CONGRESSIONAL BUDGET OFFICE

Effects of Eliminating the Individual Mandate to Obtain Health Insurance

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Beginning in 2014, most residents of the United States will be required to obtain health insurance and may face a financial penalty for being uninsured. The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) have reviewed a proposal to eliminate that mandate and the penalties associated with it (HWC_748.XML). We estimate that enacting that proposal would have the following effects on the federal budget deficit relative to current law:

NET INCREASE OR DECREASE (-) IN THE DEFICIT

(Estimates in billions of dollars, by fiscal year)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2020
Eliminate Individual Mandate	0	0	0	-12	-24	-35	-40	-44	-47	-50	-252

Notes:

The estimate includes effects on both revenues and outlays; roughly 60 percent of the savings would come from reduced outlays and roughly 40 percent would come from increased revenues.

This analysis of the proposal's budgetary effects is limited to the coverage-related provisions of current law and does not include the effects of interactions between the proposal and other provisions affecting Medicare and Medicaid – for example, regarding payments to disproportionate share hospitals (DSH), which would increase. Those effects are expected to be small relative to the savings generated by the proposal indicated above.

Additional information about the estimate:

- Under current law, CBO and JCT have estimated that about 23 million nonelderly residents will be uninsured in 2019. By eliminating the individual mandate to obtain coverage, the proposal would increase the number of uninsured by about 16 million people, resulting in an estimated 39 million uninsured in 2019.

- That increase in the number of people who are uninsured relative to current law would be the net result of about 4-5 million fewer individuals with employer sponsored coverage, about 5 million fewer people with coverage obtained in the individual market (including individual policies purchased in the exchange or directly from insurers in the non-group market), and about 6-7 million fewer individuals with Medicaid or CHIP coverage.

- CBO and JCT estimate that, relative to current law, the elimination of the mandate would reduce insurance coverage among healthier people to a greater degree than it would reduce coverage among less healthy people. As a result, in the absence of a mandate, those who enroll would be less healthy, on average, than those enrolled with a mandate. This adverse selection would increase premiums for new non-group policies (purchased either in the exchanges or directly from insurers in the non-group market) by an estimated 15 to 20 percent relative to current law. Without the mandate, Medicaid enrollees would also have higher expected health spending, on average, than those enrolled under current law. Thus, the budgetary savings from removing the mandate would be less than proportional to the reduction in insurance coverage.

- Under the proposal, the loss of revenues from the individual mandate penalties would increase the deficit by about $17 billion over the 2010-2019 period, but the savings from reduced subsidies and other sources would be greater. Of the $219 billion in offsetting savings over the 2010-2019 period, most (about $113 billion) would come from lower Medicaid enrollment. Exchange subsidies would be about $39 billion lower. Primarily because of the indirect effects of reductions in employer coverage, the removal of the mandate would increase tax revenues by about $60 billion. The remainder of the budgetary effect would come from a modest increase in employer penalties (about $5 billion) and a modest reduction in small business tax credits (about $2 billion). The net savings would thus total $202 billion through 2019.

- We have not completed the task of updating our coverage baseline and model to include 2020. As an approximation, however, we expect that there would be additional savings from this proposal in 2020—on the order of $50 billion—bringing the total savings over the 2011-2020 period to about $252 billion.