MINUTES OF BUDGET AND CONTROL BOARD MEETING

MARCH 7 1972

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The Budget and Control Board met in the Conference Room of the Governor's Office at 3:30 p. m. on Tuesday, March 7, 1972. Board members in attendance were Governor John C. West, Grady L. Patterson, Henry Mills, and R. J. Aycock. Senator Edgar A. Brown was absent due to an injury of his foot. Also attending were Messrs. P. C. Smith and W. T. Putnam.

The following business was transacted.

MEDICAL UNIVERSITY - CAPITAL IMPROVEMENTS - Dr. William McCord, Mr. John Wise, and other members of the Medical University staff appeared before the Budget and Control Board to request Capital Improvement Funds for numerous projects. These projects, along with the proposed funding, appear in a statement which has been retained in these files and is designated as Exhibit I.

The original plans for the Clinical Science Building called for construction which would cost approximately $18,000,000; but, because of a probable lack of Federal funds, the currently proposed project has been scaled down to $10,000,000. In addition to the total funding request of $17,297,742, Dr. McCord has asked for $1,100,000 for the purchase of a small hospital facility which has become available in the vicinity of the Medical University.

Dr. McCord stated that the Clinical Science Building would free about one hundred beds in the Medical University Hospital and would stabilize their building needs for approximately five years.

Governor John C. West asked that the recommendation be submitted to the Higher Education Commission for its comments and that further details concerning the cost, revenues, and Federal participation be submitted in writing to the Budget and Control Board.

Various members of the Board expressed serious concern with respect to reopening the Capital Improvement Bond Program as numerous other agencies had already submitted requests for such funding.

The Board received the request as information and deferred action pending further study.

UNIVERSITY OF SOUTH CAROLINA - PERMANENT IMPROVEMENTS - Mr. Harold Brunton, Vice President for Business Affairs of the University of South Carolina, appeared before the Board to request approval of the following permanent improvement projects.

a)	Biological and Health Services Center	$2 400 000
b)	Campus Outdoor Lighting	250 000
c)	East Campus Land Acquisition	278 000
d)	Marine Biology Laboratory	100 000

If approved, Items a, b, and c would be financed through the issuance of State Institution Bonds, while Item d will be financed by a grant from the Sarah Mellon Scaife Foundation.

The University has demonstrated its capacity to retire the requested bonds over a twenty-year period. However, the capacity falls slightly below the Board's requirement of 110 percent coverage of the highest annual debt service.

The Budget and Control Board took note of the fact that the University of South Carolina had a balance of $1,898,910.39 in its sinking fund for the retirement of Institution Bonds. Therefore, the Board gave its approval for the requested projects with the stipulation that sufficient funds be retained in the debt service account to insure annual payments.

PERSONNEL DIVISION - HEALTH INSURANCE - On February 25, 1972 Mr. Earl Ellis, Director of the Personnel Division, mailed a brochure concerning the various aspects of Health Insurance to each member of the Budget and Control Board. At this meeting Mr. Ellis appeared with Dr. Ronald

C. Horn to further discuss the various health insurance plans.

Mr. Ellis recommended that advisory bids be sought for various health plans in order that an actual dollar cost might be more nearly ascertained.

The Board authorized Mr. Ellis to pursue this matter as he saw fit.

A copy of Dr. Horn's comments on health insurance has been retained and is designated as Exhibit II.

PERSONNEL DIVISION - COMPREHENSIVE PERSONNEL ACT - Mr. Earl Ellis reported that he had submitted several proposed acts pertaining to segments of State personnel policy, but called the Board's attention to the fact that the Governor's Management Review Committee had recommended a comprehensive personnel act. Mr. Ellis also indicated that he personally favored a comprehensive act rather than a number of individual acts.

Mr. Ellis was requested to prepare his recommendations which should be submitted to the Board at a later date for its reaction.

PERSONNEL DIVISION - SERVICE AWARDS - Mr. Earl Ellis reported that his organization had given considerable attention to the matter of service awards for State employees and recommended that a plan be established whereby such awards would be made.

He stated that his organization had found that numerous State agencies were presently recognizing meritorious service among employees and many had indicated a desire to continue such a recognition at the agency level. Therefore, Mr. Ellis recommended that service pins be awarded to employees of agencies with no recognition policy, while certificates be furnished to employees of agencies which furnished service pins.

The Board approved these recommendations.

The correspondence file concerning service awards has been assembled and is designated as Exhibit III in these records.

UNIVERSITY OF SOUTH CAROLINA - SHIFT DIFFERENTIAL - Mr. Earl Ellis reported that the University of South Carolina had requested permission to pay shift differential to several different categories of employees based upon a pre-determined hourly schedule. He further indicated that, because a policy of paying shift differential was now in effect in many State agencies in the city of Columbia, he felt that he could recommend approval of this request except in the area of security personnel. He stated that he had reservations with respect to the security personnel because of the impact upon the Department of Corrections and the Department of Juvenile Corrections.

Board members agreed that the results of this request could be very far reaching and decided to defer action at this time.

COUNTY HEALTH UNITS - Mr. Ellis advised the Board that numerous problems were developing with respect to the pay schedules of employees of county health units. These problems usually developed when county employees were given pay increments which were not available to those employees who were subject to the State classification system.

The Board took note of the fact that a serious problem existed, but because of the lack of time, agreed to discuss the matter at a subsequent meeting.

MENTAL HEALTH COMMISSION - SALARY INCREASES - At its meeting on February 2, 1972, the Budget and Control Board received a request from the Mental Health Commission for salary increases for Dr. Alexander G. Donald and Dr. Karl V. Doskocil. In both instances the increase would provide for a salary of $35,953 compared with the present salary of Dr. William S. Hall, Department Head, of $34,400.

The Board declined to approve these increases.

BOARD OF HEALTH - SALARY INCREASES - At its meeting of February 2, 1972, the Budget and Control Board received requests from the Board of Health for salary increases for Dr. Malcolm U. Dantzler and Dr. Hilla

Sheriff. In both instances, the proposed increases would provide salaries of $33,390, compared with the salary of $31,200 of Dr. Kenneth Aycock, Department Head.

The Board declined to approve these increases.

TITLE I - HIGHER EDUCATION ACT OF 1965 - ALLOCATION OF FUNDS - At its meeting of February 2, 1972, the Budget and Control Board received a request for the approval of the allocation of $116,655 for projects approved by the Advisory Council under Title I of the Higher Education Act of 1965. (These projects are listed in Exhibit II of the minutes of February 2, 1972)

The Board approved these allocations as submitted.

CIVIL CONTINGENT FUND - The Board approved a transfer of $6,000 from the Civil Contingent Fund to the Aeronautics Commission for operating maintenance of aircraft.

TAX COMMISSION - AUTOMOBILES - The Budget and Control Board approved the trading of two automobiles of the South Carolina Tax Commission as requested in a letter of February 22, 1972. The Board also approved the transfer of $3,500 from Classified Positions to Motor Vehicle Equipment to provide funds for this trade.

PARKS RECREATION AND TOURISM - TRANSFER OF FUNDS - The Budget and Control Board approved an intra-departmental transfer of funds of the Department of Parks, Recreation and Tourism in the amount of $55,500 for the following purposes:

Mapping of Camden Area	$ 10 000
Lace House Restoration	25 000
Charles Towne Landing Promotion	20 500

These transfers were requested in a letter dated January 31, 1972.

PERSONAL TELEPHONE CALLS - Mr. P. C. Smith reported to the Budget and Control Board that some departments of State Government permit employees to make personal telephone calls from state telephones and to pay for such calls by personal check. As this practice greatly confuses the accounting records of the department, he recommended that the Board adopt a ruling prohibiting this policy.

The Board agreed that such calls should be charged to the employee's personal telephone, and authorized Mr. Smith to notify the departments that the practice of personal reimbursements for telephone calls should be ended.

There being no further business, the Board adjourned at 5:45 p. m.

EXHIBIT I
MARCH 7, 1972

CAPITAL IMPROVEMENTS
FOR
MEDICAL UNIVERSITY OF SOUTH CAROLINA

NAME OF PROJECT		ESTIMATED COST
Clinical Science Building		$10,000,000
Renovation of Quadrangle		750,000
Business Office Building		1,000,000
Eye Clinic		1,500,000
Hospital Renovation		3,000,000
Land Purchase		500,000
Ongoing Projects (See Attachment)		547,742
TOTAL FUNDING REQUIRED		$17,297,742
Less Funds Available:		
State--1970 Capital Improvement Bond Act 1272	$1,681,500	
Federal--Hill-Burton	2,296,232	
Proposed Issue, State Institutional Bonds	3,000,000	
Private Contributions, Eye Clinic, $500,000 on hand, $500,000 to be raised	1,000,000	
		-7,977,732
BALANCE FUNDING REQUIRED FROM STATE		$ 9,320,010 **

**This amount will be reduced by $3,000,000 if Federal grant for Clinical Science Building is awarded.

MEDICAL UNIVERSITY OF SOUTH CAROLINA

ONGOING PROJECTS

NAME OF PROJECT	COST
* Physical Medicine and Cardiac Intensive Care Addition	$ 166,800.00
Warehouse (Total Project Cost)	26,700.00
Third-Floor Renovation, Building "E" (Total Project Cost)	187,242.00
** Shelled-In Space, Basic Science Building	167,000.00
TOTAL STATE FUNDING REQUIRED	$ 547,742.00

* Physical Medicine and Cardiac Intensive Care Addition

Federal Funds--Hill Burton	$1,151,809.53
State Funds Available in Project	681,382.00
Additional State Funds Required	166,808.47
Total Project Cost	$2,000,000.00

** Shelled-In Space, Basic Science Building

Federal Funds--Health Professions	$ 167,000.00
State Matching Funds Required	167,000.00
Total Project Cost	$ 334,000.00

CAPITAL IMPROVEMENTS

FOR THE

MEDICAL UNIVERSITY OF SOUTH CAROLINA

I. CLINICAL SCIENCE BUILDING $10,000,000

To provide adequately for the increase in the number of medical students, the College of Medicine seeks funds to construct a Clinical Science Building to house all or part of nine of the clinical departments. This building will include outpatient clinic facilities, faculty office space and ambulatory care facilities. Federal matching money is available under the Public Health Service Act.

II. RENOVATION OF THE QUADRANGLE $750,000

In the collection of buildings known as "the quadrangle" there is approximately 140,000 square feet of space. With sensitive renovation, these older structures can gain new life, house vital functions, and provide space at less cost than new construction. Part of the space will be used by Clinical Pathology, Clinical Chemistry, and Clinical Microbiology of the College of Medicine. The Physical Therapy Training Program of the College of Allied Health Sciences will use the third floor of Building B. Faculty office space for Internal Medicine and some outpatient clinic rooms are a requirement while the Clinical Science Building is being constructed.

III. BUSINESS OFFICE BUILDING $1,000,000

At the present time, the Computer Center is located in the nursing students' physical education room. The Personnel Department is located in three separate trailers three blocks from central administration. The Director of

Business Operations and the Accounting Department (including Payroll, Timekeeping, Accounts Payable, Federal Program Accounting, and Cost Accounting) are located on the fifth floor of the College of Nursing Building. It is highly desirable to provide a building in which these vital administrative services can function efficiently and restore the scattered space being used by these departments to its original functions.

IV. EYE CLINIC $1,500,000

The Department of Ophthalmology has long experienced a critical space shortage, while it has succeeded in providing extensive services to the people of South Carolina. The construction of an Eye Institute to adequately house the Ophthalmology staff, the sophisticated equipment and treatment rooms, and the special research areas has taken on great urgency with the increase in the patient load.

V. HOSPITAL RENOVATION $3,000,000

During the past four years, it has been necessary for the Hospital administration to hold patient care program expansion to a minimum and building maintenance and renovation to only those items of a critical nature. Most of the hospital equipment is over ten years old (some is 16 years old) and in a good many cases is outdated or in very poor condition. Ultimately, this affects the quality of patient care which can be rendered by this institution. Further, increased patient census is making greater demands upon the equipment and facilities.

In order to implement the proper renovation projects, an architectural firm has been selected to make a review of the physical facilities and make its recommendations for renovations to meet the needs of the ongoing and proposed programs of patient care. In addition to the proposed two-year program of renovation, there are certain equipment needs and program provisions which must be met immediately.

VI. LAND PURCHASE $500,000

As land becomes available near the University, acquisitions need to be made in order to insure that areas will be provided for future development of the Medical University of South Carolina.

VII. ONGOING PROJECTS $547,742

The ongoing projects have already been individually justified and approved by the State Budget and Control Board.

EXHIBIT II
MARCH 7, 1972

STATE OF SOUTH CAROLINA
PERSONNEL DIVISION

F. E. ELLIS
STATE DIRECTOR

TELEPHONE
(803) 758-3334

700 KNOX ABBOTT DRIVE
CAYCE, SOUTH CAROLINA 29033

February 15, 1972

The Honorable P. C. Smith
Secretary, Budget and Control Board
Post Office Box 11333
Columbia, South Carolina 29211

Dear Pat:

You will recall that the State Budget and Control Board at the conclusion of our presentation of the several alternate Health Insurance Plans at the Board meeting on January 13, 1972, requested that some additional information and cost figures be supplied concerning "Plan D" or the "Uninsured Medical/Dental Expense Reimbursement Plan." Enclosed is additional data furnished by Dr. Horn that pretty well covers the subject in general and should serve the purpose which the Board intended.

We have been receiving a number of inquiries about the status of the State Employee Health Insurance Program, including an inquiry from Senator Waddell who has asked to be kept informed of its progress. If there exists a chance that such a benefit program for State employees can be approved and funded during this session of the General Assembly, we will need to move rapidly to finalize a plan, prepare specifications, secure bids, select a carrier and enter into a contract, develop a system of administration, design forms and procedures, secure printing, conduct a statewide information and enrollment program, etc., within the space of but a few months. It would be important, therefore, for us to be advised if any one of the alternate plans presented finds favor with the Board. We will give immediate attention to further adaptation and refinement, if requested, and to the development of a complete package for the approval of the Board and submission to the General Assembly. Dr. Horn and my staff will be available at any time for further discussion on the matter.

If there is encouragement to move ahead, we would like permission to contact a number of health insurance carriers to solicit bids. Only by this means can we determine the actual cost to the State of funding a Health Insurance Program for State employees and know specifically the extent of the coverage for individual members and dependents in relation to the cost. These facts and figures will be of immediate concern of us all and certainly to those who are responsible for appropriating the funds.

You are assured that we will respond promptly to the wishes of the Board.

Yours truly,

F. E. Ellis
State Director of Personnel

FEE:mll

Enc.

CC: Members, Budget and Control Board

THIS CASE MAY HAVE SOME OR ALL OF THE FOLLOWING DEFECTS WHICH MAY BE QUESTIONABLE WHEN READING. IN SPECIAL PROBLEM AREAS, THIS ROLL NOTE MAY BE REFILMED BEFORE THE DOCUMENT OR DOCUMENTS IN QUESTION.

1. PHOTOCOPY NOT CENTERED PROPERLY CUTTING OFF SOME OF THE INFORMATION.

2. DOCUMENTS ARE OF POOR LEGIBILITY AND MAY NOT PHOTOGRAPH WELL.

3. DOCUMENTS DAMAGED OR TORN BEFORE ARRIVING FOR FILMING.

4. DOCUMENTS CONTAIN A DOUBLE-COPY IMAGE, THE UNDERLYING IMAGE IS IRRELEVENT TO THE READABLE INFORMATION.

5. OVERSIZED DOCUMENTS THAT COMPRISE TWO OR MORE FRAMES.

6. DOCUMENTS WITH GLUED INSERTS WHICH WERE OR COULD NOT BE REMOVED, INFORMATION MAY OR MAY NOT BE UNDER THE INSERT.

February 9, 1972

MEMO TO: F. E. Ellis; Director, State of South Carolina Personnel Division

FROM: Professor Ronald C. Horn

IN RE: Additional Observations Concerning A Program of Health Insurance Benefits For State Employees

Dear Mr. Ellis:

In the written report submitted to you on November 17, 1971, Professor Stinton and I outlined our recommendations and observations concerning a suitable program of health insurance benefits for state employees. On January 13, 1972, I was given an opportunity to discuss this report in a meeting with the members of the State Budget and Control Board, at the conclusion of which Governor West asked me to develop some additional information. Specifically, he asked me to elaborate upon "Plan D", one of the several alternatives discussed in pages 35 to 51 of the written report. This memorandum is an attempt to provide the requested clarifications.

General Nature of "Plan D"

"Plan D" is the label we gave to an approach which would combine (a) uninsured medical expense reimbursement with (b) group major medical insurance. Thus, the benefit package for employees would be partially uninsured and partially insured by a commercial insurer.

Under the uninsured medical/dental expense reimbursement portion of the package, generally speaking the State would pay out-of-pocket (and otherwise uninsured) medical expenses incurred by employees in their own behalf or in behalf of dependents. Such plans are specifically provided for in the Internal Revenue Code, and they are now fairly common in business and industry. As a practical matter, it is customary and advisable to place a limit on the maximum benefit payable, preferably a flat dollar amount, a percent of annual gross compensation or a combination of the two. In the illustration used in our earlier report, for example, we suggested that the maximum benefit be set at 2% of annual compensation but in no event more than $200 per year. (An alternate approach would be to impose a flat $100 maximum per year for each covered employee).

The second portion of the package would consist of group major medical insurance designed to "sit on top of" the underlying [illegible] just described. The major medical insurance contract would have a "calendar year" deductible per family, ideally, and the deductible amount would correspond as closely to the uninsured expense reimbursement maximum as insurer underwriting requirements would [illegible].

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If the base plan had a maximum benefit of $100, for example, the group major medical contract might have a cash deductible of, say, $150 or $200 per year. The State would pay or reimburse the employee for the first $100 of medical expenses incurred during the year. And the major medical insurer would begin paying the larger portion of covered expenses, after satisfaction of the cash deductible, all the way up to the maximum dollar amount specified (e.g. $50,000). A typical "coinsurance" clause would provide for the payment of 80% of such expenses by the insurer and 20% by the insured.

While there are numerous technical details in the "Plan D" package, perhaps this broad outline will be enough to convey the basic concepts. Probably the most fundamental aspect of the approach is that the insured portion places primary emphasis on coverage for the catastrophic or major illness. This follows from the relatively large deductible and the large maximum benefit recommended. The coinsurance and deductible provisions help keep the premium low - much lower, in fact, than traditional first-dollar hospital/medical insurance, despite a much higher maximum benefit under major medical coverage. The uninsured portion of Plan D helps fill the "gap" left by the insurance deductible, then, and in a very general way provides at least some "first dollar" coverage for the employee.

As will be discussed later, it seems unlikely that the State would be willing and/or able to pay for the full cost of Plan D (or any of the other alternatives). If the State pays the entire cost of the uninsured medical expense reimbursement portion of the Plan D package, it would probably mean that some employees would be expected to pay a share of the major medical insurance premium. Accordingly, I would want to specify that the employee must elect and help pay for any major medical insurance cost before he is eligible for the underlying medical expense reimbursement arrangement. Otherwise, I am afraid that less sophisticated employees would not elect to participate in the major medical insurance, the implications of which are fairly obvious. This is not quite the same thing as making the package compulsory, though, because the employee could still elect not to participate in either portion of the package, if he so desired.

The advantages and disadvantages of using the uninsured medical expense reimbursement approach as the sole benefit to be provided for employees are discussed in some detail on pages 45 to 51 of our earlier report. A superimposed major medical insurance plan was suggested as a means of meeting the need for catastrophe protection, since a 2% of salary medical expense reimbursement plan would not, by itself, respond to that need. But I do not believe the report makes it clear that we envisioned "Plan D" as the combination of medical expense reimbursement plus major medical insurance. In retrospect, I am likewise convinced that the report does not deal explicitly enough with the pros and cons of the Plan D package, as a package. I will return to this point in a moment. But first we should look at some cost implications.

Cost Considerations

In the final analysis, it would be virtually impossible to get reasonably accurate cost estimates, on any of the insured plan design alternatives discussed in our report, unless and until they are subjected to the competitive bidding process. The major medical insurance portion of Plan D is no exception. This is precisely why we recommended that specifications be drafted and bids obtained before a final decision is made. Nonetheless, I will attempt to be as responsive as I can to the Governor's request for more information on the cost considerations of Plan D.

As far as the major medical insurance portion is concerned, the best estimate I can come up with is to use the rates now being charged for a similar plan at U.S.C. The comparison is by no means perfect, for a variety of reasons, but it should afford us with a starting place. If the employee carries major medical insurance only and not the "base plan" underwritten by Blue Cross, his monthly premiums would be as follows:

Employee (only)	$3.75
Wife (only)	4.50
Wife & Children	6.19
Husband (only)	3.67
Husband & Children	5.36
Children (only)	1.69

Thus, the premium is as low as $3.75 per month ($45 per year) for the employee alone - and as high as $9.94 per month (or $119.28 per year) for the employee plus his wife and children. This plan has a $50,000 maximum, 80% coinsurance and a $200 cash deductible (which is not a calendar year deductible). For our purposes, therefore I intuitively feel the following would suffice as an estimate for a plan covering all state employees:

Employee only	$5/mo. or $60/yr.
Employee and spouse	10/mo. or 120/yr.
Employee, spouse, dependents	12/mo. or 144/yr.

On the uninsured medical expense reimbursement portion of Plan D, there are several possibilities, depending on the maximum annual limits set. For example, it might be $100 per year per employee OR 2% of salary per year per employee ($200 maximum per year). Let's use the $100 maximum as an illustration, and combine it with the major medical premium estimates.

