

Impact of the Individual Mandate Penalty Repeal

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Issue Brief



North Carolina Institute Of Medicine

In December 2017, the United States Congress passed a sweeping new tax bill, the Tax Cuts and Jobs Act (Public Law No: 115-97), the largest such legislation since the 1980's. The bill contains many changes to both individual and corporate tax rates, deductions, and other elements of the tax code, and repeals the Affordable Care Act's individual mandate penalty. In this brief, we examine the potential impact of this repeal on insurance coverage, health care costs, and population health in North Carolina.

Under the Patient Protection and Affordable Care Act legislation of 2010 (also known as the Affordable Care Act, ACA, or "Obamacare"), individuals are required to purchase health insurance or pay a penalty on their federal income taxes—this is known as the individual mandate. Under the Affordable Care Act, the penalty was 2.5% of family income, to be assessed as no less than \$695 per adult, plus an additional \$347.50 per child, up to a family maximum of \$2,085.¹ Under the new tax bill, the requirement to purchase insurance remains in place, but there will no longer be a tax penalty for failing to purchase health insurance.²

In its analysis of the tax bill, the Congressional Budget Office (CBO) estimates that the repeal of the individual mandate could result in up to 13 million fewer people with health insurance by 2027.³ Of these 13 million, 5 million fewer would have individual market coverage, 5 million fewer would have Medicaid coverage, and 3 million fewer would have employer coverage.^{a,4}

One of the primary reasons given for repealing the individual mandate is that savings from the repeal have been estimated at \$338 billion over the next 10 years.³ These estimated savings, primarily in the form of lower federal costs for premium tax credits and Medicaid, allowed lawmakers to include temporary reductions to individual tax rates and permanent reductions in corporate tax rates in the tax bill.^b While some experts argue that the CBO projections of individuals who will lose health insurance coverage due to the repeal of the individual mandate penalty are overstated, if fewer people lose coverage, then there will also be less savings to the federal government.

Individual Market Coverage

In 2017, 12.2 million Americans received health insurance coverage through the ACA individual health insurance market, including 549,158 North Carolinians.^{5,6} Of these individuals, the CBO estimates that as many as 5 million will lose coverage by 2027. If North Carolina is similarly affected, approximately 225,000 fewer North Carolinians would be insured.^{5,6}

Many estimated to lose coverage would do so by opting out of purchasing health insurance coverage because the penalty has been removed. It is estimated that healthy consumers would be more likely to make this choice than those who are less healthy. As healthy (thus lower cost) people leave the market, insurers would need to increase premiums for the less healthy (and costlier) people who remain, as rules for guaranteed issue^c and essential health benefits^d have not changed. The CBO projects that individual premiums would be 10% higher each year than previous projections (See **Figure 1**).^{3,7} Because of these

^a The CBO analysis does not take into account the discontinuation of cost-sharing reduction payments, announced by the Administration in October 2017. In a January 10, 2018 presentation, CBO stated that they are working to revise their baseline estimates. NCIOM will revise impact estimates in this issue brief, if needed, after new CBO estimates are published.

^b Additional net budgetary effects projected to come from changes in penalty payments by employers and uninsured people, Medicare payments, and other effects on revenues and outlays.

^c "Guaranteed issue" is used to describe a situation where a health insurance policy is offered to all eligible applicants without regard to health status.

^d "Essential health benefits" are a set of 10 categories that must be covered by health insurance plans under the Affordable Care Act. These include doctors' services, inpatient/outpatient hospital services, prescription drugs, pregnancy, childbirth, and mental health services. <https://www.healthcare.gov/glossary/essential-health-benefits/>

increases, more people, especially higher-income people who do not qualify to receive subsidies to help pay for insurance coverage, would then drop coverage because it will be too costly.² Individuals and families making between 100% and 400% of the federal poverty level are eligible for subsidies to purchase health insurance through the marketplace, in some cases with the full premium covered for the lowest cost plan. The size of the subsidy is tied to the second-lowest cost silver plan and is designed so that a consumer will not pay more than a specified percent of income for that plan. Therefore, while premiums may continue to rise, individuals between 100% and 400% of the federal poverty level will be insulated from the impacts by receiving higher subsidies to counter premium increases. Individuals in this group who are currently uninsured may not have the incentive to seek out the ACA marketplace upon hearing that the mandate penalty (interpreted by many as the mandate itself) has been eliminated, thus preventing them from learning that their premiums would either be fully or partially subsidized.

