NationalJournal

The Price of Bucking Obamacare Is About to Increase—Will People Still Pay It?

7.5 million people paid the fine for ignoring the Affordable Care Act's 2014 individual mandate. If they do it in 2016, they'll pay much more.

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November 4, 2015

On Sunday, health insurance shoppers began picking plans, but for those still weighing whether to get covered, there's an Obamacare provision even more important to consider than ever before: the individual mandate.

The fee levied on those who go without insurance but who can afford it sharply increases in 2016, a result of a three-year phase-in of the penalty. The higher the fee, health experts say, the likelier it is that consumers will choose to get or stay covered. But there's a big caveat: It all depends on whether or not uninsured Americans, or those thinking about leaving the exchanges, know about the individual mandate and its steep fee increase.

"The higher it is, obviously the more people we expect will respond to it—part of it is it's been a process of individuals even recognizing that the mandate was in place," said Linda Blumberg, senior fellow at the Urban Institute's Health Policy Center.

The fee for not having health insurance next year won't be felt until Americans file their federal taxes due April 2017. But it's much more than in the past: $695 per adult and $347.50 per child, or 2.5 percent of a household's income—whichever is higher. When taxpayers file their 2015 taxes (due this April), the fee for forgoing insurance will be $325 per adult and $162.50 per child, or 2 percent of household income if the latter figure is higher.

Many health experts agreed that while it's hard to anticipate the full effect of the individual mandate, the fee serves as an incentive enroll in health coverage and a disincentive to leave the marketplace. But this part of the law is more complex than that. While a higher penalty has a larger impact, it's still not a "panacea," according to Dan Mendelson, CEO of Avalere Health, an independent consulting firm. That's because the range of reasons why consumers don't purchase a health plan vary from the belief that they can't afford it to outright hostility to the law—and then there are those who don't know or understand enough about the exchanges.

A Kaiser Family Foundation poll released last week showed that only 15 percent of uninsured Americans knew when open enrollment was, compared to just 17 percent of the general public. This points to the other big challenge: ensuring people know when they should be signing up for coverage and fully understand the Affordable Care Act's intricacies.

Whether or not a penalty drastically bigger than in 2015 will drive Americans to purchase health insurance partly depends on how knowledgeable they are about the law, according to Jon Gabel, a senior fellow with NORC at the University of Chicago, because the individual mandate is a "strong incentive" if Americans understand both Obamacare and its fee for going uninsured. In an effort to spread the word about open enrollment, the Health and Human Services Department is partnering with local health care providers, businesses, and nonprofits.

The individual mandate first came to life for those who didn't have health coverage in 2014. It was a comparatively meager price—$95 per adult and $47.50 per child, or 1 percent of a household's income (again, the higher of the two).

In mid-July, IRS Commissioner John Koskinen sent a letter to members of Congress detailing the preliminary results of the first tax season with the individual mandate: About 7.5 million taxpayers paid a total of $1.5 billion for not having health coverage. This was higher than the Treasury Department estimate that 3 to 6 million taxpayers would pay the fee. (12 million Americans without insurance were exempted due to certain hardships, financial status, and life events).

The inaugural fee "was just kind of a tap on the shoulder to say, 'Hey, pay attention here,'" said Timothy Jost, a Washington and Lee University professor emeritus who has written book chapters and articles on health care regulation. "The $695 is a pretty big tap on the shoulder—it's shouting in somebody's ear."

When it comes down to merely looking at the numbers, for some it still might be cheaper to pay the fee, even for 2016, said Karen Pollitz, a Kaiser Family Foundation senior fellow. But that would mean paying to play with fire. Because if a medical emergency occurred, the uninsured individual would be on the hook to pay the cost in addition to the individual-mandate penalty. "How people will weigh this is anybody's guess," Pollitz said, "but the expectation is that this penalty will get people's attention."

Yet, open enrollment closes before Americans have to check a box on their tax forms indicating they had qualifying health coverage during the year. In February, the Centers for Medicare and Medicaid Services announced a special enrollment period from March 15 to April 30 for those who did not have health coverage, so they could sign up and avoid the fee for 2015. But there is no guarantee that will happen again.

"Our intention," CMS Acting Administrator Andy Slavitt said in a February press call, "is that this is one-year-only for people who have not been in the communication loop around the tax penalty and whose first time learning of it will be filling out their taxes this year."

In a sense, the higher fee for 2016 might not have an immediate impact, as open enrollment for 2016 starts and ends before Americans even see the smaller 2015 fee (that comes when they file their 2015 taxes). That means, there may be a bit of lag time in terms of the individual mandate's full effect, Blumberg said, though she still believes it will impact consumer behavior.

"The more money you're throwing away for nothing, the more likely you are to change your behavior," Blumberg said. "You'd rather put more money toward getting something than throw away this amount of money for getting nothing."