

Rand Paul, Jim DeMint, and Mike Lee's Medicare Plan is a Challenge to Both Sides of the Health Care Debate

Peter Suderman | March 16, 2012

In 2004, Democratic Presidential nominee John Kerry proposed letting every American buy health insurance from the Federal Employees Health Benefits Plan (FEHBP)—giving Americans the same insurance options as members of Congress. “If it's good enough for us, it's good enough for every American,” he [said in a debate](#) just a few weeks before the election. “Senators and congressmen have a wide choice. Americans ought to have it, too.” He also argued that the plan would help restrain costs. “We give you broader competition,” he said. “That helps lower prices.”



Yesterday, GOP Sens. Rand Paul, Jim DeMint, and Mike Lee [proposed transforming Medicare into a similar plan for seniors](#). It's not exactly John Kerry's plan, but it shares many of the same elements, and counts on similar mechanisms to provide choice and hold down prices.

Unlike the Medicare reforms championed by Republican Budget Chair Paul Ryan, this proposal would close down the current government-run, fee-for-service Medicare almost immediately.

Medicare as we know it, in other words, would be gone. Instead, seniors would be able to enroll in the federal health system that provides insurance for members of Congress.

Starting in 2014, [seniors would be able to enroll in the FEHBP](#). This gives them the choice that Kerry touted: currently there are 2250 participating plans, with the potential to add more as time goes on. Over time, the age of eligibility would increase, from 65 today to 70 in 2032. Health plans would still be regulated: insurers would not be able to refuse coverage to seniors. Additional mandates, however, would be prohibited to stop regulatory bloat. Plans would also still be subsidized, with the federal government kicking in 75 percent of the cost of the average plan for seniors, with wealthier seniors paying a larger share. It would also reimburse insurers directly for the most expensive patients—the costliest 5 percent.

Even still, the plan’s backers say it would produce significant savings over the current system: Compared to running Medicare and FEHBP as it exists now, they estimate that new system would [save a little over a trillion dollars over the next decade](#). Competition between insurance providers, the plan’s authors hope, would help keep premiums low, as it has in Medicare Part D. The plan makes it easier for new providers to enter the market, which at least in theory makes it easier to compete on price should premiums rise too fast. And unlike the explicitly unfunded Medicare Part D, this wouldn’t blow a hole in the deficit if it worked as planned.

But that’s a big if. As with nearly all plans of this nature, there’s no guarantee that the savings mechanisms will work, or that the plan is feasible from an administrative perspective.



It’s worth noting that this doesn’t just resemble the Kerry proposal. It also resembles a proposed [quasi-public plan option that Senate Democrats explored](#) during the debate over the 2010 health care overhaul. And many of the dangers associated with that idea are still present. For one thing, FEHBP premiums are already rising faster than traditional Medicare—and for several years were racing upwards faster than the rest of the private market as well. According to Michael Tanner of the Cato Institute, at the [end of 2009](#), nearly 100,000 federal employees had left the program due to rising costs.

Nor is it clear that the Office of Personnel Management (OPM), which currently manages the FEHBP and would [oversee insurance options](#) in the new system, according to the proposed legislative text, has the capability to run such a vast expansion of the program. Linda Springer, a former OPM director, worried that the earlier proposal would not be feasible, doubt that the office had the "capacity, the staff or the mission" to run the program. "Ultimately," she warned, "it would break the system."

To some extent, however, the operation details are less important than the larger framework. A Senate GOP staffer confirmed the obvious today, telling me that Sen. Paul, at least, does not realistically expect the bill to pass. Instead, the idea is to open up a conversation about problems with the current system and ways to fix it.

Unlike the various plans put forth by Congressman Paul Ryan, the plan does not leave the current Medicare system in place for everyone 55 and older. But also unlike Ryan's plan, it's designed to produce large, immediate budget savings. Yet the plan is also constructed from elements that have previously been supported by Democrats: an expansion of the FEHBP, a glacially slow rise in the Medicare eligibility age, regulated competition between private insurers, and relatively greater subsidies for the poor and most medically expensive patients. The details of the plan may not work, but the larger framework offers a challenge to both sides.