

Individual Mandates

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Rationales for Insurance Mandates

- Altruistic externalities / rational free riders leading either to:
 - 1) Charity care cost shifting
 - 2) Sadness of others
- Altruistic externalities/ Irrational buyers
- Preventive care with turnover
- Contagious disease
- Norms behavior and spillover

Why mandate middle class individuals and not well-resourced employers?

- Because most of the mandate's cost will fall on workers with wages above the minimum
- And employer mandates may cause unemployment for workers with wages near the minimum.
- So political transparency favors locating the impact where the incidence will be.
- But employers can help enforce a mandate for workers and provide an option for satisfying the requirement (Pauly, HA, 1994).

What is the content of the mandate?

- Uniform, comprehensive coverage for all?
- One specific insurance model for all?
- Mandate varies inversely with income since expected spillover does? Leads to...
- Minimum actuarial value for “real insurance”?
- Minimum acceptable coverage?
- Rule some plan designs in or out?

Mandates and Subsidies

- Technically, once you have a mandate you do not need subsidies to affect allocation; they only affect distribution. Lots more freedom of movement for policymakers in policy design. (That is what some market oriented people fear most.)
- But you may be more serious about subsidies making coverage “affordable” if you...
 - 1) Knew what “affordable” meant
 - 2) And you mandate people to pay their allegedly affordable premium contribution.

Enforcement of Mandates: General

- A universal mandate does not have to be perfectly enforceable to do a lot of good: who cares about Bill Gates? Undocumented or barter traders will escape. But “almost perfect” is better than status quo or everything free.
- It will be easier to enforce a mandate if your subsidies and policy specifications yield policies that people almost want.
- Easier to enforce a mandate that is only a small push toward a desired policy rather than a total arm twist toward one people don't see as valuable at the price they pay. So study demand, and have a light touch.

Enforcement of Mandates: a Benchmark (Pauly et al., 1991)

- Specify means tested subsidies and means tested minimum coverages. ([Unequal coverage x unequal subsidies] = Greater equality of use.)
- People certify having qualifying coverage on W-4 form (like they state number of dependents).
- If the person does not certify qualifying coverage, charge a tax or penalty equal to the required contribution for the minimum qualifying policy.
- If they lie initially or drop coverage, prosecute for underpayment of taxes.

Dealing with rugged individualists

- No-insurance card: Do not help me in case of accident or medical emergency—I made my choice.
- Require uninsured people to post a bond against the cost of charity or bad debt care, linked to the amount of charity care they are likely to generate.
- Or tell people to grow up.

Conclusion

- Mandates should not be the centerpiece of health reform: health improvements, consumer behavior, and distribution should.
- But mandates that nudge with a deft hand can help a fair amount, especially in dealing with ex ante “problematic” issues.
- Maybe experiment to see if needed. But do we have time?