



The Council for Affordable Health Insurance's ISSUES & ANSWERS

Solutions for Today's Health Policy Challenges

No. 158

October 2010

Will an Individual Mandate Solve the Uninsured Problem?

“There is always a well-known solution to every human problem — neat, plausible, and wrong.” — H.L. Mencken

After passing health care “reforms” in the mid-1990s, Massachusetts residents now face one of the most expensive health insurance markets in the country.

Instead of fixing the problems, Governor Mitt Romney (R) and the legislature passed an unprecedented mandate requiring both individuals and employers to purchase health insurance. The state is straining to control costs, and has a new problem — declining access to medical providers. Despite these problems, the federal government is looking to follow Massachusetts's lead.

Should the government require people to buy health insurance, just as many states mandate auto insurance coverage? Or is it better to create a competitive market so that the uninsured have access to affordable coverage?

Why an Individual Mandate? Some policy experts increasingly view mandated health insurance coverage — which requires individuals to buy health coverage or pay a fine — as a solution to the problem of the uninsured. Proponents believe that by getting everyone covered:

- Health care costs would be lower.
- Health insurance premiums would be more predictable, both for the insured and insurance companies.
- It would reduce costly hospital emergency room care.
- It would eliminate hospital cost-shifting from uncompensated care to those with coverage.
- The uninsured would begin to get the care they need, which would reduce the need for more costly medical interventions in the future.

Mandating coverage is supposed to make the insurance pool representative of the population at large, with a predictable mix of risks that would keep health insurance premiums affordable. But will it?

A Political Minefield. Forcing people to purchase coverage is not as easy as it sounds. An individual health insurance mandate requires three specific components. First, the state must define what constitutes “qualified” health insurance — in other words, the minimum coverage required by law so that individuals and companies know they are in compliance. Second, the state must define the penalties for noncompliance. And, finally, the state must also monitor everyone to ensure compliance.

Specifically, policymakers must:

- Design the minimum plan;
- Negotiate health care costs and premiums and require insurers to accept every applicant, usually charging them the same premium (or close to it) regardless of health status;
- Ensure that health care providers and insurers participate;
- Create the bureaucracy necessary to track compliance with the law — and pay them;
- Track the insurance purchases of every business and state resident;
- Decide what the penalties will be for not participating;
- Determine who to tax to help pay for those who cannot afford the minimum plan design; and,
- Figure out how to run for cover if the program doesn't work out the way it was sold.

President Obama and Congress have begun to embark on this difficult path — and have found it loaded with pitfalls. We have begun to see health insurance costs rise as minimum coverage requirements start coming online. It is becoming clear that the coming individual mandate is the most unpopular aspect of the law and the subject of several lawsuits. We have even seen politicians to start to run for cover, distancing themselves from the issue.

Haven't Other Countries Mandated Coverage? In 1996 Swiss voters passed a controversial individual health insurance mandate with just 52 percent of the vote, and it was rejected by all but two Swiss cantons.

The Swiss are required to purchase an “essential” benefits package, a comprehensive package with some managed care elements that only varies by deductible. The individual mandate is enforced with significant penalties, including fines for not buying coverage and possibly prison for lying about one's insurance status.

The program has been hailed as a success by many policymakers, but the Swiss market is very different from the United States. Health insurance is primarily provided through the individual market rather than through employers. It has been estimated that even prior to the mandate, 96 percent of the Swiss had health insurance. After the mandate, estimates indicate the insured rate rose to 98 percent — so a mandate was only effective at the margin and was not used to cover a large uninsured population.

Interestingly, the Swiss also mandate auto insurance, but unlike the U.S., Switzerland has achieved near 100 percent compliance.

Lessons from the Auto Insurance Mandate. Auto insurance coverage is mandated in 49 states and Washington D.C.; only New Hampshire declines to do so. Nevertheless, the Insurance Research Council estimates that 16.1 percent of American motorists will be uninsured in 2010 — a figure not very different from the 16.7 percent of Americans without health insurance.

However, the percentage of those without auto insurance varies significantly from state to state — again, just as with health insurance. Indeed, the prevalence of uninsured motorists is so large that many auto insurers offer uninsured motorist coverage, in the form of a rider, to protect insured drivers from all of those who are required to have auto insurance but don't. The problem is so severe that 22 states mandate uninsured motorist coverage be included as part of a policy, and 20 more states require uninsured motorists coverage unless the insured person requests to waive the coverage in writing.

<i>Mandated Motorist Coverage vs. Non-Mandated Health Coverage</i>		
State	Uninsured Motorists	Without Health Insurance
Mississippi	28%	17.6%
Alabama	26%	12.5%
California	18%	20%
New Mexico	29%	21.7%
Arizona	18%	19.6%
Tennessee	20%	15.4%
Washington, DC	15%	12.4%
Florida	23%	22.4%
Washington	16%	12.9%
Nevada	15%	20.8%

Source: Insurance Research Council and U.S. Census Bureau

The public has never rebelled against mandated auto insurance, in part because the penalties are seldom and only selectively enforced. But the Massachusetts health insurance mandate penalty is significant — up to nearly \$1,000 a year, and rising. And it must be widely enforced or the requirement that insurers accept everyone will do more harm than good.

It's About Affordability. Studies have consistently shown that the number one reason people do not have health insurance is they can't afford it. Mandating health insurance treats a symptom — the uninsured — and not the problem of high health insurance premiums. In Massachusetts, the only state to impose an individual mandate, the twin mid-1990s "reforms" of guaranteed issue (i.e., insurers must accept every applicant) and modified community rating (i.e., charging the same rates regardless of the applicant's health) drove up individual policy rates so that only the wealthy could afford coverage.

Massachusetts reform has done nothing to lower the cost of health insurance; rather it hides the cost by subsidizing coverage for targeted populations. And while Massachusetts may be an extreme example, the federal government has chosen to follow its lead by:

- Imposing regulatory requirements that make health insurance more expensive.
- Requiring guaranteed issue and community rating.
- Making it difficult for insurance companies to offer affordable policies with limited benefits.
- Requiring mandated benefits that make insurance more comprehensive, but also more expensive.

In the 1990s, Kentucky passed many of the same sweeping reforms as Massachusetts, resulting in similarly unaffordable coverage. While Kentucky tried more government solutions at first — even going so far as to allow people to buy into the state employees' plan — reason eventually prevailed. Legislators repealed many of the so-called reforms, and health insurance is once again available and affordable in Kentucky.

Other Burdensome Policies. Besides imposing policies that increase insurance prices, states often make it difficult for qualified people to enroll in government programs. Medicaid (a program for the poor) and SCHIP (the State Children's Health Insurance Program) are notoriously bureaucratic and limit enrollment through a blizzard of paperwork.

Even programs that are supposed help people find or keep health coverage can inadvertently encourage them to be uninsured for short periods of time. COBRA — which allows workers to continue their employer coverage if they leave their job — allows employees 60 days to backdate their coverage if it's needed, a policy that is easily gamed. HIPAA — which guarantees workers who lose their coverage the right to individual health insurance (or high risk pool coverage) — allows individuals to be uninsured for 63 days while still treating them as continuously insured.

Conclusion. We agree that everyone should have access to health insurance. We agree that health insurance should be more affordable. But mandating coverage is a reactive, government solution that won't solve either problem.

Rather than mandating coverage, Congress could dramatically reduce the number of uninsured with far less money by enacting policies that encourage innovative plan designs, subsidize low income families, create tax fairness for all policies and establish a well-functioning safety net.

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