Samuel D. Zurier: Pressure R.I. young to help Obamacare

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BY SAMUEL D. ZURIER

With the successful introduction of the Health Source RI exchange, the Ocean State moved ahead of the national mainstream in implementing the Affordable Care Act's goal of universal access to health insurance.

To advance further, we should follow the Bay State's lead by enacting a state-level individual mandate to supplement the ACA's national mandate. In this way, Rhode Island could increase the incentive for "young invincibles" to purchase insurance while also creating a revenue stream to support the program.

As many readers know, the ACA's "individual mandate" requires all citizens who can afford health insurance to buy it, or else face a tax penalty. The mandate is important, because the ACA prohibits insurance companies from basing eligibility or rates on the applicant's health (other than smoking).

While this prohibition is good news for people with greater medical needs, it makes the policies less attractive to healthy citizens who do not believe they need insurance, especially young adults.

Current rates are based on a diverse risk pool, but if healthy people stay out, insurance companies may pay out benefits that exceed the premiums collected. This could cause insurance companies to seek rate increases, creating further incentives for healthy people to opt out, possibly leading to a death spiral of steadily increasing rates and declining enrollments.

The ACA's individual mandate will be enforced through the Internal Revenue Code. Taxpayers will fill out new forms with their federal return documenting their ability to afford health insurance. Those who can afford insurance but do not purchase it will be subject to a tax penalty based on their ability to pay and the cost of a policy. The program will be phased in over three years, reaching its full level in 2016. The tax penalties in 2014 will be relatively modest, reaching only 40 percent of the 2016 level. The 2015 penalties will increase to 80 percent of the full level attained the following year.

This summer, the Rhode Island Center for Freedom and Prosperity published two reports suggesting that the ACA's goal of universal coverage will fail because many citizens will find it cheaper to pay the tax penalty than to purchase insurance, even after accounting for the ACA's premium subsidies.

For example, the reports estimate that once the 2016 penalties take effect, it will be $1,111 cheaper for a 24-year-old earning $40,215 to pay the penalty than to purchase health insurance. The reports estimate that half of certain groups (such as "young invincibles," defined as healthy people under the age of 35) will opt for the penalty rather than purchase insurance, thereby compromising the risk pool, driving up insurance rates and increasing the risk of adverse selection.

In fact, the reports may understate the risk, because the actual ACA tax penalties for the next two years will be substantially lower as it is phased in.

Fortunately for Rhode Island and the nation, the Massachusetts experience suggests that the "stick" of the individual mandate can increase coverage dramatically when combined with the "carrot" of subsidies.

In a 2010 paper published in the American Economic Review, three researchers estimated that the population of uninsured Bay State young adults (aged 19-26) declined from 21.1 percent to 8.2 percent over the program's first two years in 2006-08. Over the same two years, the Massachusetts Department of Revenue reported that it collected $18 million and $16.4 million in penalties from taxpayers who did not comply with the health insurance mandate. In this way, Massachusetts used its tax policy to strengthen the insurance risk pool and to collect revenues to finance the program.

With the rollout of the ACA nationally, Rhode Island has the opportunity to strengthen its health insurance program and produce revenues by enacting a state-level mandate and tax penalty to supplement the federal one.

If enacted, such a program could be simple to implement, adding a few lines to the Rhode Island income tax return to pick up the corresponding information from the federal return.

For example, over the next two years, Rhode Island could just require state taxpayers to pay a state penalty equal to the difference between the 2016 "full price" federal penalty and the 2014 phase-in. Alternatively, Rhode Island could follow the lead of Massachusetts, which has a separate schedule of penalties that is more generous to lower-income taxpayers and tougher on higher-income ones.

While Massachusetts may adjust those penalties as the ACA phases in, the federal law permits and supports state-level initiatives provided they do not “prevent the application of the provisions of” the ACA. Rhode Island can minimize interstate flight concerns by keeping its penalty at or below the Massachusetts level.

A state-level mandate can increase the incentive for healthy Rhode Islanders who can afford health insurance to sign up, while generating revenues to fund Rhode Island’s exchange, whose federal subsidy will expire in 2015.

While other states plot ways to undermine the ACA, Rhode Island can join Massachusetts in becoming a national leader.

Samuel D. Zurier, a Democrat and a lawyer, serves on the Providence City Council.