We have about 35,000 active employees that would be eligible (see earlier report for breakdown), plus an estimated 3,000 retirees. Of the 35,000 active employees, nearly 7,000 are employed in the State Highway Department. Let us assume that the State decides to pay (a) the entire cost of a combined $100 flat expense reimbursement plan and the full employee cost of major medical insurance for active employees and (b) the full Part B Medicare premium for retirees. Assume further that 100% of those eligible actually elect to participate. The estimated costs would be:

*Annual Cost of Medical reimbursement for 35,000 active employees	=	$3,500,000
plus		
*Annual cost of Part B Medicare premium for 3,000 retirees	=	200,000
plus		
*Annual cost of employee only major medical insurance coverage for 35,000 active employees	=	2,100,000
plus		
*Administrative costs of medical reimbursement plan, contingency reserves, margin for errors	=	200,000
Total		$6,000,000
less		
*Estimated amount to be paid by the State Highway Department, from "its own" funds, for its own 7,000 active employees (and about 600 retirees)	-	1,200,000
Estimated State Appropriations Required		$4,800,000

Thus, we arrive at an estimated annual State appropriation of about $4.8 million, which might eventually be reduced somewhat by the availability of federal funding to some agencies. For the active employee who covered only himself on major medical (or the retiree covered under Medicare Part B), the combined plan would cost him nothing. For the active employee who covered himself, his spouse and his children under major medical, his premium deduction would be about $7 per month. (And if he had no other medical expenses that year, he could apply for reimbursement of his full premium as an eligible medical expense - at no increase in cost to the State). Collectively, married employees would contribute about $2.2 million for the dependents' coverage under major medical, according to my estimates, making a grand total of about $8.8 million in total annual "Plan D" cost. The State would be paying well over 50% of this total, or \$6.0 million, but only about \$4.8 million would come from State appropriations per se.

Now, the estimated State - appropriated payroll for fiscal 1970-71 was about \$152 million. It therefore follows that the \$4.8 million (above) would represent about 3.1% of such payroll.

Crude as these figures are, perhaps they still will enable us to draw some general conclusions about the potential advantages and disadvantages the Plan D version just described.

Advantages

1. Provides much-needed catastrophe insurance protection.

2. The plan cost to employees is minimal (nothing for single employees and about \$7 monthly for married employees with covered dependents).

3. Requiring employees to pay for dependents' major medical coverage is equitable, and it reduces total outlays by the State significantly.

4. Because the cost is so low, the vast majority of employees should elect to participate (and they are further encouraged to do so by requiring major medical insurance as a condition of being eligible for the direct expense reimbursement).

5. The medical expense reimbursement portion of the plan would not be considered taxable income to the recipients (see tax opinions attached to this memo).

6. The \$100 reimbursement at least helps meet the problems of providing coverage for mental illness, alcoholism, drug addiction and preventive health care.

7. The State's share of the plan cost can be determined fairly precisely in advance each year - and it should be rather stable over time. While there indeed may be increases in the major medical premiums over time, the increases should comprise a very small portion of total plan cost.

8. Each employee receives a tangible benefit every year (up to \$100) for expenses which might not be covered under the typical insurance contract.

9. The plan cost compares favorably with other logical alternative insured plans (more about this below).

10. In some respects, the plan favors lower-paid employees (though it is reasonably equitable to all).

11. It seems to fit nicely - or at least could be easily modified to fit - the "HMO" concept which the Governor and others favor.

12. It avoids the various pitfalls and problems associated with true "self-insurance".

<u>Disadvantages</u>

1. The medical expense reimbursement portion poses an administrative burden that would have to be resolved with careful plan design details and efficient procedures.

2. There would be some difficulties in explaining the plan to employees, perhaps, but probably no more so than for other plans.

3. Commercial insurers may not be willing to write the major medical coverage exactly as described (or for the premiums indicated). Only competitive bids would tell us for sure.

4. Perhaps the principal disadvantage, at least potentially, lies with the nature of true major medical insurance. The employee would have to satisfy deductible requirements, and then pay at least 20% of his own covered expenses in excess of the deductible. This may present a problem, especially for lower-paid employees. One can lower the employee's coinsurance contribution, of course, but this would increase the major medical <u>premium</u> significantly.

There are a few other potential disadvantages perhaps, but I regard #4 as the most significant.

What would happen to the insurance premiums and total plan outlays if we departed from the true major medical concept? That is to say, what if we superimposed some sort of first-dollar oriented insurance on top of the medical expense reimbursement portion of the plan? Or, suppose we had the insurer pay <u>100%</u> of the first \$3,000 of expenses in excess of the deductible - and then 80% of the amount in excess of (\$3,000 plus the deductible) up to the \$50,000 maximum? I don't really know for sure, other than the <u>fact</u> that it would increase the premiums significantly. Either the State's total contribution would increase, then, or <u>it</u> would stay the same and the employee's contribution would go up (some employees might not participate and some of the lower-paid might not be able to "afford" the additional cost, in any event).

The only figures I can offer for a crude comparison are the premium rates now being charged by S.C. Blue Cross - Blue Shield under the health insurance plan recently offered to State employees on an "open enrollment" basis. Briefly stated, the plan provides up to 70 days semi-private hospital care ($20 deductible), full coverage for miscellaneous hospital charges, maternity benefits and a $375 surgical schedule. A limited major medical plan also may be purchased to supplement the basic plan. The latter has a $10,000 maximum ($5,000 in any one year), an 80% coinsurance clause, a $100 corridor deductible and several important restrictions and exclusions. The initial monthly premiums for this package were quoted as:

Single	$11.82/month (or $141.84/year)
Family	$28.58/month (or $342.96/year)

Compared to the pure major medical insurance referred to earlier, the Blue Cross - Shield package would (a) "give" the employee fairly generous first-dollar coverage, (b) "take away" about $40,000 to $45,000 in maximum benefit and (c) contain more restrictions and exclusions on the major medical portion. But it costs over twice as much as U.S.C.'s major medical plan! Thus, the "Blues" package would have one of several cost results. If the State contributed the same $60 per year for the employee's insurance as it did under the earlier illustration, a "single" employee would have to contribute over $80 per year (instead of nothing), and "family" coverage would require him to pay $283 per year (instead of $24 per year). If the State elected to pay the full cost of "single" coverage under Blue Cross, on the other hand, the State's total outlay for insurance would increase by over $2,000,000. (And the married employee would still be required to contribute nearly $17 per month). Even greater costs would be involved if the "Blues" major medical maximum were to be increased to the comparable $50,000, which I doubt they would do in any event.

In fairness, it could be argued that the Blue Cross package makes unnecessary the uninsured medical expense reimbursement portion of Plan D. If one feels that way, which I do not, the Blue's package would reduce the state-appropriated outlay by about $800,000, assuming the State paid the entire cost of "single" insurance coverage and dropped the expense reimbursement idea. However, the married employee's contribution would still be much greater than for true major medical insurance, he would have deductibles and other gaps in the insurance coverage and he would certainly not be adequately protected for catastrophe-type illnesses. I am not here suggesting that the Blue Cross package is "bad" or "good" as such, but using it as an illustration of what might happen to Plan D costs if we departed substantially from the true major medical insurance orientation.

My guess is that we could find an acceptable compromise somewhere between the two extremes i.e. benefits designed to soften the impact of coinsurance requirements but still affordable by both the State and its employees. My preference would be for something like the "100% of the first $3,000 and 80% of the excess" coinsurance arrangement mentioned earlier. Until a guy had more than $3,200 in covered expenses, he would never be "stuck" for more than about $100 or so (the amount by which the cash deductible under major medical exceeded any unused portion of the direct expense reimbursement). Exactly how much such a plan might cost is pure conjecture at this point. It would be more than true major medical - and probably less than the Blue Cross kind of package - but I am a little less certain about the latter than I am the former.

Life Insurance *

Regardless of which health insurance plan is decided upon, I feel strongly that we ought to include some group term life insurance as part of the package, at least for bidding purposes. One logical idea would be to ask for quotes on life insurance with maximum benefits of approximately one times annual earnings. As noted in our earlier report, at a minimum this would give us a comparison with the cost of providing the preretirement death benefit under the State Retirement System. More important, it should give us a better deal on the health insurance. Except for Blue Cross, most reputable insurers will no longer write major medical or any kind of health insurance unless a minimum volume of life insurance is included. Though I do not have accurate cost figures, I do know that the cost of group term life insurance would be very small in relation to the health insurance costs. I have $38,000 group life insurance with the Prudential, and my participating premium is now about $15 per month. Using this as a guide, we would probably be talking about 35 to 40 cents per thousand per month or less for State employees.

Concluding Comments

I have tried diligently to provide the additional information requested on the Plan D alternative. However, I am not necessarily advocating it as the "best" approach. Plans A and B have merit, Plan C will give us the benefit of the insurers' suggestions and Plan D is certainly one logical approach.

Still another logical alternative, not discussed in our report, is for the State simply to agree to contribute, say, up to $10 per month for any existing health insurance plan available to State employees, period. At least one other State does this, as I recall, and it would be very simple to implement. The chief disadvantage would be considerable variations in the net costs of, and benefits afforded to, various employees. The chief advantage would be its relatively fixed and pre-determinable cost to the State. Total State outlays would amount to about (35,000 x $120) + ($200,000 for Part B Medicare Premiums) = about $4.4 million in toto, of which about $840,000 would come from highway department funds. In that sense, it is probably cheaper than any of the alternatives recommended in the November 17th report.

*Note: See also Professor Stinton's important point, outlined in a memo attached.

I will remain available to answer questions or assist further in any manner within my capabilities.

Sincerely,

Ron/pc

Dr. Ronald C. Horn, CLU, CPCU

RCH/pc
Enclosures

cc: Professor John Stinton, CLU
Fred Haskell
George Hendry

P. S. Attached hereto are several "exhibits" you may find useful.

UNIVERSITY OF SOUTH CAROLINA
COLUMBIA, S. C. 29208

COLLEGE OF BUSINESS ADMINISTRATION

February 9, 1972

Mr. F. E. Ellis, Director
Personnel Division, State of South Carolina
700 Knox Abbott Drive
Cayce, South Carolina 29033

Dear Earl:

In Re: Health Insurance Benefits
For State Employees

During our January 13th meeting with the State Budget and Control Board, you will recall, Governor West asked me to "develop some additional information" on the medical/dental expense reimbursement (plus major medical insurance) approach Professor Stinton and I had submitted as one of the logical alternatives to be considered.

In the light of the Governor's apparent interest in this approach, I have attempted to refine and clarify it in the attached memorandum. I am sending the memorandum directly to you, however, in the hopes that you and your associates will review it carefully before sending to the Governor or others, as you deem appropriate.

I shall remain available to assist you in any way I can.

Sincerely,

Dr. Ronald C. Horn CLU, CPCU
Professor of Insurance

RCH/pc
Enclosure

cc: Professor John E. Stinton, CLU
Fred Haskell
George Hendry

(For your information, I have devoted about 18 additional hours to this project since December 9, 1971)

UNIVERSITY OF SOUTH CAROLINA
COLUMBIA, S. C. 29208

COLLEGE OF BUSINESS ADMINISTRATION

February 9, 1972

MEMO TO: Ronald C. Horn

FROM: John E. Stinton

Another reason for including group term life insurance is the recent IRS contention that the preretirement death benefit under the State Retirement System is not "insurance proceeds". The IRS position in 2 current cases of which I am aware is that this benefit is not exempt from federal income tax. Although perhaps this problem can be resolved by procedural changes in the System, the problem can be avoided by using group term life insurance.

Blue Cross-Blue Shield
OF SOUTH CAROLINA

DRAWER A, FOREST ACRES BRANCH, COLUMBIA, SOUTH CAROLINA 29206

January 6, 1972

Ronald C. Horn, Ph.D
Professor of Risk Management and Insurance
University of South Carolina
Columbia, South Carolina 29201

Dear Dr. Horn:

Current number of South Caroling State Employees enrolled in Blue Cross-Blue Shield of South Carolina 14,000

Breakdown as follows:		
Billed thru Comptroller	4,628	
Not Billed thru Comptroller	2,155	
Educational not Billed thru Comptroller	5,016	
Total	11,799	
Estimated New Subscribers from Current Rework	2,200	
Making a total of . . .		14,000

Approximately 39,200 people are covered under these contracts.

Approximately between 7,000 and 10,000 people on the State payroll are not eligible for this coverage, such as the Highway Department, The Citadel, etc.

Sincerely,

Roy

Roy L. Grady
Vice President - Marketing

RLG/odt

UNIVERSITY OF SOUTH CAROLINA

COLUMBIA, S. C. 29208

PERSONNEL OFFICE

February 3, 1972

Dear Colleague:

We are pleased to announce, that following the periodic review of our claims experience by TIAA, no general increase in contributions for the Major Medical Expense Policy will be necessary. One significant change has been made, however, that will require a modest increase in contributions.

Although our Major Medical Policy, in our opinion is one of the finest available, it has suffered from the fact that the amount of daily hospital charges for room and board that are regarded as covered expenses has been limited to a stated dollar maximum (recently $28 per day). Despite our efforts the rapid increase in hospital charges has made it difficult to keep this limit up-to-date.

As of March 1, the dollar limit will be eliminated. Instead, covered expenses for room and board charges will be limited only to the average charge by the hospital for a semi-private room. The present deductible and percentage participation provisions will continue to apply, but this change should allow our plan to keep abreast of the rapid changes in hospital charges.

This liberalization in our plan will necessitate the increase in contributions as outlined below. Individuals on a nine month payroll basis will, of course, have to undergo a slightly higher increase from now until June in order to prepay the cost of the liberalization for the summer months. After June, the deductions for nine month salaries will drop to the level indicated in the table:

TIAA MAJOR MEDICAL

	Base Plan		Hospital Only		Neither	
	12 Mos.	9 Mos.	12 Mos.	9 Mos.	12 Mos.	9 Mos.
Employee	$3.30	$[illegible].40	$3.41	$4.54	$3.75	$5.00
Wife	3.94	5.25	4.10	5.46	4.50	6.00
Wife & Children	5.34	7.12	5.60	7.46	6.19	8.25
Husband	3.24	4.32	3.36	4.48	3.67	4.89
Husband & Children	4.64	6.18	4.86	6.48	5.36	7.14
Children	1.40	1.86	1.50	2.00	1.69	2.25

We trust this change will meet with your approval.

Sincerely,

LeRoy L. Shaup

LeRoy L. Shaup, Jr., Chairman
Insurance & Annuity Programs Committee

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BLUE CROSS - BLUE SHIELD BENEFITS AVAILABLE TO SOUTH CAROLINA STATE EMPLOYEES
DURING DECEMBER, 1971

BLUE CROSS BENEFITS (Hospitalization)-Deductible $20

Room and Board	Semi-Private room PAID IN FULL (or equal allowance toward private room)
Miscellaneous Hospital Charges (Operating room, medicine, lab tests, etc.)	PAID IN FULL
In-Patient Days	70 days per separate illness or accident; 30 days per contract year for nervous and mental conditions
Maternity	10 days for normal delivery; 14 days for caesarean plus nursery care charges PAID IN FULL during lying-in period of the mother.
Emergency Room Care	PAID IN FULL when services rendered within 72 hours following accident
Out-Patient Surgery	PAID IN FULL when performed at hospital (out-patient)
Intensive Medical Units	PAID IN FULL (approved units only)

BLUE SHIELD BENEFITS (Medical-Surgical)

Surgery -	$375 Surgical Schedule
Assistant at Surgery	20% of allowable allowance for surgery
In-Hospital Medical Visits	$10 first day and $6 per visit next 69 days
Maternity	$80 normal delivery and $170 caesarean section
Emergency Medical Care	$10 when services rendered within 72 hours of accident
Anesthesia	Up to $75 computed according to length of time administered by a physician who bills for services.
Intensive Medical Care	Up to $50 allowed for non-surgical care for conditions requiring unusual and constant care in first 48 hours.

MAJOR MEDICAL BENEFITS — Maximum benefit lifetime $10,000. Maximum benefit per contract year $5,000. Annual Automatic—Non-Medical Restoration $1,000. Deductible —$100.00 per person per contract year. Benefits: 80% of eligible charges after deductible. Some of the eligible expenses are: private duty nursing, prescription drugs, home and office calls, diagnostic x-ray and lab—in conjunction with an illness or injury, prosthetic appliances such as braces, crutches, hospital beds.

If you enroll before 12/31/71, there will be no waiting periods regardless of your health conditions.

PROLONGED ILLNESS CONTRACT (For Departments not electing Major Medical) — Additional benefits whether in or out of the hospital to aid in the financial problems of long-term illnesses.

BI-WEEKLY RATES:

Single		Family
$4.14	Blue Cross	$10.22
5.20	Blue Cross and Blue Shield	12.64
5.91	Blue Cross-Blue Shield-Major Medical	14.29
5.85	Blue Cross-Blue Shield and Prolonged Illness Contract	13.86

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NOTE: The above is a brief, non-legal description of available benefits.

√

South Carolina Tax Commission

COLUMBIA

ROBERT C. WASSON
CHAIRMAN

WYATT E. DURHAM
H. WAYNE UNGER, JR.
ROBERT C. WASSON
COMMISSIONERS

January 5, 1972

IN REPLY REFER TO
IT:RSB

Mr. David A. Merline
Attorney at Law
1526 Daniel Building
Greenville, South Carolina 29602

Dear Mr. Merline:

This is in reply to your letter of December 22nd, addressed to Mr. John von Lehe, Assistant Attorney General, requesting a ruling with reference to medical expenses paid by an employer for its employees. Mr. von Lehe has referred your letter to the writer for consideration and reply.

From the information contained in your letter, it is our opinion that medical-dental expenses reimbursed to the employees by the employer would not be taxable income to the employees.

Yours very truly,

SOUTH CAROLINA TAX COMMISSION
INDIVIDUAL INCOME TAX DIVISION

R. S. Bollinger, Director

RSB:bb

DAVID A. MERLINE*
ATTORNEY AT LAW
1526 DANIEL BUILDING
GREENVILLE, SOUTH CAROLINA 29602

TAX, ESTATE AND
CORPORATE MATTERS

TELEPHONE
803/242-5050

January 6, 1972

Dr. Ronald C. Horn, CLU, CPCU
College of Business Administration
University of South Carolina
Columbia, South Carolina 29208

Dear Ron:

I have reviewed your report concerning a health insurance program for State employees. I have studied in particular "Plan D" concerning a medical-dental expense reimbursement plan.

It is my opinion that payments made under "Plan D" would not constitute taxable income to the employees under Sections 105 and 106 of the Internal Revenue Code. However, there is no specific statutory authority to exclude these payments from income for South Carolina income tax purposes. For this reason, we have written to Mr. R. S. Bollinger, Director, Individual Income Tax Division, South Carolina Tax Commission. A copy of our letter to Mr. Bollinger and his reply are enclosed. As you will note, Mr. Bollinger states that such payments do not constitute taxable income to the employees.

After the final details have been developed on a medical-dental expense reimbursement plan, I would recommend that such plan be submitted to the Internal Revenue Service and the South Carolina Tax Commission for a ruling as to the income tax consequences to the employees.

If I can be of further assistance please let me know.

Sincerely yours,

David A. Merline

DAM/jg
Enclosures
cc: Mr. F. E. Ellis

MEMORANDUM

TO: ALL AUDITORS OF THE CORPORATION INCOME TAX DIVISION

FROM: Arnell M. Coker, Sr., Director AMC

SUBJECT: Medical care expenses paid by a corporation on behalf of an employee or the employee's spouse or dependents constitute a deduction by the corporation and is not taxable to the employee as set forth in Internal Revenue Code Section 105(b).

The question has been raised as to whether or not the above type expense is provided for in the S. C. Code of Laws of 1962, as Amended, as a deduction from corporation gross income in arriving at net taxable income.

The corporate tax as imposed by Section 65-222 is levied on the entire net income, or a proportion thereof.

Section 65-255 defines the words "net income" as used in this chapter as meaning the gross income of a taxpayer less the deductions allowed by this chapter.

Section 65-259 states that, "in computing net income there shall be allowed as deductions: (1), etc.", the applicable deductions do not provide a deduction for medical expense paid by a corporation on behalf of an officer or an employee.

Medical expense will not be allowed as a bona fide deduction in arriving at net income as an ordinary and necessary expense of "doing business", unless such expense is included in the officer and/or employee's compensation, provided such compensation, upon examination, is deemed to be reasonable in amount.

JANUARY 16, 1970

Sec 25

December 22, 1971

Mr. John von Lehe
Assistant Attorney General
State of South Carolina
Box 125
Columbia, South Carolina

Dear John:

Request is made herewith for a ruling from the South Carolina Tax Commission pursuant to Section 65-67.1, Code of Laws of South Carolina, with respect to the following fact situation.

A governmental body connected with the State of South Carolina is proposing to adopt a "Medical-Dental Expense Reimbursement Plan" calling for payment by the governmental body of out-of-pocket medical and dental expenses incurred by their employees in their own behalf or in behalf of their dependents. Such a plan would be typically referred to as an uninsured plan from the standpoint that the employer would not fund his obligation by the purchase of insurance from an insurance company. However, the governmental body would be assuming the risk of paying said expense, and would allocate an amount equal to approximately 3% of the payroll of its employees to self-insure the risk. The amount allocated by the governmental body would be in addition to the present salary paid to employees.

Such plans are specifically provided for under Section 105 of the Internal Revenue Code, and the payments are not taxable income to the employees. However, we do not find any specific statutory authority for such plans in South Carolina.

We would appreciate your determination as to the income tax consequences of such a plan to the individual employees under South Carolina law.

Sincerely yours,

David A. Merline

DAM/jg

REPORT ON PROPOSED

HEALTH INSURANCE BENEFIT

PROGRAM FOR STATE EMPLOYEES

EXHIBIT II

MARCH 7, 1972

REPORT ON PROPOSED

HEALTH INSURANCE BENEFIT

PROGRAM FOR STATE EMPLOYEES

EXHIBIT II

MARCH 7, 1972

FOR DENSITY TESTING PURPOSES ONLY

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STATE OF SOUTH CAROLINA

PRELIMINARY REPORT ON PROPOSED HEALTH INSURANCE BENEFIT PROGRAM FOR STATE EMPLOYEES

Submitted to the

Personnel Division, State of South Carolina

November 17, 1971

by

Dr. Ronald C. Horn, CLU, CPCU

and

Dr. John E. Stinton, CLU

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TABLE OF CONTENTS

INTRODUCTION

In the 1971-72 Appropriations Bill, the South Carolina General Assembly allocated funds to the State Personnel Division for the purpose of developing a suitable health insurance benefit program for all state employees. It is anticipated that (1) such a program will become effective July 1, 1972 and (2) the State's portion of the initial funding of the program will be appropriated by the 1972 General Assembly.

