

What is the Evidence of the Effects of the ACA’s Individual Mandate and of Its Repeal?

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The Tax Cut and Jobs Act of 2017, enacted in late 2017, terminated the Affordable Care Act’s Individual responsibility requirement (hereafter, individual mandate) by reducing the tax penalty to \$0, effective January 1, 2019. As the District of Columbia (and other states) considers the possibility of creating a state-level mandate, an important question is what is known about the effect of the mandate, its repeal and its replacement?

- The Congressional Budget Office (CBO) estimated repealing the individual mandate would lead 4 million Americans to lose coverage in 2019, rising quickly to 12 million by 2021 and to 13 million by 2025. This includes losses in nongroup coverage, including exchanges, Medicaid and employer-sponsored coverage.¹

Effects of Repealing the Individual Mandate on Health Insurance Coverage

Millions of People Under Age 65, by Calendar Year

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|--|------|------|------|------|------|------|------|------|------|------|
| Change in Coverage Under the Policy | | | | | | | | | | |
| Medicaid | 0 | -1 | -2 | -4 | -4 | -4 | -4 | -5 | -5 | -5 |
| Nongroup coverage, including exchanges | 0 | -3 | -4 | -5 | -5 | -5 | -5 | -5 | -5 | -5 |
| Employment-based coverage | 0 | * | -1 | -2 | -2 | -3 | -3 | -3 | -2 | -2 |
| Uninsured | 0 | 4 | 7 | 12 | 12 | 12 | 12 | 13 | 13 | 13 |

Source: CBO, November 2017

- CBO also concluded that the cost of nongroup insurance premiums would rise by 10% because those retaining coverage would tend to be less healthy and older, while those dropping coverage would be younger and healthier. Thus, average insurance premiums for those remaining insured would rise because the risk pool becomes less healthy overall.
- The American Academy of Actuaries² agreed that insurance premiums would rise, but went on to note that this would weaken insurer solvency, could cause more insurers to withdraw from the market and that strong actions would be needed to counteract these adverse effects.
- Prior, independent research by the RAND Corporation reached similar conclusions.³
- Research by economists from Harvard and MIT, based on early data from 2014, found that, while the primary effects of the ACA on insurance coverage were caused by changes in Medicaid eligibility and the creation and subsidies for health insurance exchanges, about 30% of insurance expansions were likely attributable to other causes, including social perceptions of the insurance mandate.⁴ Although there were exemptions from the tax penalties for those with low incomes or hardships, it is not clear how well the public understood these policy details. They

also note that effects were likely to rise in later years, as tax penalties rose substantially after the first year.

- A national poll done in September 2017 found that the public was roughly evenly divided in opinions about keeping or ending the individual mandate: 30% favored keeping it, 40% favored ending it and 30% was not sure. Support for retaining the mandate was higher among African Americans, those with higher income, those with more education and Democrats.⁵ Given the profile of DC residents, this suggests greater support for the mandate in the District.

Findings from Massachusetts

Much of the evidence about the effects of an individual mandate relies on findings from Massachusetts, which instituted its mandate in 2006, as part of its state health reform. Research indicates that:

- The mandate resulted in overall increases in insurance coverage and in lower insurance premiums.⁶
- The mandate was associated with increases in employer coverage. In addition, there were health care savings as preventable hospital admissions declined and length of stay fell, although there were no overall increases in hospital costs.⁷
- Although there were no major changes in Medicaid eligibility in Massachusetts, there was nonetheless a substantial increase in Medicaid enrollment.⁸
- Overall, Massachusetts' health reform helped reduce economic problems, including reduced past due debt, improved credit scores and reduced personal bankruptcies.⁹

In discussions with the ACA Working Group by officials from the Massachusetts Connector indicated that there is no evidence that the state's individual mandate has any significant adverse effects on the state's economy or employment.¹⁰

The experience of Massachusetts is particularly relevant to the District, since both pre-reform Massachusetts, as well as the pre-reform District, had relatively strong insurance coverage levels (compared to other states) before reform and already had relatively generous Medicaid coverage and strong employer sponsored coverage.

