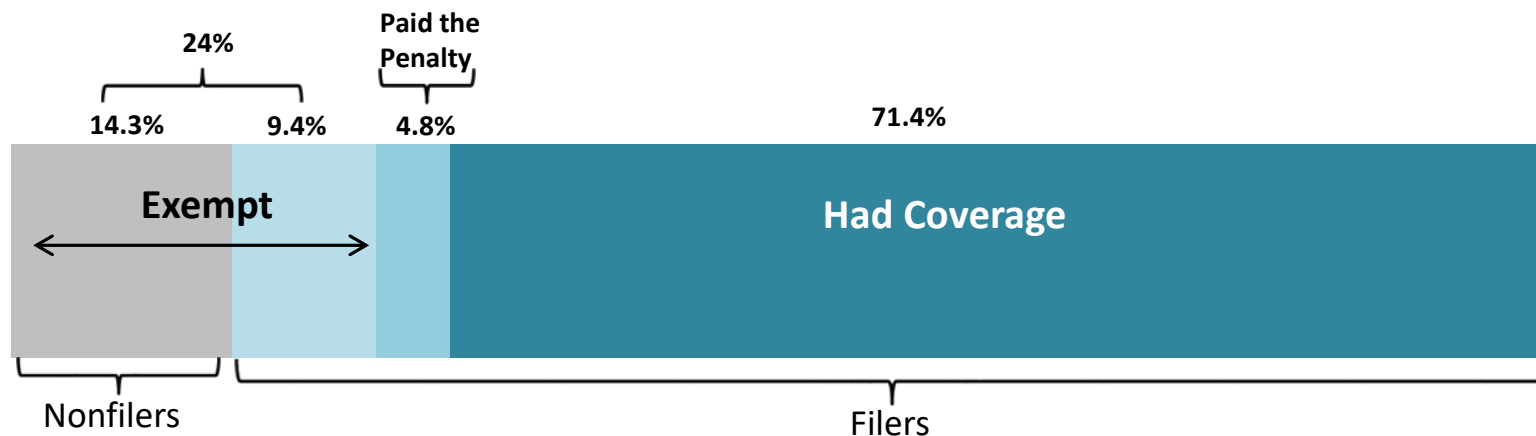
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Individual Mandate Under Current Law

- Unless exempt, people must obtain health insurance or pay a penalty.
- Penalties are the greater of two amounts:
 1. A fixed charge (\$695 in 2016) for every uninsured adult in the household plus half that amount for each uninsured child, or
 2. An assessment equal to 2.5 percent of the household's income above the filing threshold for its income tax filing status.
- Penalties are subject to caps and prorated.

Data on Collections and Exemptions

Tax Returns With Both Primary and Secondary Filers Under Age 65, Tax Year 2015



Common exemptions were for:

- People whose income was low enough that they were not required to file a tax return.
- People whose income was less than 138% of federal poverty level and who were ineligible for Medicaid because they lived in a state that had not expanded eligibility under the ACA.
- U.S. citizens living abroad and certain categories of noncitizens, including unauthorized immigrants, who are prohibited from receiving almost all Medicaid benefits and all subsidies through the marketplaces.
- People whose premium exceeded a specified share of their income (8.05% in 2015; indexed over time).

