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Press Release

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NEW PHOENIX CENTER STUDY FINDS HEALTH INSURANCE COVERAGE MANDATES RAISE PREMIUMS DOLLAR-FOR-DOLLAR—AND THEN SOME

Long-run elasticity of premiums with respect to claims is 1.0; each additional dollar of mandated claims raises premiums by $1.22

WASHINGTON, D.C. — In a new study released today entitled *No Free Lunch: The Economic Cost of Coverage Mandates on Health Insurance Premiums*, Phoenix Center Chief Economist Dr. George S. Ford demonstrates that legislative mandates requiring health insurers to cover additional services or pay a larger share of costs are borne by premium payers, not by insurers. Using audited financial data from five of the largest publicly traded managed-care organizations, Dr. Ford estimates that the long-run elasticity of premium revenue with respect to medical claims is 1.0. Thus, a 1% increase in claims produces a 1% increase in premiums, and each additional dollar of medical claims imposed by a mandate raises premiums by approximately $1.22.

The analysis rests on a simple and nearly mechanical relationship. Federal Medical Loss Ratio rules already constrain the markup insurers may charge. When claims rise, premiums must rise by a commensurate amount to preserve the regulated (or competitively determined) loading. First-differenced regressions on data from UnitedHealth Group, Elevance Health, Humana, Centene, and Molina Healthcare for 2010–2022 confirm the prediction: the long-run pass-through is statistically indistinguishable from 1.0 in percentage terms and equals $1.22 on the dollar. Robustness checks that exclude each carrier in turn leave the results essentially unchanged.

The findings apply to the full range of cost-increasing mandates—state benefit requirements for fertility treatment, autism services, and chiropractic care; insulin cost-sharing caps; new pharmacy-benefit-manager regulations; and the Affordable Care Act's guaranteed-issue and community-rating rules. While legislatures can compel an insurer to write the check, they cannot compel the insurer to absorb the cost. The incidence falls fully—more than fully—on those who pay premiums.

"There is no free lunch," said study author Phoenix Center Chief Economist Dr. George S. Ford. "Altruism and empathy are potent motivations in health care, but so is affordability. When a mandate increases medical claims, the additional cost shows up in premiums."

A full copy of PHOENIX CENTER POLICY PERSPECTIVE NO. 26-07, *No Free Lunch: The Economic Cost of Coverage Mandates on Health Insurance Premiums,* may be downloaded free from the Phoenix Center's web page at: https://phoenix-center.org/perspectives/Perspective26-07Final.pdf.

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