



State of South Carolina

Office of the Governor

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September 11, 2009

The Honorable Lindsey O. Graham
United States Senate
SR-290 Russell Senate Office Building
Washington, D.C. 20510-4003

Dear Lindsey,

Thank you for the work you do on behalf of this country and our state.

With this work in mind I write to respectfully lay out some concerns our administration has with regard to proposed health care changes in Washington. I am not writing to second guess your work, or that of Congress, but just to give you the vantage point from the seat I hold – and the consequent implications for taxpayers of this state given the proposed changes' impact in Medicaid administered by our state.

Like many governors across the nation, our administration is growing increasingly concerned about the financial strain rising health care costs are putting on South Carolina's annual budget. During the National Governors Association meeting in July, many governors joined together in a bipartisan effort to formally oppose the current Congressional health care proposals by issuing a policy opposing unfunded mandates. If these so-called reform proposals move forward, almost all states will have to raise taxes to manage this health care expansion. In South Carolina, Medicaid already receives up to \$880 million annually – 16 percent of our budget.

The current House and Senate proposals would expand Medicaid and pass health care costs down to the states. Senate Finance Committee Chairman Max Baucus said that it would be impossible for the federal government to pick up all of the costs for new Medicaid recipients and that states would have to bear additional costs. To help put this matter into perspective, when the enhanced federal medical assistance percentage expires at the end of 2010, South Carolina will be spending \$1.2 billion, or more than 20 percent of our state budget, on Medicaid annually. That total represents just one-third of the total Medicaid dollars spent in our state – not counting the costs associated with the proposed changes to our health care system.

The Congressional Budget Office (CBO) estimates H.R. 3200 will cost in excess of \$1 trillion over the next ten years. However, the fine print reveals that the true cost would be much higher. The legislation relies on a large tax increase, which is implemented four years before most of the program's spending is ramped up. This delay in implementation is nothing more than a budget trick masking the true cost of the proposal. Even under the CBO projection, H.R. 3200 would add more than \$200 billion to the budget deficit in the next 10 years. This projection is predicated on \$219 billion in spending changes that may be an illusion. A strong indicator that suggests that these savings will not materialize is found in a further analysis of the CBO study by Ways and Means Committee staff, which shows that the total price tag will reach \$2 trillion by 2024, including roughly \$600 billion in deficit spending. These are the significant costs you are contending with at the federal level in times of \$2 trillion deficits.

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According to the National Association of State Budget Officers (NASBO), Medicaid expenses nationally will reach \$523 billion by 2013 – a 56 percent increase in just six years. The proposed changes to the program would increase Medicaid spending by \$450 million in South Carolina – more than half of what we already spend on Medicaid. With that significant an increase, South Carolina would be forced to either raise taxes or cut critical services in education and public safety, the two other large spending items in our budget.

Any state tax increase would be in addition to the proposed federal tax increases included in the House and Senate bills, like huge tax increases in the form of an additional 8 percent payroll tax or a 5.4 percent income tax surcharge on small businesses. Even in prosperous times, we would not support the incredible burden of this unfunded mandate, but in the current global economy, that impact would be disastrous for our state.

The proposal being discussed in the United States Senate has similar problems for South Carolina as, by 2015, this proposal would add more than 400,000 South Carolinians to the Medicaid program. The federal government would cover increased funding only until 2015. After 2015, South Carolina must start picking up the tab. By 2020, South Carolina would be forced to come up with an additional nearly \$900 million annually for the increased number of Medicaid enrollees. Federal programs will grow at South Carolina's expense, and will increase Medicaid costs in our state by 50 percent.

Lastly, if we are trying to make health care more affordable, why exclude tort reform and national insurance markets from the plan? Litigation, and its negative impact on the practice of medicine, significantly increases the cost of health care in this state. South Carolina passed comprehensive tort reform legislation in 2004, partially to stop lawsuit abuse in medical liability cases. Subsequently, medical liability insurance costs are down 42 percent, and doctors have received an average rebate of 20 percent of their annual paid premium. The number of lawsuits against South Carolina doctors fell almost 90 percent one year after tort reform went into effect. Doctors have stopped leaving the state and no longer limit their practices to avoid lawsuit abuse.

Likewise, eliminating the interstate purchasing restrictions for insurance would create a bigger market for insurance, thereby giving consumers more options and driving down the price. A national market for health or life insurance means that South Carolinians can purchase whichever policy best fits their needs – whether the policy is from South Carolina, New York or California.

With all the issues surrounding a government-run health care system, I wanted to bring to your attention the increased taxes that South Carolinians might shoulder on top of the federal tax increases in the proposed bills. Everybody agrees that there should be reforms to our health care system, but it should be done thoughtfully. I look forward to working with you on this and other issues.

Sincerely,



Mark Sanford

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