

Individual Auto-Enrollment

An Alternative to an Individual Mandate

Some in Congress think the Federal Government should create a legal mandate requiring everyone to have health insurance. This would make it *illegal* for individuals to not have health insurance. The Patient's Choice Act envisions a better way. Our plan enables State Exchanges to use a simple auto-enrollment mechanism to people enroll in health insurance plans when they visit medical or state points of service.

Auto-enrollment can be used to cover everyone. One of the many assumptions in the health care reform debate is that all uninsured Americans should be insured. Auto-enrollment can accomplish this goal. Automatic enrollment is a simple mechanism to understand: individuals are automatically enrolled to participate in a "default" plan, but retain their ability to choose to opt out and not participate.

Studies show the dramatic potential of auto-enrollment. By way of analogy, it's helpful to examine the data on 401(k) plans. Currently, about 30 percent of employees eligible to join plan fail to enroll.¹ But studies show that auto-enrollment mechanisms have the potential to capture virtually the entirety of a specific population, since they effectively overcome choice inertia by creating a "positive default" action. Auto-enrollment has two effects: participants join sooner, and more participants join eventually.

- *Lowe's* implemented an auto enrollment procedure (with a choice to opt-out) for their employees' 401(k) plans. In a single pay period, their employee participation rate jumped from 52% to 99%.²
- *Payless Shoes* implemented an auto enrollment procedure (with a choice to opt-out) for their employees' 401(k) plans. In one month, their employee 401(k) participation jumped from 39% to 93%. The company then survey the remaining 7% of employees who had opted out from participating in the 401(k) plan, and 80% of those surveyed were very happy with their choice.³ These findings underscore the claim that most people are happy with an auto-enrollment system, if they are given the ability to opt-out.
- In one 401(k) plan featured in a study in 2001, participation rates with auto-enrollment (under an opt-in approach) were barely 20 percent after three months of employment, and gradually increased to only about 65 percent after three years employment. But when auto-enrollment was adopted, enrollment of new employees jumped to 90 percent immediately and increased to more than 98 percent within three years.⁴
- Another company that switched from an opt-in system to an auto-enrollment (opt-out) approach found that participation rates quickly increased by about 25 percentage points.⁵
- Numerous case studies have found that participation in 401(k) plans increases substantially, particularly among new hires, with an automatic enrollment feature. A study of one Fortune 500 company found that participation in a 401(k) plan increased from 37 percent to 86 percent among employees with 3 to 15 months of tenure with the firm after the plan switched to automatic enrollment. The effects of automatic enrollment are greatest among workers who are least likely to participate under opt-in systems, including younger and lower-income workers.⁶

¹ *Nudge*, p. 105

² Coburn staff have citation.

³ Coburn staff have citation.

⁴ *Nudge*, p. 109

⁵ *Nudge*, p. 110.

⁶ *Key Issues in Analyzing Major Health Insurance Proposals*, CBO, pg. 28-ff. <http://www.cbo.gov/ftpdocs/99xx/doc9924/12-18-KeyIssues.pdf>

The Patients' Choice Act of 2009

Auto-enrollment is *not* an individual mandate. Under our plan, we let states design solutions that work best for them. Whether at a doctor's office or a state government office, states could design a system where patients have the information they need to make the best decision for themselves. For patients who make no decisions, they could simply be automatically enrolled in a low-cost, high-deductible catastrophic health care plan. But no patient in any state would be forced into a plan. We believe in patient choice and our plan gives all American patients more, better choices. By simply helping more people enroll in health plans they can afford, we can help cover the millions of Americans who are currently without insurance. Also, because currently somewhere between 25% to 45% of bankruptcies are a result of medical bills, our plan helps protect average Americans from unforeseen catastrophic events which might not only endanger their health, but also jeopardize their financial security.

Auto-enrollment can cover everyone, when coupled with tax credits. Some argue that an auto-enrollment provision is insufficient to ensure all Americans have insurance. They might cite the opt-out provision as evidence. However, unlike money unallocated to a 401(k) plan, under our plan, monies from a tax credit cannot be used to purchase other non-medical/insurance goods or services. With a new tax credit for most people under age 65, The Patients' Choice Act essentially creates per capita monies which can easily purchase a health insurance policy for each individual. The tax credits cannot be used to purchase anything other than health insurance, or pay for medical and preventative services. With an auto-enrollment mechanism, individuals could choose to select a plan and write the check themselves, or, the tax credit can be "automatically" designated to a high deductible private plan if the covered individual does not opt out. The credit would cover the full cost of the policy so there would be no fines or penalties.

CBO says auto-enrollment is a credible strategy for expanding coverage. CBO: "... the differences in participation rates between Part B and Part D suggest that automatic enrollment strategies increase participation...," noting that "...automatic enrollment could have a larger effect" ⁷ Furthermore, "...evidence indicates that provisions for automatic enrollment encourage higher participation in [federal] programs (Medicare and welfare programs, for example) and in employment-based benefits such as 401(k) plans." ⁸

"...Proposals to facilitate automatic enrollment in health insurance plans could achieve coverage goals similar to those of a mandate but without requiring a complicated administrative system. Under those proposals, individuals would be automatically enrolled in insurance plans for which they qualify, but they could "opt out" if they chose to refuse coverage. A person could begin receiving health insurance benefits without completing any additional forms, simply by virtue of his or her participation in another public program or employment with a firm offering coverage."- CBO ⁹

We already utilize auto-enrollment mechanisms in some federal programs.

- Most eligible individuals are enrolled automatically in Part B of Medicare (which covers physician and outpatient services) when they turn 65; although they have the option of declining that coverage, they must send in a form to do so. Enrollees also receive a substantial premium subsidy—covering about 75 percent of average program costs—and face a penalty for late enrollment, both of which encourage prompt sign-up for Part B. Nearly 95 percent of those eligible are enrolled in Part B, and many of those who are eligible but are not enrolled have other coverage that substantially reduces the benefits of enrolling in Part B. ¹⁰
- By contrast, Medicare Part D features a similar premium subsidy and late-enrollment penalty but does not feature automatic enrollment (except in the case of some low-income enrollees). Recent estimates indicate that about 10 percent of the Medicare population has not enrolled and does not have other insurance for their drugs, even though it would generally be financially beneficial for them to enroll. ¹¹

⁷ Key Issues in Analyzing Major Health Insurance Proposals, CBO, pg. 28-ff. <http://www.cbo.gov/ftpdocs/99xx/doc9924/12-18-KeyIssues.pdf>

⁸ Key Issues in Analyzing Major Health Insurance Proposals, CBO, pg. 28. <http://www.cbo.gov/ftpdocs/99xx/doc9924/12-18-KeyIssues.pdf>

⁹ Key Issues in Analyzing Major Health Insurance Proposals, CBO, pg. 28-ff. <http://www.cbo.gov/ftpdocs/99xx/doc9924/12-18-KeyIssues.pdf>

¹⁰ Ibid.

¹¹ Ibid.

The Patients' Choice Act of 2009

Auto-Enrollment in Our Plan	Individual Mandate
State can choose to implement	Federal Government dictates compliance
State Exchanges <i>incentivize</i> an individual's continued participation from year to year	Federal Government <i>penalizes</i> an individual's non-participation
Preserves individual choice to opt-out	Penalty for exercising individual choice
Can be a low-premium, high-deductible plan which would be covered by the tax credit	Would likely be a benefit-heavy plan which would be required by law
Does not require an employer mandate	Would likely be coupled with an employer mandate, given current proposals
If implemented, our plan could lead to health insurance coverage for all Americans	If implemented, their plan would penalize Americans and crush personal choice