NAR Frequently Asked Questions
Health Insurance Reform

INDIVIDUAL MANDATES

Q-1: What's an "individual mandate"?

A: The Acts impose an "individual mandate" or directive that all individuals have health insurance coverage of some sort. An individual is also responsible for providing insurance both for himself/herself and any dependent family members.

Q-2: What's the purpose of or rationale for an individual mandate?

A: Health policy experts agree that the current system is fundamentally flawed, as it shifts the costs of providing care among both the insured and the uninsured. The insured, medical service providers and taxpayers "pay for" services provided to the uninsured since it is unlawful or unethical to refuse treatment in many situations. At the same time, the uninsured that have the financial resources to pay for services are charged higher prices for the services they receive as they have no power to negotiate a lower fee as the insurers can.

More importantly, the basic concept of insurance is to spread risk among the largest number of participants. Health care costs can be reduced *only* if the costs and the risks are spread among the largest possible populations. Thus, the mandate includes younger and healthy individuals who might otherwise choose to be uninsured. Increasing the size of the risk pool can reduce per capita claims costs, administrative costs and premiums.

Finally, an individual mandate is intended to keep individuals from "gaming the system" by waiting until they need medical care to purchase coverage for their unexpected health care costs.

Q-3: Isn't there some other option besides a mandate?

A. Probably not. A mandate is thought to be the sole *practical* mechanism for assuring that nearly all have insurance. A mandate is also perceived as the best way to assure that the private sector will continue to provide insurance and that there will be robust competition for it. The only other practical way to assure that all have coverage is to have a government program as the sole source of health coverage. Such a system is commonly referred to a "single payer" health care system. There

was little political support for turning the entire health care system over to the government.

Q-4: How does one satisfy the mandate?

A. The mandate can be satisfied with health insurance obtained via the Exchanges/SHOPs, through an employer plan, through a spouse's employer-provided plan and an existing insurance policy. Coverage obtained through retiree plans, veterans programs, Medicare, Medicaid, SCHIP (Children's Health Insurance Program), and available to active duty military will also satisfy the mandate as will other designated types of government-sponsored health plans.

Q-5: What will be done about those individuals and families who cannot afford to purchase coverage, but are legally required by the individual mandate to do so?

A: The Act provides affordability enhancements. These enhancements take the form of credits that will be used to help pay premiums for lower and moderate income individuals and families. These credits will be distributed on a sliding scale based on income, meaning that the less money you earn, the more subsidy you would receive. Examples are provided below.

Q-6: Can you illustrate how the credits to enhance affordability will work?

A: The Act creates a credit that would be used to reduce health insurance premiums for low- and middle-income Americans who purchase coverage through the Exchange. The amount of a credit an individual or family might receive will depend on family size and household income. Family size and income will be compared with the Federal Poverty Level (FPL) and the credit computed based on those two factors.

As a rule of thumb, families can anticipate that the greater their income, the less the credit; the larger their family, the greater the credit. FPL rises based on size of family. Hence, the poorest, largest families will receive most premium credit. The credit will phase out at 400 percent of FPL. Under current law, an individual with

income up to $43,000 and a family of 4 with up to $88,080 of income can receive some premium credit.

More specifically, taking the affordability credits into consideration, the maximum proportion of income that individuals will pay for health insurance increases with income, on a sliding scale:

Up to 133% FPL	→	**2% of income**
133 – 150%	→	**3% - 4%**
150% - 200%	→	**4% - 6.3%**
200% - 250%	→	**6.3% - 8.05%**
250% - 300%	→	**8.05% - 9.5%**
300% - 400%	→	**9.5%**

Information about the FPL can be found at http://aspe.hhs.gov/poverty/index.shtml.
Note that individuals will pay a penalty if, even with this premium credit, they do not acquire health insurance. (See below, "How would an individual mandate be enforced?")

Q-7: Are there any exceptions to the individual mandate?

A. Yes. The approved measure provides hardship exceptions for those individuals and families whose incomes are too small to be able to afford the premiums required to pay for a basic insurance policy. More specifically, individuals or families who find that the least expensive policy available requires more than 8% of household income would be exempted from the mandate.

Q-8: Are insurance mandates something new?

A. Yes and No. While a health insurance mandate is a new application of a mandate, mandates currently exist for other forms of insurance. For example, state and local governments commonly require all car owners/licensed drivers to have liability insurance. While not a statutory requirement, hazard insurance is usually a condition of obtaining a mortgage. Federal flood insurance is required by statute for

federally-related mortgages in federally-designated flood zones. Part of the monthly payment for a loan backed by the Federal Housing Administration is an insurance premium that FHA requires.

Q-9: How would an individual mandate be enforced?

A: Mandates will be enforced by requiring individuals to provide proof of insurance when filing their federal tax returns. Federal guidelines will specify the format for the proof of insurance. It can also be expected that the Exchanges/SHOPs will provide the proof required for those enrolled in Exchange/SHOP plans and that employers who provide insurance to their workers will confirm the insurance as an information item on the IRS Form W-2 provided each year to their employees.

In addition, tax penalties will be imposed on those who cannot prove coverage. These penalties will be phased in over time as follows:

2014 -	greater of a flat fee of	$95	or	0.5% of taxable income
2015 -	greater of a flat fee of	$325	or	1.0% of taxable income
2016 -	greater of a flat fee of	$695	or	2.0% of taxable income

The maximum for a family without insurance when fully phased in will be the greater of $2,085 or 2.5% of household income.