Medicaid Enrollment and Coverage

In 2017, 2 million North Carolinians were enrolled in Medicaid, up from 1.7 million in 2013, before the implementation of the ACA. Since the implementation of the ACA, many uninsured people who sought out health insurance through the individual marketplace discovered they were eligible for Medicaid and enrolled. The CBO estimates that nationally, 5 million fewer people will be covered by Medicaid by 2027 due to the repeal of the individual mandate. While the full impact on Medicaid enrollment is uncertain, if North Carolina is proportionally affected, approximately 137,000 fewer North Carolinians will enroll in Medicaid.^{e, 8, 9} Although the state has not expanded Medicaid eligibility under the ACA, it is likely that some individuals that are currently eligible may not seek out enrollment upon hearing that the mandate penalty has been eliminated.

Employer Coverage

The ACA required employers of 50 or more full-time workers to offer affordable, comprehensive employer-sponsored insurance. While enforcement of the individual mandate will be removed in 2019, the requirement for these employers to offer health insurance remains.¹⁰ These employers must also continue to report to the Internal Revenue Service (IRS) on health coverage they offer their employees and are subject to employer shared responsibility payments if they are not compliant.^{f, 10, 11} The CBO estimates that up to 3 million fewer people will have employer-sponsored health insurance by 2027 due to the mandate repeal. This may be due to individuals choosing to forgo the health insurance offered by their employer because they would not be responsible for paying a penalty for doing so. As more healthy individuals opt out of employer-sponsored insurance, premiums may rise for those who remain. If North Carolina is proportionally affected, 87,000 fewer North Carolinians will have employer-sponsored health insurance in 2027.^{g, 3, 12}

Impacts on Individuals in North Carolina

Enrollment in marketplace health plans in North Carolina for coverage in 2018 totaled 523,989⁵, compared to 549,158¹³ in 2017. Lower enrollment than the past year may reflect the shorter enrollment period and decreased funds for advertising and in-person enrollment assistance, although enrollment is higher than many forecasters expected would result from these changes.

There are 2 groups of people the mandate repeal may initially impact the most:

- 1) individuals and families who currently do not receive a subsidy for health insurance premiums *and* are subject to penalty payments, and

^e NCIOM estimate based on projection from CBO of 5 million fewer enrolled in Medicaid. Total Medicaid enrollment in US, 2017 (estimate): 73.5 million. $5/73.5=6.8\%$ fewer Medicaid enrollees. 6.8% of 2,008 million NC Medicaid enrollees=136,598 fewer North Carolinians enrolled in Medicaid.

