

Ending individual mandate would not dramatically hike insurance prices, study finds

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A new RAND Corporation study concludes that eliminating a key part of health care reform that requires all Americans to have health insurance would sharply lower the number of people gaining coverage, but would not dramatically increase the cost of buying policies through new insurance exchanges.

The study comes as the U.S. Supreme Court prepares to hear arguments in March regarding the [constitutionality](#) of the individual mandate, a key provision of 2010's [Affordable Care](#) Act.

According to estimates created using a microsimulation model created by the RAND Comprehensive Assessment of Reform Efforts (COMPARE) program, the number of Americans predicted to get coverage in 2016 under the Affordable Care Act would drop from 27 million to 15 million if the individual mandate were eliminated.

Despite that drop, the study estimates that eliminating the individual mandate would increase an individual's cost of buying insurance through the individual exchanges by just 2.4 percent.

Under [health care reform](#), [health insurance](#) exchanges will be established to provide policies to individuals who do not have work-based coverage and those who work for small employers. A key issue underlying the relatively small increase in premiums relates to the manner in which

premiums in the exchanges are allowed to vary by age.

"Our analysis suggests eliminating the individual mandate would sharply decrease coverage, but it would not send premiums into a 'death spiral' that would make health insurance unaffordable to those who do not qualify for government subsidies," said Christine Eibner, the study's lead author and an economist at RAND, a nonprofit research organization.

Another consequence of repealing the individual mandate would be a sharp increase in the amount of government spending for each person newly enrolled in a [health insurance plan](#). Because most individuals who remain enrolled if the mandate is eliminated are eligible for significant government subsidies, government spending for those newly insured would more than double, rising to \$7,468, according to the RAND Health study.

"The individual mandate is critical not only to achieving near-universal health care coverage among Americans, but also to yielding a high value in terms of federal spending to expand coverage," Eibner said. "Without the individual mandate, the government would have to spend more overall to insure a lot fewer people."

One of the most contentious provisions of the 2010 Affordable Care Act is the individual mandate that requires most adult Americans to either obtain health coverage or pay an annual fine. Supporters say the mandate is necessary to encourage young, healthy adults to get coverage, and help spread costs and risks across a larger, healthier group of insured individuals.

If the mandate is eliminated, there is concern that the insurance exchanges established under the Affordable Care Act would suffer from "adverse selection" as only sicker, higher-risk adults would sign up for coverage. Such a trend could lead to higher per-member spending and

drive insurance premiums higher.

Several other research groups previously studied what might occur if the individual mandate was eliminated. The RAND study predicts dips in overall insurance coverage and changes in [government spending](#) similar to those predicted by the earlier studies.

However, Eibner and co-author Carter C. Price used a more-precise method to estimate the effect that ending the individual mandate might have on insurance premiums. It does not predict price consequences as great as those predicted by others.

Other research teams estimated the overall average increase in premiums that would be expected if the individual mandate is eliminated. The RAND analysis focuses on the annual increase that might be faced by individuals, taking the age of enrollees into account.

Under the Affordable Care Act, individuals cannot be charged higher premiums because of preexisting medical conditions or current health problems. But the law does allow older people to be charged as much as three times more than younger people for health insurance.

The simulations done by RAND and other researchers suggest that most of those who would forgo health coverage if the individual mandate were eliminated would be younger. That would leave the insurance exchanges with proportionately more people purchasing insurance in the older age brackets, where premiums are higher.

Taking these age issues into consideration, RAND researchers estimate that the premiums paid by individuals using the exchanges would be 2.4 percent higher if health reform moves ahead without the individual mandate. This is a more modest impact than others have predicted.

When the individual perspective is dropped, RAND's estimate of the overall average increase is roughly in line with the studies done by other groups. The overall average premium among all people using the exchanges would be 9.3 percent higher -- an increase caused largely because a disproportionate share of people left buying policies after the mandate is repealed would be in older, more-expensive age brackets.

More information: The study, "The Effect of the Affordable Care Act on Enrollment and Premiums, With and Without the Individual Mandate," is available at www.rand.org

Provided by RAND Corporation

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