



# Mandates

It's all about the money

The Five (Not So Easy) Pieces of Health Reform

AEI  
June 4, 2009

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**You've got to ask yourself one question: 'Do I feel lucky?' Well do ya, punk?**

Detective Harry Callahan, 1971

# Why a mandate?

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“If policymakers wish all Americans to have portable health insurance coverage, they must mandate that coverage...”

Uwe Reinhardt and Alan Krueger, *Health Affairs*, 1994



AHIP “proposed guaranteed coverage for people with pre-existing medical conditions in conjunction with an **enforceable...mandate**” to buy insurance.

11/19/08 press release, America’s Health Insurance Plans



# Why don't people obtain coverage?

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## The wrong product...

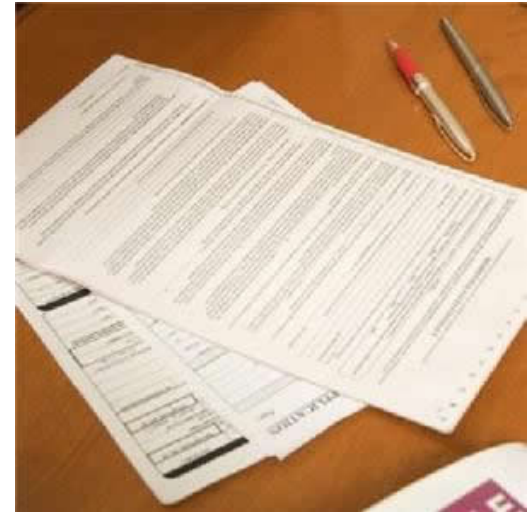
- “Good” employer coverage: generous benefits, high cost
- Medicaid—need I say more?

## ...at the wrong price...

- Free may not be cheap enough
- Tax exclusion less valuable to low-wage worker
- Medicaid hassle
- No subsidy for the near-poor, unemployed

## ...for the wrong person

- Young “invincibles”
- Free riders



**We *can* make you buy what you don't want...  
at a price someone else will have to afford**

# ...but it won't be easy

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**Driving without insurance – 13.8%**

**Living without insurance – 15.3%**

## **How to increase compliance?**

- Penalties—but what is reasonable for low-income uninsured?
- Subsidies—but that's expensive
- Reduce difficulties of enrolling
- Improve the value of the product to the uninsured
- Make the safety net less accessible



# The uninsured impose a cost on the rest of us—right?

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## Externality could justify mandate

- Mandate shifts some cost back to uninsured
- “Stabilize risk pool” = make someone else pay

## How much *do* the insured pay for the uninsured?

- “Implicitly subsidized” = \$27.8 B
- Total health spending for uninsured = \$176 B
- If fully insured = \$299 B
- Mandate cost, rough upper bound = \$123 B

## How much additional “waste”?

- 30% unnecessary cost=\$90 B



Source: Hadley et al., “Covering the Uninsured in 2008,” *Health Affairs* 2008

# Compulsion is *not* the problem

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## Auto insurance

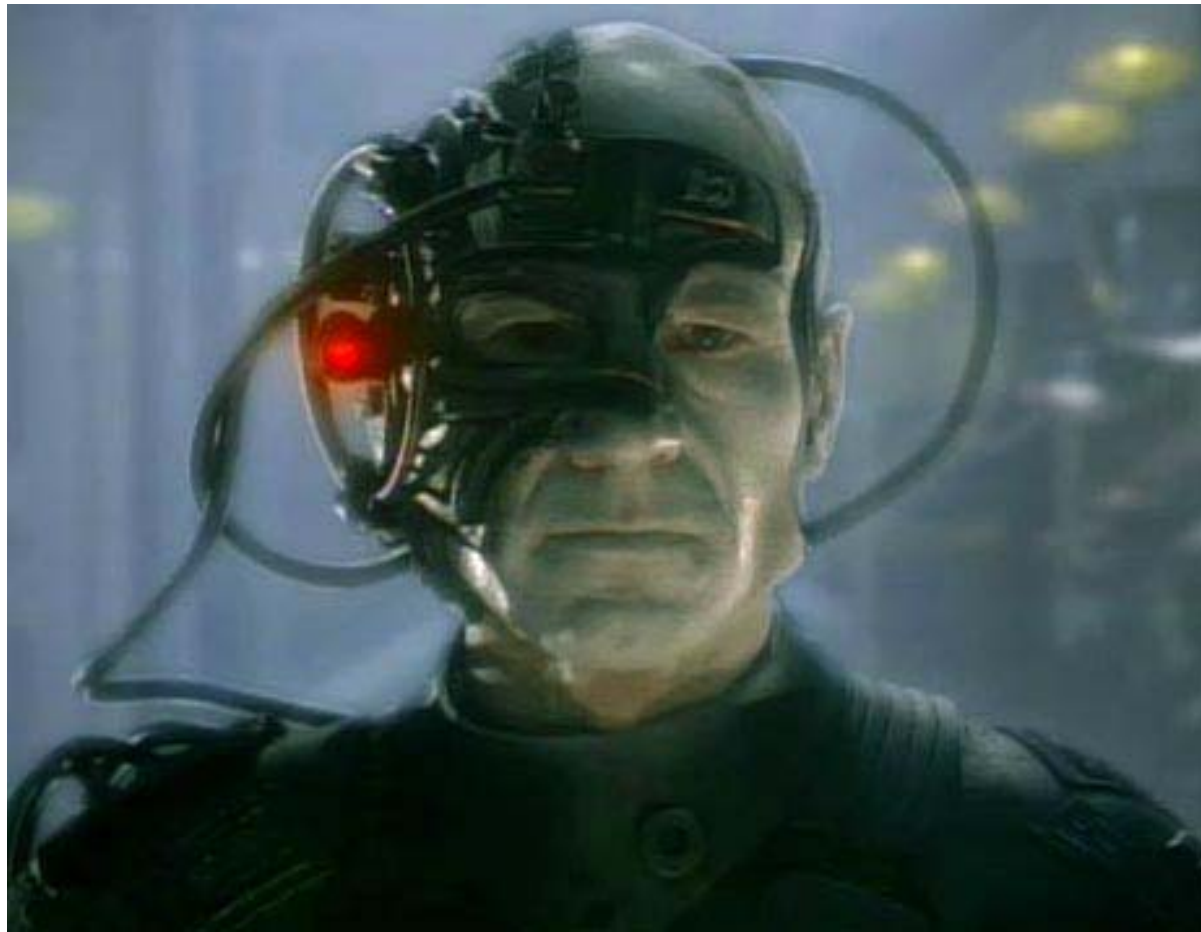
- Clear externality
- Coverage requirements attempt to re-impose cost of negligence on the offending driver

## Cap on tax exclusion-employer coverage

- Supported by “rich Republicans” (and economists, too)
- Dollar cost to high-income, overly-insured people might be higher *without* a mandate



**Mandates lock the health insurance system into a regulatory strait jacket, substantially reducing the incentive to innovate.**



**Resistance is futile!**