



The Truth about the Individual Mandate in Health Reform

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Health reform has many popular parts – rules against insurance company abuses; subsidies and tax credits to make health coverage affordable for millions; improvements in Medicare. But controversy persists about the “individual mandate” rule – which says that everyone must either have health insurance coverage or pay a fine.

Attacks have intensified since the Supreme Court decision to uphold the Affordable Care Act, because the mandate fine was declared a valid exercise of the taxing power assigned by the Constitution to the federal government. Opponents of health reform denounce the mandate as “tyranny” and say that it amounts to a big “middle class tax increase.”

These claims are not true. Most Americans already have health insurance coverage through employment, Medicare, or Medicaid – and about thirty million more will gain coverage through the new reforms starting in 2014. **The vast majority of Americans – 98% to 99% – will not be affected by the mandate rule at all. Only about one or two people out of every 100 will be subject to a small tax fine** – and they will have to pay the fine only if they can afford private insurance but refuse to buy it.

Health Insurance Will Work Like Auto Insurance

The individual mandate in health reform resembles state laws requiring all car and truck drivers to have accident insurance. Who wants their neighbor’s uninsured son to drive recklessly and get into a big accident? An innocent driver could face costly repairs; and if lots of uninsured drivers had accidents, the rates for auto insurance would shoot up for all residents.

Like auto insurance, health insurance has to cover everyone to avoid price increases for responsible citizens. When reform goes into full effect starting in 2014, coverage will be available and affordable for almost everyone. After that, we do not want uninsured people to show up at the hospital emergency room and pass the bills to their neighbors. There will be exceptions to the mandate for people who have religious objections and for those who still cannot afford insurance after Affordable Care expands coverage. But the mandate will apply to the tiny number who, at that point, can afford insurance but refuse to get it. That will encourage almost everyone to have coverage. **With the mandate in place, experts estimate that health insurance will cost 10% to 20% less than it would without the mandate.**

How Many Americans Might Have to Pay?

The individual mandate is not a big middle-class tax hike – because nonpartisan analyses from the Congressional Budget Office and the Urban Institute show that just a tiny percentage of Americans will ever have to deal with the mandate rule.

To calculate how many people might face the mandate requirement, researchers start with the total U.S. population and subtract everyone covered by a health insurance plan at their place or work, or by government programs such as Medicare, Medicaid, health plans for military veterans, and children’s health insurance. Then researchers figure out how many additional people will get new insurance coverage under the Affordable Care Act. Only those left over might have to pay fines. Researchers come to slightly different conclusions, but agree that the vast majority of Americans will not face the mandate fines.

- The Congressional Budget Office uses projections to determine that about 21 million residents of the United States will be uninsured in 2016. But the majority will not be subject to the mandate – because

they will voluntarily buy health insurance or because they are too poor, have valid religious objections, or are unauthorized immigrants. According to this study, only about 4 million uninsured people – a little over one percent of all U.S. residents – will have to pay the penalty.

- Urban Institute experts use a sophisticated computer model to see what would happen if health reform had been fully in effect in 2011. When they subtract from the total U.S. population everyone already insured, or who would get help to obtain coverage if Affordable Care were in effect, just 7.3 million people – about 2% of the total population – would need to choose between paying full price for insurance or paying a small tax fine.
- Experience with the mandate in Massachusetts is also relevant, because former Governor Mitt Romney put in place a plan just like Affordable Care, which is now fully implemented and popular. More than 95% of residents are insured and only one percent pay the fine.

So Why Bother with the Mandate at All?

Most Americans are pleasantly surprised when they learn the truth about the individual mandate. It is simply a common sense tool to make sure people act like good neighbors. The mandate is the opposite of a massive tax increase, because very few Americans will be affected. The whole idea is to have almost no one left without health coverage and required to pay the fine.

If only a tiny sliver of Americans will be affected, why not just get rid of the mandate? This course of action might seem appealing, because opponents of health reform have demonized the mandate – and most people currently tell pollsters that they do not like it.

But even though it is just a prod, the mandate sends an important signal – just like state laws requiring auto insurance. It tells all Americans that once Affordable Care is in effect it is time to sign up for health coverage or find out what tax credits will help you buy insurance for yourself. The signal will get people's attention – and help hold down insurance prices for all of us.

This brief draws on Linda J. Blumberg, Matthew Buettgens, and Judy Feder, "The Individual Mandate in Perspective," Urban Institute, March 2012; and "Payments and Penalties under the Patient Protection and Affordable Care Act," Congressional Budget Office, April 30, 2010.