Earlier efforts to establish a state-sponsored health insurance program resulted in the publication of the February, 1969 "Report of The Committee To Study Medical And Hospital Insurance Programs Suitable For State Employees," which report contains the recommendations of the committee appointed pursuant to a 1968 Concurrent Resolution of the General Assembly. This Committee recommended, among other things, that "South Carolina structure and participate in a health insurance program for State employees as one means for moulding State career service". Shortly after the Committee's formal report was presented to the State Senate on February 7, 1969, the consulting firm of Towers, Perrin, Forster and Crosby was retained to explore the technical aspects in greater detail. In March, 1970, T.P.F.& C. submitted its "Report On Medical Plan For State Employees" to the State Director of Personnel. However, further legislative action was delayed by budget considerations until the Personnel Division was directed to resume its plan design activities in the summer of 1971. By this time, much of the information contained in the two earlier reports had become outdated, a wage-price freeze was in the making, the State was faced with increasing demands on limited financial resources, general economic conditions had changed and renewed interest in national health insurance had intensified. Accordingly, the authors were asked to conduct an in-depthstudy of the matter, in the light of the new conditions and the earlier reports, and to submit their findings to the State Director of Personnel.

EMPLOYEE CENSUS DATA

At the suggestion of the authors, initial efforts were directed toward securing comprehensive "employee census" data for all state employees. If an employee benefit plan is to be tailored to the particular needs of a group, it is absolutely essential to have detailed breakdowns of earnings, sex, marital status and age distributions. But such information was not, at the outset, readily available in usable form. The limited data available pertained only to those state employees now under the new Personnel Classification System (about 85% of the total), and it was insufficiently detailed for the purpose at hand. Thus, the staff of the Personnel Division worked diligently for several months to obtain the additional data and summarize it in a form that would facilitate meaningful analysis.

Since the results of this initial data-gathering phase should be extremely useful in numerous facets of State government, they are reproduced in detail in Appendix A of this report. From Table 1, which summarizes the census data for all 32,810 State employees as of October 27, 1971, the following Figures seem especially noteworthy:

AGENCY Employee Census Data-Health Insurance (ALL EMPLOYEES)

DATE October 27, 1971

STATE OF SOUT[illegible]AROLINA

NNUAL RNINGS LASSES	EMPLOYEES IN EACH EARNINGS CLASS		DISTRIBUTION OF FULL-TIME EMPLOYEES BY SEX, MARITAL STATUS AND AGE													
			SEX		MARITAL STATUS			AGES								
	NUMBER	%	M	FM	M	S	D/W	Under 30	30-34	35-39	40-44	45-49	50-54	55-59	60-64
er $4,000	5185	15.8	1933	3252	3176	1682	327	2457	461	441	433	475	441	281	166
000-$5,000	8215	25.0	4024	4191	5922'	1789	504	3040	601	686	805	823	941	804	447
000-$6,000	4285	13.1	2071	2214	3168	888	229	1460	419	373	443	507	452	377	209
000-$7,000	3546	10.8	1851	1695	2604	775	167	1316	376	314	321	371	348	284	171
000-$8,000	2931	8.9	1630	1301	2205	620	106	946	341	233	279	309	311	265	183
000-$9,000	1903	5.8	1269	634	1435	406	62	505	304	196	177	160	206	161	142
000-$10,000	1606	4.9	1252	354	1276	290	40	356	310	209	206	157	149	108	83
000-$12,500	2417	7.4	1989	428	1975	369	73	350	411	355	319	298	261	218	148
500-$15,000	1183	3.6	1049	134	1017	129	37	84	230	199	163	150	124	109	100
000-$17,500	638	2.0	605	33	582	52	4	26	62	120	113	105	74	71	48
500-$20,000	371	1.1	351	20	337	26	8	3	36	63	57	81	59	38	28
000-$22,500	233	.7	226	7	223	8	2	0	6	23	47	52	40	38	15
500-$25,000	124	.4	115	9	112	10	2	1	7	20	14	23	18	19	17
$25,000	173	.5	167	6	160	8	5	0	7	19	26	35	30	30	17
D TOTALS	32810	100.	18532	14278	24192	7052	1566	10544	3571	3251	3403	3546	3454	2803	1774
PERCENT			56.5	43.5	73.7	21.5	4.8	32.1	10.9	9.9	10.4	10.8	10.5	8.6	5.4
CUMULATIVE PERCENT									43.0	52.9	63.3	74.1	84.6	93.2	98.6

TABLE I.

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1. Earnings - A significantly large portion of the group is at the lower end of the salary scale. About 13,400 employees, or 40% of the total number, make less than $5,000 per year. Nearly 54% make less than $6,000 per year and 65% make less than $7,000 per year. On the other hand, only 15% of the employees have earnings in excess of $10,000 per year. (Of the 5,139 employees who have salaries exceeding $10,000 per year, about 50% are employed by the state colleges or universities).

2. Sex - The State employs 18,532 males (56.5% of the total) and 14,278 females (43.5% of the total). However, nearly 80% of the females make less than $7,000 per year.

3. Marital Status - About 74% of the employees are married, 21% are single and another 5% are divorced. As one might expect, the vast majority of the single and divorced employees are in annual earnings categories of less than $10,000.

4. Ages - The employees are decidely "younger" than one might have expected for a group of State employees. Over 30% of the employees are less than 30 years of age and nearly 75% are less than 50 years of age. The median age of the group lies somewhere between age 35 and 39. Only 1.4% of the employees are 65 years of age or older.

While the foregoing facts represent only a small sample from the data included in the Appendices of this report, prehaps they will at least serve to highlight some of the relevant characteristics of the group for which a health insurance plan is to be designed. Each of these characterics will be examined in greater detail in later sections of the report.

TOTAL PAYROLL DATA

Because of the obvious implications for alternative arrangements to fund a state-sponsored health insurance program, the Personnel Division was asked to develop payroll information for the fiscal year 1970-71. The relevant figures, based on Personnel Division estimates, are as follows:

1.	Total State Payroll For Fiscal Year 1970-71	$229,532,938
2.	Less Amount Paid From Federal Funds	- 41,765,800
3.	Balance	$187,767,138
4.	Less State Highway Department Payroll (Funded Through Its Own Revenue-Producing Sources)	- 36,166,793
5.	Total Payroll From (State) General Appropriations	$151,600,345

Although the figures for the fiscal year 1972-73 probably will be somewhat higher, the data provide a satisfactory basis for preliminary insurance cost estimates.

SURVEY OF OTHER STATE HEALTH INSURANCE PROGRAMS

In July, 1971, the Personnel Division conducted an up-to-date survey of the benefit provisions and financing arrangements in state health insurance plans of the type now under consideration for South Carolina. Twenty-five states responded with some detail about the plans now in force in their respective states. A copy of the survey results is included in Appendix B. In addition to a summary of each individual plan, the survey provides a comparison among nationwide state totals, southeastern state totals and the plan suggestions contained in the March, 1970 report prepared for the State of South Carolina by T.P.F. & C. Since the survey results speak for themselves, no further elaboration seems necessary at this point. The survey findings were studied carefully, however, in preparing the recommendations contained in this report.

SOUTH CAROLINA HOSPITAL ROOM RATES

The prevaling charges for hospital room and board obviously constitute an import consideration in the design of any health insurance plan. But here in South Carolina, as elsewhere throughout the country, keeping track of rapidly rising hospital charges is no easy task. Fortunately, the South Carolina Hospital Association provided the authors with a fairly detailed breakdown of room charges in major hospitals located throughout the State. This information, reflecting charges as of August, 1971, is included in Appendix C.

Depending upon the location and the type of accomodations involved, per diem rates ranged from a low of about $20 (for ward accomodations) to a high of about $62 (for a private room). If there is a "typical" charge for semi-private accomodations in the State, it would currently be approximately $35 per day. But daily semi-private rates of $40 or more are no longer uncommon, particularly in the larger metropolitan areas. It seems almost inevitable, moreover, that the "prevailing" hospital costs will continue to rise at a rapid pace within the foreseeable future, with additional increases likely even before a health insurance plan could be implemented by the State. All of these factors were weighed carefully in arriving at the plan design and funding suggestions to be discussed later in the report.

COMMENTS ON THE 1969 STUDY COMMITTEE REPORT

The 1969 "Report Of The Committee To Study Medical And Hospital Insurance Programs Suitable For State Employees" provided an excellent point of departure for the current study.[1] The information and suggestions contained therein reflect painstaking efforts on the part of many dedicated and knowledgeable persons. It should not detract in any way from the Committee's original findings, therefore, to acknowledge the wisdom of reexamining them in the light of (a) current conditions which could not have been foreseen and (b) the comprehensive employee census data which were not available to the Committee at the time. To this end, the authors would offer the following brief comments on each of the Committee's fourteen recommendations, in turn:

---

[1]See Appendix D for a copy of this report.

1. "Recommendation that South Carolina structure and participate in a health insurance program for State employees as one means of moulding State career service."

Comment: We wholeheartedly concur with both the recommendation and the rationale the committee employed in its support. But, for reasons noted later, we do not believe it would be advisable to take too literally the Committee's suggestion that the system be "comparable to that which Georgia has structured".

2. "Recommendation that (the) program be headed by a high-level policy-planning, rule-making body with (the) State Director of Personnel as chief administrative officer."

Comment: While we agree with this general approach, we strongly urge adoption of more definitive guidelines pertaining to the composition of the Board. For example, we would hope that political considerations would play absolutely no part in the selection of Board members. Some representation from the financial sector of State government would be necessary, of course, but we likewise believe that the Board members should include at least some health insurance expertise, at least one female and adequate representation of the employees themselves (perhaps through the State Employee's Association).

3. "Recommendation that (the) program be funded by allocation of an amount not exceeding 3% of total outlay for personal services".

   Comment: We intuitively feel that a 3% allocation would be affordable by the State, and that it would provide a fairly reasonable level of benefits. However, we take sharp issue with the suggestion that the State's allocation should "not apply to that portion of monthly salary exceeding $700". Indeed, we believe that this latter suggestion is based upon a faulty premise. The main effect of such a limit would be to lower the State's total allocation; consequently, it would be necessary to lower the level of benefits or increase the allocation percentage. There is no necessary reason, moreover, for there to be a direct relationship between the State's total allocation to the plan and an individual employee's level of contribution.

4. "Recommendation that enabling legislation include provisions which Georgia added by later amendments".

   Comments: We agree. The provisions to which the Committee report refers pertain to inclusion of General Assembly members and subsequent eligibility of persons who originally declined to participate. Our specific suggestions are included in our plan design alternatives, which are outlined in a later section.

5. "Recommendation as to definition of 'employee' under such program".

Comment: As will be noted later, our concern here is twofold. First, we feel that definition of "full-time" employee ought to include the many persons who work more than twenty hours per week for more than five months a year, but who are not currently considered "full-time" for other purposes. Second, while we believe inclusion of retirees is an admirable objective, we are mindful of the fact that this might have a significant impact on total plan costs. All of our plan design suggestions take note of this by suggesting Part B "medicare" coverage for medicare eligibles.

6. "Recommendation that (a) health insurance stabilization fund be authorized with potential as (a) source of (the) State's portion of health insurance premium for retirees".

Comment: We have no strong objections to the general notion of establishing a "stabilization fund" per se, but we cannot endorse the idea enthusiastically on the basis of the limited information given in the Committee's formal report. Nor do we believe that such a fund is the "essence in fabricating the program" recommended by the Committee. Whether this kind of fund is necessary or desirable depends entirely on the nature of the program adopted. And the Committee did not, of course, address itself to the benefit details of the plan. One can only infer that the Committee felt such a fund to be necessary because it envisioned a plan promising a fixed level of benefits or services (and variable costs). If such a fund is created, we prefer to see some limitations on its size, e.g. that it should not exceed an amount determined periodically by a qualified independent actuary, and we further believe the legislation should include a clear statement of the fund's purpose.

7. "Recommendation that although (the) State pay, if possible, the larger part of the premium under the Plan, the employee contribute substantially toward payment of the premium whether for 'single' coverage or 'family' coverage."

Comment: We find ourselves in the uncomfortable position of agreeing generally with the basic recommendation but disagreeing with the rationale offered by the Committee. There are some who believe that employee contributions result in a "greater appreciation" of the plan by the employees. This proposition may contain an element of truth. However, the major argument in favor of employee contributions is much more persuasive. Given a specified level of State financing, employee contributions permit a much more favorable and generous benefit structure. This argument must be tempered, as a practical matter, by the necessity of meeting insurer participation minimums. If employees cannot afford the prescribed level of contributions, or otherwise deem the contributions excessive, they may not elect to participate and thus the entire plan may fail. Even in an uninsured plan, a low level of participation would have to be considered a failure to achieve the intended objectives. Finally, employee contribution levels should not be set without due regard to the prevailing practices of "competitor" employers. We believe our plan design suggestions reflect proper consideration of all such factors involved.

8. "Recommendation that (the) plan include conversion privilege but without 'loading' by insurer for such purpose."

Comment: We are inclined to feel that this approach would impose an undue hardship on employees who terminate for reasons of poor health (and are not eligible for retirement). Since the practice would undoubtedly give rise to more serious adverse selection than that which is inherent in the customary arrangement, the insurer's conversion charge, assuming an insured plan, would probably be very high. As such, it would effectively preclude conversions by terminating employees. A better approach is to require terminating and converting employees to undergo a physical exam. Conversion charges for uninsurables (only) would be levied against the remaining group.

9. "Recommendation that benefit provisions and coverage details be left to those administering the Plan."

Comment: We do not concur. In fact, we do not believe that benefit and coverage matters are aptly described as "details". We can fully understand why the study committee did not attempt to formulate coverage specifics.

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Yet it does not follow, in our opinion. that these things should be left to the sole discretion of "those administering the plan." Decisions of this sort instead should involve a system of safeguards. checks and balances and public discussions.

10. "Recommendation that (the) State assume a major role in (the) administration of (the) group insurance program."

Comment: If the plan to be adopted is either uninsured or only partially insured through a commercial insurer, the State would, inescapably, play a major role in plan administration. Whether the State should elect a wholly or partially uninsured approach is to be dealt with in later sections of this report.

If the plan is to be insured, on the other hand, we do not agree with the above recommendation. It is true enough, as the Committee noted, that the size of an insurer's "retention" would depend upon the extent to which the State assumed responsibility for plan administration. But we question whether any reduction in insurer retention would not, in fact, result in a net reduction in plan cost. To achieve any net savings, the State must provide comparable administrative services more efficiently and inexpensively than a commercial insurer. From first-hand experiences in similar situations, the authors are keenly aware of the fact that too often alleged savings are really just "disguised" expenses resulting from incomplete cost accounting. Hence, we suggest that the State would be well advised to accumulate cost accounting figures over, say, a two-year period before agreeing to assume any major administrative burden. Even then, it should do so only if net cost savings can be demonstrated clearly.

We likewise have some reservations about the State involving itself unduly in individual claims disputes. One of the major advantages of having a commercial health insurer, we believe, is that the insurer serves as a "buffer" between the employer and the dissatisfied claimant (who, more often than not, is making unreasonable demands). This is not to suggest that the State whould never become involved in claims problems. But rather that the State, through its power as a large buyer, insist on prompt, fair settlement of all just claims--no more, no less. Perhaps this is all that was intended in the Committee's recommendation.

11. "Recommendation that (the) benefit program be nonoptional with coordination of benefit and Medicare limitations."

Comment: The only thing we object to here is the "non-optional" aspect of the recommendation. The Committee urged establishment of "a single program applicable to all without options as to different ranges of benefits". In the context of the entire report, it seems clear that the Committee was here directing inself to the issue of whether employees should be permitted to elect "high" or "low" options similar to those available in the Blue Cross-Shield plans for federal employees. While we agree that permitting such a choice would not be advisable, this does not preclude having prescribed but different benefit structures for different classes of employees. The merits of the latter approach will be elaborated upon in a section on plan design alternatives.

A related question is whether the proposed plan should - or can be - "compulsory" for all State employees. On both legal and practical grounds, we seriously doubt that the plan could be made compulsory for employees already employed at the time the plan is installed. For them, the plan itself would have to be optional and this, in turn, means that it will have to be attractive enough to assure that at least the required percentage of those eligible will elect to participate. For employees hired after plan installation, participation in the plan could be made a condition of employment. At least there is ample precedent for this approach in similar groups.

A related question is whether individual state agencies should be allowed the right to elect out of the plan, perhaps by a vote of its employees. The Committee urged that the plan be elective as regards the South Carolina Ports Authority and the Public Service Authority, for example, because both agencies are self-supported financially and they receive no State appropriations. Other than these two agencies, the Committee report did not deal specifically with the matter of agency elections and, hence, we can only infer that the proposed health insurance plan was to be compulsory for all other agencies (but elective as regards their individual employees at the inception of the plan). Although this approach may be preferable to the alternatives, we do feel that it is

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important to distinguish between <u>agency</u> elections and individual <u>employee</u> elections. For example, adverse selection problems are associated more with the latter than the former kind of elective provision. And either kind of election poses a challenge in terms of meeting minimum insurer participation requirements (for contributory plans, normally at least 75% of the <u>eligible group</u> must elect to participate before the plan could become operative).

12. "Recommendation that enabling legislation include authority for self-insurance program."

<u>Comment</u>: The term "self-insurance" is used to mean so many different things that it is not at all clear what the Committee may have had in mind. Here, we would only like to make the point that the issues involved are exceedingly complex. As such, we would strongly oppose legislation that would give "authority" to establish self-insurance to anyone other than the South Carolina General Assembly.

13. "Recommendation that teachers, their associations and the General Assembly consider study of a similar or comparable plan for teachers at some furture time."

<u>Comment</u>: This is a matter well beyond the scope

of our study. Yet we applaud the Committee's recommendation and hope that it will be given the serious attention it deserves.

14. "Recommendation for early implementation of Plan."

Comment: We do not feel that this is for us to decide. Nonetheless, we feel it important to call attention to two major developments of relatively recent origin; namely, the wage-price freeze and the prospects for national health insurance. Our own general observations on each of these two developments are presented in a later section.

In making the foregoing brief comments, we have attempted to be constructive. Largely because we had access to more definitive data, we have disagreed with the Committee on various technical questions. Nevertheless, we enthusiastically endorse the spirit of the Committee's 1969 report. It has been of invaluable assistance in preparing our study.

COMMENTS ON THE T.P.F. & C. REPORT

As noted earlier, the consulting firm of Towers, Perrin, Forster and Crosby was asked to submit its recommendations on the proposed health insurance plan for State employees, as a result of which the "Report On Medical Plan For State Employees" was presented to the State Personnel Director in March, 1970. (see Appendix E). The firm was selected because of its nationally-recognized expertise in employee benefit planning, as well as its experience in the design and implementation of several other state-sponsored health insurance programs.

T.P.F. & C.'s written report is a lengthy document containing many excellent suggestions. However, the report is now several years out-of-date and it was made, in the first instance, on the basis of very limited information. The authors reviewed the report carefully and feel that the following observations should be made:

1. The T.P.F. & C. report proceeds on the explicit assumption that there is to be a "single, uniform medical insurance plan for all state employees" and that such a plan will - among other things - remove the "inequality and lack of benefits of the current system." We are not sure where the basic assumption came from, but we thoroughly disagree with it.

   It is virtually axiomatic that there will be a single plan if there is to be a "State" plan at all. But it by no means follows that it should be a uniform plan (i.e. the same benefits, deductibles, etc. for all employees). Compared to the existing benefits of some sizeable State agencies, in fact, the uniform plan proposed by T.P. F. & C. would take away benefits, not add them. A case in point is the University of South Carolina with 2,000 employees, about 1,700 of whom are eligible for Major Medical insurance benefits up to a $50,000 maximum. The T.P.F. & C. report would provide only a $15,000 maximum benefit, and it would include a lower deductible than most higher-paid employees want or need. Even though the State agreed to pay 50% of the premium (with taxes, paid in part by the employees themselves), we suspect the T.P.F. & C. plan would meet with considerable resistance. This, in turn, might make it difficult to meet insurer participation requirements and general plan objectives. Indeed, a strong case can be made for treating all state college and university faculty members as a "separate group" for plan purposes. They are in a vastly different labor market than most State employees, many are not on a twelve-month basis and they are all in the upper end of the income distribution.

Apart from the foregoing issue, it can be argued persuasively that a <u>uniform</u> plan would introduce or create more "inequalities" than it removes. Flat-dollar amounts and deductibles, for example, are justifiable on equity grounds only when the group is relatively homogeneous in nature. Clearly, this is <u>not</u> the case with the 32,810 employees in question. This alone suggests the desirability of subdividing the group into two or more parts for plan purposes, relating the amount of the deductible to annual earnings, and so on. We will return to this point in connection with our own plan suggestions.

Given the assumption that it is to be a "single, uniform medical insurance plan" (and in view of the proposed ceiling on State participation in cost at 3% of payroll), the rest of the T.P.F. & C. plan design suggestions follow an acceptable general pattern. We would change many of the specifics, however, and have done so in our own plan alternatives. The more important point to be made here is a fairly subtle one. By assuming a medical insurance plan in the first place, instead of what we prefer to call a "plan of medical insurance benefits," the T.P.F. & C. report jumped too quickly into the details of insurer bidding and the like. Thus, the somewhat superficial discussion of self-insurance reads like an insincere afterthought.

2. It should be stressed that the T.P.F. & C. recommendations were made on the basis of incomplete information concerning the various health insurance benefits that were then in existence for some State employees. Hence, we can well appreciate why they were misled into making some of the suggestions which appeared

in the report. We can likewise appreciate why they might have chosen to assume a single, uniform plan, since they did not have access to comprehensive employee census data. Without these data in hand, though, no man can make good the claim the he has "designed or tailored" a plan to fit the distinguishing characteristics of the group. As it turned out, the 1971 census data collected by the Personnel Division contained a few "surprises" that were not intuitively obvious beforehand. Our own plan suggestions necessarily reflect some compromises, but we do feel they "fit" the group better than the T.P.F. & C. recommendations.

3. T.P.F. & C. recommend that there be no waiting period for employees hired after the plan becomes effective, i.e. such employees would be covered immediately after they authorized contributions and payroll deductions. We concur with this approach only for employees hired on a yearly contractual basis (e.g. university faculty members). For other employees, we suggest a waiting period of, say, 30 days before a new employee becomes eligible. This is to reduce the administrative expenses associate with covering employees who terminate employment shortly after they are hired. We were unable to obtain "turnover" data, but we suspect that a fairly large number of persons

terminate sometime during the first 30 days of employment. At least this is true for many comparable groups.

