

Individual Mandate Penalty (Informational Presentation)

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Individual Mandate Penalty

The individual shared responsibility penalty (a.k.a. the “individual mandate” penalty) was eliminated as part of the Tax Cuts and Jobs Act of 2017.

- **Effective 2019**
- **Note: individual mandate language still exists, just without a penalty.**

Individual Mandate Penalty

Potential Impacts:

- Although not effective until 2019, there will likely be confusion and a likelihood that many people will drop or not renew their coverage in 2018.
 - Not yet known how rigorously the IRS will enforce the penalty in 2018
- This will affect health insurance markets, hospital budgets, and the health care system as a whole.

CBO & JTC Estimates

- According to **estimates** from the **Congressional Budget Office (CBO)** and the staff of the **Joint Committee on Taxation (JTC)**:
 - The number of people without health insurance will decrease nationwide by *4 million in 2018 and 13 million by 2027*
 - This will reduce the federal deficit by *\$338 billion between 2018 and 2027*
Mostly from reductions in federal spending on subsidies and Medicaid
 - Average premiums in the non-group market would increase by *Approx. 10% in most years over the next decade*
- Assumes impacts are mainly due to healthy people being less likely to obtain insurance, and because the resulting premium increases would cause more people to not purchase insurance (especially in the non-group market).

Penalty (until end of 2018)

The Individual Mandate Penalty is calculated as the greater of either:

- A percentage of applicable income, or
- A yearly flat dollar amount assessed on each taxpayer (and dependents)
 - All of whom were without coverage for the entire year
 - The penalty for children is ½ the adult penalty
 - Limited to 3 times the flat dollar amount
 - Example: $\$695 \times 3 = \$2,085$ maximum per family

Annual Individual Mandate Penalty

Year	Percentage of Applicable Income	Flat Dollar Amount
2014	1.0%	\$95
2015	2.0%	\$325
2016	2.5%	\$695
2017 and Beyond	2.5%	\$695 adjusted for inflation ^a

Source: Internal Revenue Code (IRC) §5000A.

- There are several exemptions including religious conscience, hardship, health care ministry, incarceration, Native American Status, etc.

Penalty in Vermont

- According to the Congressional Research Service (CRS), Vermonters paid \$3.4 million and \$6.1 million in penalties for tax year 2014 and 2015, respectively.

Tax Year	Percentage of Retruns with Reported Penalties	Total Amount of Reported Penalties (in millions)
2014	4.8%	\$3.4
2015	3.9%	\$6.1

Source: Congressional Research Service using IRS Data.

<https://fas.org/sgp/crs/misc/R44438.pdf>

- Data for 2016 are not available.

Penalty in Vermont

- 12,890 Vermont returns reported penalties in tax year 2015.
 - 76% of the returns and penalties were paid by households with gross adjusted incomes between \$10,000 and \$75,000.
 - 40% with AGI between \$25,000 and \$50,000

Individual Mandate Penalty by Income, Tax Year 2015

Gross Adjusted Income	Number of Returns with Reported Penalty		Penalty Amount Paid (in thousands)	
		%		%
Under \$10,000	40	0.3%	\$9	0.1%
\$10,000 to \$24,999	4,080	31.7%	\$1,087	17.8%
\$25,000 to \$49,999	6,020	46.7%	\$2,386	39.1%
\$50,000 to \$74,999	1,750	13.6%	\$1,191	19.5%
\$75,000 to \$99,999	550	4.3%	\$560	9.2%
\$100,000 to \$199,999	370	2.9%	\$618	10.1%
Over \$200,000	80	0.6%	\$253	4.1%
	12,890		\$6,104	

Source: IRS Data

www.irs.gov/pub/irs-soi/15in46vt.xlsx

Other States

- **Massachusetts**

- Currently the only state with an individual mandate law on the books.
- Individual mandate passed in 2006. Remained in law after ACA enacted.
- Policy makers considering if/how to change law for 2019.
- See last slide for penalty details.

- **Maryland (proposed legislation)**

- Established a commission to review options.
- Sets fee similar to ACA.
- State would actively help people get insurance.
- Auto-enroll people who have no cost coverage available to them.
- Would give people the option to apply penalty towards health insurance.
 - State would hold their penalty in an escrow/escrow-like account until next enrollment period.
 - Filers would have to opt out of this, affirmatively choosing to pay their fine to the state and NOT get coverage.
- Details are subject to change.
- Bill introduced by committee chairs in both chambers. Governor's position unclear at this time.

Other States

- Other states known to actively be considering an individual mandate include:
 - CT, DC, RI, CA, WA
 - Consistent with State that have state-based exchanges.
 - Nothing has passed yet (that we know of) so details are fluid.
 - Strategies considered have included:
 - Auto-enrollments
 - Continuous coverage requirements
 - Reinsurance to bring costs down and make premiums more affordable.
 - Incentivize people, particular younger and healthier, to buy/maintain insurance.

Reference:

Massachusetts Mandate Penalty Detail

- Massachusetts Penalty:
 - Individuals up to 150% FPL = not subject to penalty since they have no premium for Connector Care health insurance.
 - 150.1% to 300% FPL = half the lowest price Connect Care premium individual would pay at their income level
 - > 300% FPL = age specific:
 - Ages 18-30 = half the lowest price catastrophic plan offered through Health Connector.
 - Ages 31 and above = half the lowest price bronze plan based on Health Connector.

Individual Income Category*	150.1-200% FPL	200.1-250% FPL	250.1-300% FPL	Above 300% FPL Age 18-30	Above 300% FPL Age 31+
Penalty	\$20/month \$240/year	\$39/month \$468/year	\$59/month \$708/year	\$60/month \$720/year	\$91/month \$1,092/year

- People facing mandate violation penalties pay the federal penalty first. If the state penalty is greater they pay the state the remainder.