Changes in Insurance Coverage in the District

As of yet, we are not aware of any rigorous research about the effects of how the individual mandate affected the District, but trend data suggest positive effects. Analyses of Census data show that the overall percent of uninsured residents fell from 6.7% in 2013 to 3.9% in 2015; Medicaid participation rose, while private insurance coverage did not change. (Detailed tables from the American Community Survey).

There was lower growth in health insurance premiums for employer-sponsored insurance in the District than for the overall U.S. Data from the Medical Expenditure Panel Survey (Agency for Healthcare Research and Quality) indicate that the average premium for a single person rose 9.5% between 2013 and 2016 for the nation, but only 8.1% in DC, while the average premium for family coverage rose 11.0% for the nation, but 9.2% in DC.

Changes in the District market may have helped stabilize private insurance premiums, compared to overall national changes.

An economic analysis conducted in July of the Senate’s “skinny” repeal bill, which mostly proposed to repeal the ACA’s individual and employer mandates, estimated that the losses in federal funding caused by that bill would reduce overall employment in the District by 714 jobs in 2020 and 1,191 in 2026 (and overall losses of 67,000 jobs nationwide in 2020 and 131,000 by 2026).¹¹ These losses were driven by reductions in Medicaid and premium tax credit revenue in the District. While that bill differs somewhat from the change enacted in the tax law, it demonstrates the harmful negative economic impact of repealing the mandate on the District.

Taken together, these data suggest that loss of the individual mandate poses significant risk to the District, its residents, and the insurance and health market. Creating a state replacement for the discontinued federal mandate should help prevent those losses, without creating serious new burdens for District residents.

¹ Congressional Budget Office. Repealing the Individual Health Insurance Mandate: An Updated Estimate. Nov. 2017.

² Shari Westerfield, Vice President of American Academy of Actuaries. Letter to Kevin McCarthy, Richard Neal, Orrin Hatch and Ron Wyden, Dec. 12, 2017.

³ C. Eibner and E. Saltzman. How Does the ACA Individual Mandate Affect Enrollment and Premiums in the Individual Insurance Market? RAND. Nov. 2015.

⁴ M. Frean, J. Gruber, B. Sommers. Premium Subsidies, the Mandate, and Medicaid Expansion: Coverage Effects of the Affordable Care Act. National Bureau of Economic Research. Working Paper. April 2016.

⁵ J. Holahan, M. Karpman, S. Zuckerman. What Explains Attitudes toward the Individual Mandate? Urban Institute. Nov. 21, 2017.

⁶ M. Hackman, J. Kolstad, A. Kowalski. Adverse Selection and an Individual Mandate: When Theory Meets Practice. *Amer. Econ. Rev.* 2015, 105(3): 1030–1066

⁷ J. Kolstad and A. Kowalski. The Impact of Health Care Reform on Hospital and Preventive Care: Evidence from Massachusetts. *J. Public Econ.* 2012 December 1; 96(11-12): 909–929.

⁸ J. Sonier, M. Boudreaux, L. Blewett. Medicaid ‘Welcome-Mat’ Effect of Affordable Care Act Implementation Could Be Substantial. *Health Affairs.* 2013; 32(7): 1319–1325

⁹ M. Bazumder and S. Miller. The Effects of the Massachusetts Health Reform on Household Financial Distress. *Am Econ J: Economic Policy* 2016, 8(3): 284–313

¹⁰ Audrey Morse Gasteier. Chief of Policy and Strategy, Massachusetts Connector, Jan. 23, 2018.

¹¹ L. Ku, E. Brantley and E. Steinmetz. Senate “Skinny Repeal” Option Would Create Job Losses in Most States. George Washington Univ. July 27, 2017.