

# Continuous Coverage Requirement

## How would continuous coverage work?

Proposed alternatives to the Affordable Care Act (ACA) would require Americans to continuously carry health insurance coverage or be penalized with higher premiums. Under the American Health Care Act (AHCA)—the Republican bill passed by the U.S. House of Representatives—people whose insurance coverage lapsed for more than 63 days would be charged a 30 percent premium surcharge every month for 12 months when they repurchase coverage. This penalty was intended to encourage people to maintain coverage and ensure the stability of insurance markets.

## What's the backstory?

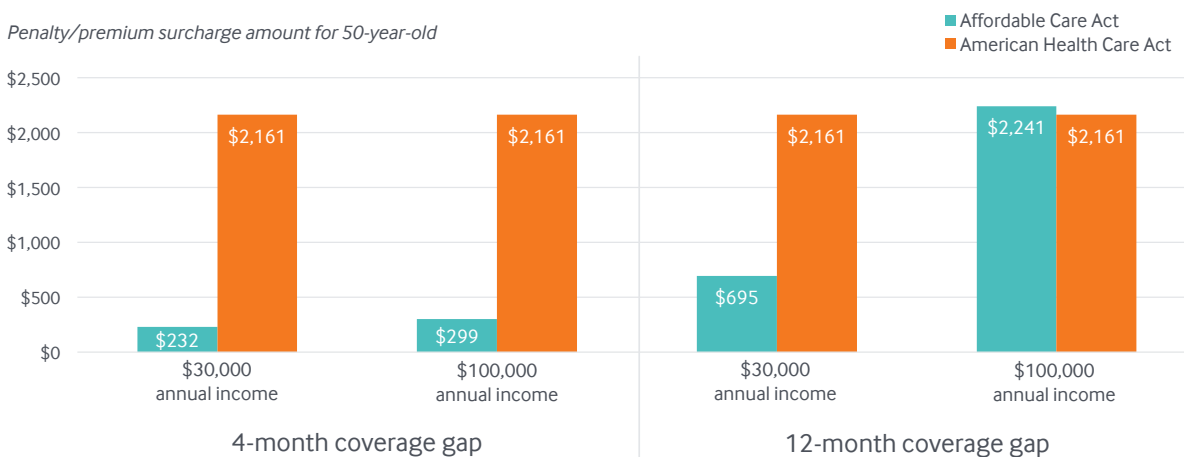
Health insurers rely on the premiums collected from relatively healthy individuals to cover the higher health care costs incurred by sicker people. Without a sufficient number of healthy enrollees, insurance can become extremely costly. There is even a possibility of markets falling into a “death spiral,” in which premiums rapidly increase as more and more healthy people leave high-cost plans.

Since 2010, the ACA has prohibited insurers from denying coverage or charging more to people with preexisting health conditions. To stabilize insurance markets, the ACA offers tax credits to help people afford their insurance premiums and requires everyone to purchase insurance coverage or else pay a tax penalty. The individual mandate, in combination with tax credits, was intended to draw the relatively healthy into the insurance market to compensate for the influx of people with medical conditions who were now guaranteed the right to purchase coverage.

While the coverage guarantee for preexisting conditions is one of the ACA's most popular features, the individual mandate has been more controversial. The AHCA would preserve most protections for people with preexisting conditions but discard the individual mandate. In place of the mandate, the bill includes a requirement that individuals continuously carry insurance coverage.

## Penalties for Having Gap in Health Insurance Coverage Under the Affordable Care Act and the American Health Care Act

Penalty/premium surcharge amount for 50-year-old



Note: Penalty for 30-year old under AHCA based on \$2,475 annual premium (70% actuarial value plan), while penalty for 50-year-old based on \$7,204 annual premium. Under ACA, adults with annual incomes of \$100,000 would pay 2.5% of their income in penalties above the tax-filing threshold, up to maximum equal to national average bronze plan premium (\$2,676 in 2017).

