



State of South Carolina

Office of the Governor

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May 24, 2006

The Honorable André Bauer
President of the Senate
State House, 1st Floor, East Wing
Columbia, South Carolina 29202

Mr. President and Members of the Senate:

I am hereby vetoing and returning without my approval S. 489, R-296.

S. 489 seeks to extend state health and dental insurance plan eligibility to employees of the several non-state agencies, including the Children's Trust Fund, Federally Qualified Health Centers, County First Steps Partnerships, and Palmetto Pride. While I respect the intentions of the bill's sponsor, I am vetoing this bill because it unintentionally makes a bad fiscal problem worse.

In 2005, the Budget and Control Board contracted with an outside accounting firm to conduct an Actuarial Valuation of the liabilities associated with the state employee health plan. In February 2006, the actuaries reported that the State's unfunded liability for the future health benefits of State Employees and School District Employees over the course of the next 30 years is more than \$9.2 billion.

The actuarial calculations were prepared to comply with the new accounting standards set by the Governmental Accounting Standards Board (GASB), designed to more realistically account for the costs of future benefits. Employees of state and local governments are compensated in a variety of forms in exchange for their services. In addition to a salary, many employees earn benefits over their years of service that will not be received until after their employment with the government ends through retirement or other reason for separation. The most common type of these postemployment benefits is a pension. "Other Postemployment Benefits" or "OPEB" are postemployment benefits *other than pensions*. OPEB often takes the form of health insurance provided to eligible retirees, although it could also include some types of life insurance, legal services, and other benefits.

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The GASB established standards in 1994 for how public employee pension plans and governmental employers participating in pension plans should account for and report on pension benefits, but similar provisions did not exist for OPEB. Although the OPEB may not have the same legal standing as pensions in some jurisdictions, the GASB believes that pension benefits (as a legal obligation) and OPEB (as a constructive obligation in some cases) are a part of the compensation that employees earn each year, even though these benefits are not received until after employment has ended. Therefore, the cost of these future benefits is a part of the cost of providing public services *today*.

To fully close that \$9.2 billion gap, the state would need to put an additional \$536 million into the employee insurance plan each year. It is only logical that the optional participants currently in the plan - including counties and municipalities, housing authorities, gas/sewer/water districts, community action agencies, and a few hospitals - have a similar unfunded liability, but no estimate has been done regarding their portion of the plan. (The \$9.2 billion refers simply to the State Employees and School District Employees.) While it's only natural to want to extend coverage like S. 489 does, South Carolina taxpayers and people currently in the system are depending on us to be prudent administrators of a sustainable plan. The state is \$9.2 billion in the hole currently. The optional participants are in a similar one; we just haven't measured yet how deep it is. The first step to getting out of those holes is to stop digging. We ought to at least know how big the problem is before doing something that could make it worse.

For this reason, I am returning S. 489 without my signature.

Sincerely,



Mark Sanford

cc: The Honorable R. Wesley Hayes, Jr.