# Health Insurance Mandates: Administrative Issues

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# Summary

Theory of social insurance provides justification

Free riders pay at least something

Important and interactive administrative issues:

- Who can pay?
- Can the payment be assessed fairly?
- Who can collect?
- How much can be mandated?
- What penalties/enforcement is possible?

Subsidies and mandates must be coordinated

# Employer vs. Individual Mandates

- Individuals likely to pay one way or the other
- Issues with employer mandates:
  - The right type of minimum wage increase?
  - Hides who pays—one goal of reform
  - Must accommodate or ignore multiple jobs/multiple sources of insurance in family
  - Play-or-pay may be easiest to administer
- Employers may still help administer individual mandates by
  - Withholding penalties on those without insurance
  - Distributing any subsidies

# Lessons from Other Countries

- Switzerland
  - Individual mandate builds on registration with local population control office
  - Enforcement is local, personalized
- Netherlands
  - Premiums cover only half of costs
  - Few effective sanctions for non-compliance
  - Problem of non-payment of premiums

# Lessons From Other Programs

- Compulsory automobile insurance
  - Assigned risk plans for those who can't obtain insurance in the regular market
  - Insurers required to accept high risk
  - Still a variety of cross-subsidizations
  - Noncompliance ranges from 4% to 26%

- Social Security and student loans
  - Debt collection easiest when out of future government payments

# Lessons from IRS

- Very high compliance when there is withholding, moderately high when information reporting from a 3rd party
- Self-employed underreport income by 35% or more
- Cannot collect from many families at end of year (complete or over withholding required for many)
- Need year-end reconciliations for subsidies/mandates for multiple job/insurance families if subsidies are based on current annual family income

# EITC Experience

Major design issue: hard to reflect in withholding if there is much conditioning on current annual family income

Noncompliance roughly 30%

- Much has to do with defining the “family”

# Applying Lessons: Compliance

- Emphasize compliance over enforcement
- Both mandated insurance and penalty must be affordable
- Mandate should be collected continually
- For many this means collecting through employers
- Removal of tax benefits (personal exemptions, deductions) one possibility
- Example: raise child credit, make dependent upon buying insurance

# Asking Too Much of Mandates?

Hard to assess $8,000 or even $4,000 penalties

- Mandates, however, can be used to increase the differential between buying and not buying

Large budgetary cost to provide large subsidies to everyone

- Moderate, enforceable mandates, however, can be combined with moderate subsidies to encourage households to buy at least modest insurance

# Administrative Agencies

**IRS**

- Good for using withholding system to reflect mandates and subsidies in withholding
- Not so good for non-filers (if mandate applies to them)

**Welfare Agencies**

- Mainly good for low-income
- Require coordination with Medicaid, S-CHIP, other government programs regardless

# Summary

Mandates will be easier to administer when some or all of the following factors are present:

- Applied only to those with more than low incomes
  - Or low income given other benefits that can be removed
- Not related too much to fluctuating income
- Based on other government payments that can be denied (such as tax benefits)
- Operate as simple play-or-pay schemes
- Take advantage of regular withholding
- Involve collectable & moderate penalties
- Are coordinated with any subsidy (including M-aid)