



## Individual Mandate Penalty May Be Too Low to Attract Middle-Income Individuals to Enroll in Exchanges

A new analysis from Avalere finds that the penalties associated with the individual mandate, which grow in 2015, might be too low to attract enrollment, particularly among middle-income, healthy individuals. Earlier this week, the Department of Health and Human Services (HHS) announced that 68,000 people enrolled in exchange coverage through HealthCare.gov as part of a special enrollment period for individuals paying the individual mandate penalty on their 2014 tax filings. That lackluster uptake of the special enrollment period is driven, in part, because for most people individual mandate penalties are much lower than actual costs of coverage.

Monthly health insurance premium costs are significantly greater than the individual mandate penalty for many potential exchange consumers in both 2014 and 2015, even after accounting for tax credit subsidies. However, individuals with incomes at or around the federal poverty level (FPL), \$11,670 in 2015, will save money by purchasing insurance as opposed to paying the fine. Some individuals earning up to 200 percent of poverty will also save if they buy insurance, depending on their age and where they live.

“Insurance through exchanges is a good deal for individuals who are heavily subsidized, especially as the individual mandate penalty increases,” said Caroline Pearson, senior vice president at Avalere. “While the incremental cost of insurance becomes less significant as the mandate penalty grows, individuals earning more than double the poverty level may continue to forego coverage since paying the fine is still much more affordable than purchasing insurance.”

FIGURE 1. Average Consumer Costs to Purchase Insurance Rather than Pay the Individual Mandate Penalty by Income and Age

	27 YEAR OLD					50 YEAR OLD				
	100% FPL	200% FPL	300% FPL	400% FPL	500% FPL	100% FPL	200% FPL	300% FPL	400% FPL	500% FPL
<b>2014</b>										
Individual Mandate Penalty	\$115	\$230	\$345	\$460	\$575	\$115	\$230	\$345	\$460	\$575
Lowest Cost Subsidized Bronze Annual Premium	\$0	\$849	\$2,098	\$2,098	\$2,098	\$0	\$428	\$2,255	\$3,346	\$3,576
<b>Difference</b>	<b>\$(115)</b>	<b>\$619</b>	<b>\$1,754</b>	<b>\$1,639</b>	<b>\$1,524</b>	<b>\$(115)</b>	<b>\$198</b>	<b>\$1,910</b>	<b>\$2,887</b>	<b>\$3,002</b>
<b>2015</b>										
Individual Mandate Penalty	\$325	\$469	\$704	\$938	\$1,173	\$325	\$469	\$704	\$938	\$1,173
Lowest Cost Subsidized Bronze Annual Premium	\$0	\$860	\$2,162	\$2,162	\$2,162	\$0	\$424	\$2,291	\$3,407	\$3,684
<b>Difference</b>	<b>\$(325)</b>	<b>\$391</b>	<b>\$1,458</b>	<b>\$1,223</b>	<b>\$989</b>	<b>\$(325)</b>	<b>\$(45)</b>	<b>\$1,587</b>	<b>\$2,468</b>	<b>\$2,511</b>

Specifically, the analysis found that on average a 27-year-old making approximately \$23,000, or 200 percent of the FPL, in 2014 would spend \$849 on health insurance, after accounting for tax credit subsidies. If he did not buy insurance, he would pay \$230 in penalties – \$619 less than if he had purchased coverage. However, with mandate penalties rising in 2015, if the same individual chose to stay uninsured in 2015, he would spend only \$391 more on insurance than if he had paid the penalty.

For individuals below 400 percent of the FPL, the cost of insurance compared to the mandate penalty increases as income grows and tax credit subsidies decline. For example, if that same 27-year-old had an income of approximately \$46,000, or 400 percent of the FPL, the incremental cost of insurance would be \$1,639 in 2014 and \$1,223 in 2015. This calculation varies by not only income, but also age, because tax credits are income-based and premiums are age-rated. Data by age and income is available in the appendix.

Data released previously by Avalere found exchanges using HealthCare.gov had enrolled 76 percent of eligible individuals in 2015 with incomes between 100 and 150 percent of FPL or \$11,770 to \$17,655. However, participation rates declined dramatically as incomes increase and subsidies decrease. For instance, only 16 percent of those earning 301 to 400 percent FPL picked coverage through an exchange, even though they may be eligible for premium subsidies.

Consumers remaining uninsured may face significant costs, beyond the individual mandate penalty, if they need medical care. This analysis does not account for these potential out-of-pocket costs associated with obtaining healthcare services without insurance.