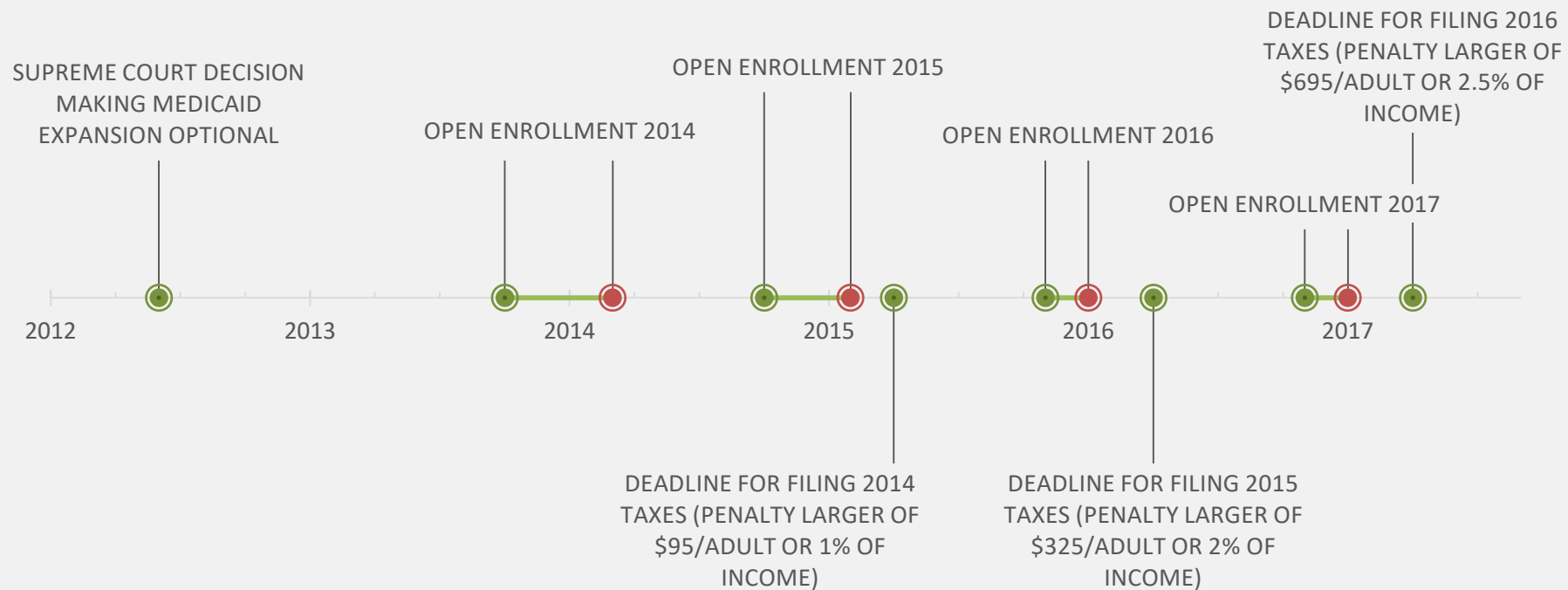
John Koskinen, Internal Revenue Service Commissioner, letter to Members of Congress (January 9, 2017), www.irs.gov/pub/newsroom/commissionerletteracafilingseason.pdf.

Distribution of Individual Mandate Penalty Payments by Adjusted Gross Income, Tax Year 2015

Adjusted Gross Income	Income Group's Share of Individual Mandate Penalty Payments
\$100,000 or more	14%
\$50,000 to \$99,999	28%
Under \$50,000	58%

Internal Revenue Service, "Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Total Files, All States," www.irs.gov/statistics/soi-tax-stats-historic-table-2.

Timeline of Key Developments Related to the Individual Mandate



Theoretical Framework for the Individual Mandate

- Estimates of changes in coverage produced by CBO's Health Insurance Simulation Model (HISIM) are determined by shifts in the price of insurance and individuals' responsiveness to those shifts (price elasticities).
- Nonfinancial factors are translated into dollar amounts that shift prices.

Shift in the Effective Price From the Individual Mandate:

Shift in Effective Price = Effective Penalty + Shift Attributable to Nonfinancial Factors



Statutory Penalty Amount * Probability That Penalty is Collected

Theoretical Framework for the Individual Mandate (Continued)

Nonfinancial factors include:

- **Compliance effect.** People tend to comply with laws.
- **Loss aversion.** People respond more to penalties than to subsidies.
- **Social norm.** Decision to obtain coverage is influenced by peers and the prevailing social norm that directs everyone to obtain health insurance.

David Auerbach and others, *Will Health Insurance Mandates Increase Coverage? Synthesizing Perspectives from Health, Tax, and Behavioral Economics*, Working Paper 2010-05 (Congressional Budget Office, August 2010), www.cbo.gov/publication/21600.