4. We do not feel that it is necessary to comment on each of the coverage details in the T.P.F. & C. report, but we do think it is important to note that their proposed plan has a fairly heavy emphasis on "first-dollar" protection. In a sense, this kind of benefit structure can be thought of as a "practical necessity" for the thousands of lower-paid State employees who might not otherwise budget for predictable medical expenses. Yet it is likewise a very expensive kind of benefit to purchase. Since the employees are expected to bear about 50% of the cost, this poses a well known dilema in health insurance planning. Those who probably "need" first-dollar coverage the most, the lower-paid employees, are the least able to afford it. And many higher-paid employees neither want nor need anything but true major medical coverage. Both considerations have an important bearing on the level of participation that is likely to be achieved. If a "basic plus major medical" approach is to be used, therefore, we suggest that employees be given the option of

purchasing (a) major medical only or (b) basic and major medical combined.

5. The T.P.F. & C. discussion of self-insurance is incomplete and superficial. Yet we can sumpathize with their admirable attempt to simplify a very complex subject. Moreover, we share their reservations about the State's becoming involved in a plan which both (a) promises specific benefits and (b) is not insured through a commercial insurer. The acturial and cost implications alone are formidable. As will be noted later, this does not rule out the desirability of an uninsured approach such as the one we feel has merit.

6. Assuming the plan is to be at least partially insured, we take strong issue with T.P.F. & C. on the selection of insurers to submit quotations. There is absolutely no good reason to limit the bidding, as they suggest, to the fifteen largest group health insurers (plus Pilot Life, two domestic insurers and S. C. Blue Cross-Blue Shield). We believe that <u>any</u> licensed insurer should be allowed to bid, and that the matter should be handled on a widely-publicized, competitive, sealed-bid basis. (As a practical matter, relatively few insurers will submit proposals,

anyway). We do not feel, however, that the bid should be awarded automatically to the "low bidder". There are many important variables in group health insurance quotations which, in addition to cost, should weigh heavily in the final decision.

Despite the foregoing criticisms and comments, we acknowledge the fact that the T.P.F. & C. report represents an approach that would probably have many supporters among professional employee benefit planners. Accordingly, we have attempted to preserve the best aspects of their work in the manner suggested below.

OTHER IMPORTANT ISSUES

Before proceeding to our specific suggestions on planning and implementing the proposed program of health insurance benefits, we would like to comment briefly on several additional issues that seem germane to the decisions which must be made.

Pluralistic Approach

In a group of this size, in particular, we do not believe there is any one approach that should be referred to as the "best". For this reason, we would prefer to see several plan alternatives subjected to the bidding process before a final decision is made. We have developed three general approaches, hereinafter referred to as Plans "A", "B", and "D", respectively, Plan "A" is the one suggested by T.P.F. & C., Plan "B" is of our own design and Plan "D" is an uninsured approach. We suggest that insurers be asked to bid on Plans "A", "B" and "C". Plan C would become "any alternative plan the bidding insurer wishes to propose". This would have several distinct advantages. First, it would avoid "scrapping" the T.P.F. & C. report. Second, it would give the State, without charge, the benefit of advice from many professional insurers. Third, it would permit the S.C. Blue Cross-Blue Shield organizations to bid, if they chose to do so, on a service-benefit (or non-indemnity) approach. Fourth, it would provide much more accurate cost information for those who must make the final decisions.

In our opinion, there is just one potential problem worthy of noting. Many insurers would be very reluctant to prepare detailed bids until they were given adequate assurance that one of the plans would be enacted and funded by the 1972 General Assembly. To wait for formal legislative approval, on the other hand, would delay installation of the plan at least several months beyond such approval. And our idea of subjecting several alternatives to bidding may not be in keeping with the assignment originally given to the State Personnel Division. If we were forced to make a choice at the present time, therefore, we have a slight preference for our Plan "D", as will be noted later, and Plan "B" would be our second choice.

Tax Considerations

We do not feel that any of the studies to date have given adequate attention to the tax considerations. Since we are not members of the S.C. Bar, we requested permission from the Personnel Division to retain the services of David A. Merline, L.L.B., C.L.U., a very competent tax attorney from Greenville, S.C. Mr. Merline's report is to be submitted under separate cover.

While it may indeed be wise to submit such matters to the Internal Revenue Service, the South Carolina Tax Commission and perhaps the Attorney General's office, we wanted some preliminary indications from Mr. Merline to make sure that our tax observations were generally correct. We strongly feel, for example, that the federal and state income tax treatment of such plans has a major bearing on their relative desirability to employees.

Wage-Price Freeze

At the time of this writing, the "Phase II" guidelines are just beginning to emerge. And it is not yet clear exactly now health insurance plans are to be treated. We believe that clarification ought to be sought, by the S.C. Attorney General, before any major decisions are made regarding a state-sponsored health insurance program.

National Health Insurance

Because the prospects of "National Health Insurance" have such an obvious bearing on the matter at hand, we have included in Appendix F a brief summary of the major proposals now before Congress. We would not hazard any forecasts on how and when Congress might act. We would only make note of the fact that the concept of National Health Insurance now has a broader base of support than it ever has at any time in our Nation's history. Experts on the subject, including many spokesmen for the private health insurance industry, are now frequently heard saying that some form of national health insurance is inevitable. In fact, before the wage-price freeze was implemented, some experts believed that Congress would enact one of the various bills during 1972. The uncertainties surrounding national health insurance have caused many employers to take a "wait-and'see" attitude on implementation of private plans. We can understand why some members of the South Carolina General Assembly might take a similar stand. In the meantime, though, many thousands of State employees will be without any form of health insurance protection. This has led the authors to conclude that (a) State ought to proceed on schedule with its own plan development, assuming the wage-price freeze would not prevent same, and (b) that any logical plan design ought to take full cognizance of the very real possibility that some kind of national health insurance will be enacted within the next few years.

Health Maintenance Organizations (HMO)

In recent years, our traditional system of delivering health care services has been widely criticized by a growing number of health care professionals. It is argued, for example, that the current system gives rise to inefficiencies, excessive costs and serious misallocations of scare resources. Among the numerous proposals for reforming the system, few are more directly related to this study than the so-called "health maintenance organization", a relatively new method for delivering health services.

The initials "HMO" are used generically to refer to a variety of approaches, but they all have several common features:

1. a single organization accepts the responsibility to provide, or otherwise assure the delivery of, a comprehensive range of health maintenance and treatment services:
2. the services are provided to a voluntarily enrolled group of persons in a geographic area; and,
3. the organization providing the services receives a fixed, contractual fee which is paid in advance by all subscribers.

Examples of successful prepaid group health or "HMO" plans include the Kaiser Foundation Health Plan, which cares for some two million people largely in California, and the Health Insurance Plan of Greater New York, which cares for about three quarters of a million people. While such plans operate under a variety of sponsors and financing mechanisms, they all share the fundamental "HMO" concepts which have become so appealing, through their demonstrated effectiveness, to health care professionals.

We understand that Governor West has given one of his staff members the responsibility for exploring the possibility of securing federal funds to pilot a similar kind of program in South Carolina. Though we recognize that the HMO concept is still a controversial one among members of the medical community, we applaud the Governor's efforts to explore the matter further. In this connection, we recommend that the State retain the services of Dr. Alan Bauerschmidt, a faculty member of the University of South Carolina's College of Business administration. Dr. Bauerschmidt is a specialist in the health care area and is especially well versed, we feel, on the HMO concept.

The authors do not feel qualified to make specific recommendations concerning the State's potential involvement in an HMO organization. However, it seems clear that such an approach should be weighed carefully as an alternative (or supplement) to any kind of health insurance program which might evolve.

Coverage For Mental Illness

The extent to which health insurance contracts should provide reimbursement for mental illness expenses has been the subject of a long-standing controversy. The controversy stems from the fact that, historically, virtually all group insurance contracts have contained rather severe limits and restrictions on the coverages for mental "disorders". This, in turn, has aroused the wrath of memtal illness professionals (and their patients).

To the insurance industry, mental illness coverage has posed formidable actuarial problems. Reliable data have been extremely scare or nonexistent, "mental illness" is difficult to define and abuses are not easy to control. Moreover, many employers have insisted on coverage limitations for cost control reasons.

During the past few years, on the other hand, experience in the federal Blue Cross and similar plans has been encouraging to those who have long held that mental illness ought to be covered by insurance just like any other physical ailment. Utilization and cost experience, according to the most recent studies of plans with generous mental illness coverage, has been much lower than originally supposed. More important, perhaps, is that mental illness professionals insist that certain insurance limitations have an adverse effect on the quantity and quality of necessary treatment which is actually received.

We shall not even attempt to resolve this very complex problem here. Instead, we would merely like to call attention to a significant project now underway in the State. The South Carolina Mental Health Association has appointed an "Insurance Subcommittee" to explore the ways and means of improving the health insurance coverage for mental illness in South Carolina. This committee, upon which one of the authors serves, recently approved a list of mental health services which it earnestly believes should be covered by any private or governmental health insurance arrangement. This list is included in Appendix G to this report. It is based upon a similar set of guidelines developed by the American Psychiatric Association.

We urge the State of give serious consideration to providing, on any health insurance coverage program which might be adopted, as generous a scale of mental illness benefits as would be possible with the financial resources available. We realize that some compromises would have to be made, because mental illness coverage is still not inexpensive. However, we feel that the State is in a position to show some real leadership in addressing itself to a social problem of great import. The South Carolina Mental Health Association (and A.P.A.) coverage guidelines offer an excellent set of goals which we feel should not be dismissed lightly.

Pre-Employment Physical Exams

Apart from whatever health insurance arrangement might be adopted, we recommend that the State study the feasibility of implementing a program to require - and perhaps partially finance - pre-employment physical examinations for all State employees. The general advantages of this approach, which is widely used in business and industry, are fairly obvious. In addition, it might justify abolition (or at least significant relaxation) of the customary insurance limitations on "preexisting conditions" i.e. health problems manifested prior to employment and coverage under the insurance plan. Where an employer does not require physical exams and the group contract does not contain preexisting conditions limits, questions of equity are raised, particularly in a plan requiring employee contributions. The counter-argument is that coverage of otherwise uninsurables is precisely one of the main social advantages of group underwriting.

Physical examinations themselves normally meet with no resistance. The complex questions revolve around what you do with the examination results. Do you refuse to hire an individual in poor health? Do you hire him but exclude him from the health insurance plan? What about elected and/or appointed officials? We have no glib answers for questions such as these. We merely think it would be wise for the State to conduct a thorough study of the matter. Currently, we understand that physical examinations are not required either prior to employment or periodically thereafter. For jobs requiring physical exertion, in particular, this practice seems inadvisable.

Coordination With State Retirement System

We believe that the proposed health insurance plan should be coordinated very carefully with South Carolina State Retirement System benefits. Specifically, we would point to the provision for a pre-retirement death benefit of approximately one times annual salary, which is currently available under the retirement plan. In our opinion, this kind of benefit is better provided under a group insurance plan outside the retirement system. This is, in fact, what most employee benefit specialists recommend. One reason for the latter approach is that private insurers are much more willing to underwrite the health insurance benefits if at least some life insurance is included in the same plan. Many insurers will not even write group health insurance without a minimum volume of group life insurance as a part of the same package. This factor seems especially important for political subdivision plans, which are not - in general - considered to be a very "desirable" class of business. Accordingly, we recommend that group life insurance benefits of one times annual salary be included in any insured group health insurance plan. At a minimum, we feel that cost figures should be obtained so that comparisons can be made with the current costs of providing such benefit through the retirement system. Even if the costs of insured death benefits are identical to the death benefit costs under the retirement plan, it may well be that the reduction in health insurance premiums would result in lower total costs to the State (and to plan participants, who would bear a large portion of the costs in both plans).

PLAN DESIGN RECOMMENDATIONS

In developing our recommendations concerning an appropriate design or structure for the proposed plan of health insurance benefits for State employees, we have attempted to give due consideration to all of the relevant factors involved. Specifically, our design suggestions are based upon a thorough study of the following:

1. 1971 employee census data covering all state employees;
2. payroll estimates supplied by the State Personnel Division;
3. a 1971 survey of other state-sponsored health insurance plans, conducted by the State Personnel Division;
4. a 1971 study of hospital charges by the South Carolina Hospital Association;
5. the 1969 "Report Of The Committee To Study Medical and Hospital Insurance Programs Suitable For State Employees";
6. a March, 1970 report prepared by the consulting firm of T.P.F. & C.; and;
7. other important issues such as -
   a. tax considerations
   b. the current wage-price freeze
   c. the prospects of national health insurance
   d. the "HMO" concept
   e. coverage for mental illness

f. pre-employment physical examinations

g. coordination with the State Retirement System.

In addition, our recommendations are based upon two major constraints imposed by the State Director of Personnel (and suggested by the 1969 study committee of the General Assembly). These constraints are (1) that the State's appropriation not exceed 3% of payroll for personal services and (2) that the employees be required to pay 50% of the plan cost.

Given these constraints - and in the light of the information at our disposal, we have concluded that there simply is no "best" plan design. Instead, we have developed several logical alternatives that we feel have merit. We have called these Plans A, B, C and D for convenience.

Plan A (T.P.F. & C.)

"Plan A" is the label we have given to the insured group health insurance plan recommended by T.P.F. & C. The Plan A details are outlined fully in the March, 1970 Report and, thus, will not be repeated here. In general, the Plan would provide a combination of "basic" and "major" medical expense benefits, up to a $15,000 maximum, on a fully insured basis.

From the criticisms presented earlier on pages 19 to 26, it should be obvious that the authors do not feel that the Plan A design structure "fits" the group as well as it should. We have included Plan A among the logical alternatives, nonetheless, in keeping with our desire to have several different approaches subjected to the bidding process before a final decision is made.

Plan B (Horn and Stinton - Insured Approach)

"Plan B" is the label we have given to an insured group health insurance plan of our own design. In the interest of brevity, we have indicated below only the major ways in which our plan differs from plan A:

1. We suggest a combination of "basic" and "major medical insurance benefits, as did T.P.F. & C.; however, we believe that employees should be given the choice between (a) major medical only or (b) basic and major medical combined.
2. The maximum lifetime benefit under major medical would be $50,000 and the contract would contain a provision for "automatic reinstatement" of benefits up to $5,000 per year.
3. For employees electing major medical only, a cash deductible of $200 per year per individual would apply, the deductible would be applied only once for family members injured in a common accident and a maximum of three deductibles would apply each year per family.
4. On major medical, the insurer would pay 80% of the first $5,000 of covered expenses in excess of the deductible. The insurer would

pay 100% of covered expenses (up to the plan maximum) in excess of the deductible plus $5,000.

5. In defining "eligible" employees, we would

    (a) include those who work more than 20 hours per week and 5 months per year.

    (b) include mentally retarded on physically handicapped dependents of employees beyond age 24 only if they are chiefly dependent upon the employee for financial support.

    (c) establish a 30 day probationary period for employees hired after the plan effective date (which would be waived for employees governed by formal employment contracts).

    (d) require that employees elect to enroll and authorize payroll deductions within 30 days after they become eligible. Thereafter, they would be allowed to elect coverage only if they presented satisfactory evidence of good health (at their own expense).

    (e) continue coverage on a surviving spouse and/or surviving dependent children of a decreased covered employee, provided that they pay the full cost of coverage without any contribution by the employer. For a widow(er), coverage could be continued only until remarriage or eligibility for "medicare". For dependent children, coverage would cease upon their marriage, attainment of age 19 (or 24 if full-time students; beyond if mentally retarded or physically handicapped) or upon cessation of coverage for the surviving spouse.

(f) exclude annuitants under the State Retirement System. Coverage for them, if any, would be provided under a separate arrangement to pay all of ½ of their medicare Part B premiums.

6. Generally, there would be no exclusion or benefit limits on so-called "preexisting conditions", especially if the State adopted the idea of requiring preemployment physical exams, but the plan would not cover dependents of the employee who were in the hospital at the time of employee's enrollment (until the employee had been covered for 12 months).

7. Employee contributions - we believe the employee should pay the entire cost of covering his dependents, if they are to be covered at all, and that the State should pay at least 50% of the total employee cost for combined basic and

major medical. We would prefer separate composite rates for (a) both coverages combined and (b) major medical only. The State's share of cost would be based on the combined package. For employees electing only major medical, this could mean the State would pay the entire premium (but no more) for the coverage elected.

8. Regarding hospital room and board charges under the basic plan, we suggest that customary semi-private charges be used but subject to a dollar maximum of $35 per day (the dollar limit would not be needed on the major medical, however, since the coinsurance sharing applies).

9. Under the basis plan, "miscellaneous" hospital charges would be limited to a maximum of ten times the daily room rate (or $350).

10. For maternity coverage under the basic plan, hospital room and board charges would be payable only up to four full days.

11. We would not have a deductible on emergency out-patient care rendered pursuant to an accident.

12. We recommend a "corridor" deductible of $100 between basic and major medical benefits.

13. On non-hospital psychiatric expenses, we suggest a maximum of 80% payment of up to 50 visits ($20 maximum per visit). We also urge that the contract be written so as to recognize, to the

extent practical, the coverage guidelines recommended by the S.C. Mental Health Association (See Appendix for details).

14. We do not favor a "supplemental" medicare approach for retirees. Instead, we recommend that the State pay one-half of the medicare Part B premium (or 100% of such premium). Given the limited funds available, we feel that a more generous plan for retirees, admirable as the objective might be, is unrealistic. The State, moreover, already is "paying" substantial amounts toward the cost of medicare Part A coverage.

In other respects not specifically mentioned above, Plan B would be very similar to Plan A. The fundamental differences between the two insured plans are important, nonetheless, in terms of benefits cost controls and suitability for the group in question. Plan B should not cost more than Plan A; indeed, we suspect that it will be slightly less expensive. Yet it should be more appealing to employees. If that be true, we believe it is a superior approach that would result in a much higher level of participation. Our specific reasons for this conclusion are far too numerous to list here. But we would be glad to elaborate at a later date if further clarification is needed.

Plan C (Insurer Suggestions)

"Plan C" is the label we have given to "all other plans recommended by private insurers", under the assumption that our recommendations on pages 26-27 are accepted. In other words, we feel that any bid specifications given to insurers ought to be flexible enough to give the insurers an opportunity to suggest improvements in plan design. The benefits of competitive bidding are more likely to be realized if the specifications are not unduly rigid.

Plan D (Horn and Stinton - Uninsured Approach)

"Plan D" is the label we have given to the kind of uninsured approach which we feel merits careful consideration. In employee benefit planning circles, the approach is generally referred to as a "Medical/Dental Expense Reimbursement Plan." Such plans are specifically provided for in the Internal Revenue Code and are now fairly common in business and industry.

In general, medical/dental expense reimbursement plans call for employer payment of out-of-pocket (and otherwise uninsured) medical and dental expenses incurred by employees in their own behalf or in behalf of dependents. These expenses probably could be paid directly by the employer upon receipt of bills from hospitals, doctors, etc., but usually they are reimbursed at periodic intervals to ease the administrative burden and provide better controls. As a practical matter, it also is customary to limit the maximum benefit to a flat dollar amount or a percent of annual gross compensation. Som tax advisors recommend that covered expenses be defined as those expenses which othwise would be itemizable as deductions for federal income tax purposes (usually without the 50% limit on health insurance.premiums), while others acually specify the items that could be covered.

The popularity of medical/dental expense reimbursement plans stems primarily from their favorable federal income tax treatment. Such expenses paid by the employer are deductible by the employer and, more important, they do not constitute taxable income to the employee. Thus, the approach is much more favorable to an employee than either (1) the same dollar amount of salary increase or (2) the limited tax deductions available to those who itemize expenses or use the standard deduction tables. The plans also can be coordinated with health insurance to "fill the gaps" left by deductibles, exclusions and limitations of various kinds.

As noted earlier in this report, the authors do not wish to imply that they are attempting to render tax advice, which is precisely why Mr. Merline has been asked to review the various tax implications. The foregoing discussion is based upon our understanding of the federal income tax treatment of such plans for a corporation. Unless Mr. Merline suggests otherwise, we can only assume that the payment of such expenses, in a properly drafted plan for State employees, would not constitute taxable income to the employees under federal or state laws. They would not be "deductible" by the State, of course, but neither would health insurance premiums. It also should be noted that most State employees are in low income tax brackets and therefore probably use the "standard" deductions permitted. Assuming favorable income tax treatment thereof, a medical/dental expense reimbursement would seem especially favorable to this group.

Plan details would have to be worked out very carefully, of course, but the following example may help to illustrate the concept. Suppose first that the State agreed to adopt a medical/dental expense reimbursement plan as its sole approach to providing health insurance benefits for all full-time State employees. We would recommend that the maximum limit on reimbursement be set at 2% of annual salary but in no event more than $200 per year per employee. However, the State would allocate to the plan an amount equal to 2½% of total payroll for personal services. Based on the current payroll estimate of $152,000,000, the total State appropriation for the plan would amount to $3,800,000. Of this amount, about $3,040,000 would be used for expense reimbursement (actually, it would be less than this because of the $200 annual limit, but how much less cannot be determined accurately from the figures at our disposal).* The additional ½% (or about $760,000) could be used to pay the administrative costs of the plan, establish a modest contingency reserve and pay for any benefits to retirees. According to information furnished the Personnel Division by Mr. Gressetts, there are about 9,000 individuals currently retired under the State Retirement System, of which approximately 3,000 are State employees, strictly defined. Let us assume, then, these latter employees were making an average of $7,000 as base compensation for retirement benefits. A 2% medical expense reimbursement for such retirees would require an annual outlay of $420,000. As an alternative to the reimbursement approach for retirees, the State could simply pay the monthly premiums of "medicare" Part B. The latter approach would cost about $200,000 per year (3,000 X roughly $65 annually per employee).

The State Highway Department would likewise contribute 2½% of its payroll to the plan. While the basic 2% would be used for medical

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*We estimate that a $200 limit would reduce total expense reimbursements by about $300,000 per year.

reimbursement to its employees, the additional ½% would be available to the plan for administrative costs, retiree benefits and contingencies, as described above. This means that an additional $200,000 would be available ($40 million X ½%), making a total of $960,000 for the "excess fund".

Compared to the various alternative insured plans that could be adopted, the above approach has the following potential advantages:

1. The State's share of the annual cost can be determined precisely in advance - and it would never exceed the 2½% of payroll maximum.
2. The employee receives a benefit every year, presumably on a very favorable tax basis, and it is not subject to the usual insurance deductibles, exclusions, etc.
3. The plan is reasonably equitable among all employees. It "fits" the very heterogeneous group much better than would be possible under a single, uniform insured plan.
4. It would be relatively easy to terminate or amend the plan if some form of national health insurance is adopted during the next few years. Indeed, it would fit nicely with the "catastrophic" national health insurance plan which apparently is supported by Congressman Mills.
5. At least up to the maximum limits, it helps meet the problem of providing coverage for mental illness, drug addiction and alcoholism. Such

expenses would be reimbursed on the same basis as other physical ailments.

