Toward a More Stable & Affordable Health Insurance Market: Continuing the "Individual Mandate" in California

The individual health insurance market is more stable and less expensive for everyone when consumers get assistance to afford health coverage, as well as with a requirement to have coverage. Such a requirement to have health coverage or face a potential tax penalty, known as an "individual mandate," helped make the Affordable Care Act (ACA) successful. However, in late 2017 Congress repealed the federal individual mandate penalty, nearly doubling the 2019 premium rate increase and destabilizing the health care marketplace. California has the opportunity to reverse that change. If reinstated, the individual mandate penalty would encourage Californians to sign up for coverage, and generate revenues to be used to improve affordability assistance in Covered California. While these revenues should not be the sole source of such subsidies, it should supplement additional investments to help Californians afford coverage and strengthen the overall health care system.

Importance of the Individual Mandate

The ACA included many provisions designed to help consumers get care and coverage, including: outlawing denials or discrimination based on pre-existing conditions, providing affordability assistance, and setting a standard for essential health benefits. Balancing out this package of patient protections, the ACA also included an individual mandate for consumers to obtain minimum essential coverage or face a penalty.

In December 2017 the federal individual mandate penalty was zeroed out by the Trump Administration and Congress. This action resulted in around half of the 8% increase in 2019 premiums, and this past open enrollment period, Covered California saw a 23% reduction in new enrollment despite aggressive marketing efforts. Recent estimates predict that as many as 650,000 more Californians will be uninsured by 2023 as a result of the repeal of the federal individual mandate penalty[i].

A state-level individual mandate penalty increases enrollment as 1) a reminder to sign-up for coverage, 2) a direct financial penalty for failure to enroll, and 3) as a way to lower premiums for everyone by encouraging healthier people to sign up, stabilizing the market. Using the revenues collected by the penalty to help fund greater affordability subsidies would be a fourth way in which the penalty could increase enrollment.

Lack of Affordability: The Biggest Barrier

Coverage in the individual market, especially for those with moderate or higher incomes, remains the biggest barrier to people obtaining coverage. This is especially true in a high cost of living state like California.

- Someone making $3,000 - $4,000 a month is expected to pay almost 10% of their income, ($300 - $400 a month) for silver-level coverage in Covered California with a $2,250 deductible.
- A 62-year old couple who makes $70,000 a year would pay 40% of their income for the standard silver coverage[ii] or $15,000 - $20,000 for bronze coverage with deductibles of $6,300 each.

FACT SHEET: A California Individual Mandate

The ACA's individual mandate has several exemptions. Those spending more than 8% of their income on premiums are exempt from paying the mandate penalty. Consumers recognize the biggest penalty is being uninsured, which could result in overwhelming medical bills. In a state with high housing costs and other expenses, affordability remains a big barrier to getting coverage. For these Californians, the solution is to make coverage more affordable while also continuing the incentive to obtain coverage that has been in place since 2014.

Mandate Revenue for Affordability Assistance: Good but not Sufficient

Recent estimates are that revenue from reinstating the penalty for the individual mandate in California could raise $500 million to $700 million[iii]. This revenue should go towards making health care more affordable, but it is not sufficient. In an ideal world, nobody would pay the penalty because we have provided enough affordability assistance for all to sign up. Short of that, any mandate revenue should supplement a larger package of enhanced subsidies, but not be the sole source of funding.

Covered California recently estimated that a comprehensive approach to improving affordability would cost between $2.1 - $2.5 billion which would cut the number of uninsured in the individual market in half[iv], as well as reduce cost-sharing to make it easier for patients to get the care they need.

Connecting People to Coverage

When someone pays the individual mandate penalty, that is a good opportunity to connect them to health care options and explore whether they are eligible for coverage through Medi-Cal or Covered California. In 2015 and 2016, many tax filers who initially paid the penalty in California were in the income range for zero-cost Medi-Cal and the overwhelming majority were in the income range to receive subsidies in Covered California. Those who pay the penalty should know that help to pay for coverage is available.

Two Bills to Reinstate the Individual Mandate in California

Health Access supports the continuation of the ACA individual mandate penalty at the state level, as proposed in **AB 414 (Bonta)** and **SB 175 (Pan).** This is also an important part of broader efforts to prevent enrollment declines due to federal sabotage of the Affordable Care Act, and to increase affordability by supplementing the funding for enhanced subsidies, connecting Californians to coverage, and ultimately lowering premiums. As part of the Care4All California package, this also is an important step to cut the uninsured rate in half, and ultimately get to universal coverage in our state.

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[i] Dietz et al, "California's Health Coverage Gains to Erode without Further State Action", UCLA/UC Berkeley, Nov. 2018: http://laborcenter.berkeley.edu/ca-coverage-gains-to-erode-without-further-state-action/

[ii] "Options to improve Affordability in the Individual Health Insurance Market," Covered California, Feb. 1, 2019:: https://hbex.coveredca.com/data-research/library/CoveredCA_Options_To_Improve_Affordability.pdf

[iii] Levitis, State Individual Mandates: Hows and Whys", Brookings Institute, Oct. 2018: (https://www.brookings.edu/research/state-individual-mandates-hows-and-whys/)

[iv] Covered California, "Affordability Options"