Prior Empirical Evidence on the Effects of the Individual Mandate

Key provisions of Massachusetts health care reform in 2006:

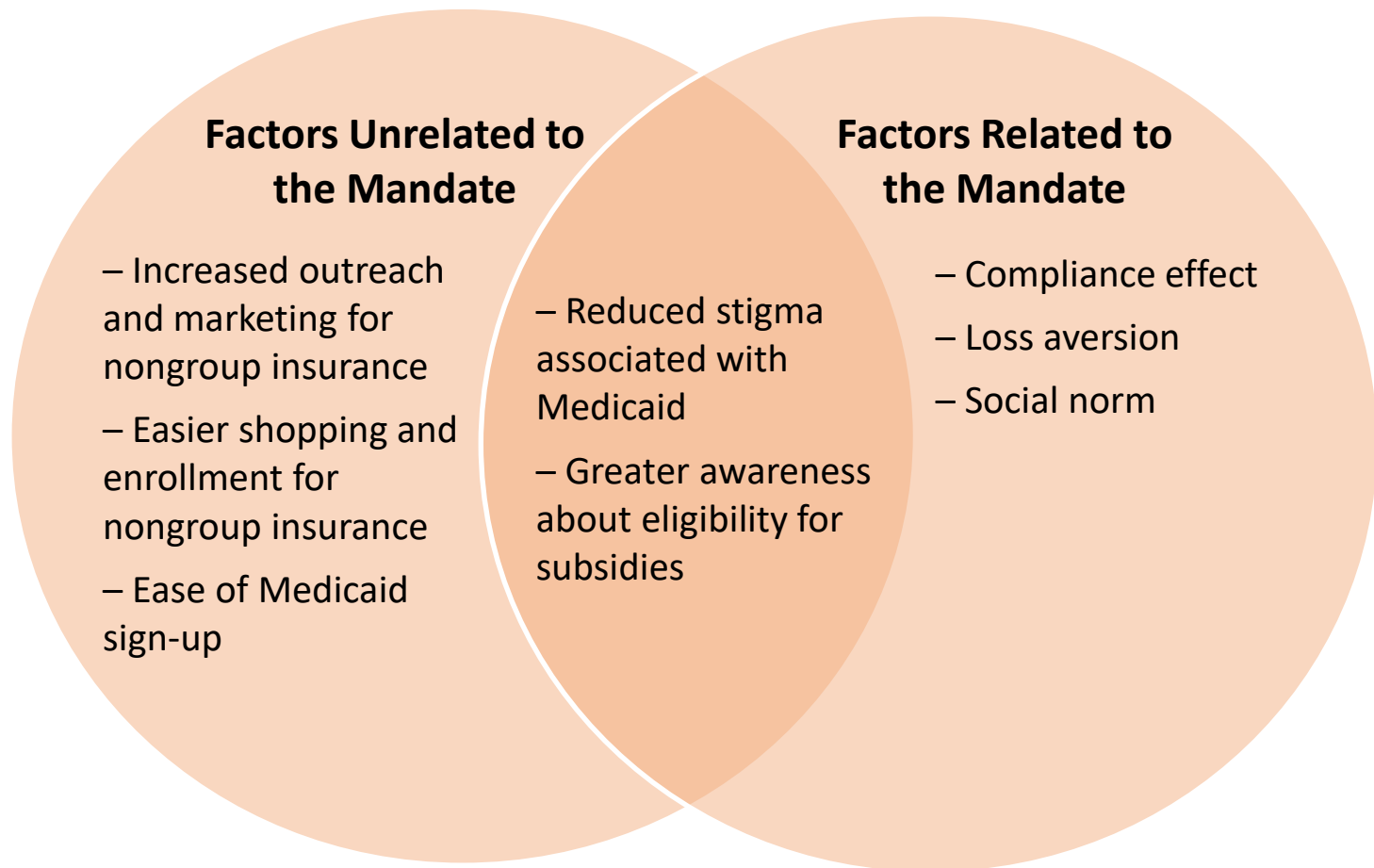
- Required residents over age 18 to have insurance or pay a penalty,
- Created a subsidized health insurance exchange, and
- Expanded Medicaid eligibility.

Coverage effects of Massachusetts health care reform:

- Substantial increase in the rate of insurance and a decline in the overall uninsured rate (Long and Stockley 2011).
- Increase in enrollment of low-income parents who were eligible for Medicaid before the law was enacted (Sonier, Boudreaux, and Blewett 2013).