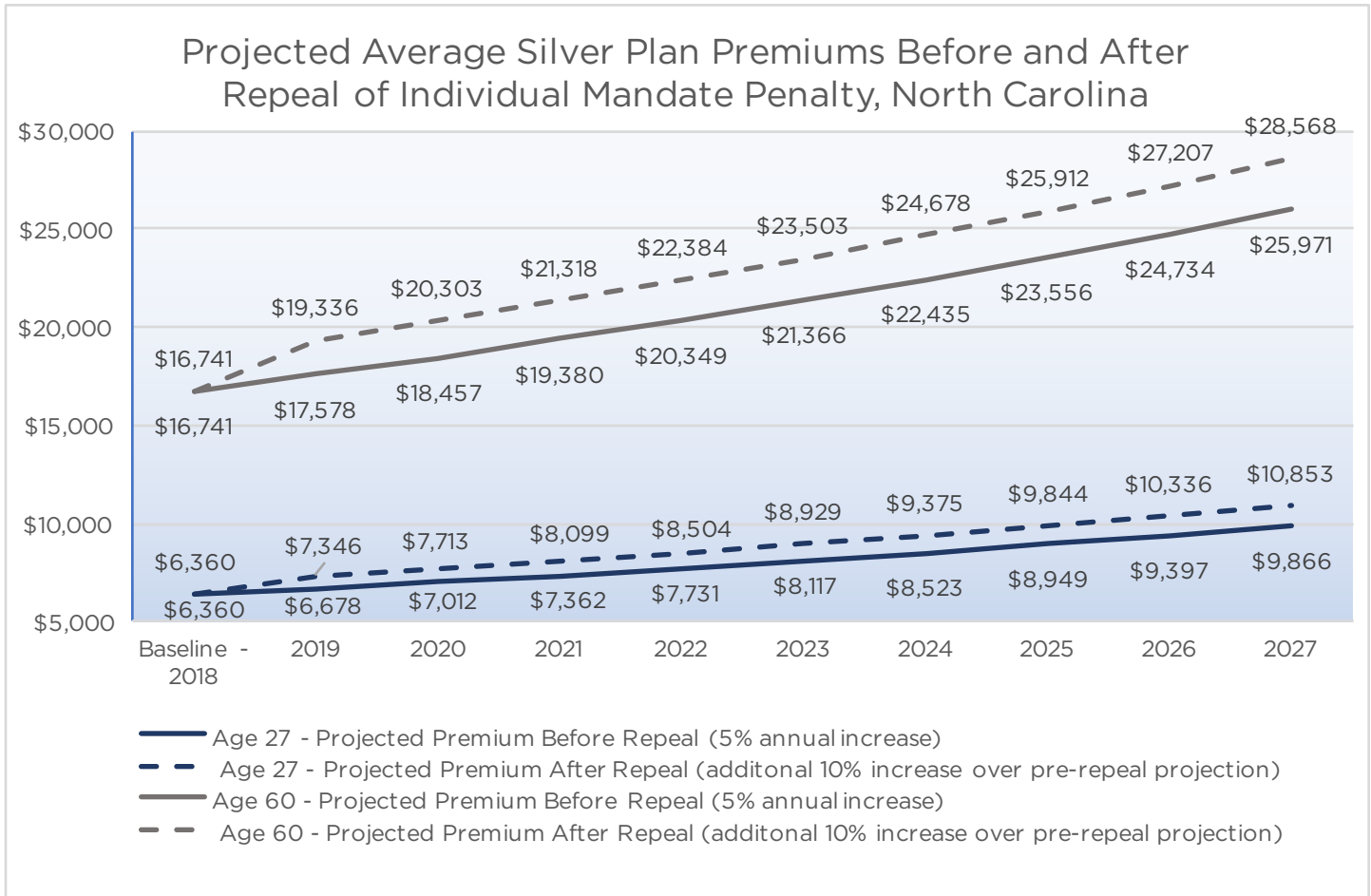
^f Employer Shared Responsibility Payments are penalties paid to the IRS by employers of 50 or more employees who do not offer their employees and their dependents health insurance coverage that meets certain minimum requirements. Employers also generally face penalties if employees receive subsidies for insurance coverage on the marketplace. Penalties are calculated using an IRS formula based on number of employees.

^g NCIOM estimate using CBO projection of 3 million fewer employer-sponsored insurance enrollees. Total in US 2017, 157,381,500. $3,000,000/157,381,500=1.9\%$ fewer employer-sponsored insurance enrollees. 1.9% of 4,570,100 NC employer-sponsored insurance enrollees=87,115 fewer North Carolinians enrolled in employer-sponsored insurance.

- 2) individuals and families who currently receive subsidies for insurance premiums, but do not have their full premium covered *and* would be subject to a penalty if they did not purchase insurance.

The first group may now choose to forgo insurance that may be costly to them and not face a penalty starting in 2019. Projections of premium increases before the penalty repeal were for a 5% year-over-year increase. Following the repeal of the penalty, the CBO has projected premiums to rise an additional 10% each year over the original projections.³ **Figure 1** shows the projected additional annual increase in premiums (10% increase over the pre-repeal projection) for individuals who do not receive a subsidy, following the repeal of the penalty in 2019.

Figure 1: Projected Average Silver Plan Premiums Before and After Repeal of Individual Mandate Penalty, North Carolina



Source: Healthcare.gov Plan Year 2018 Individual Medical Coverage Landscape <https://www.healthcare.gov/health-plan-information-2018/>. NCIOM analysis of data: 2018 baseline is average annual premium for all silver plans available in North Carolina on individual marketplace in 2018, for 27-year-old single adult and for 60-year old single adult. Subsequent years calculated using CBO projection of 5% annual increase if individual mandate penalty remained, and an additional 10% increase over the pre-repeal projection.

