

Individual responsibility: Requiring those who can afford it to have health insurance

The American Medical Association (AMA) is committed to finding ways to expand health insurance coverage to all uninsured patients, regardless of income or health status. With relentless growth in the number of uninsured, erosion of employment-based insurance, and recognition that unpaid medical bills ultimately translate into higher insurance premiums and taxes for everyone, there is growing agreement that effective health system reform will require greater individual as well as social responsibility.

The AMA supports a modest requirement to have health insurance in order to expand coverage and strengthen the overall effectiveness of other reforms. However, individual responsibility is not a substitute for social responsibility, but rather, should be instituted in conjunction with the measures described elsewhere in this series.

Federal poverty guidelines, 2008		
Number of people in family or household	Federal poverty level (FPL) as annual household income	
	FPL	500% of FPL
1	\$10,400	\$52,000
2	\$14,000	\$70,000
3	\$17,600	\$88,000
4	\$21,200	\$106,000
5	\$24,800	\$124,000
6	\$28,400	\$142,000
7	\$32,000	\$160,000
8	\$35,600	\$178,000
For each additional person, add	\$3,600	\$18,000

a. Source: U.S. Department of Health and Human Services, 2008. <http://aspe.hhs.gov/poverty/08poverty.shtml>.¹

b. Applies to the 48 contiguous states and D.C.

c. Amounts are roughly 15 to 20% higher for Alaska and Hawaii.

Individual responsibility

The AMA supports a requirement that individuals and families earning more than 500 percent of the federal poverty level (FPL) obtain, at a minimum, coverage for catastrophic and preventive care, with tax implications for noncompliance. People with lower incomes would be subject to the same requirement *only* after implementation of tax credits or vouchers, awarded on the basis of financial need, for use toward the purchase of health insurance.

Based on federal poverty guidelines for 2008 (see table), 500 percent of the FPL is equivalent to \$52,000 for an individual, and \$106,000 for a family of four. The AMA's individual responsibility requirement would initially affect an estimated 5 million uninsured with incomes above the 500 percent FPL threshold, or 10 percent of the uninsured population.

Individuals have a responsibility to obtain health insurance when possible because of the social burden posed by those who fail to obtain coverage. The responsibility to seek and maintain coverage must be balanced by recognition that some individuals may be unable to afford health insurance without assistance. Rather than comply with the requirement to have coverage, some high-income people could choose to remain uninsured and face the tax consequences, such as the loss of a tax incentive, or the implementation of a tax penalty. The collection of additional tax revenue could then be used to offset uncompensated care of the uninsured. An individual responsibility requirement for higher-income people could be implemented immediately, prior to other health system reforms.

Assurances in exchange for having coverage

For health insurance markets to function properly, both insurers and individuals must follow fair rules of the game. In exchange for being required to have health insurance if they can afford it, insured individuals should be guaranteed that they will not lose their coverage or be singled out for premium hikes if they become ill or their health status worsens. People who maintain coverage should also have the opportunity to switch health plans periodically without being unduly penalized for any pre-existing conditions. Market regulations requiring guaranteed renewability and limited re-underwriting should be accompanied by targeted government assistance for coverage of people with predictably high medical expenses.

A requirement that low-income individuals obtain coverage will fail in the absence of appropriate subsidies and regulatory reforms. In addition, requiring greater individual responsibility must be accompanied by an assurance that coverage is affordable. The AMA is committed to increasing the value of health care spending. For more detailed information about health care costs, see "Strategies to address rising health care costs" in this series.

Advantages of requiring individual responsibility

Key reasons for requiring individuals to purchase coverage include: (a) achieving universal coverage; (b) avoiding adverse selection, whereby low-risk individuals opt out of insurance, driving up average costs and premiums for those who are insured; and (c) avoiding the free rider problem, whereby care for the uninsured is ultimately paid for by the rest of society through higher taxes and higher premiums.

The continued erosion of health insurance coverage under the current, voluntary system suggests that an approach requiring some individuals to purchase coverage may be needed to achieve near-universal coverage and to ensure that risk pools include low-risk individuals. A recent study estimates the average annual increase in insurance premiums to pay for the health care of the uninsured in 2005 was \$922 for those with family coverage and \$341 for those with individual coverage.²

Although people have more choice over whether to drive than they do over their use of health care, the free rider problem is best illustrated by automobile insurance mandates, which generally have been ineffective and difficult to enforce. Despite the near-universal prevalence of these state mandates, the cost of uninsured drivers is significant enough to affect the premiums of those who do purchase coverage. Low-income drivers are more likely to forgo car insurance—first, because of excessively high premiums, and second, because of a lack of subsidies to help purchase car insurance. Whereas laws mandating car insurance do not provide a subsidy for doing so, the AMA proposal for health insurance coverage would provide an income-related subsidy for the purchase of health insurance.

Public opinion

With the continued rise in the number of the uninsured, public opinion has grown more tolerant of individual responsibility provisions. In 2006, Massachusetts approved comprehensive statewide health system reform legislation that included provisions to increase individual responsibility, with tax penalties for individuals with incomes above 300 percent of the FPL who fail to purchase coverage. Individual responsibility provisions, including individual mandates, are also being considered by 2008 presidential candidates.

Synergistic effects of individual responsibility

Upholding clear standards of individual responsibility will enhance the impact of other elements of the AMA reform proposal. For example, in addition to directly expanding coverage, personal responsibility for having insurance would also spur the entry of average-risk people into health insurance markets, stimulating transformation of today's individual market, innovation of new purchasing arrangements, and increased insurer accountability to individuals. Giving enough people enough purchasing power—and enough say over how that purchasing power is used—will compel insurers to step up to the plate with better, more affordable coverage options. Expanding coverage will also reduce the amount of care for the uninsured ultimately paid for through higher taxes and higher premiums, breaking an upward spiral of costs and uninsured.

The individual health insurance market is already a viable option for those who would want to buy coverage rather than face tax consequences. Premiums for health insurance bought by some 7 million people on the individual market are a remarkable 60 percent lower than premiums paid for job-based insurance. These substantial premium differences are due largely to the fact that many people, when given a choice and confronted with cost trade-offs, opt for less generous coverage than is typically offered by employers. Letting individuals determine which insurance benefits are worth higher premiums is an effective means of reining in runaway health care costs, without sacrificing highly prized benefits or health care.

It should be emphasized that only those with the financial wherewithal to buy health insurance, on their own or with the help of tax subsidies, should be required to buy insurance or face tax consequences. The AMA believes that individual responsibility is not a substitute for social responsibility, and that both are needed for meaningful health care reform. Ultimately, adequate subsidies for those who need financial assistance to obtain health insurance, additional subsidies to cover high-risk patients, and fair ground rules for insurers to play by—as well as greater individual responsibility—are needed to expand health insurance coverage to all patients.

Visit www.voicefortheuninsured.org for more information on the AMA proposal and to view additional pieces in this series.

References

1. *Fed Regist.* Washington, DC: US Dept of Health and Human Services. 2008;73(15)3971-3972. <http://aspe.hhs.gov/poverty/08poverty.shtml>. Accessed March 21, 2008.
2. Families USA. *Paying a Premium: The Added Cost of Care for the Uninsured*. Families USA Publication No. 05-101. www.familiesusa.org. Published June 8, 2005. Revised July 13, 2005. Accessed November 1, 2007.