Modeling Coverage Changes in HISIM

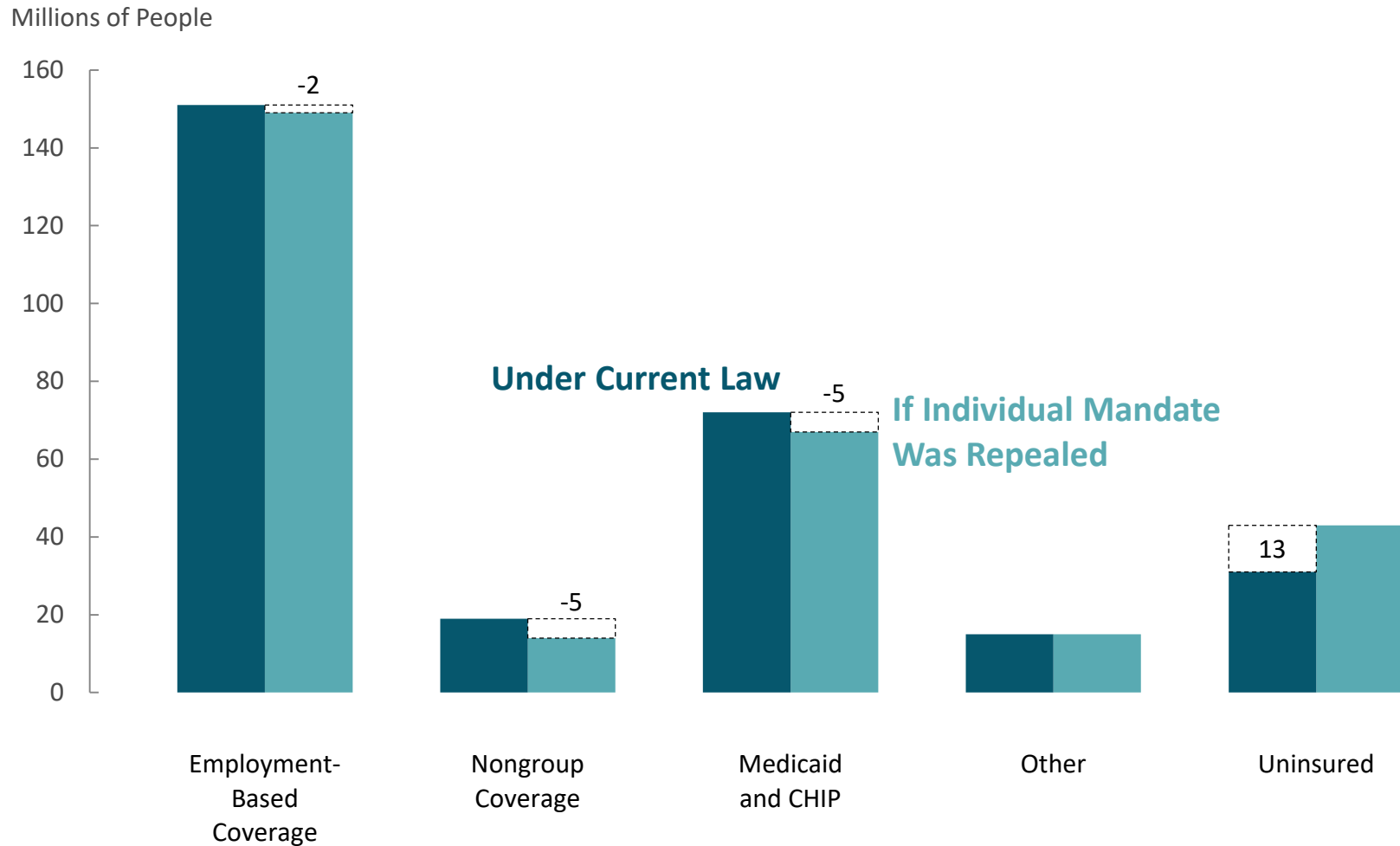
Nonfinancial factors are translated into price changes in HISIM.