The second group will make the same consideration, although their premiums will continue to be partially subsidized and their costs (premiums minus subsidies) may be unchanged. In addition to these groups that may pay less by forgoing insurance coverage, other individuals whose premiums are fully subsidized and individuals who would not have been subject to the mandate penalty could potentially choose to leave the marketplace upon learning that there is no longer a penalty.

It is unclear what percentage of people will choose to forgo coverage once the mandate penalties are eliminated. A Kaiser Family Foundation poll of marketplace enrollees found that 8% of respondents would go without coverage if the mandate was no longer enforced.¹⁴ **Table 1** shows samples of costs for health insurance based on income and family

size in Wake and Bertie Counties for 2018 compared to tax penalties for lacking insurance coverage.^h As health insurance premiums rise, the subsidy will rise with it for families between 100% and 400% of the poverty level, making continued purchase of health insurance an attractive option for some North Carolinians. Those with incomes less than 100% and greater than 400% receive no subsidy.

Table 1: Tax Penalty and Premium Rates for Lowest Cost Plan in 2018 in Bertie and Wake Counties, By Income, Marital and Family Status

Annual Income	Married?	# of Children	Tax Penalty (\$/year)	Plan Premium (\$/year) Bertie County	Plan Premium (\$/year) Wake County
\$20,000	No	0	\$696	\$0 ^a	\$0 ^a
\$20,000	No	2	N/A ^b	\$13,008 ^c	\$11,148 ^c
\$20,000	Yes	0	N/A ^b	\$0 ^a	\$0 ^a
\$20,000	Yes	2	N/A ^b	\$18,924 ^c	\$16,212 ^c
\$30,000	No	0	\$696	\$408 ^d	\$828 ^d
\$30,000	No	2	\$1,392	\$0 ^a	\$0 ^a
\$30,000	Yes	0	\$1,392	\$0 ^a	\$0 ^a
\$30,000	Yes	2	N/A ^e	\$0 ^a	\$0 ^a
\$50,000	No	0	N/A ^f	\$5,916 ^g	\$5,076 ^g
\$50,000	No	2	\$1,392	\$0 ^a	\$456
\$50,000	Yes	0	\$1,392	\$768 ^d	\$1,584 ^d
\$50,000	Yes	2	\$2,088	\$0 ^a	\$0 ^a
\$75,000	No	0	\$1,608	\$5,916 ^g	\$5,076 ^g
\$75,000	No	2	\$1,536	\$2,760 ^d	\$3,660 ^d
\$75,000	Yes	0	N/A ^f	\$11,832 ^g	\$10,140 ^g
\$75,000	Yes	2	\$2,088	\$756 ^d	\$2,064 ^d

Source: Kaiser Family Foundation Individual Mandate Penalty Calculator. <https://www.kff.org/interactive/penalty-calculator/>

N/A = Not Applicable

Note: Assumes all family members uninsured; assumes all adults age 40 and children (if applicable) age 5 and 10. Individuals and families between 100-400% FPL are eligible for subsidies if they purchase insurance through the individual marketplace.

a Insurance premiums fully subsidized.

b No penalty due to income below tax filing threshold.

c No subsidy, population intended for Medicaid expansion, which was not passed in North Carolina. People with incomes less than 100% Federal Poverty Level are not eligible for subsidies.

d Insurance premiums partially subsidized

e No penalty due to population intended for Medicaid expansion, which was not passed in North Carolina, however income high enough to qualify for subsidy.

f No penalty due to lowest cost plan being unaffordable, as defined by ACA.

g No subsidy due to income and family status.

The impacts on North Carolina could be compounded by the limited options for insurance plans on the ACA marketplace in most counties. In 2018, all but 5 counties in the state (Chatham, Johnston, Nash, Orange, and Wake) have only one insurer participating in the ACA marketplace, representing 85% of marketplace enrollees in North Carolina.¹⁵

If premiums rise as projected, consumers could face these costs while having no alternate choices in plans and/or insurers. Alternatively, insurers may choose to end

^h Bertie and Wake Counties selected as examples of Tier 1 and Tier 3 counties, respectively. The North Carolina Department of Commerce ranks all 100 counties in the state based on economic well-being; the 40 most economically distressed counties are designated Tier 1, and the 20 least distressed are Tier 3.