6. It should not require a large, highly-skilled staff to administer the plan.
7. It should have great appeal to employees (and, we suspect, the medical community as well).
8. It provides a means of funding the benefits for retirees.
9. It permits establishment of a "fund" similar to the one recommended by the General Assembly Study Committee. But it does not require actuarial services and expenses.
10. It eliminates any insurer profit margin per se.
11. It requires no employee contributions and, thus, it avoids the problem of achieving participation by employees.
12. It can be installed without upsetting any major medical plans now in effect for many State employees. Individual State agencies would be free to adapt their existing insurance arrangements without too much trouble.
13. It is probably "cheaper", in many respects, than buying first dollar insurance coverage (especially if the latter covers maternity).
14. Employees could carry private health insurance and include their premiums, up to the limits prescribed, in eligible expenses for reimbursement.

15. It avoids various underwriting, rating and contract design problems associated with the insured approach.

16. It is safer and much easier to implement than true "self-insurance".

17. There should be fewer claims disputes, since the items subject to reimbursement would be clearly defined (and to some extent policed by the I.R.S.).

18. It favors the lower-paid employees without unduly penalizing the higher-paid employees.

19. It would seem to fit nicely with the H.M.O. concept discussed in a previous section of this report.

20. It coordinates well with the State Retirement System.

Despite the foregoing, the authors would be the first to recognize that there are some potential disadvantages associated with the approach:

1. In our opinion, the single most important disadvantage of the plan is that it does not respond directly to the need for "catastrophic" protection i.e. protection for the large medical expenses. Those with higher income and education levels undoubtedly would continue to carry major medical insurance, individually or through existing group plans.

But we are inclined to believe that thousands of employees would not.

One possible solution to this particular problem might be to superimpose a group major medical insurance plan on top of the medical expense reimbursement plan. Employees might be required to participate in the major medical insurance as a condition of their eligibility for expense reimbursement. The major medical plan would have a calendar year family deductible of $200 (or 2% of earnings, if lower) and a maximum lifetime benefit of, say, $50,000. If the 2% medical reimbursement guideline were to be used, however, this would leave a maximum of $960,000 per year to fund the employer's portion of the major medical insurance cost,* pay administrative costs of the underlying uninsured expense reimbursement plan, provide any benefits for retirees and estalish a contingency fund. Assuming $60,000 for administration and contingencies and $100,000 for paying one-half of the medicare Part B premium for retirees, this leaves a balance of about $800,000 (or only about $24 per year per employee available to pay major medical insurance premiums for active employees). Thus, the

*Plus as much as $300,000 per year released by imposition of a $200 limit on reimbursement, assuming our estimates are correct.

employee would have to pay about $100 per year to cover his family under major medical (or about $50 for a single employee. This means that the State would pay about 50% of the total program cost, though, because the average per employee cost of medical reimbursement would amount to about $117. If the State allocated an additional ½% of payroll, about $48 per employee would be available to pay annual major medical insurance premiums. Remember, too, that such premiums would be eligible for reimbursement, up to the 2% or $200 maximum, along with other itemizable medical expenses.

2. A second potential disadvantage of medical expense reimbursement is the administrative burden inherent in the approach. We do not believe that administrative problems would be insurmountable. Nor do we feel that administrative costs would be prohibitive. But in the absences of definitive cost estimates, our optimism is based almost entirely on judgment and intuition.

3. Reimbursement for maternity expenses might pose some problems. It could be argued that maternity expenses should not be reimbursed at all. This would leave the employee with no maternity coverage whatever, since major medical contracts do not

afford coverage for routine pregnancies. If maternity expenses are to be eligible for reimbursement, on the other hand, a waiting period of at least 10 months after initial employment would be highly advisable. And guidelines would have to be established concerning such matters as pregnancy benefits for dependents of employees, the maximum limit payable to females who terminate at the end of the sixth month of pregnancy (the usual case) and whether such benefits are to be "cummulative" when the maximum was not used up in prior years. These issues are more philosophical than technical, but they at least should be acknowledged.

4. Some might feel that a medical expense reimbursement plan would lend itself to widespread abuse. We do not share this concern because, as a practical matter, every employee could be expected to use his full maximum anyway (except through ignorance). In that sense, the plan should be viewed as somewhat comparable to a "salary increase". Moreover, we suspect that the I.R.S. might help police any abuse problem, i.e. employees who submit phony bills (or bills for expenses that would not be deductible for tax purposes) would be running the risk of having the amount included in his taxable income.

5. A final potential disadvantage is that such a plan would represent a new and perhaps confusing concept to many employees. Compared to similar problems on insured plans, though, we think the reimbursement notion would be easier to explain than insured benefits. The employee simply would have to save his medical bills and present them for reimbursement on a monthly, semi-annual or similar basis.

After weighing the potential advantages and disadvantages carefully, we have concluded that a medical expense reimbursement approach (with or without major medical insurance superimposed thereon) is the most appealing of the logical alternatives. While many of the plan details are debatable, we strongly believe that the <u>concept</u> is worthy of very serious consideration, especially in view of the somewhat limited funds available for health insurance benefits.

UNIVERSITY OF SOUTH CAROLINA
COLUMBIA, S. C., 29208

COLLEGE OF BUSINESS ADMINISTRATION

February 9, 1972

Mr. F. E. Ellis, Director
Personnel Division, State of South Carolina
700 Knox Abbott Drive
Cayce, South Carolina 29033

Dear Earl:

In Re: Health Insurance Benefits
For State Employees

During our January 13th meeting with the State Budget and Control Board, you will recall, Governor West asked me to "develop some additional information" on the medical/dental expense reimbursement (plus major medical insurance) approach Professor Stinton and I had submitted as one of the logical alternatives to be considered.

In the light of the Governor's apparent interest in this approach, I have attempted to refine and clarify it in the attached memorandum. I am sending the memorandum directly to you, however, in the hopes that you and your associates will review it carefully before sending to the Governor or others, as you deem appropriate.

I shall remain available to assist you in any way I can.

Sincerely,

Ron

Dr. Ronald C. Horn CLU, CPCU
Professor of Insurance

RCH/pc
Enclosure

cc: Professor John E. Stinton, CLU
Fred Haskell
George Hendry

(For your information, I have devoted about 18 additional hours to this project since December 9, 1971)

February 9, 1972

MEMO TO: F. E. Ellis; Director, State of South Carolina Personnel Division

FROM: Professor Ronald C. Horn

IN RE: Additional Observations Concerning A Program of Health Insurance Benefits For State Employees

Dear Mr. Ellis:

In the written report submitted to you on November 17, 1971, Professor Stinton and I outlined our recommendations and observations concerning a suitable program of health insurance benefits for state employees. On January 13, 1972, I was given an opportunity to discuss this report in a meeting with the members of the State Budget and Control Board, at the conclusion of which Governor West asked me to develop some additional information. Specifically, he asked me to elaborate upon "Plan D", one of the several alternatives discussed in pages 35 to 51 of the written report. This memorandum is an attempt to provide the requested clarifications.

General Nature of "Plan D"

"Plan D" is the label we gave to an approach which would combine (a) uninsured medical expense reimbursement with (b) group major medical insurance. Thus, the benefit package for employees would be partially uninsured and partially insured by a commercial insurer.

Under the uninsured medical/dental expense reimbursement portion of the package, generally speaking the State would pay out-of-pocket (and otherwise uninsured) medical expenses incurred by employees in their own behalf or in behalf of dependents. Such plans are specifically provided for in the Internal Revenue Code, and they are now fairly common in business and industry. As a practical matter, it is customary and advisable to place a limit on the maximum benefit payable, preferably a flat dollar amount, a percent of annual gross compensation or a combination of the two. In the illustration used in our earlier report, for example, we suggested that the maximum benefit be set at 2% of annual compensation but in no event more than $200 per year. (An alternate approach would be to impose a flat $100 maximum per year for each covered employee).

The second portion of the package would consist of group major medical insurance designed to "sit on top of" the underlying benefit just described. The major medical insurance contract would have a "calendar-year" deductible per family, ideally, and the deductible amount would correspond as closely to the uninsured expense reimbursement maximum as insurer underwriting requirements would permit.

If the base plan had a maximum benefit of $100, for example, the group major medical contract might have a cash deductible of, say, $150 or $200 per year. The State would pay or reimburse the employee for the first $100 of medical expenses incurred during the year. And the major medical insurer would begin paying the larger portion of covered expenses, after satisfaction of the cash deductible, all the way up to the maximum dollar amount specified (e.g. $50,000). A typical "coinsurance" clause would provide for the payment of 80% of such expenses by the insurer and 20% by the insured.

While there are numerous technical details in the "Plan D" package, perhaps this broad outline will be enough to convey the basic concepts. Probably the most fundamental aspect of the approach is that the insured portion places primary emphasis on coverage for the catastrophic or major illness. This follows from the relatively large deductible and the large maximum benefit recommended. The coinsurance and deductible provisions help keep the premium low - much lower, in fact, than traditional first-dollar hospital/medical insurance, despite a much higher maximum benefit under major medical coverage. The uninsured portion of Plan D helps fill the "gap" left by the insurance deductible, then, and in a very general way provides at least some "first dollar" coverage for the employee.

As will be discussed later, it seems unlikely that the State would be willing and/or able to pay for the <u>full</u> cost of Plan D (or any of the other alternatives). If the State pays the entire cost of the uninsured medical expense reimbursement portion of the Plan D package, it would probably mean that some employees would be expected to pay a share of the major medical insurance premium. Accordingly, I would want to specify that the employee <u>must</u> elect and help pay for any major medical insurance cost before he is eligible for the underlying medical expense reimbursement arrangement. Otherwise, I am afraid that less sophisticated employees would not elect to participate in the major medical insurance, the implications of which are fairly obvious. This is not quite the same thing as making the package compulsory, though, because the employee could still elect not to participate in either portion of the package, if he so desired.

The advantages and disadvantages of using the uninsured medical expense reimbursement approach <u>as the sole benefit to be provided</u> for employees are discussed in some detail on pages 45 to 51 of our earlier report. A superimposed major medical insurance plan was suggested as a means of meeting the need for catastrophe protection, since a 2% of salary medical expense reimbursement plan would not, by itself, respond to that need. But I do not believe the report makes it clear that we envisioned "Plan D" as the <u>combination</u> of medical expense reimbursement <u>plus</u> major medical insurance. In retrospect, I am likewise convinced that the report does not deal explicitly enough with the pros and cons of the Plan D <u>package</u>, as a package. I will return to this point in a moment. But first we should look at some cost implications.

Cost Considerations

In the final analysis, it would be virtually impossible to get reasonably accurate cost estimates, on any of the insured plan design alternatives discussed in our report, unless and until they are subjected to the competitive bidding process. The major medical insurance portion of Plan D is no exception. This is precisely why we recommended that specifications be drafted and bids obtained before a final decision is made. Nonetheless, I will attempt to be as responsive as I can to the Governor's request for more information on the cost considerations of Plan D.

As far as the major medical insurance portion is concerned, the best estimate I can come up with is to use the rates now being charged for a similar plan at U.S.C. The comparison is by no means perfect, for a variety of reasons, but it should afford us with a starting place. If the employee carries major medical insurance only and not the "base plan" underwritten by Blue Cross, his monthly premiums would be as follows:

Employee (only)	$3.75
Wife (only)	4.50
Wife & Children	6.19
Husband (only)	3.67
Husband & Children	5.36
Children (only)	1.69

Thus, the premium is as low as $3.75 per month ($45 per year) for the employee alone - and as high as $9.94 per month (or $119.28 per year) for the employee plus his wife and children. This plan has a $50,000 maximum, 80% coinsurance and a $200 cash deductible (which is not a calendar year deductible). For our purposes, therefore I intuitively feel the following would suffice as an estimate for a plan covering all state employees:

Employee only	$5/mo. or $60/yr.
Employee and spouse	10/mo. or 120/yr.
Employee, spouse, dependents	12/mo. or 144/yr.

On the uninsured medical expense reimbursement portion of Plan D, there are several possibilities, depending on the maximum annual limits set. For example, it might be $100 per year per employee OR 2% of salary per year per employee ($200 maximum per year). Let's use the $100 maximum as an illustration, and combine it with the major medical premium estimates.

We have about 35,000 active employees that would be eligible (see earlier report for breakdown), plus an estimated 3,000 retirees. Of the 35,000 active employees, nearly 7,000 are employed in the State Highway Department. Let us assume that the State decides to pay (a) the entire cost of a combined $100 flat expense reimbursement plan and the full employee cost of major medical insurance for active employees and (b) the full Part B Medicare premium for retirees. Assume further that 100% of those eligible actually elect to participate. The estimated costs would be:

*Annual Cost of Medical reimbursement for 35,000 active employees	=	$3,500,000
plus		
*Annual cost of Part B Medicare premium for 3,000 retirees	=	200,000
plus		
*Annual cost of employee only major medical insurance coverage for 35,000 active employees	=	2,100,000
plus		
*Administrative costs of medical reimbursement plan, contingency reserves, margin for errors	=	200,000
Total		$6,000,000
less		
*Estimated amount to be paid by the State Highway Department, from "its own" funds, for its own 7,000 active employees (and about 600 retirees)	-	1,200,000
Estimated State Appropriations Required		$4,800,000

Thus, we arrive at an estimated annual State appropriation of about $4.8 million, which might eventually be reduced somewhat by the availability of federal funding to some agencies. For the active employee who covered only himself on major medical (or the retiree covered under Medicare Part B), the combined plan would cost him nothing. For the active employee who covered himself, his spouse and his children under major medical, his premium deduction would be about $7 per month. (And if he had no other medical expenses that year, he could apply for reimbursement of his full premium as an eligible medical expense - at no increase in cost to the State). Collectively, married employees would contribute about $2.2 million for the dependents' coverage under major medical, according to my estimates, making a grand total of about $8.8 million in total annual "Plan D" cost. The State would be paying well over 50% of this total, or $6.0 million, but only about $4.8 million would come from State appropriations per se.

Now, the estimated State - appropriated payroll for fiscal 1970-71 was about $152 million. It therefore follows that the $4.8 million (above) would represent about 3.1% of such payroll.

Crude as these figures are, perhaps they still will enable us to draw some general conclusions about the potential advantages and disadvantages the Plan D version just described.

Advantages

1. Provides much-needed catastrophe insurance protection.

2. The plan cost to employees is minimal (nothing for single employees and about $7 monthly for married employees with covered dependents).

3. Requiring employees to pay for dependents' major medical coverage is equitable, and it reduces total outlays by the State significantly.

4. Because the cost is so low, the vast majority of employees should elect to participate (and they are further encouraged to do so by requiring major medical insurance as a condition of being eligible for the direct expense reimbursement).

5. The medical expense reimbursement portion of the plan would not be considered taxable income to the recipients (see tax opinions attached to this memo).

6. The $100 reimbursement at least helps meet the problems of providing coverage for mental illness, alcoholism, drug addiction and preventive health care.

7. The State's share of the plan cost can be determined fairly precisely in advance each year - and it should be rather stable over time. While there indeed may be increases in the major medical premiums over time, the increases should comprise a very small portion of total plan cost.

8. Each employee receives a tangible benefit every year (up to $100) for expenses which might not be covered under the typical insurance contract.

9. The plan cost compares favorably with other logical alternative insured plans (more about this below).

10. In some respects, the plan favors lower-paid employees (though it is reasonably equitable to all).

11. It seems to fit nicely - or at least could be easily modified to fit - the "HMO" concept which the Governor and others favor.

12. It avoids the various pitfalls and problems associated with true "self-insurance".

Disadvantages

1. The medical expense reimbursement portion poses an administrative burden that would have to be resolved with careful plan design details and efficient procedures.

2. There would be some difficulties in explaining the plan to employees, perhaps, but probably no more so than for other plans.

3. Commercial insurers may not be willing to write the major medical coverage exactly as described (or for the premiums indicated). Only competitive bids would tell us for sure.

4. Perhaps the principal disadvantage, at least potentially, lies with the nature of true major medical insurance. The employee would have to satisfy deductible requirements, and then pay at least 20% of his own covered expenses in excess of the deductible. This may present a problem, especially for lower-paid employees. One can lower the employee's coinsurance contribution, of course, but this would increase the major medical premium significantly.

There are a few other potential disadvantages perhaps, but I regard #4 as the most significant.

What would happen to the insurance premiums and total plan outlays if we departed from the true major medical concept? That is to say, what if we superimposed some sort of first-dollar oriented insurance on top of the medical expense reimbursement portion of the plan? Or, suppose we had the insurer pay 100% of the first $3,000 of expenses in excess of the deductible - and then 80% of the amount in excess of ($3,000 plus the deductible) up to the $50,000 maximum? I don't really know for sure, other than the fact that it would increase the premiums significantly. Either the State's total contribution would increase, then, or it would stay the same and the employee's contribution would go up (some employees might not participate and some of the lower-paid might not be able to "afford" the additional cost, in any event).

The only figures I can offer for a crude comparison are the premium rates now being charged by S.C. Blue Cross - Blue Shield under the health insurance plan recently offered to State employees on an "open enrollment" basis. Briefly stated, the plan provides up to 70 days semi-private hospital care ($20 deductible), full coverage for miscellaneous hospital charges, maternity benefits and a $375 surgical schedule. A limited major medical plan also may be purchased to supplement the basic plan. The latter has a $10,000 maximum ($5,000 in any one year), an 80% coinsurance clause, a $100 corridor deductible and several important restrictions and exclusions. The initial monthly premiums for this package were quoted as:

Single	$11.82/month (or $141.84/year)
Family	$28.58/month (or $342.96/year)

Compared to the pure major medical insurance referred to earlier, the Blue Cross - Shield package would (a) "give" the employee fairly generous first-dollar coverage, (b) "take away" about $40,000 to $45,000 in maximum benefit and (c) contain more restrictions and exclusions on the major medical portion. But it costs over twice as much as U.S.C.'s major medical plan! Thus, the "Blues" package would have one of several cost results. If the State contributed the same $60 per year for the employee's insurance as it did under the earlier illustration, a "single" employee would have to contribute over $80 per year (instead of nothing), and "family" coverage would require him to pay $283 per year (instead of $84 per year). If the State elected to pay the full cost of "single" coverage under Blue Cross, on the other hand, the State's total outlay for insurance would increase by over $2,000,000. (And the married employee would still be required to contribute nearly $17 per month). Even greater costs would be involved if the "Blues" major medical maximum were to be increased to the comparable $50,000, which I doubt they would do in any event.

In fairness, it could be argued that the Blue Cross package makes unnecessary the uninsured medical expense reimbursement portion of Plan D. If one feels that way, which I do not, the Blue's package would reduce the state-appropriated outlay by about $800,000, assuming the State paid the entire cost of "single" insurance coverage and dropped the expense reimbursement idea. However, the married employee's contribution would still be much greater than for true major medical insurance, he would have deductibles and other gaps in the insurance coverage and he would certainly not be adequately protected for catastrophe-type illnesses. I am not here suggesting that the Blue Cross package is "bad" or "good" as such, but using it as an illustration of what might happen to Plan D costs if we departed substantially from the true major medical insurance orientation.

My guess is that we could find an acceptable compromise somewhere between the two extremes i.e. benefits designed to soften the impact of coinsurance requirements but still affordable by both the State and its employees. My preference would be for something like the "100% of the first $3,000 and 80% of the excess" coinsurance arrangement mentioned earlier. Until a guy had more than $3,200 in covered expenses, he would never be "stuck" for more than about $100 or so (the amount by which the cash deductible under major medical exceeded any unused portion of the direct expense reimbursement). Exactly how much such a plan might cost is pure conjecture at this point. It would be more than true major medical - and probably less than the Blue Cross kind of package - but I am a little less certain about the latter than I am the former.

Life Insurance *

Regardless of which health insurance plan is decided upon, I feel strongly that we ought to include some group term life insurance as part of the package, at least for bidding purposes. One logical idea would be to ask for quotes on life insurance with maximum benefits of approximately one times annual earnings. As noted in our earlier report, at a minimum this would give us a comparison with the cost of providing the preretirement death benefit under the State Retirement System. More important, it should give us a better deal on the health insurance. Except for Blue Cross, most reputable insurers will no longer write major medical or any kind of health insurance unless a minimum volume of life insurance is included. Though I do not have accurate cost figures, I do know that the cost of group term life insurance would be very small in relation to the health insurance costs. I have $38,000 group life insurance with the Prudential, and my participating premium is now about $15 per month. Using this as a guide, we would probably be talking about 35 to 40 cents per thousand per month or less for State employees.

Concluding Comments

I have tried diligently to provide the additional information requested on the Plan D alternative. However, I am not necessarily advocating it as the "best" approach. Plans A and B have merit, Plan C will give us the benefit of the insurers' suggestions and Plan D is certainly one logical approach.

Still another logical alternative, not discussed in our report, is for the State simply to agree to contribute, say, up to $10 per month for any existing health insurance plan available to State employees, period. At least one other State does this, as I recall, and it would be very simple to implement. The chief disadvantage would be considerable variations in the net costs of, and benefits afforded to, various employees. The chief advantage would be its relatively fixed and pre-determinable cost to the State. Total State outlays would amount to about (35,000 x $120) + ($200,000 for Part B Medicare Premiums) = about $4.4 million in toto, of which about $840,000 would come from highway department funds. In that sense, it is probably cheaper than any of the alternatives recommended in the November 17th report.

*Note: See also Professor Stinton's important point, outlined in a memo attached.

I will remain available to answer questions or assist further in any manner within my capabilities.

Sincerely,

Ron/pc

Dr. Ronald C. Horn, CLU, CPCU

RCH/pc
Enclosures

cc: Professor John Stinton, CLU
Fred Haskell
George Hendry

P. S. Attached hereto are several "exhibits" you may find useful.

√

South Carolina Tax Commission

COLUMBIA

January 5, 1972

IN REPLY REFER TO IT:RSB

Mr. David A. Merline
Attorney at Law
1526 Daniel Building
Greenville, South Carolina 29602

Dear Mr. Merline:

This is in reply to your letter of December 22nd, addressed to Mr. John von Lehe, Assistant Attorney General, requesting a ruling with reference to medical expenses paid by an employer for its employees. Mr. von Lehe has referred your letter to the writer for consideration and reply.