Calibrating the Price Shift From Nonfinancial Factors Related to the Mandate

- Before the ACA was enacted, CBO relied heavily on evidence from Massachusetts.
- CBO continues to calibrate HISIM annually to incorporate new information on:
 - Coverage,
 - Price changes and price elasticities, and
 - Effects of nonfinancial factors on coverage.

Health Insurance Coverage for People Under Age 65 in 2026, November 2017



Congressional Budget Office, *Repealing the Individual Health Insurance Mandate: An Updated Estimate* (November 2017), p. 2, www.cbo.gov/publication/53300. This budget option was estimated using CBO's summer 2017 baseline.

Recent Empirical Evidence on the Effects of the Individual Mandate

Disentangling the ACA-related causes of insurance coverage increases:

Sample: 2012–2015 American Community Survey repeated cross-sections

Specification:

- Difference-in-differences with fixed effects for geographic areas and for income groups, and
- Controls for demographics and local unemployment.

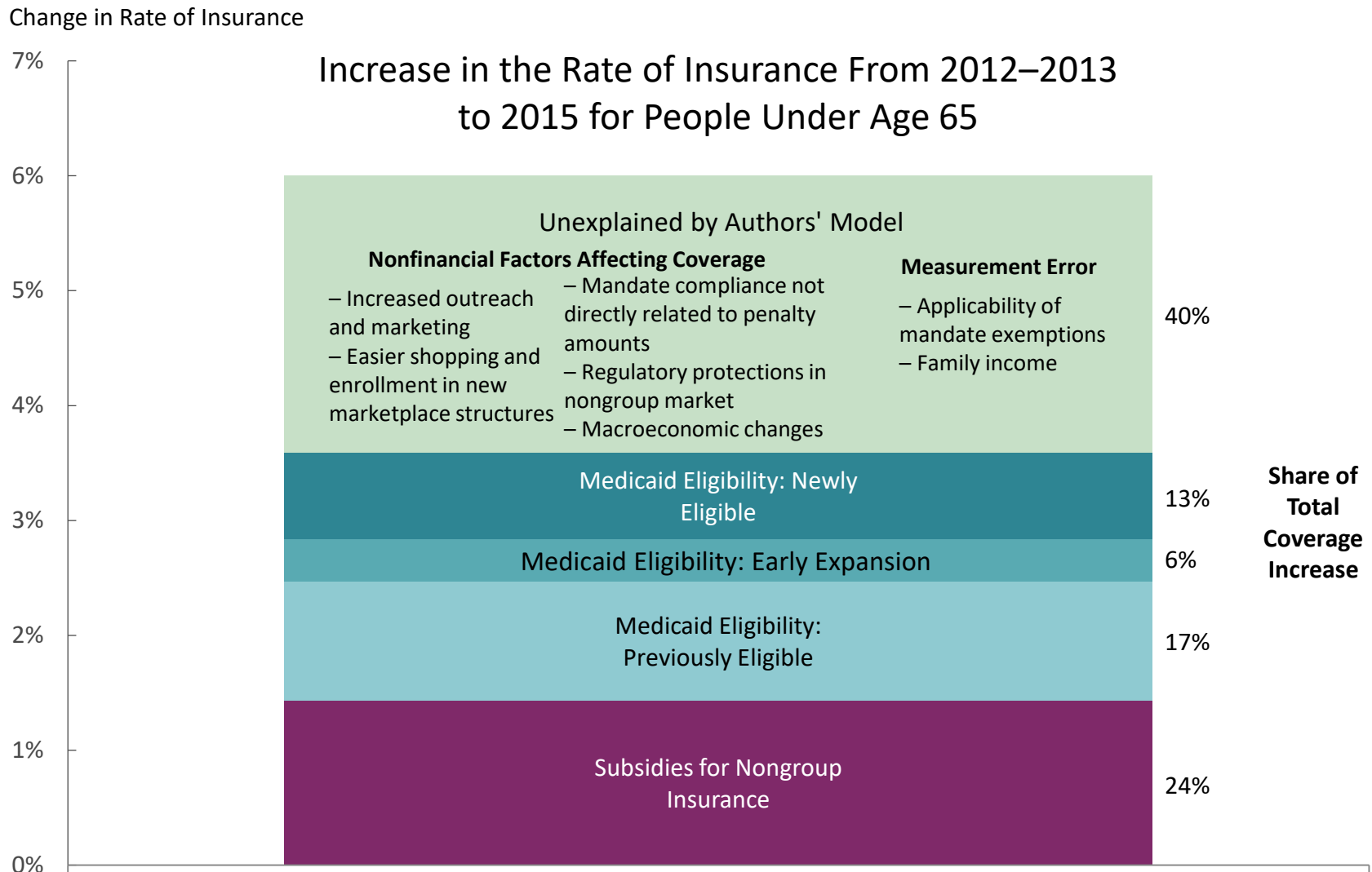
Outcome Variable: Probability of being uninsured