their participation in the marketplace altogether, potentially leaving some areas without any ACA-approved plans. In addition, in several counties in the state, the cheapest plan available in 2018 has premiums of at least \$500 per month, (before accounting for subsidies) making these locations more susceptible to higher rates of individuals forgoing health insurance coverage from the marketplace as premiums continue to rise.¹⁶

Impacts on Individual Health and Finances

Some have questioned whether increased health insurance coverage has led to improved health and outcomes. There are several ways to measure the impacts of health insurance on people's lives. Research shows that individuals with insurance have higher rates of usual care, increased access to primary care, and are more likely to correctly take prescribed medications.^{17,18} There is some evidence showing that preventive care services have expanded since passage of the ACA, with increased screenings for conditions including diabetes, cancer, and high cholesterol.¹⁷ There is mixed evidence related to outcomes for people with chronic diseases. One experiment showed no significant changes in outcomes for certain conditions but increased rates of diagnosis and medication use for diabetes and improvements in diagnosis and treatment of depression.¹⁷ Insurance may also facilitate more timely treatment of cancer.¹⁷ In general, patients with insurance perceive better health and functional status when covered.^{17,18} There is also evidence of decreased mortality rates for people with insurance coverage.¹¹ There do not appear to be significant differences in outcomes from private insurance coverage compared to Medicaid coverage.¹⁷ In addition to strictly medical outcomes, studies show decreased financial risk and burden for insured individuals.¹⁷

What's Next in 2018?

Following the passage of the tax bill, some states, including California, Connecticut, Maryland, New Jersey, and Washington, may consider implementing their own individual mandate.¹⁹ However, even in these Democratic-leaning states, attempts to do so may prove challenging due to overall unpopularity of mandates. Massachusetts continues to maintain their mandate, which has been in place since their 2006 health reform legislation was enacted.

It is unclear what additional action Congress and the Trump Administration may take in coming months regarding health policy and the ACA. Some Congressional leaders have indicated that they will move to stabilize markets and may work toward bipartisan agreements to do so, while others have stated that they may continue to push for further repeal and replacement efforts. In addition, the Trump Administration is working toward expanding availability of short-term health insurance policies that do not meet the criteria of guaranteed issue or essential health benefits and impose annual and lifetime limits on coverage. Increased use of such plans would potentially lead to healthy individuals leaving the insurance marketplace more quickly and accelerating the increase in premiums for others.²⁰

Conclusions

According to estimates from the Congressional Budget Office, the repeal of the individual mandate penalty for health insurance as part of the Tax Cuts and Jobs Act would reduce the federal deficit by \$338 billion and result in 13 million fewer Americans with health insurance coverage by 2027. The repeal of the individual mandate penalty will also increase individual choice as to whether or not a person gets health insurance. If North Carolina is proportionally affected, 450,000 fewer North Carolinians will have health insurance coverage by 2027. It is likely that the choice to forgo health insurance coverage will be more common among those that are young and healthy, increasing costs of premiums for others participating in the marketplace. This affects those earning more than 400% of the federal poverty level the most, as they are ineligible for subsidies and must pay the entire cost of health insurance on the marketplace if they choose to enroll.ⁱ

ⁱ Those earning less than 100% of the federal poverty level are also ineligible for subsidies on the marketplace as the ACA intended for this group to be covered under state Medicaid expansions. However, North Carolina has not expanded Medicaid beyond existing eligibility requirements. Prior to the penalty repeal, these individuals have not had access to affordable plans on the marketplace, with affordable plans defined as those that cost less than 8.05% of household income (<https://www.kff.org/interactive/penalty-calculator/>). Therefore, the increase in premiums will likely not impact this group's overall uninsured rate.

Update:

On February 14, 2018, the Centers for Medicare and Medicaid Services Office of the Actuary released the 2017-2026 Projections of National Health Expenditures. These projections included major health provisions from the Tax Cut and Jobs Act; they did not include provisions from the Bipartisan Budget Act of 2018. In the CMS projections, it was estimated that the population with health insurance coverage will decrease from 91.1% in 2016 to 89.3% in 2026, due partly to the elimination of the individual mandate penalty.²¹ This impact is expected to be concentrated in the years 2019-2020, during which time the number of uninsured is projected to increase from 30.0 million to 32.7 million, as those most responsive to the penalty make coverage decisions following the effective date of repeal.²² Overall, CMS projects an increase of 8.3 million uninsured between 2017 and 2026.²³

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