From the information contained in your letter, it is our opinion that medical-dental expenses reimbursed to the employees by the employer would not be taxable income to the employees.

Yours very truly,

SOUTH CAROLINA TAX COMMISSION
INDIVIDUAL INCOME TAX DIVISION

R. S. Bollinger, Director

RSB:bb

DAVID A. MERLINE
ATTORNEY AT LAW
1526 DANIEL BUILDING
GREENVILLE, SOUTH CAROLINA 29602

TAX, ESTATE AND
CORPORATE MATTERS

TELEPHONE
803/242-5050

January 6, 1972

Dr. Ronald C. Horn, CLU, CPCU
College of Business Administration
University of South Carolina
Columbia, South Carolina 29208

Dear Ron:

I have reviewed your report concerning a health insurance program for State employees. I have studied in particular "Plan D" concerning a medical-dental expense reimbursement plan.

It is my opinion that payments made under "Plan D" would not constitute taxable income to the employees under Sections 105 and 106 of the Internal Revenue Code. However, there is no specific statutory authority to exclude these payments from income for South Carolina income tax purposes. For this reason, we have written to Mr. R. S. Bollinger, Director, Individual Income Tax Division, South Carolina Tax Commission. A copy of our letter to Mr. Bollinger and his reply are enclosed. As you will note, Mr. Bollinger states that such payments do not constitute taxable income to the employees.

After the final details have been developed on a medical-dental expense reimbursement plan, I would recommend that such plan be submitted to the Internal Revenue Service and the South Carolina Tax Commission for a ruling as to the income tax consequences to the employees.

If I can be of further assistance please let me know.

Sincerely yours,

Dave

David A. Merline

DAM/jg
Enclosures
cc: Mr. F. E. Ellis

1654

MEMORANDUM

TO: ALL AUDITORS OF THE CORPORATION INCOME TAX DIVISION

FROM: Arnell M. Coker, Sr., Director AMC

SUBJECT: Medical care expenses paid by a corporation on behalf of an employee or the employee's spouse or dependents constitute a deduction by the corporation and is not taxable to the employee as set forth in Internal Revenue Code Section 105(b).

The question has been raised as to whether or not the above type expense is provided for in the S. C. Code of Laws of 1962, as Amended, as a deduction from corporation gross income in arriving at net taxable income.

The corporate tax as imposed by Section 65-222 is levied on the entire net income, or a proportion thereof.

Section 65-255 defines the words "net income" as used in this chapter as meaning the gross income of a taxpayer less the deductions allowed by this chapter.

Section 65-259 states that, "in computing net income there shall be allowed as deductions: (1), etc.", the applicable deductions do not provide a deduction for medical expense paid by a corporation on behalf of an officer or an employee.

Medical expense will not be allowed as a bona fide deduction in arriving at net income as an ordinary and necessary expense of "doing business", unless such expense is included in the officer and/or employee's compensation, provided such compensation, upon examination, is deemed to be reasonable in amount.

JANUARY 16, 1970

Sec 25

December 22, 1971

Mr. John von Lehe
Assistant Attorney General
State of South Carolina
Box 125
Columbia, South Carolina

Dear John:

Request is made herewith for a ruling from the South Carolina Tax Commission pursuant to Section 65-67.1, Code of Laws of South Carolina, with respect to the following fact situation.

A governmental body connected with the State of South Carolina is proposing to adopt a "Medical-Dental Expense Reimbursment Plan" calling for payment by the governmental body of out-of-pocket medical and dental expenses incurred by their employees in their own behalf or in behalf of their dependents. Such a plan would be typically referred to as an uninsured plan from the standpoint that the employer would not fund his obligation by the purchase of insurance from an insurance company. However, the governmental body would be assuming the risk of paying said expense, and would allocate an amount equal to approximately 3% of the payroll of its employees to self-insure the risk. The amount allocated by the governmental body would be in addition to the present salary paid to employees.

Such plans are specifically provided for under Section 105 of the Internal Revenue Code, and the payments are not taxable income to the employees. However, we do not find any specific statutory authority for such plans in South Carolina.

We would appreciate your determination as to the income tax consequences of such a plan to the individual employees under South Carolina law.

Sincerely yours,

David A. Merline

DAM/jg

HEALTH INSURANCE PLAN PROPOSALS

	TPF & C PLAN A	HORN AND STINTON PLAN B
Eligible Employees	A. <u>Employees</u> - All full-time employees of the State who; - receive compensation from a department, agency or institution of the State, or - are members or administrative and clerical personnel of the General Assembly, or - annuitants who at time of retirement meet the above criteria and receive a monthly benefit from the State Retirement System B. <u>Dependents</u> - Spouses and - unmarried children from birth to age 19, and - dependent children who are full-time students up to age 24, and - physically or mentally handicapped children regardless of age C. <u>Surviving Spouse and Dependent Children</u> - The surviving spouse and dependent children of a deceased active employee, provided the necessary contrivutions are made	A. include those who work more than 20 hours per week and 5 months per year B. include mentally retarded or physically handicapped dependents of employees beyond age 24 only if they are chiefly dependent upon the employee for financial support C. continue coverage on a surviving spouse and/or surviving dependent children of a deceased covered employee, provided that they pay the full cost of coverage without any contribution by the employer. For a widow(er), coverage could be continued only until remarriage or eligibility for "medicare". For dependent children, coverage would cease upon their marriage, attainment of age 19 (or 24 if full-time students; beyond if mentally retarded or physically handicapped) or upon cessation of coverage for the surviving spouse D. <u>exclude</u> annuitants under the State Retirement System. Coverage for them, if any, would be provided under a separate arrangement to pay all or ½ of their medicare Part B premiums
Date Of Inclusion	A. immediate coverage for active employees and their dependents B. employees hired after the effective date and their dependents, will be covered as of the first day of the following pay period	A. Same B. 30 day probationary period, thereafter, if coverage is elected, the employee must present proof of good health (at his own expense) C. employees hired on a 12 months contract would be covered immediately

HEALTH INSURANCE PLAN PROPOSALS

	TPF & C	HORN AND STINTON
Pre-existing Conditions Limitations	A. none for active employees hired prior to the effective date of the plan B. new employees and dependents. No coverage for conditions treated within 6 months of effective date of coverage. Provision waived after 6 months coverage for employee and 12 months coverage for dependents	A. Same B. None, if preemployment physical exams are required. Dependents confined in the hospital at the time of the employee's enrollment will not be covered until the employee is covered for 12 months
Coordination Of Benefits	The standard insurance industry coordination of benefits provision will apply. Will not apply to individual insurance policies the employee may have in force	Same
Employee Contribution	employee pay 50% for individual coverage and their dependents	employee pay 50% for individual coverage and 100% for dependent coverage. State cost may vary if basic and major medical coverage is given or just major medical. (see explanation in plan provision section)

Plan Provisions - Active and Retired Employees and Dependents Under Age 65

BASIC MEDICAL

		Employees should be given the choice between (a) major medical only or (b) basic and major medical combined
Deductible	$20 deductible for each hospital confinement or outpatient treatment	If major medical is elected, a $200 per year individual deductible would apply. Deductible would apply only once for family members injured in a common accident. Maximum of three deductibles each year per family would apply.

HEALTH INSURANCE PLAN PROPOSALS

	TPF & C	HORN AND STINTON
Room and Board	Average semi-private rate for a period of 70 days	Maximum of $35 per day
Miscel-laneous Hospital Charges	Full coverage	Limited to $350 coverage under the basic plan
Surgical Benefits	$400 maximum	Same
Maternity Benefits	Room and Board and Miscellaneous charges covered for 5 days	Room and Board changes for 4 days
	Obstetrical charges reimbursed up to: Normal delivery $100 Caesarean section $200 Miscarriage $ 50	Same
In-Hospital Doctor's Visits	$5 per day to a maximum of 70 days	Same
Diagnostic X-Ray and Laboratory Exam	When conducted in a doctor's office or a hospital out-patient clinic coverage up to $50 for each accident and all illness in a calendar year	Same
Emergency Out-patient Care	Up to $300 coverage because of an accident if treated within 72 hours. Subject to $20 deductible	Same, but no deductible for emergency out-patient treatment
Surviving Spouse & Dependent Children Benefit	Coverage available if contributions are made by surviving spouse. Coverage would terminate upon spouse's remarriage or attainment of age 65.	Surviving spouse must pay the full cost for coverage. Coverage would terminate upon spouse's remarriage or attainment of age 65.

HEALTH INSURANCE PLAN PROPOSALS

	TPF & C	HORN AND STINTON
MAJOR MEDICAL		
Deductible	$150 for individual and $450 for family per calendar year	If major medical is elected only, then a $200 per year deductible would apply (see deductible under basic medical) For basic medical and major medical coverage, a $100 deductible would apply
Coinsurance	80% paid by the plan	Pay 80% of the first $5000 then 100% thereafter up to the plan's maximum
Maximum Lifetime Benefit	$15,000 lifetime benefit with automatic $1,000 restoration each year	$50,000 lifetime benefit and automatic reinstatement up to $5,000 per year
Psychiatric Limitations	Pay 50% of non-hospital psychiatric expenses up to a maximum benefit of $10 per visit for 50 visits per year	80% payment on non-hospital psychiatric expenses up to 50 visits with a $20 maximum per visit
Plan Provisions - Active and Retired Employees and Dependents Age 65 and Over		
Eligible For Medicare	Medicare supplement same as under age 65 plan except major medical lifetime benefit is $7,500	State should either pay 50% or 100% of the Medicare Part B premium
Not Eligible For Medicare	Coverage should be the same as for other persons age 65 or over	
Life Insurance		Recommend that group life insurance benefits of one times annual salary be included in the group health insurance plan. Recommend that the plan be coordinated with the Retirement System.

A Brief Outline of Alternatives
(see report for details)

Plan "A" (T.P.F. & C.)

Basic plus major medical
$15,000 maximum ($1,000 restoration)
$20 in hospital deductible (basic)
$150 corridor deductible ($450/year/family)
80% coinsurance
Fully incured

Plan "B" (Horn and Stinton)

Basic plus major medical
$50,000 maximum ($5,000 restoration)
May elect both or major medical only
$100 deductible (basic)
$200 deductible (major) - 3 times family max.
Fully insured
Numerous technical differences from Plan A
Coinsurance 80% X $5,000; 100% thereafter

Plan "C" (Insurer Suggestions)

Plan "D" (Horn and Stinton)

Uninsured medical/dental expenses reimbursement
2% of salary up to $200/yr. maximum
Supplemental major medical with 2% deductible
Medicare Part B premium for retirees

Other (Horn)

State would pay up to $10/month/employee
toward cost of any group plan now in
existence for state employees.

Health Insurance Plan For State Employees: Selected Data

1.	State - appropriated payroll fiscal '70-71	$152,000,000	
2.	Multiple of (2 1/2%) X payroll	$ 3,800,000	$4,925,000
3.	Highway Dept. payroll X (2 1/2%)	$ 1,000,000	
4.	Sum of #2 and #3	$ 4,800,000	

5. Number of State Employees (and retirees)

From census data		$33,000	
Retired state employees		3,000	
Senators	46		
House	144		
Employees of	110		
Judges	49		
Other	1500	2,000	(more than 20 hrs./week)
		38,000	

6. $\frac{\$4,800,000}{38,000}$ = $126 per year per "employee"

7. Blue Cross-Shield Open Enrollment

Single $5.91 B.W. or $11.82/mo. or $141.84/yr.

Family $14.29 B.W. or $28.58/mo. or $342.96/yr.

8. Representative major medical insurance cost

Single $75-80/yr.
Family $120-130/yr.

Custom
Board Records
Mtg. 3-7-72

EXHIBIT III
MARCH 7, 1972

State of South Carolina

JOHN C. WEST
GOVERNOR

OFFICE OF THE GOVERNOR
COLUMBIA 29211

December 15, 1971

next Bd Mtg

Held (1/31/72)

Appr. 3/7/72 BC Bd
Ellis to develop specific plan

Mr. F. E. Ellis
Director, South Carolina
Personnel Division
700 Knox Abbott Drive
Cayce, South Carolina 29033

Dear Earl:

Your letter of December 6 in regard to service awards is excellent. I feel that the decision should be made by all members of the Budget and Control Board, and I am therefore making copies of your letter to distribute to them and asking Pat Smith to put it on the agenda for our next meeting.

Best regards.

Sincerely,

JCW

John C. West

JCW/bb

cc: Hon. Grady Patterson
Hon. Henry Mills
Hon. Edgar Brown
Hon. R. J. Aycock
Hon. P. C. Smith

Cuttown
Board Awards 3-7-72
Mtg. [illegible]

EXHIBIT III
MARCH 7, 1972

State of South Carolina

JOHN C. WEST
GOVERNOR

OFFICE OF THE GOVERNOR
COLUMBIA 29211

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Hon. Henry Mills
Hon. Edgar Brown
Hon. R. J. Aycock
Hon. P. C. Smith

STATE OF SOUTH CAROLINA
PERSONNEL DIVISION

F. E. ELLIS
STATE DIRECTOR

TELEPHONE
(803) 758-3334

700 KNOX ABBOTT DRIVE
CAYCE, SOUTH CAROLINA 29033

December 6, 1971

The Honorable John C. West
Governor, State of South Carolina
P. O. Box 11450
Columbia, South Carolina 29211

Dear Governor West:

The State Personnel Division has completed its study of the feasibility and desirability of administering employee recognition programs in the form of length of service awards and retirement awards in line with your earlier recommendation. Our study indicates that such awards programs would be popular and beneficial from the employee relations stand-point, and could be administered at modest cost. Accordingly, our drafts of proposed employee service award and retirement award programs and procedures are enclosed for your consideration.

In the course of our study and program development, inquiries were made of other Southeastern States as to ongoing programs or future plans, if any. At least half of the states contacted indicated either that they had retirement and/or service award programs at the present or were actively considering the adoption of such programs. We found, as might be expected, a wide variation in practice ranging from the awarding through agency channels of embossed certificates to the awarding of both certificates and jeweled pins in formal presentation ceremonies frequently attended by the Governor of the State. In general, the concensus of opinion was to the effect that service and retirement award programs are appreciated by the employees and enhance the image of the state as an employer.

A survey of our own agencies reveal that 13 of them, including several of the largest, already are administering some form of recognition award program internally and consider them well worth the modest expense. Here again we found the same variation in procedure.

On the basis of the information secured, both externally and internally, it was the judgment of this Division that statewide employee service and retirement awards programs would be beneficial to the employees and to the State. Accordingly, proposals for the adoption of such programs along with suggested procedures were drafted and circulated among the members of the interagency Employee Relations Committee[1] for comments. Subsequently,

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[1]Committee represented by Medical University, Clemson University, South Carolina State College, Winthrop College, Departments of Mental Health, Mental Retardation, Labor, Wildlife Resources, Highway and State Library.

the full committee met formally with staff of the State Personnel Division to discuss the proposals from all angles. It was the concensus that the State should adopt and administer the recognition award programs, but the feeling was expressed that some of the agencies already administering such programs internally, which undoubtedly promote a departmental esprit de corps, may be reluctant to abandon their practices in favor of an exclusively State oriented program.

For this and other reasons it was concluded that a questionnaire should be designed and addressed to all agency heads giving them the opportunity to express overall interest one way or the other and to indicate a preference for one of several optional plans. The questionnaire was developed in accordance with the Committee recommendation and submitted to the agency heads. All but a few have been returned as of this date and tabulations show that a majority are enthusiastic about statewide service award programs. A few of the larger agencies did specify that they would prefer to continue administering their own programs but would have no objection to standard certificates being awarded to their employees from a central State source. The cost of such certificates is nominal. The greater cost of jeweled pins, on the other hand, raises a serious question as to fiscal responsibility in awarding both an agency and a State pin to employees except under rare circumstances.

On the basis of the above, we have concluded that the retirement award program as proposed, with the issuance of suitably engraved certificates signed by the Governor, could be adopted across the board without reservation. So far as the proposed service award program is concerned, however, there would appear to be three options, as follows:

(1) The adoption of a uniform, State administered program which would replace any existing agency program.

(2) The adoption of a State administered program to be administered on a selective basis to recognize only the employees of those agencies which elect to participate.

(3) The adoption of a State administered program which would permit the agencies to determine whether they wish to limit the employee awards pins only or certificates only while continuing to administer their own programs. It should be noted, in this connection, that agency awards normally are based upon length of service within the respective agencies themselves, whereas State awards would be based upon total length of combined State service.

Contracts have been made with representatives of suppliers of fraternal and institutional pins, emblems and jewelry, and several artist-drawn designs of jeweled pins have been submitted to us for consideration. We specified the use of the great seal of the State as the pattern for the designs and are pleased with the artists' sketches. In addition to the designs, the suppliers furnished us with estimates of the cost of the pins. The drawings and the cost estimates are enclosed.

We are prepared to proceed in whatever direction you deem most appropriate.

Yours truly,

F. E. Ellis
State Director of Personnel

FEE:mll

Enclosures

1666

SERVICE AWARDS PROGRAM

I.

A. Eligibility

All full-time permanent or part-time permanent employees who work no less than half-time for the State of South Carolina and who have continuous service with the State of a meritorious nature shall be eligible for service awards. The time intervals at which length of service awards will be given are 5, 10, 20, 30, 40, and 50 years.

B. General Policy

It shall be the policy of each State agency of the State of South Carolina that does not presently have a service award program to implement and administer a service awards program based upon length of service. Upon attainment of the prescribed lengths of State service, each agency head shall present to all employees that have attained such length of service a service award pin and certificate. Upon an employee attaining 40 or 50 years of meritorious State service, the Governor of the State of South Carolina shall present to each employee the designated service award pin and certificate. Each agency head may prescribe the ceremony to be used in presenting such awards and certificates, but such a ceremony shall be conducted in the same month that the employee completes the prescribed length of service. The Governor of the State of South Carolina shall once a year conduct an annual awards banquet for the presentation of awards and certificates to all employees that have attained 40 or 50 years of meritorious State service. This general policy shall not prevent any State agency from the continuance of a service awards program that is presently in operation.

C. Type of Service Award Pin and Certificate

The type of pin and certificate is dependent upon the length of service:

	PIN	CERTIFICATE
5 years		
10 years		
20 years	(TO BE DETERMINED)	(TO BE DETERMINED)
30 years		
40 years		
50 years		

SERVICE AWARDS PROGRAM, Continued

D. Continuous Service

Each year of service with any State agency figured from an employee's hire date will be considered continuous service in determining eligibility for service awards if such service is not interrupted for a period of greater than 12 months. Any break in State service of less than 12 months will not constitute a break in continuous service and all previous service will be counted towards the next service award. The length of time involved in the break in service will not be counted towards the next length of service award. A break in service of greater than 12 months will render previous State service uncountable toward the next service award. All time spent in military service fulfilling a military obligation will not be considered a break in service if the employee makes application for reemployment within 90 days of separation or discharge. Employees who are members of reserve components and are required to serve only 6 months of active duty must apply for reemployment within 30 days of separation from active duty to have prior service counted towards the next length of service award. If application for reemployment is made within the prescribed time periods, all time spent on active duty will be counted towards the next length of service award.

RETIREMENT AWARDS PROGRAM

I.

A. Eligibility

All employees of the State of South Carolina who are members of the South Carolina Retirement System shall be eligible for a retirement award upon their retirement from State service.

B. General Policy

It shall be the policy of the State of South Carolina to implement and administer a retirement awards program in recognition of dedicated service to the State upon formal retirement. Each agency shall notify the State Personnel Division in writing on a form prescribed by that Division of the names of eligible employees who make application for service retirement. Such notification shall be submitted at least 30 days prior to the dates on which the retirements of the respective employees are to become effective. Upon receipt of such notification and after proper verification, the State Personnel Division shall have executed a Certificate of Retirement for each retiring employee and such a certificate shall be signed by the Governor. The Certificates of Retirement shall be transmitted to the agencies concerned for awarding to the respective retiring employees in accordance with whatever awards ceremony may be adopted by the agencies.

GUIDELINES FOR THE IMPLEMENTATION OF THE STATE OF SOUTH CAROLINA'S

LENGTH OF SERVICE AND RETIREMENT AWARDS PROGRAM

1. A list will be furnished each agency that is on the data system of all employees that have over five years of service. It is realized that the "adjusted hire date" will not reflect a break in service of over 12 months but the list will serve as a starting point. From this starting point the list should be posted within each agency and any employee who has an adjusted hire date that differs from the hire date will be requested to certify that there was not a break in service of more than 12 months.

   The documentation can be accomplished by use of a form to be supplied by this agency. Any employee who has state service in addition to that indicated by the "adjusted hire date" must document this fact in the same manner. After employees have documented all previous State service each agency on the system will submit the list to this office. Any agency not on the data system will have the responsibility of producing such a list from scratch for this office.

2. After all lists have been returned to this office, the announcement of the awards program will be made and put into operation. Any employee who has continuous State service in excess of 5 years should be awarded a certificate and pin which is commensurate with his length of service. The award given at this time should be for the highest interval in the awards program which the employee has already attained.

3. Each agency shall submit to the State Personnel Division the name or names of employees who have made application for retirement from the State service. The notification should be submitted at least 30 days in advance of the date or dates on which retirement is to become effective and should include the employees name, social security number and title for purposes of positive identification.

4. Upon receipt of notification from the agencies, the State Personnel Division will verify the date with the State Retirement System and will have prepared the Retirement Certificate. The completed certificates will be transmitted to the respective agencies for awarding in accordance with the awards ceremony as prescribed by the agencies.

DOCUMENTATION CERTIFICATE

Previous State Employer ______________________________

	Years	Months	Days
Length of Service	________	________	______

From ______________________ To ______________________

Witness ______________________________

Witness ______________________________

Signature ______________________

DOCUMENTATION CERTIFICATE

Previous State Employer ______________________________

	Years	Months	Days
Length of Service	________	________	______

From ______________________ To ______________________

Witness ______________________________

Witness ______________________________

Signature ______________________

December 1, 1971

Listed below are the comparative prices for the several grades of jeweled pins as quoted by the L. G. Balfour Company and Josten's. The price quotations are for quantity purchases of 1,000 or more pins of each grade.

