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Will Mandatory Health Insurance Work?

by Greg Scandlen

The latest fad among Republicans is enforcing "personal responsibility" by requiring individuals to buy health insurance. It was enshrined in the recent Massachusetts health reform law, proudly signed by Gov. Mitt Romney and endorsed by a number of conservative, and even libertarian, organizations.

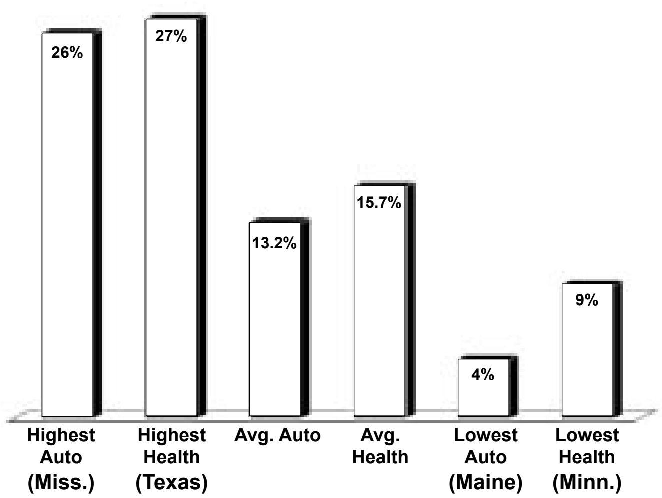
Sounds like a good solution to the problem of growing numbers of people who are uninsured: if people won't buy health insurance voluntarily, pass a law mandating that they buy it anyway. Problem solved.

Well, not quite. How do we know mandatory coverage will work? How do we know it will succeed in getting people who do not currently have health insurance to buy it?

Mandatory versus Voluntary Insurance. Policymakers can get an idea of how well mandatory health insurance would work to reduce the number of uninsured by looking at another type of mandated coverage. Consider:

- All but three states mandate automobile insurance, but 14.6 percent of America's drivers remained uninsured in 2004, according to the Insurance Research Council.
- No state mandates health insurance, but 17.2 percent of the population lacked health coverage in 2004, according to the Employee Benefit Research Institute.

Average Uninsured Rate: Auto vs. Health



- In 17 states, the uninsured rate for auto is higher than for health.

This is a remarkable finding considering that driving is a voluntary activity and enforcement is relatively easy — making people show proof of insurance when they register their cars. Further, auto coverage is relatively inexpensive, especially since the only part of the coverage mandated in most states is the damage you might do to other people and their property. You are not required to insure for the damage you do to yourself or your own car.

State Participation Rates and Penalties for Noncompliance. The state-by-state breakdown of coverage is even more illuminating when penalties are considered. In some cases the penalty for noncompliance is severe:

- In Kentucky an uninsured motorist can be fined $1,000 and 6 months in jail; Wyoming also has a 6 month jail term and a $750 fine.
- In Louisiana, the driver's car can be impounded for failure to insure.
- Yet the rate of noncompliance is 12 percent in Kentucky, 11 percent in Wyoming and 10 percent in Louisiana.

On the other hand, some of the least punitive states have the lowest rates of uninsured motorists:

- New Hampshire has no mandate but its uninsured rate is only 9 percent, well below its rate of noncoverage for health insurance (11.3 percent).
- Virginia has a mandate but no penalty for noncompliance and its uninsured rate is 10 percent — again, well below the 14.2 percent of the state's population without health coverage.

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By contrast, Texas, Nevada and New Mexico levy a fine of only $100 for noncompliance, yet their rates of uninsured motorists are very high (16 percent, 17 percent and 24 percent, respectively); their uninsured rate for health care is even higher — 27.1 percent, 20.5 percent and 24.4 percent.

Reasons for Variation in Coverage. Economists at the National Center for Policy Analysis examined these statistics and found that the average rate of all the states for uninsured motorists was 13.2 percent and 15.7 percent for health insurance. [See the figure.] They found that most of the variations between the states for both types of insurance could be explained by two variables: 1) the rate of poverty in the state and 2) the level of health care costs in the state. No other variable was statistically significant. Specifically, they found:

- A 10 percent increase in the poverty rate was associated with a 7.4 percent increase in the uninsured rate for auto and a 7.1 percent increase in noninsurance for health.
- A 10 percent increase in the cost of health care was associated with an 11 percent *decline* in the uninsured rate for auto and an 8.5 percent decline for health.

These two variables explained 43 percent of the variation in the health uninsured and 27 percent of the variation in the auto uninsured. Mandatory coverage and no-fault variables, used in the auto regression, and personal income per capita variables, used in both regressions, had no significant effects.

Ineffective Mandates. If the effect of a mandate to buy insurance is small for auto coverage, it will be even less with health coverage. This is because penalties for noncoverage in auto are straightforward, directly connected to the coverage mandated and enforced relatively easily. State-mandated health insurance would be difficult to enforce; and it would be difficult to penalize people for noncompliance. For example, the Massachusetts law will withhold the personal state income tax exemption from people who fail to have proof of insurance; but since many people are not required to pay income taxes, they will be unaffected by the penalty.

Furthermore, health insurance is far more expensive than auto insurance, and for that reason alone the rate of compliance will be less. States may promise to subsidize those who find the expense burdensome, but a subsidy could be provided without the mandate and at far less administrative cost to the state.

But perhaps the biggest lesson from these comparative statistics is the success of a completely voluntary market. Not one state yet mandates health insurance, but people are covered anyway — at virtually the same rate as auto insurance.

Mandate Fairness, Not Insurance. Numerous studies show that excessive regulations dramatically add to the cost of health insurance in the individual market. States should not consider mandating the purchase of something unaffordable and inefficient before pursuing policies that make coverage more affordable for more Americans.

States should also begin to extend some of the same tax subsidies to people who buy their own coverage. When health coverage is a job-related benefit, the cost is excluded from income and therefore free of all taxes — income and payroll, state and federal. But many employers do not provide coverage and people have to buy their own insurance with after-tax dollars. States could help by allowing people who buy their own insurance to deduct the cost of premiums from their taxable income.

Conclusion. There are no easy solutions to America's health insurance problem. The current notion that a state legislature can solve the problem through mandatory coverage is naïve at best and a distraction from the hard work of finding real solutions.

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