Explanatory Variables:

- Medicaid eligibility (previously eligible, newly eligible, and eligible because of their state's early expansion),
- Size of nongroup premium subsidy, and
- Size of potential tax penalty under the individual mandate.

Molly Frean, Jonathan Gruber, and Benjamin D. Sommers, "Premium Subsidies, the Mandate, and Medicaid Expansion: Coverage Effects of the Affordable Care Act," *Journal of Health Economics*, vol. 53 (May 2017), pp. 72–86, <http://dx.doi.org/10.1016/j.jhealeco.2017.02.004>.

Recent Empirical Evidence on the Effects of the Individual Mandate (Continued)



Molly Frean, Jonathan Gruber, and Benjamin D. Sommers, “Premium Subsidies, the Mandate, and Medicaid Expansion: Coverage Effects of the Affordable Care Act,” *Journal of Health Economics*, vol. 53 (May 2017), pp. 72–86, <http://dx.doi.org/10.1016/j.jhealeco.2017.02.004>.

Interpreting the Analysis by Frean, Gruber, and Sommers (2017)

- All studies will have difficulty disentangling the ACA's coverage effects.
- Caveats in interpreting Frean, Gruber, and Sommers (2017):
 - How much of the unexplained coverage effect that they identified is attributable to nonfinancial effects unrelated to the mandate?
 - To what extent is the social norm effect of the mandate included in their analysis of the coverage effect of the expansion of Medicaid eligibility?
- Are there additional data or research results that inform estimates of the coverage effects of the mandate?

Challenges of Using Historical Data to Project Effects of New Policies

Repealing the mandate is not the same as never having had a mandate.

- How much will the knowledge about the benefits of having health insurance, subsidies, and the enrollment process that consumers have already gained affect their decisions in the future?
- How much has the mandate permanently changed the stigma associated with Medicaid?
- How much persistence in enrollment can we expect?

Key Questions for Discussion

- What does the existing evidence tell us about the long-term effects on health insurance coverage of repealing the individual mandate?
 - On total coverage?
 - On Medicaid, nongroup, and employment-based coverage specifically?
- What does the existing evidence tell us about the short-term effects of repeal?

References

David Auerbach and others, *Will Health Insurance Mandates Increase Coverage? Synthesizing Perspectives from Health, Tax, and Behavioral Economics*, Working Paper 2010-05 (Congressional Budget Office, August 2010), www.cbo.gov/publication/21600.

Molly Frean, Jonathan Gruber, and Benjamin D. Sommers, “Premium Subsidies, the Mandate, and Medicaid Expansion: Coverage Effects of the Affordable Care Act,” *Journal of Health Economics*, vol. 53 (May 2017), pp. 72–86, <http://dx.doi.org/10.1016/j.jhealeco.2017.02.004>.

Sharon Long and Karen Stockley, “The Impacts of State Health Reform Initiatives on Adults in New York and Massachusetts,” *Health Services Research*, vol. 46, no. 1, pt. 2 (February 2011), pp. 365–387, <http://dx.doi.org/10.1111/j.1475-6773.2010.01211.x>.

Julie Sonier, Michel Boudreaux, and Lynn Blewett, “Medicaid ‘Welcome-Mat’ Effect of Affordable Care Act Implementation Could be Substantial,” *Health Affairs*, vol. 32, no. 7, (July 2013), pp. 1319–1325, <http://dx.doi.org/10.1377/hlthaff.2013.0360>.