PINS FOR 5 TO 19 YEARS OF SERVICE
(1/10 10K Gold or Sterling Silver)

L. G. BALFOUR	JOSTEN'S
$2.10	$2.00

PINS FOR 20 TO 40 YEARS OF SERVICE
(1/10 10K Gold with Synthetic Stone)

20 year - $3.35	$2.95
30 year - 3.50	2.95
40 year - 3.75	3.08

PINS FOR 50 OR MORE YEARS OF SERVICE
(10K Gold with 4 point Diamond)

$18.85	$17.10

The distribution of employees by years of service is estimated to be:

5 - 9 years	=	4,647
10 - 19 years	=	3,324
20 - 29 years	=	1,261
30 - 39 years	=	218
40 - 49 years	=	15
50 or Over	=	Not Known

On the basis of the above figures, it is estimated that the cost of pins to implement the Service Award Program if purchased from Balfour would total $21,872.70, or if purchased from Josten's would total $20,351.25.

E N D

MINUTES OF BUDGET AND CONTROL BOARD MEETING

3:00 P. M., WEDNESDAY, MARCH 8, 1972

CONFERENCE ROOM, GOVERNOR'S OFFICE

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The Budget and Control Board met in the Conference Room of the Governor's Office at 3:00 P. M., Wednesday, March 8, 1972. All members were present except Senator Brown who was absent because of illness. P. C. Smith, Thomas P. Evans and Earl Ellis also attended.

The following business was transacted.

REVISED GENERAL FUND REVENUE ESTIMATES

Mr. Evans presented for the Board's consideration a revision in the official Board estimates of General Fund Revenue for the current fiscal year 1971-72 and also for 1972-73. After discussion, the following revised estimates were unanimously approved by the Board.

1971-72		
Original Estimate	$549,584,213	
Revised Estimate	565,695,000	
Increase		$ 16,110,787
1972-73		
Original Estimate	$603,790,000	
Revised Estimate	613,267,000	
Increase		9,477,000
Total Increase (2 Years)		$ 25,587,787

In the course of his presentation, Mr. Evans submitted tabulated information relating to General Fund Revenue collections over the last several years, indicating the statistical basis on which revised estimates were computed, and the economic factors bearing directly on projections for the present and ensuing fiscal year. A copy of this material is attached as a part of the minutes.

Following the adoption of the revised estimates, the Board unanimously approved recommending to the General Assembly that $4,800,000.00 of the additional revenue available for 1972-73 be set aside for a health insurance plan for State employees, details of which will be developed later. Mr. Ellis participated in the discussion of the extent to which compensation of State employees, including a health insurance plan, might benefit from the additional revenue now anticipated.

No further business was discussed and the meeting adjourned at 3:45 P. M..

AGENDA MATERIALS

AND SUPPORTING DOCUMENTS

FOR THE MEETING OF

MARCH 8, 1972

STATE OF SOUTH CAROLINA
DIVISION OF RESEARCH AND STATISTICAL SERVICES
BUDGET AND CONTROL BOARD
P. O. BOX 11333
COLUMBIA, 29211

THOMAS P. EVANS
DIRECTOR

TELEPHONE
(803) 758-2925

March 16, 1972

TO THE STATE BUDGET AND CONTROL BOARD

Gentlemen:

General Fund Revenue collections for February reached $56.1 million bringing the total collections for the first eight months of the fiscal year to $382.4 million. The unusually high February figure is due in part to leap year which provided an extra collection day this year. The amount projected for the eight month period was $369.7 million, a difference of $12.7 million. The projected revenue collections for all of fiscal 1971-72 have been raised from a December, 1971 estimate of $553.3 million to $565.7 million. The revenue estimates were revised upward due to both economic and non-economic factors. The sales tax was $8.9 million over the projected level, reaching $164.1 million for the July-February period. Total income taxes, at $130.7 million were only $0.1 million below expectations for the period. Individual income taxes were $2.7 million above the projection while corporation income taxes were $2.8 million below the projection. The all other group was $4.0 million dollars over the projected level. Part of the all other group increases have appeared in the estate tax, documentary tax, and earnings on investments. These revenue items, particularly the estate tax, do not necessarily reflect current and expected economic conditions.

ACTUAL AND PROJECTED GENERAL FUND REVENUE
JULY-FEBRUARY, FISCAL YEAR 1971-72

(Amounts in Millions)

Item	Actual	Projected	Actual Less Projected
Total General Fund Revenue	$382.4	$369.7	$ 12.7
Sales Tax	164.1	155.2	8.9
Income Taxes	130.7	130.8	- 0.1
Individual	107.3	104.6	2.7
Corporation	23.4	26.2	- 2.8
All Other	87.7	83.7	4.0

Note: Sum of individual items may not equal total due to rounding.

Comparing the revenue collections for the July-February period of the current fiscal year to those for the same period last year, the total, at $382.4 million, was up $47.7 million or 14.2 percent. Of the major categories, the sales tax showed the largest gain over the year — $21.3 million or 14.9 percent.

Both individual and corporation income taxes were above year-ago levels. The individual income tax reached $107.3 million posting a gain of $15.0 million over the July-February months of last year. Corporation income tax collections, amounted to $23.4 million compared to $21.0 million for the same period last year.

All other taxes reflected a hefty gain of $9.1 million or 11.5 percent over last year to reach $87.7 million during July-February, 1971-72. The table below shows General Fund Revenue items for fiscal years 1971-72 and 1970-71 and net and percentage changes over the year.

GENERAL FUND REVENUE
JULY-FEBRUARY, FISCAL YEARS 1971-72 AND 1970-71

(Amounts in Millions)

Item	July-February		Change Over The Year 1/	
	1971-72	1970-71	Net	%
Total General Fund Revenue	$382.4	$334.8	$47.7	14.2
Sales Tax	164.1	142.7	21.3	14.9
Income Taxes	130.7	113.3	17.3	15.3
Individual	107.3	92.3	15.0	16.3
Corporation	23.4	21.0	2.3	11.0
All Other	87.7	78.7	9.1	11.5

Note: Sum of individual items may not equal total due to rounding.

1/ Net and percentage changes are based on unrounded data.

The Division is not revising the month-by-month projections of revenues because these provide a standard pattern for the purpose of evaluating the current revenue flow. It might be noted that in the previous fiscal year, actual revenues for the 12-month periods were running at about 99 percent of the projected values for most of the fiscal year. The revised revenue projection of $565.7 million for 1971-72 is still within 2 percent of the $553.3 million estimated in December, 1971.

SOUTH CAROLINA'S ECONOMY

South Carolina Economic Indicators published for January reflected continued economic expansion in South Carolina. The only substantial decline in January occurred in nonresidential construction permits, but this is a rather erratic series subject to sharp changes from month to month.

South Carolina nonfarm wage and salary employment, adjusted for seasonal variation, amounted to 879,200 in January, up 100 from December, 1971.

Unadjusted employment figures showed the January level at 873,100, down 13,300 from the December level due primarily to seasonal declines in trade and contract construction. Compared to January a year ago, South Carolina's wage and salary employment was up 32,800 or 3.9 percent with substantial gains registered in manufacturing, trade and government.

Manufacturing employment, at 341,900 in January, dropped 500 from December but was up 9,700 from a year earlier. Durable goods employment edged upward during January with nonelectrical machinery registering the largest gain. Nondurable goods employment slipped 700 over the month due primarily to seasonal factors and the closing of one textile plant.

The seasonally adjusted rate of unemployment rose slightly in January, 1971 to 4.7 percent of the work force from 4.6 percent in December. However, the January rate was substantially below the 5.6 percent recorded in the same month last year. The national unemployment rate in January, 1972 was 5.9 percent of the labor force.

Nonagricultural wage and salary employment figures for South Carolina for 1970 and 1971 were recently revised upward. Average annual wage and salary employment was 842,000 in 1970 and 861,200 in 1971, an over-the-year increase of 19,200 or 2.3 percent. Manufacturing employment averaged 337,400 during 1971, slightly below the 1970 average of 340,000.

The United States Department of Labor reported that Southeastern 1/ nonfarm wage and salary employment reached an all-time high in 1971 as the year ended with 11,069,900 workers on the payrolls. Employment rose 101,500 between November and December and was 206,200 higher than December, 1970. Of the eight states included, highest over-the-year gains were recorded in Virginia (up 48,500) and Florida (up 45,100). Alabama registered the smallest gain, 7,000. South Carolina's nonfarm employment gain over the year for the month of December was reported to be 29,700 or the fourth largest gain in the eight southeastern states. All of the figures for December, 1971 were preliminary.

THE NATIONAL ECONOMY

The United States Department of Commerce Index of Industrial Production

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1/ Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee and Virginia.

has reflected slow and inconsistent advances during the past five months, but shows significant improvement over the period prior to the implementation of the Administration's New Economic Policy. In January, the production index rose by 0.3 percent (seasonally adjusted) from December's level. However, the index is still well below the peak recorded in September, 1969. The manufacture of nondurables accounted for much of the January improvement with chemical, petroleum and rubber industries showing the biggest gains.

Personal Income rose by $7.2 billion in January to a seasonally adjusted annual rate of $891.1 billion. In the three month period since November when the freeze ended, personal income has been rising at an annual rate of over 9 percent compared to about 6 percent in 1971. Manufacturing wages and salaries added only $500 million to total income in January compared to $3.1 billion in December due primarily to a sharp drop in the average manufacturing workweek.

Businessmen have raised their investment plans for 1972 according to the most recent survey by McGraw-Hill. The new survey indicated that businessmen plan to spend $90.8 billion on new investment during 1972, an increase of 11 percent over 1971. An earlier survey, taken last fall, indicated planned increases of 7 percent over 1971.

Manufacturing industries stepped up their capital spending plans by $1.2 billion to a total of $33.9 billion. Airlines surveyed showed a significant shift in spending plans. In the fall survey, airlines only planned to spend 2 percent more than in 1971, but the latest survey indicated an increase of 27 percent over last year. Railroads also shifted — from a cutback to a 10 percent increase in 1972.

Sincerely yours,

Thomas P. Evans

Thomas P. Evans
Director

TPE:dkj

SUMMARY OF GENERAL FUND REVENUE BY MAJOR CATEGORIES AND SHORT RANGE ESTIMATES

(In Millions of Dollars)

12-Month Period Ending	ACTUAL* Total General Fund Revenue	ACTUAL* Sales Tax	ACTUAL* Income Taxes	ACTUAL* "All Other"	ESTIMATES Total General Fund Revenue	ESTIMATES Sales Tax	ESTIMATES Income Taxes	ESTIMATES "All Other"	General Fund Actual As % of Computed Value
June, 1970	456.6	192.6	136.3	127.8	467.1	193.6	140.1	133.4	98
July, 1970	466.5	196.2	142.6	127.7	462.6	195.9	138.9	127.8	101
August	466.2	197.6	139.3	129.4	466.1	197.2	138.9	130.0	100
September	466.3	198.3	139.2	128.9	468.8	198.5	140.1	130.2	99
October	470.1	200.4	139.8	129.9	473.2	200.7	142.0	130.5	99
November	475.0	202.8	141.9	130.4	479.1	202.3	145.3	131.5	99
December	477.7	202.8	142.0	133.0	481.5	202.7	145.5	133.3	99
January, 1971	481.9	204.8	143.5	133.6	485.8	204.9	146.7	134.2	99
February	485.6	205.4	144.8	135.4	490.0	205.1	149.3	135.6	99
March	490.3	207.1	145.1	138.0	495.2	206.3	151.0	137.9	99
April	492.2	209.6	144.9	137.7	501.1	208.9	153.5	138.7	98
May	492.6	211.1	142.0	139.5	505.5	208.7	157.5	139.3	97
June	504.5	213.7	150.4	140.5	507.7	209.6	157.4	140.7	99
July, 1971	505.3	215.8	148.4	141.0	505.7	215.2	149.1	141.4	100
August	512.1	218.4	151.4	142.3	513.2	216.6	154.5	142.1	100
September	519.8	220.9	154.9	144.0	518.4	218.3	157.0	143.0	100
October	520.9	223.1	152.6	145.3	523.7	220.1	159.1	143.5	99
November	531.6	224.8	159.6	147.2	526.2	220.8	161.6	143.8	101
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February	552.2	235.0	167.7	149.5	539.6	226.2	167.9	145.5	102
March					541.7	227.2	167.7	146.8	
April					547.7	229.4	171.1	147.1	
May					552.4	230.2	174.8	147.3	
June					553.3	231.0	174.5	147.8	

* Sum of items may not equal total due to rounding.

Division of Research And
Statistical Services

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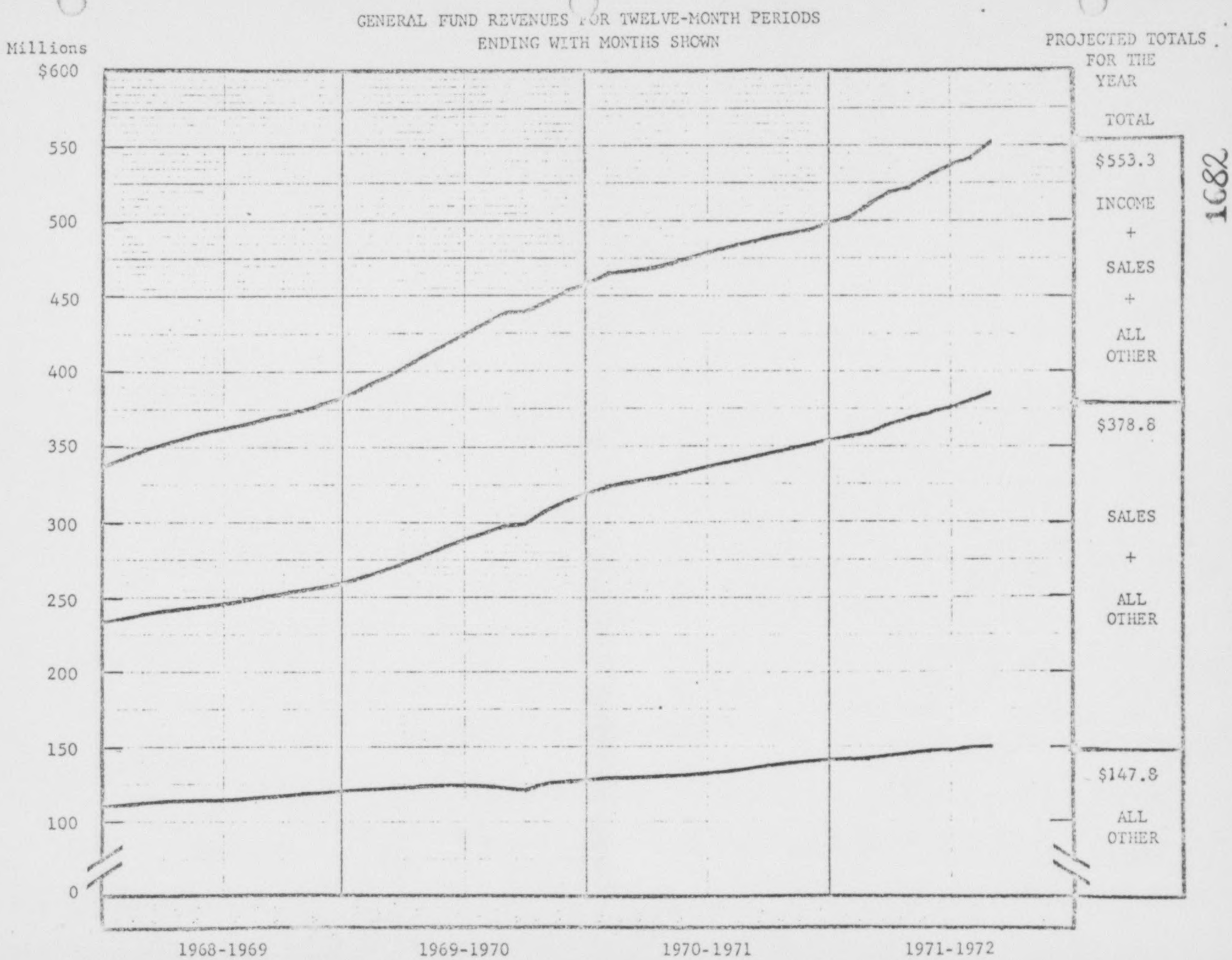

GENERAL FUND REVENUES FOR TWELVE-MONTH PERIODS
ENDING WITH MONTHS SHOWN
Millions
$600
550
500
450
400
350
300
250
200
150
100
0
1968-1969
1969-1970
1970-1971
1971-1972
PROJECTED TOTALS FOR THE YEAR
TOTAL
$553.3
INCOME + SALES + ALL OTHER
$378.8
SALES + ALL OTHER
$147.8
ALL OTHER

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PROJECTED GENERAL FUND REVENUES - FISCAL YEAR 1971-72

(Amounts in Millions)

BY QUARTER

Quarter	Total	Sales Tax	Income Taxes	All Other
July-September, 1971	$138.5	$ 57.9	$ 48.4	$ 32.2
October-December, 1971	126.0	55.2	42.2	28.6
January-March, 1972	143.7	58.1	42.4	43.2
April-June, 1972	145.1	59.8	41.5	43.8
Fiscal Year	$553.3	$231.0	$174.5	$147.8

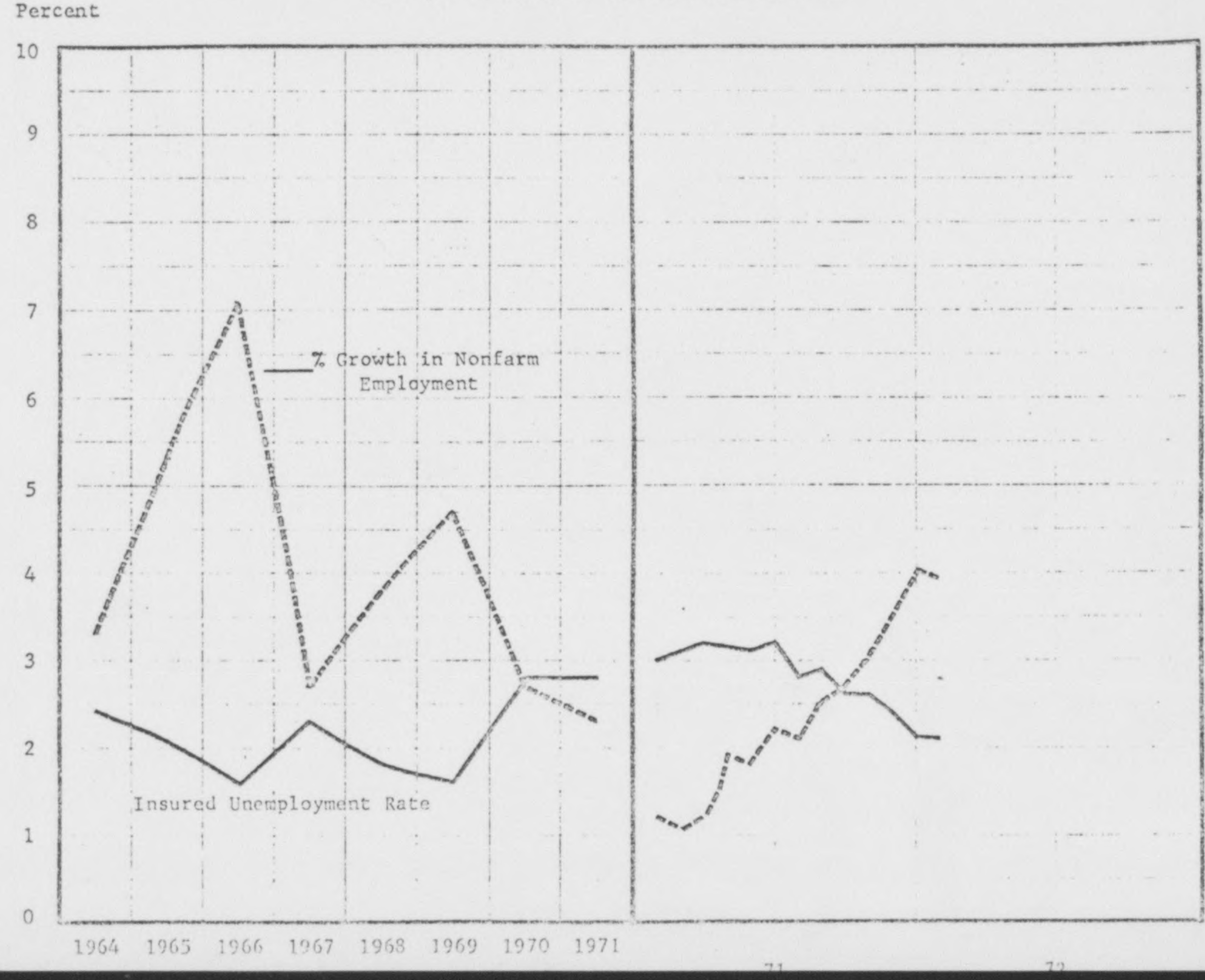
PROJECTED AND ACTUAL

BY MONTH

Month	TOTAL		SALES TAX		INCOME TAX		ALL OTHER	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
July, '71	$ 48.7	$ 48.2	$ 22.2	$ 22.8	$ 15.3	$ 14.7	$ 11.2	$ 10.6
August	52.9	52.2	17.9	19.1	23.5	21.0	11.5	12.1
September	36.9	39.5	17.8	18.6	9.6	10.6	9.5	10.3
October	49.8	46.7	21.4	21.8	18.5	14.1	9.9	10.8
November	45.4	52.6	17.1	18.1	19.3	23.8	9.0	10.7
December	30.8	32.7	16.7	18.3	4.4	4.4	9.7	10.0
January, '72	52.5	54.6	25.2	27.1	15.8	15.8	11.5	11.7
February	52.7	56.1	16.9	18.3	24.4	26.2	11.4	11.6
March	38.5		16.0		2.2		20.3	
April	45.8		21.5		6.3		18.0	
May	54.8		19.0		23.4		12.4	
June	44.5		19.3		11.8		13.4	
Fiscal Year	$553.3		$231.0		$174.5		$147.8	
July-Feb.	$369.7	$382.4	$155.2	$164.1	$130.8	$130.7	$ 83.7	$ 87.7

Division of Research And
Statistical Services

PERCENT GROWTH OVER THE YEAR IN SOUTH CAROLINA NONFARM
EMPLOYMENT AND THE SEASONALLY ADJUSTED
RATE (IN PERCENT) OF INSURED UNEMPLOYMENT



1684

COMPARISON OF SELECTED ECONOMIC INDICATORS FOR THE UNITED STATES AND SOUTH CAROLINA

January, 1972

Not Seasonally Adjusted

Item	January, 1972 United States	January, 1972 South Carolina	Percent Change Corresponding Month Last Year United States	Percent Change Corresponding Month Last Year South Carolina	South Carolina As % Of United States
Personal Income 1/ for Month ..... mil.	$ 74,182	$ 744	8.4	11.2	1.00
Personal Income - Cumulative through Month ..... mil.	$ 855,386	$ 8,447	7.1	10.9	0.99
Nonagricultural Wage and Salary Employment .... thous.	70,467	873.1	1.4	3.9	1.24
Manufacturing Employment ..... thous.	N. A.	341.9	-	2.9	-
Average Weekly Earnings..... units.	$ 146.89	$ 112.61	6.0	7.7	78.26
Average Weekly Hours........ units.	39.7	40.8	0.3	1.5	102.77
Average Hourly Earnings..... units.	$ 3.70	$ 2.76	5.7	6.2	74.59
Civilian Labor Force........... thous.	84,553	1,101.4	2.3	2.5	1.30
Unemployment .... thous.	5,447	45.5	0.6	-15.0	0.84
% of Civilian Labor Force	6.4	4.1	-	-	-
Insured Unemployment.........thous.	2,527.0	17.4	-9.7	-22.3	0.69
% of Average Covered Employment ...	4.8	2.8	-	-	-

1/ Estimates for December are from revised "Business Week" series.