### Methodology

Premium data based on Avalere analysis of the 2014 HHS Individual Market Landscape file, updated as of August 2014, and the 2015 HHS Individual Market Landscape file, updated as of November 14, 2014. Analysis includes average premiums for 34 federally-facilitated marketplace states. Analysis excludes state-based exchanges, including those states that use healthcare.gov for their exchange portal (NM, ID, OR, NV). All premiums are based on a 27-yr and 50-yr old non-smoker.

The individual mandate penalty is the greater of \$95 for 2014 and \$325 for 2015 times the number of uninsured individuals per household, or 1 percent of income for 2014 and 2 percent of income for 2015. The penalty is capped at the lowest cost premium bronze plan available to an individual.

Medicaid expansion data per Avalere State Reform Insights, as of April 15, 2015.

*Avalere Health is a strategic advisory company whose core purpose is to create innovative solutions to complex healthcare problems. Based in Washington, D.C., the firm delivers actionable insights, business intelligence tools and custom analytics for leaders in healthcare business and policy. Avalere's experts span 230 staff drawn from Fortune 500 healthcare companies, the federal government (e.g., CMS, OMB, CBO and the Congress), top consultancies and nonprofits. The firm offers deep substance on the full range of healthcare business issues affecting the Fortune 500 healthcare companies. Avalere's focus on strategy is supported by a rigorous, in-house analytic research group that uses public and private data to generate quantitative insight. Through events, publications and interactive programs, Avalere insights are accessible to a broad range of customers. For more information, visit [avalere.com](http://avalere.com), or follow us on Twitter @avalerehealth.*

Appendix

**TABLE 1: Average Consumer Costs to Purchase Insurance Rather than Pay the Individual Mandate Penalty for a 27 Year Old**

	2014					2015				
	100% FPL	200% FPL	300% FPL	400% FPL	500% FPL	100% FPL	200% FPL	300% FPL	400% FPL	500% FPL
FFM	\$(115)	\$619	\$1,754	\$1,639	\$1,524	\$(325)	\$391	\$1,458	\$1,223	\$989
AK	\$(146)	\$848	\$2,612	\$2,466	\$2,320	\$(325)	\$359	\$2,419	\$2,710	\$2,415
AL	\$(115)	\$634	\$1,599	\$1,484	\$1,369	\$(325)	\$433	\$1,345	\$1,111	\$876
AR*	\$(115)	\$507	\$1,817	\$1,702	\$1,587	\$(325)	\$426	\$1,479	\$1,245	\$1,010
