From: UCLA and UC Berkeley CalSIM team
To: Covered California
Re: Individual Market Effects of Eliminating the Individual Mandate Penalty
May 9, 2018

Eliminating the individual mandate penalty reduces the incentive to shop and enroll in the individual market, leading to a worse risk mix and an increase in premiums. Most of the decline in individual market enrollment will be due to the first effect. Our modeling using the California Simulation of Insurance Markets (CalSIM) version 2.0[1] estimates an 8-10% premium increase, and reduced enrollment due to price increases that is in line with the literature on price elasticities.[2]

In our modeling of an individual's decision to purchase health insurance we include two factors associated with the individual mandate: a *specific penalty amount*, which is related to the dollar value of the penalty a specific person would actually face; and a *constant amount,* which represents the generalized effect of the mandate and affects everyone, regardless of the exact amount of the penalty that person would face or whether that person qualifies for an exemption (with the exception of the undocumented; we do not factor in this constant amount for them). This constant amount can be thought of as the psychological impact of the existence of an individual mandate penalty, regardless of whether one actually is subject to the penalty. The specific penalty amount varies by person and is zero for individuals predicted to be exempt from the mandate. Consistent with other research, the psychological / generalized effect of the mandate is relatively more important in our model than the specific penalty amount. [3] To model eliminating the penalty we zero out both terms, essentially assuming that the entire effect of the change happens immediately in year one of the policy. Future analysis could explore a more gradual phase in of behavior change.[4]

We estimate a net decrease of 300,000 in the individual market as a result of eliminating the individual mandate penalty. About 2/3 of the decrease are those receiving subsidies, and the vast majority are below 400% FPL. Our estimate is in a similar range to the estimate of 378,000 from Hsu, Fung, Chernew, et al., though that estimate focuses on the first year impact only. [5] Our estimate is lower than the California share (15%) of the national individual market coverage loss estimated by the Congressional Budget Office—approximately 440,000 in 2019, growing to 750,000 in 2027.[6] California's coverage losses may be proportionally lower than the losses in other parts of the country because of the state's successful implementation of the ACA and strong outreach and marketing practices.

Table 1. Projected individual market insurance coverage of Californians age 0-64 if a mandate were in effect and change due to eliminating the individual mandate penalty, 2019:

Insurance type	2019 enrollment if a mandate were in effect	Total change due to eliminating the individual mandate
Individual Market	**2,420,000**	**-300,000**
Subsidized IM	1,160,000	-200,000
Unsubsidized IM	1,260,000	-110,000
IM below 400% FPL	1,870,000	-280,000
IM above 400% FPL	560,000	-30,000

Source: CalSIM version 2.0. Numbers may not add due to rounding

[1] CalSIM version 2.0 includes a number of changes from earlier versions of the model, including using a utility-based model of individual behavior and calibration to actual Covered California enrollment data and the latest survey data from the California Health Interview Survey.

[2] Saltzman, "Demand for Health Insurance: Evidence from the California and Washington ACA Marketplaces" Working Paper, 2017. *Wharton Health Care Management*, http://repository.upenn.edu/hcmg_papers/11

[3] Frean, Gruber, and Sommers, "Premium subsidies, the mandate, and Medicaid expansion: Coverage effects of the Affordable Care Act" *Journal of Health Economics*, 2017.

[4] For example, the Congressional Budget Office's estimates appear to phase in over approximately three years with the majority of the eventual decrease in the individual market occurring in the first year (CBO, "Repealing the Individual Health Insurance Mandate: An Updated Estimate," November 2017).

[5] "Eliminating the Individual Mandate Penalty in California: Harmful but Non-Fatal Changes in Enrollment and Premiums" *Health Affairs* March 1, 2018.

[6] UC Berkeley Labor Center analysis of Congressional Budget Office estimates, assuming that coverage losses are proportionate to California's share of national individual market enrollment.