Division of Research And Statistical Services

MARCH 8, 1972

REVISION OF
GENERAL FUND REVENUE ESTIMATES
FOR FISCAL 1971-72 AND 1972-73

1634
1000

MARCH 8, 1972

REVISION OF
GENERAL FUND REVENUE ESTIMATES
FOR FISCAL 1971-72 AND 1972-73

FOR DENSITY TESTING PURPOSES ONLY

FEDERAL STATISTICS USERS' CONFERENCE
15[illegible] L STREET, N.W. • WASHINGTON, D.C. 20005

Chairman: WILLIAM E. KINGSLEY, Institute of Life Insurance
Secretary-Treasurer: FREDERICK N. SASS, The Penn Central Company
Vice Chairmen: ROBERT E. LEWIS, First National City Bank; ARNOLD CANTOR, AFL-CIO; JOSEPH W. DUNCAN, Battelle-Columbus Laboratories; THOMAS P. EVANS, State of South Carolina, Division of Research & Statistical Services
Executive Director: JOHN H. AIKEN
Area Code: 202 393-3522

SEVENTH ANNUAL CONFERENCE
on the
ANNUAL REPORT OF THE COUNCIL OF ECONOMIC ADVISERS AND
THE BUDGET OF THE UNITED STATES FOR FISCAL 1973

Shoreham Hotel -------- Washington, D. C. -------- March 7, 1972

PROGRAM

8:00 a.m. -- Registration and Coffee

Morning Session -- Ambassador Room

9:00 a.m. -- *Chairman: Robert E. Lewis, Vice President, First National City Bank*

Economic Report

Speaker: Herbert Stein, Chairman, Council of Economic Advisers

10:45 a.m. -- Fiscal Policy

Speaker: Leonard Jay Santow, Vice President and Economist, Aubrey G. Lanston & Company, Inc.

12:30 p.m. -- Cocktails and Lunch -- Palladian Room

Afternoon Session -- Ambassador Room

1:30 p.m. -- *Chairman: Mrs. Eleanor S. Daniel, Director, Economic Research, The Mutual Life Insurance Company of New York*

Monetary Policy

Speaker: Henry C. Wallich, Seymour H. Knox Professor of Economics, Yale University

2:30 p.m. -- Tax Policy and Issues

Speaker: Laurence N. Woodworth, Chief of Staff, Joint Committee on Internal Revenue Taxation

3:30 p.m. -- Federal Statistical Budget, 1973

Speaker: Julius Shiskin, Chief Statistician, Office of Management and Budget

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ESTIMATES OF GENERAL FUND REVENUE
FISCAL YEAR 1971-72

Item	Memo From Mr. Clarkson 9/3/1970	Mr. Wasson's Forecast In 1970	Projections By Division of Research And Statistical Services		
			Original 1970	December, 1971	March 5, 1972
Sales Tax	$221,500,000	$220,000,000	$226,000,000	$235,000,000	$242,000,000
Income Taxes					
Individual	113,400,000	112,000,000	127,000,000	123,400,000	123,400,000
Corporation	46,000,000	46,000,000	51,000,000	50,600,000	47,000,000
All Other	108,500,200	107,867,500	143,776,000	144,572,000	153,295,000
Balancing Item*	34,000,000	34,000,000			
Total General Fund Revenue	$523,400,200	$519,867,500	$547,776,000	$553,572,000	$565,695,000

* Estimate of General Fund Revenues not collected by Tax Commission made by this Division.

Division of Research And
Statistical Services
March 5, 1972

1688 & 1689

State of South Carolina

South Carolina Tax Commission

COLUMBIA

ROBERT C. WASSON
CHAIRMAN

JAMES A. CALHOUN, JR.
WYATT E. DURHAM
ROBERT C. WASSON
COMMISSIONERS

September 3, 1970 IN REPLY REFER TO

MEMORANDUM

TO: Mr. Robert C. Wasson, Chairman
Mr. James A. Calhoun, Jr., Commissioner
Mr. Wyatt E. Durham, Commissioner
Mr. Robert W. Wilkes, Executive Secretary

FROM: Mr. A. T. Clarkson, Jr.
Administrative Assistant-Research

RE: 1971-1972 Revenue Estimate

General Fund Revenue Collections	
Admissions Tax	$ 2,100,000
Alcoholic Liquors Tax	21,500,000
Bank Tax	1,300,000
Bedding Fund	22,000
Beer and Wine Tax	23,400,000
Bldg. & Loan Association Tax	270,000
Business License Tax	18,200,000
Ammunition	90,000
Coin Operated Devices Tax	850,000
Corporation License Tax	4,650,000
Documentary Tax	2,850,000
Domestic Insurance Tax	475,000
Electric Power Tax	8,200,000
Estate Tax	3,250,000
Fireworks License Tax	11,000
Gasoline Tax - Counties	13,000,000
Gift Tax	250,000
Income Tax - Corporation	46,000,000
Income Tax - Individual	113,400,000
Public Recreation Tax	7,200
Retailers License Tax	450,000

Sales and Use Tax	221,500,000	
Soft and Bottled Drinks Tax	7,625,000	
Total For General Fund Revenue		$ 489,400,200
Collections Specifically Allocated		
Admissions Tax-Wildlife Resources	12,000	
Gasoline Tax - Highway Department	78,400,000	
Highway Use Tax - Highway Department	1,100,000	
Registration Fees - Highway Dept.	185,000	
Registration Fees - Pub. Serv. Comm.	510,000	
Special Fuel Tax - Highway Dept.	7,250,000	
Total Specifically Allocated Funds		87,457,000
Total Tax Commission Collections		$ 576,857,200

ATCjr/lsg

ESTIMATED REVENUE COLLECTIONS
SOUTH CAROLINA TAX COMMISSION

R.C.W.

		ESTIMATED COLLECTIONS 1970-1971		ESTIMATED COLLECTIONS 1971-1972	
GENERAL FUND REVENUE COLLECTIONS					
Admissions Tax		$ 1,800,000		$ 1,875,000	
Alcoholic Liquors Tax		21,850,000		22,000,000	
Bank Tax		1,100,000		1,250,000	
Bedding Fund		22,000		23,500	
Beer and Wine Tax		20,500,000		22,500,000	
Bldg. & Loan Association Tax		290,000		300,000	
Business License Tax		17,500,000		18,000,000	
Ammunition		80,000		90,000	
Coin Operated Devices Tax		800,000		800,000	
Corporation License Tax		4,500,000		5,000,000	
Documentary Tax		3,000,000		3,000,000	
Domestic Insurance Tax		500,000		500,000	
Electric Power Tax		7,800,000		8,000,000	
Estate Tax		3,250,000		3,500,000	
Fireworks License Tax		11,000		11,000	
Gasoline Tax-Counties		12,000,000		12,460,000	
Gift Tax		200,000		150,000	
Income Tax-Corporation	136.3	42,000,000	142.0	46,000,000	158
Income Tax-Individual		100,000,000		112,000,000	220 / 378
Public Recreation Tax		7,000		8,000	
Retailers License Tax		400,000		400,000	
Sales and Use Tax		210,000,000		220,000,000	
Soft and Bottled Drinks Tax		7,700,000		8,000,000	
TOTAL FOR GENERAL FUND REVENUE		$455,310,000		$485,867,500	
1969-70 $424,843,600.		352,000,000		378	
		103,310,000		107,867,500	
COLLECTIONS SPECIFICALLY ALLOCATED					
Admissions Tax-Wildlife Resources		12,000		13,500	
Gasoline Tax-Highway Department		72,000,000		74,750,000	
Highway Use Tax-Highway Department		975,000		1,090,000	
Registration Fees-Highway Department		165,000		190,000	
Registration Fees-Pub. Serv. Comm.		450,000		495,000	
Special Fuel Tax-Highway Department		6,150,000		6,400,000	
TOTAL SPECIFICALLY ALLOCATED FUNDS		$ 79,752,000		$ 82,938,500	
TOTAL TAX COMMISSION COLLECTIONS		$535,062,000		$568,806,000	

1969-70
500,906,618

455.3	485.9
32.0	34
487.3	519.9

-20M

THE CURRENT SITUATION

1693

ACTUAL AND PROJECTED GENERAL FUND REVENUE
JULY-FEBRUARY, FISCAL YEAR 1971-72

(Amounts in Millions)

Item	Actual	Projected	Actual Less Projected
Total General Fund Revenue	$382.4	$369.7	$ 12.7
Sales Tax	164.1	155.2	8.9
Income Taxes	130.7	130.8	- 0.1
Individual	107.3	104.6	2.7
Corporation	23.4	26.2	- 2.8
All Other	87.7	83.7	4.0

Note: Sum of individual items may not equal total due to rounding.

GENERAL FUND REVENUE
JULY-FEBRUARY, FISCAL YEARS 1971-72 AND 1970-71

(Amounts in Millions)

Item	July-February		Change Over The Year 1/	
	1971-72	1970-71	Net	%
Total General Fund Revenue	$382.4	$334.8	$47.7	14.2
Sales Tax	164.1	142.7	21.3	14.9
Income Taxes	130.7	113.3	17.3	15.3
Individual	107.3	92.3	15.0	16.3
Corporation	23.4	21.0	2.3	11.0
All Other	87.7	78.7	9.1	11.5

Note: Sum of individual items may not equal total due to rounding.

1/ Net and percentage changes are based on unrounded data.

Division of Research And
Statistical Services
March 5, 1972

SUMMARY OF GENERAL FUND REVENUE BY MAJOR CATEGORIES AND SHORT RANGE ESTIMATES

(In Millions of Dollars)

12-Month Period Ending	ACTUAL*				ESTIMATES				General Fund Actual As % of Computed Value
	Total General Fund Revenue	Sales Tax	Income Taxes	"All Other"	Total General Fund Revenue	Sales Tax	Income Taxes	"All Other"	
June, 1970	456.6	192.6	136.3	127.8	467.1	193.6	140.1	133.4	98
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June					553.3	231.0	174.5	147.8	

* Sum of items may not equal total due to rounding.

Division of Research And
Statistical Services

GENERAL FUND REVENUE COLLECTIONS
(In Thousands of Dollars)

REVENUE ITEM	1971-72 ESTIMATES			1972-73 ESTIMATES		
	DEC. 1971	MARCH 1972	CHANGE IN ESTIMATES	DEC. 1971	MARCH 1972	CHANGE IN ESTIMATES
Admissions Tax	2,250	2,450	200	2,300	2,600	300
Alcoholic Liquors	21,800	21,800	------	23,000	23,000	-----
Bank Tax	1,500	1,500	------	1,600	1,600	-----
Beer and Wine	26,000	28,000	2,000	28,000	30,000	2,000
Bldg. and Loan Assoc.	250	250	------	300	300	-----
Business License	18,700	19,200	500	19,000	19,700	700
Coin-Operated Device	1,096	965	- 131	1,200	1,200	-----
Contractors License	260	273	13	265	285	20
Corporation License	5,250	5,250	------	5,500	5,500	-----
Documentary Tax	3,600	4,500	900	3,750	3,750	-----
Earned on Investments	4,000	5,900	1,900	5,000	6,000	1,000
Electric Power Tax	8,000	8,100	100	8,500	8,600	100
Estate Tax	3,250	5,300	2,050	4,000	4,000	-----
Fertilizer Inspection	240	240	------	250	250	-----
Gasoline Tax-Counties	13,000	13,500	500	13,900	13,900	-----
Gift Tax	200	200	------	300	300	-----
Insurance Tax	15,400	15,400	------	16,500	16,500	-----
Motor Transport Fees	1,100	1,100	------	1,150	1,150	-----
Retailers License	500	500	------	525	525	-----
Soft Drinks Tax	8,300	8,500	200	8,500	8,800	300
Workmans Compensation	1,540	1,540	------	1,700	1,700	-----
Public Service Asses.	526	610	84	600	600	-----
Public Service Auth.	500	757	257	500	757	257
Dept. of Agriculture	4,650	4,650	------	4,800	4,800	-----
Misc. Dept. Revenue	1,560	1,560	------	1,600	1,600	-----
Dept. Supported Appr.	1,100	1,250	150	1,350	1,350	-----
TOTAL ALL OTHER TAXES	144,572	153,295	8,723	154,090	158,767	4,677
Retail Sales Tax	235,000	242,000	7,000	255,200	260,000	4,800
Income Tax Total	174,000	170,400	- 3,600	194,500	194,500	-----
Individual	123,400	123,400	------	140,500	140,500	-----
Corporation	50,600	47,000	- 3,600	54,000	54,000	-----
TOTAL GENERAL FUND	553,572	565,695	12,123	603,790	613,267	9,477

Division of Research And
Statistical Services
March 5, 1972

GENERAL FUND REVENUES
ADJUSTED TO 1969-70 TAX STRUCTURE

(In Millions)

Fiscal Year	Actual	Calculated	Difference	Percent Difference
1961-62	$221.15	$222.04	$ .89	0.3
1962-63	241.12	246.22	5.10	2.0
1963-64	256.05	262.08	6.03	2.3
1964-65	284.66	284.79	.13	0.0
1965-66	330.83	322.20	-8.63	-2.6
1966-67	366.98	366.18	- .80	-0.2
1967-68	389.83	383.03	-6.80	-1.7
1968-69	438.10	428.22	-9.88	-2.3
1969-70	469.24	478.57	9.33	1.9
1970-71	507.56	512.20	4.64	0.9
1971-72 E	565.70	558.93	-6.77	-1.2
1972-73 E	613.27	612.91	-0.36	-0.1

E - Estimate
Coefficient of Correlation = .9978

Estimating Equation: General Fund Revenue$_t$ = -14.1041 + (-.0807974 x GFR$_{t-1}$) + (-.534531 x GFR$_{t-2}$) + (.104832 x S. C. Personal Income$_t$)

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GENERAL FUND REVENUES 1/

(Amounts in Millions)

FISCAL YEAR	CURRENT DOLLARS		CONSUMER PRICE INDEX		CONSTANT 1967 DOLLARS	
	AMOUNT	PERCENT CHANGE	VALUE	PERCENT CHANGE	AMOUNT	PERCENT CHANGE
1959-60	$205.03	-----	87.3	---	$234.86	----
1960-61	215.39	5.37	88.7	1.6	242.83	3.4
1961-62	221.15	2.44	89.6	1.0	246.82	1.6
1962-63	241.12	9.32	90.6	1.1	266.14	7.8
1963-64	256.05	6.20	91.7	1.2	279.23	4.9
1964-65	284.66	12.22	92.9	1.3	306.42	9.7
Period Growth	79.63	6.8	-----	1.2	71.56	5.5
1965-66	330.83	15.48	94.5	1.7	350.08	14.2
1966-67	366.98	11.29	97.2	2.9	377.55	7.8
1967-68	389.83	6.35	100.0	2.9	389.83	3.3
1968-69	438.10	13.42	104.2	4.2	420.44	7.9
1969-70	469.24	7.10	109.8	5.4	427.36	1.6
Period Growth	184.58	10.5	-----	3.4	121.94	6.9
1970-71	507.26	8.10	116.3	5.9	436.43	2.1
1971-72	565.70	11.5	121.3	4.3	466.36	6.9
1972-73	613.27	8.4	125.5	3.5	488.66	4.8
1973-74	675.92	9.4	129.3	3.0	522.75	6.2
1974-75	738.92	9.3	133.1	3.0	555.16	6.2
Period Growth	269.68	9.5	-----	3.9	127.80	5.4

1/ Less windfalls, and adjusted to 1969-70 tax structure.

ADJUSTED 1/ GENERAL FUND REVENUE COLLECTIONS

(In Millions of Dollars)

Fiscal Year	Total General Fund Revenue	Change From Prior Year	
		Net	Percent
1959-60	$205.03	$-- --	-- --
1960-61	215.39	10.36	5.05
1961-62	221.15	5.76	2.67
1962-63	241.12	19.97	9.03
1963-64	256.05	14.93	6.19
1964-65	284.66	28.61	11.17
1965-66	330.83	46.17	16.22
1966-67	366.98	36.15	10.93
1967-68	389.83	22.85	6.23
1968-69	438.10	48.27	12.38
1969-70	469.24	31.14	7.11
1970-71	507.26	38.02	8.10
1971-72	565.70	58.44	11.52
1972-73	613.27	47.57	8.41

1/ Adjusted to 1969-70 tax structure, less non-recurring windfalls.

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HISTORICAL DATA

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GROSS NATIONAL PRODUCT, SOUTH CAROLINA PERSONAL INCOME,

AND SELECTED GENERAL FUND REVENUE CATEGORIES

1959-60 THROUGH 1972-73

TABLE A - BASIC DATA

General Fund Adjusted to 1969-70 Tax Structure

(Revenues in Millions)

Fiscal Year	Gross National Product (Billions)	South Carolina Personal Income		General Fund Revenue Less Windfall	Sales Tax	Income Taxes		"All Other"
		Amount	% Of GNP			Corp-oration	Indi-vidual	
1959-60	$ 483.7	$3132	.648	$205.03	$ 90.28	$21.77	$ 23.53	$ 69.45
1960-61	503.8	3298	.655	215.39	91.64	24.84	26.47	72.44
1961-62	520.1	3464	.666	221.15	98.39	20.77	27.41	74.58
1962-63	560.3	3752	.670	241.12	107.33	21.55	32.62	79.62
1963-64	590.5	3948	.669	256.05	113.97	22.00	35.08	85.00
1964-65	632.4	4278	.676	284.66	123.68	26.49	43.36	91.13
1965-66	684.9	4733	.691	330.83	141.49	36.00	52.93	100.41
1966-67	749.9	5334	.711	366.98	151.75	41.71	62.80	110.72
1967-68	793.9	5758	.725	389.83	164.05	38.96	71.29	115.53
1968-69	864.2	6391	.740	438.10	183.73	47.02	84.37	122.98
1969-70	929.0	7025	.756	469.24	192.55	49.13	95.40	132.16
1970-71	974.1	7616	.782	507.26	213.66	41.96	108.43	143.21
1971-72 E	1047.0	8250	.788	565.70	242.00	47.00	123.40	153.30
1972-73 E	1145.0	9000	.786	613.27	260.00	54.00	140.50	158.77

E - Estimated

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GROSS NATIONAL PRODUCT, SOUTH CAROLINA PERSONAL INCOME,

AND SELECTED GENERAL FUND REVENUE CATEGORIES

1959-60 THROUGH 1972-73

TABLE B - RATIOS TO PERSONAL INCOME

General Fund Adjusted to 1969-70 Tax Structure

(Percent)

Fiscal Year	General Fund	Sales Tax	Income Taxes		"All Other"
			Corporation	Individual	
1959-60	6.55	2.88	.70	.75	2.22
1960-61	6.53	2.78	.75	.80	2.20
1961-62	6.38	2.84	.60	.79	2.15
1962-63	6.43	2.86	.57	.87	2.12
1963-64	6.49	2.89	.56	.89	2.15
1964-65	6.65	2.89	.62	1.01	2.13
1965-66	6.99	2.99	.76	1.12	2.12
1966-67	6.88	2.84	.78	1.18	2.08
1967-68	6.77	2.85	.68	1.24	2.01
1968-69	6.85	2.87	.74	1.32	1.92
1969-70	6.68	2.74	.70	1.36	1.88
1970-71	6.66	2.81	.55	1.42	1.88
1971-72[E]	6.86	2.93	.60	1.50	1.86
1972-73[E]	6.81	2.89	.60	1.56	1.76

E Estimated

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GROSS NATIONAL PRODUCT, SOUTH CAROLINA PERSONAL INCOME

AND SELECTED GENERAL FUND REVENUE CATEGORIES

1959-60 THROUGH 1972-73

TABLE C - PERCENT DISTRIBUTION OF ACTUAL AND PROJECTED GENERAL FUND REVENUES
General Fund Adjusted to 1969-70 Tax Structure

Fiscal Year	Total General Fund Revenue	INCOME TAXES Total	INCOME TAXES Corporation	INCOME TAXES Individual	Sales Tax	"All Other"
1959-60	100.0	22.09	10.62	11.48	44.03	33.87
1960-61	100.0	23.82	11.53	12.29	42.55	33.63
1961-62	100.0	21.79	9.39	12.39	44.49	33.72
1962-63	100.0	22.47	8.94	13.53	44.51	33.02
1963-64	100.0	22.29	8.59	13.70	44.51	33.20
1964-65	100.0	24.54	9.31	15.23	43.45	32.01
1965-66	100.0	26.88	10.88	16.00	42.77	30.35
1966-67	100.0	28.48	11.37	17.11	41.35	30.17
1967-68	100.0	28.28	9.99	18.29	42.08	29.64
1968-69	100.0	29.99	10.73	19.26	41.94	28.07
1969-70	100.0	30.80	10.47	20.33	41.03	28.16
1970-71	100.0	29.65	8.27	21.38	42.12	28.23
1971-72[E]	100.0	30.12	8.31	21.81	42.78	27.10
1972-73[E]	100.0	31.72	8.81	22.91	42.40	25.89

E - Estimated

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