AZ*	\$(115)	\$810	\$1,493	\$1,378	\$1,263	\$(325)	\$306	\$958	\$724	\$489
DE*	\$(115)	\$810	\$2,092	\$1,977	\$1,862	\$(325)	\$405	\$1,648	\$1,414	\$1,179
FL	\$(115)	\$781	\$1,951	\$1,836	\$1,721	\$(325)	\$405	\$1,712	\$1,477	\$1,242
GA	\$(115)	\$331	\$1,993	\$1,878	\$1,763	\$(325)	\$433	\$1,507	\$1,273	\$1,038
IA*	\$(115)	\$472	\$1,395	\$1,280	\$1,165	\$(325)	\$398	\$1,106	\$871	\$637
IL*	\$(115)	\$535	\$1,387	\$1,273	\$1,158	\$(325)	\$391	\$1,155	\$921	\$686
IN*	\$(115)	\$493	\$2,099	\$1,984	\$1,869	\$(325)	\$335	\$1,704	\$1,470	\$1,235
KS	\$(115)	\$739	\$1,317	\$1,202	\$1,087	\$(325)	\$525	\$1,085	\$850	\$616
LA	\$(115)	\$338	\$1,810	\$1,695	\$1,580	\$(325)	\$130	\$1,543	\$1,308	\$1,073
ME	\$(115)	\$612	\$2,324	\$2,244	\$2,129	\$(325)	\$335	\$1,909	\$1,674	\$1,440
MI*	\$(115)	\$479	\$1,528	\$1,413	\$1,299	\$(325)	\$384	\$1,296	\$1,061	\$827
MO	\$(115)	\$542	\$1,775	\$1,660	\$1,545	\$(325)	\$335	\$1,613	\$1,378	\$1,144
MS	\$(115)	\$373	\$2,085	\$2,280	\$2,165	\$(325)	\$314	\$1,507	\$1,273	\$1,038
MT	\$(115)	\$704	\$1,641	\$1,526	\$1,411	\$(325)	\$666	\$1,310	\$1,076	\$841
NC	\$(115)	\$556	\$1,937	\$1,822	\$1,707	\$(325)	\$229	\$1,726	\$1,491	\$1,256
ND*	\$(115)	\$648	\$1,873	\$1,758	\$1,644	\$(325)	\$349	\$1,571	\$1,336	\$1,102
NE	\$(115)	\$718	\$1,542	\$1,428	\$1,313	\$(325)	\$468	\$1,317	\$1,083	\$848
NH*	\$(115)	\$605	\$1,887	\$1,773	\$1,658	\$(325)	\$433	\$1,148	\$914	\$679
NJ*	\$(115)	\$845	\$2,409	\$2,294	\$2,179	\$(325)	\$652	\$2,042	\$1,808	\$1,573
OH*	\$(115)	\$676	\$1,796	\$1,681	\$1,566	\$(325)	\$377	\$1,388	\$1,153	\$918
OK	\$(115)	\$500	\$1,014	\$899	\$784	\$(325)	\$299	\$796	\$562	\$327
PA*	\$(115)	\$802	\$1,296	\$1,181	\$1,066	\$(325)	\$637	\$1,071	\$836	\$602
SC	\$(115)	\$676	\$1,824	\$1,709	\$1,594	\$(325)	\$356	\$1,359	\$1,125	\$890
SD	\$(115)	\$725	\$2,007	\$1,892	\$1,777	\$(325)	\$588	\$1,479	\$1,245	\$1,010
TN	\$(115)	\$697	\$1,127	\$1,012	\$897	\$(325)	\$440	\$838	\$604	\$369
TX	\$(115)	\$493	\$1,261	\$1,146	\$1,031	\$(325)	\$405	\$1,155	\$921	\$686
UT	\$(115)	\$662	\$1,395	\$1,280	\$1,165	\$(325)	\$511	\$1,148	\$914	\$679
VA	\$(115)	\$514	\$1,641	\$1,526	\$1,411	\$(325)	\$264	\$1,345	\$1,111	\$876
WI	\$(115)	\$619	\$2,000	\$1,885	\$1,770	\$(325)	\$426	\$1,655	\$1,421	\$1,186
WV*	\$(115)	\$824	\$1,866	\$1,751	\$1,637	\$(325)	\$574	\$1,704	\$1,470	\$1,235
WY	\$(115)	\$570	\$2,282	\$2,878	\$2,763	\$(325)	\$391	\$2,024	\$2,632	\$2,397