Source: S. R. Collins and M. Z. Gunja, “Millions of Americans Could Face a Premium Surcharge Through the ACA Repeal Bill’s ‘Continuous Coverage’ Provision,” *To the Point*, The Commonwealth Fund, March 9, 2017.



# Continuous Coverage Requirement (continued)

## How does a continuous coverage requirement differ from current policy?

The ACA requires households without health insurance to pay a penalty equal to the higher of 2.5 percent of their adjusted annual income or \$695 per adult and \$347.50 per minor child, with the maximum set at the average premium for a bronze plan (about \$2,676 in 2017). The AHCA would replace this policy with a requirement that everyone carry insurance at all times. Adults without insurance for more than 63 days would have to pay a premium surcharge of 30 percent to their insurance company when buying a plan in the individual market.

## How would the continuous coverage requirement affect consumers?

Under the House Republicans' proposal, many consumers would be required to pay the premium surcharge. According to a 2016 survey, 21 percent of adults between ages 19 and 64, or 40 million people, either had a gap in their health insurance coverage or were uninsured at the time of the survey.<sup>1</sup> If the AHCA's continuous coverage requirement had been in effect in 2016, an estimated 30 million working-age adults would have paid a premium surcharge had they tried to purchase coverage in the individual market—because they were uninsured for longer than three months.<sup>2</sup>

The cost to consumers would vary depending on age. Because insurers under the AHCA would be allowed to charge higher premiums to older people, this population would also face higher penalties for failing to maintain continuous coverage. For example, a 50-year-old who failed to maintain continuous coverage would be charged a \$2,161 surcharge over 12 months—\$1,154 more than a 30-year-old.<sup>3</sup>

Because it is tied to the premium and not to income, the AHCA's surcharge would also likely be more punitive for people earning less than \$100,000 compared to the ACA's individual mandate penalty, which is limited to either a flat fee or a percentage of income.<sup>4</sup> Older adults, who have higher average premiums, and people living in high-cost regions would also pay more under the AHCA. Finally, the ACA penalty applies only to the months in which a person is without coverage; the AHCA premium surcharge applies to the full year.

## How would the continuous coverage requirement affect insurance markets?

Some insurers are concerned that a continuous coverage requirement like that included in the AHCA will not be an effective way of stabilizing insurance markets. One CEO of a major insurer participating in the ACA's individual marketplaces warned that replacing the individual mandate with a continuous coverage requirement could produce much sicker risk pools, triggering premium increases of 30 percent or more.<sup>5</sup>

In fact, the way the AHCA's continuous coverage requirement is structured might discourage individuals from purchasing insurance. Because the surcharge is not paid until a person purchases a health plan, it may act as a strong disincentive to enroll.<sup>6</sup> The nonpartisan Congressional Budget Office estimates that initially the surcharge would encourage about 1 million people to purchase coverage in 2018. But in most of the following years, the surcharge would deter up to 2 million people annually from purchasing health coverage.<sup>7</sup> Those individuals opting out of insurance would tend to be healthy, resulting in worsening risk pools and making health insurance more expensive for everyone else.

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## NOTES

<sup>1</sup> The Commonwealth Fund Biennial Health Insurance Survey, 2016.

<sup>2</sup> S. R. Collins and M. Z. Gunja, "Millions of Americans Could Face a Premium Surcharge Through the ACA Repeal Bill's 'Continuous Coverage' Provision," *To the Point*, The Commonwealth Fund, March 9, 2017.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> A. Wilde Matthews and M. Evans, "Health-Care Companies See Big Risks in Plan to Replace Obamacare," *Wall Street Journal*, March 7, 2017.

<sup>6</sup> A. Carroll, "The AHCA's Mandate Replacement Doesn't Make Sense to Me," *The Incidental Economist*, March 10, 2017.

<sup>7</sup> Congressional Budget Office, *Cost Estimate: American Health Care Act* (CBO, March 13, 2017), p. 12.