Back in 1965, Medicaid was originally designed as a safety net for those in need. We have strayed far from our original objective: Medicaid now covers ***1 out of every 6*** Americans (46 million) and costs $338 billion a year. This antiquated entitlement program has not only compromised quality of care and eliminated consumer choice, it has also managed to bankrupt federal and state budgets. Something has to change. The longer we do nothing about the crisis, the more difficult the inevitable decisions will be.

I want to applaud Governor Sanford for recognizing the need for intervention and for proposing reform measures that might help prevent the program from going bankrupt in South Carolina. South Carolina's Medicaid reform proposal implements free-market principles to improve healthcare quality and curb waste.

The Status Quo Hurts Patients

As a practicing physician, I see fewer and fewer of my colleagues willing to accept Medicaid patients. Physicians ***lose money*** by participating in the program. For every dollar we spend on a Medicaid patient, we are reimbursed 62 cents by the program. But it costs us in time too. Interacting with the bureaucracy is an onerous burden for over-scheduled providers. Our experience isn't unique. MedPAC reports that "approximately 40 percent of physicians restricted access for Medicaid patients." The problem is worse among specialists.

Let me be clear: my complaint isn't about our reimbursement rates. Nobody's planning on getting rich on a safety net program for the poor. The main reason why the flight of physicians is a problem is because it means Medicaid patients have fewer and fewer options when it comes to finding a doctor and getting an

appointment once they find one. We all know how frustrating it can be when you call for a doctor's appointment and they can't fit you in for months. With 40% of providers trying to limit their Medicaid patients, imagine how much longer these folks have to wait, if they get in at all. Or maybe they have to pick a doctor who is much further away, or who doesn't speak their language.

These delays and restrictions are nothing more than a form of health care rationing. Inevitably, as state governments seek to control costs, they must restrict access to services. This is most visible in the restriction of prescription drug formularies, which handicaps doctors and limits patients. There are other restrictions as well - South Carolina has had to place a cap on the number of visits a beneficiary may make to an emergency room each year.

It's no surprise that nobody wants to be on Medicaid. A Commonwealth survey found that 65 percent of Americans would prefer private coverage, and only 10 percent actually preferred Medicaid or Medicare above private insurance—most of those never experiencing private care. Patients are well aware of the stigma and the other problems with Medicaid. Elected officials have a moral obligation to ***end dependency*** on inferior state-run programs whenever possible. And for those who ***must*** depend on Medicaid, compassion demands that we do whatever we can to make the program effective, efficient, and equal in quality to that received by those not covered by Medicaid. Some would argue that the poor or indigent are incapable of taking control of their health care. I disagree. It's arrogance to assume that Medicaid beneficiaries or their caregivers are incapable of intelligent decision-making about their own health.

Medicaid creates a variety of perverse incentive structures. One of those is the so-called "job lock." There is a point at which the value of the Medicaid benefits a person will lose by getting a better-paying job is more than his increased income from that job. Some people are forced to choose between free health care and a better paying job. This "job lock" keeps Medicaid recipients trapped in their dependence on the state.

There are other perverse incentives in Medicaid, such as an under-emphasis on prevention and an over-emphasis on acute and emergency care. If you were trying to help out your diabetic mom or your child with a disability, wouldn't you want to pre-empt a medical crisis by investing more in preventive services and disease management, rather than having to visit your loved one in the ICU after an ER admission? Wouldn't it be better to structure Medicaid more like many private insurance plans – which place an emphasis on prevention?

We Can't Afford the Status Quo

As a physician, I'm most worried about how Medicaid compromises patient care. We might be able to bear increased costs of a growing Medicaid program if these increases weren't also associated with such sub-standard options for patients. But I'm also a father, grandfather, and a Senator, and so I'm also losing sleep about how we're going to afford the program.

Federal spending and deficits are out of control. This year, the Medicaid ***alone*** will cost Americans $338 billion. Medicaid, Medicare, and Social Security—the "big 3" of entitlement programs—consume 42 percent of federal spending (CBO)

and that number will continue to eat up our children's future if something doesn't give.

I've talked about the sub-standard quality of the Medicaid system. At the same time that quality has been decreasing, the program's funding has ***more than doubled*** over the last 10 years. We're heading towards a cliff. I worry that the political will does not exist to avert this looming crisis - and that States will be on their own. As it stands now, they are drowning in Medicaid bills.

It used to be that police and schools were the biggest slices in the State budget pie. Now, it's Medicaid – eating up 22% of State budgets. By the year 2035, Medicaid will eat up ***half*** of the South Carolina's state budget. Doing nothing is not an option. States don't have as much fat as the Federal budget. What will you do - stop building roads? Stop supporting public schools? If something doesn't give, the legacy left by the so-called "Greatest Generation" will be a crushing debt-load on our children and grandchildren.

A Solution to the Status Quo

We might be able to learn some lessons from welfare reform efforts during the last decade. The reform bill successfully transformed welfare from an entitlement program into cash assistance in the hands of the states. Back then, as today, critics feared that a change to the status quo would threaten the most vulnerable Americans. Instead, the welfare caseload actually *decreased* by 58 percent during the new model's first six years. Today, welfare is more a temporary hand-up on the road to self-sufficiency and less a way of life.

Although almost every State is in a Medicaid crisis, not every State has a leader with the courage to risk his own political neck in order to confront the problem head-on. With critics circling, Governor Sanford has shown courage to admit that Medicaid could bankrupt South Carolina and propose ideas that could pre-empt a Medicaid train-wreck in South Carolina. His proposal is better for patients AND for taxpayers.

Instead of a defined *benefit* model, South Carolina proposes a defined *contribution* for Medicaid beneficiaries. South Carolina's proposal harnesses the consumer-driven ideas that made America great. Under the proposal, Medicaid beneficiaries will have ownership over their health care services through the creation of the Personal Health Account. Patients will be able to select private insurance and enroll in a plan just like other South Carolinians. This proposal treats the poor with the dignity they deserve by providing them choice and autonomy over their own health care. Not only is this approach the right thing to do morally, but it will curb inefficiency by moving the program from centralized government control to the marketplace. This environment will free providers and insurers from unnecessary bureaucracy and allow them to focus on the most important things – the patient, the relationship between the patient and the provider, and the high quality of care that citizens of the wealthiest and most innovative nation on earth have come to expect.

I look forward to learning the details of this innovation from its chief architect: Governor Mark Sanford. We've also got witnesses from the South Carolina legislature, the provider community and the academic community. Thanks to all of you for being here.