

## Why We Need the Individual Mandate

The Patient Protection and Affordable Care Act (ACA) requires people to buy health insurance when they can afford to do so. This “individual mandate” is essential to address two features of current health insurance markets: the fact that millions of people cannot afford health insurance coverage, and the fact that insurance companies frequently charge high or unaffordable premiums to people who need insurance most—those suffering from costly illness or injury.

This mandate is one of three pillars that together support ACA’s private market approach. The first pillar is insurance market reform – ending the ability of insurance companies to discriminate against sick or injured people with high medical costs. Subsidies to help Americans of modest means gain access to affordable health coverage provide the second pillar. The individual mandate provides the third pillar. It requires people to obtain insurance so long as that coverage is affordable. The mandate expresses a basic obligation of citizenship as well as an economic reality. Without the mandate, some people will choose to gamble or to free-ride, undermining the fairness and financial stability of the health insurance system.

Few of the uninsured could personally finance medical treatment for a serious illness or injury.<sup>1,2,3</sup> Moreover, this country embraces the fundamental principle that everyone should have to minimally decent medical treatment when needed, without regard to ability to pay. Federal legislation and the custom and practice of health care providers embody this principle. A healthy individual’s decision to forego affordable insurance coverage thus imposes real costs on others, while raising premiums on many people with serious medical needs who require the most help.

The individual mandate does not specify what care people receive. It simply requires people to pay a reasonable amount for any care they may ultimately receive. No less a conservative than Mitt Romney noted, when signing Massachusetts’ equivalent of the individual mandate: “Some of my libertarian friends balk at what looks like an individual mandate. But remember, someone has to pay for the health care that must, by law, be provided: Either the individual pays or the taxpayers pay. A free ride on the government is not libertarian.”<sup>4</sup>

The ACA’s individual mandate is based on Massachusetts’s successful 2006 reforms. That landmark effort covered about two-thirds of the formerly uninsured, while reducing premiums for individual purchasers by about 50% relative to national trends – with strong public support.<sup>5</sup>

In contrast, insurance reform without subsidies and mandates has consistently failed. In the five states that have tried comprehensive insurance market reform without an individual mandate, healthy people chose to stay out of insurance, sick people took it up, and premiums increased.<sup>6</sup> Only broad participation in insurance markets can end the cycle of insecure coverage and high costs.<sup>7</sup>

The Obama Administration’s recent decision to delay ACA’s requirement that large- and medium-sized employers sponsor coverage for their employees or pay a penalty is independent of the individual mandate. The employer assessment is designed to bolster the ACA’s financing and to ensure equity between large firms who do and do not provide insurance. This assessment will have only a very small impact on employers, since 97% of firms with more than 50 employees already offer insurance.<sup>8</sup> The individual mandate stands in stark contrast, as nearly one in five non-elderly Americans is currently uninsured.<sup>9</sup>

Delaying the employer assessment has almost no effect on the implementation of the ACA. The only important effect will be to raise one fewer year of revenue from this component of the law. In contrast, delaying the individual mandate would cut at the core of the vision of private-market based insurance market reform.

Requests to delay the individual mandate are really requests to gut the Affordable Care Act. Millions of Americans face immediate health care needs and financial challenges addressed by health reform. They cannot wait.

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<sup>1</sup> Kaiser Family Foundation, Trends in Health Care Costs and Spending (Mar. 2009), *available at* [www.kff.org/insurance/upload/7692\\_02.pdf](http://www.kff.org/insurance/upload/7692_02.pdf); AHQR.

<sup>2</sup> Agency for Health Care Quality and Research, Medical Expenditure Panel Survey, Summary Data Tables tbl. 1 (, *available at* [http://www.meps.ahrq.gov/mepsweb/data\\_stats/tables\\_compensia\\_hh\\_interactive.jsp](http://www.meps.ahrq.gov/mepsweb/data_stats/tables_compensia_hh_interactive.jsp)?

<sup>3</sup> Jonathan Gruber, WD Marder, K. Miller, "Avoiding the medical care system? Not likely," MIT, Thomson Reuters, September 2011, *available at* [http://thomsonreuters.com/content/healthcare/pdf/articles/avoiding\\_medical\\_care\\_system](http://thomsonreuters.com/content/healthcare/pdf/articles/avoiding_medical_care_system)

<sup>4</sup> Mitt Romney, *Health Care for Everyone? We Found A Way*, WALL ST. J., Apr. 11, 2006, at A16, *available at* [http://online.wsj.com/article/SB114472206077422547.html/mod=opinion\\_main\\_commentaries](http://online.wsj.com/article/SB114472206077422547.html/mod=opinion_main_commentaries).

<sup>5</sup> For a detailed discussion of the impacts of health reform in Massachusetts see Jonathan Gruber, "The Impacts of the Affordable Care Act: How Reasonable Are the Projections?," NBER Working Paper #17168, June 2011.

<sup>6</sup> Jonathan Gruber and Sara Rosenbaum, *Buying Health Care, the Individual Mandate, and the Constitution*, New England Journal of Medicine, 363, p. 401-403, July 29, 2010.

<sup>7</sup> See for example Jonathan Gruber, *Health Care Reform without the Individual Mandate*, Center for American Progress, February 2011; or CBO, *Effects of Eliminating the Individual Mandate to Obtain Health Insurance*. 2010.

<sup>8</sup> According to the Kaiser Family Foundation, 94% of firms with 50-199 employees offer insurance, and 98% of firms with more than 200 employees offer insurance (<http://kff.org/report-section/ehbs-2012-section-2/>). According to the BLS, 20.7 million employees are in firms with 20-99 employees; we assume that half are in firms with 50 or more employees.

<sup>9</sup> Linda J. Blumberg, John Holahan, and Matthew Buettgens, *It's no contest: The ACA's employer mandate has far less impact on coverage and costs than the individual mandate*. Urban Institute, July 2013.