Note: States with an asterisk (\*) have expanded Medicaid in 2014 or 2015; therefore, for qualifying individuals eligibility for subsidies begins at 138 percent of the FPL rather than 100 percent of the FPL, as most individuals below 138 percent of the FPL will qualify for Medicaid coverage. Notably, there are some individuals in states that have expanded Medicaid that do not qualify for Medicaid coverage (e.g., because of immigration status), who would qualify for subsidies at 100 percent of the FPL

**TABLE 2: Average Consumer Costs to Purchase Insurance Rather than Pay the Individual Mandate Penalty for a 50 Year Old**

	2014					2015				
	100% FPL	200% FPL	300% FPL	400% FPL	500% FPL	100% FPL	200% FPL	300% FPL	400% FPL	500% FPL
FFM	\$(115)	\$198	\$1,910	\$2,887	\$3,002	\$(325)	\$(45)	\$1,587	\$2,468	\$2,511
AK	\$(146)	\$357	\$2,530	\$3,769	\$4,467	\$(325)	\$(285)	\$1,774	\$2,885	\$5,157
AL	\$(115)	\$222	\$1,934	\$2,852	\$2,738	\$(325)	\$27	\$1,659	\$2,540	\$2,319
AR*	\$(115)	\$6	\$1,718	\$2,695	\$3,110	\$(325)	\$15	\$1,647	\$2,528	\$2,547
AZ*	\$(115)	\$522	\$2,234	\$2,672	\$2,558	\$(325)	\$(189)	\$1,443	\$1,894	\$1,659
DE*	\$(115)	\$522	\$2,234	\$3,211	\$3,578	\$(325)	\$(21)	\$1,611	\$2,492	\$2,835
FL	\$(115)	\$474	\$2,186	\$3,163	\$3,338	\$(325)	\$(21)	\$1,611	\$2,492	\$2,943
GA	\$(115)	\$(230)	\$1,418	\$2,395	\$3,410	\$(325)	\$27	\$1,659	\$2,540	\$2,595
IA*	\$(115)	\$(54)	\$1,658	\$2,504	\$2,390	\$(325)	\$(33)	\$1,599	\$2,146	\$1,911
IL*	\$(115)	\$54	\$1,766	\$2,492	\$2,378	\$(325)	\$(45)	\$1,587	\$2,230	\$1,995
IN*	\$(115)	\$(18)	\$1,694	\$2,671	\$3,590	\$(325)	\$(141)	\$1,491	\$2,372	\$2,931
KS	\$(115)	\$402	\$2,114	\$2,372	\$2,258	\$(325)	\$183	\$1,815	\$2,110	\$1,875
LA	\$(115)	\$(230)	\$1,430	\$2,407	\$3,098	\$(325)	\$(469)	\$1,143	\$2,024	\$2,655
ME	\$(115)	\$186	\$1,898	\$2,875	\$4,034	\$(325)	\$(141)	\$1,491	\$2,372	\$3,279
MI*	\$(115)	\$(42)	\$1,670	\$2,647	\$2,618	\$(325)	\$(57)	\$1,575	\$2,456	\$2,235
MO	\$(115)	\$66	\$1,778	\$2,755	\$3,038	\$(325)	\$(141)	\$1,491	\$2,372	\$2,775
MS	\$(115)	\$(222)	\$1,490	\$2,467	\$4,094	\$(325)	\$(177)	\$1,455	\$2,336	\$2,595
MT	\$(115)	\$342	\$2,054	\$2,924	\$2,810	\$(325)	\$423	\$2,055	\$2,494	\$2,259
NC	\$(115)	\$90	\$1,802	\$2,779	\$3,314	\$(325)	\$(321)	\$1,311	\$2,192	\$2,967
ND*	\$(115)	\$246	\$1,958	\$2,935	\$3,206	\$(325)	\$(117)	\$1,515	\$2,396	\$2,703
NE	\$(115)	\$366	\$2,078	\$2,756	\$2,642	\$(325)	\$87	\$1,719	\$2,506	\$2,271
NH*	\$(115)	\$174	\$1,886	\$2,863	\$3,230	\$(325)	\$27	\$1,659	\$2,218	\$1,983
NJ*	\$(115)	\$582	\$2,294	\$3,271	\$4,118	\$(325)	\$399	\$2,031	\$2,912	\$3,507
OH*	\$(115)	\$294	\$2,006	\$2,983	\$3,074	\$(325)	\$(69)	\$1,563	\$2,444	\$2,391
OK	\$(115)	\$(6)	\$1,706	\$1,856	\$1,742	\$(325)	\$(201)	\$1,431	\$1,618	\$1,383
PA*	\$(115)	\$510	\$2,222	\$2,336	\$2,222	\$(325)	\$375	\$2,007	\$2,086	\$1,851
SC	\$(115)	\$294	\$2,006	\$2,983	\$3,122	\$(325)	\$(105)	\$1,527	\$2,408	\$2,343
SD	\$(115)	\$378	\$2,090	\$3,067	\$3,434	\$(325)	\$291	\$1,923	\$2,782	\$2,547
TN	\$(115)	\$330	\$2,042	\$2,048	\$1,934	\$(325)	\$39	\$1,671	\$1,690	\$1,455
TX	\$(115)	\$(18)	\$1,694	\$2,276	\$2,162	\$(325)	\$(21)	\$1,611	\$2,230	\$1,995
UT	\$(115)	\$270	\$1,982	\$2,504	\$2,390	\$(325)	\$159	\$1,791	\$2,218	\$1,983
VA	\$(115)	\$18	\$1,730	\$2,707	\$2,810	\$(325)	\$(261)	\$1,371	\$2,252	\$2,319
WI	\$(115)	\$198	\$1,910	\$2,887	\$3,422	\$(325)	\$15	\$1,647	\$2,528	\$2,847
WV*	\$(115)	\$546	\$2,258	\$3,235	\$3,194	\$(325)	\$267	\$1,899	\$2,780	\$2,931
WY	\$(115)	\$114	\$1,826	\$2,803	\$5,114	\$(325)	\$(45)	\$1,587	\$2,468	\$4,911

Note: States with an asterisk (\*) have expanded Medicaid; therefore, for qualifying individuals eligibility for subsidies begins at 138 percent of the FPL rather than 100 percent of the FPL, as most individuals below 138 percent of the FPL will qualify for Medicaid coverage. Notably, there are some individuals in states that have expanded Medicaid that do not qualify for Medicaid coverage (e.g., because of immigration status), who would qualify for subsidies at 100 percent of the FPL.