May 2, 1955

Hon. Marion B. Folsom
The Undersecretary of the Treasury
Washington, D. C.

Dear Mr. Folsom:

Senator Ives has told me about his telephone conversation with you of last Friday afternoon, and I look forward to the opportunity to discuss our problem with you.

This, briefly, is the situation. Group Health Dental Insurance, Inc. is a New York membership (non-profit) corporation, organized pursuant to Article IX-C of the State Insurance Law. This is the section governing the Blue Cross hospital plan organizations, and the Blue Shield and similar medical plans, as well as our dental plan. Such corporations are exempt from all State, county and municipal taxes, and they have been classified by the Internal Revenue Service as complying with the terms of Section 501(c)(4) of the Internal Revenue Code.

Ever since the first Blue Cross hospital plan was started in the early 1930's, virtually all of the financing required to set up the non-profit hospital and medical insurance plans -- which, as you undoubtedly know, have led to the vast and rapid development of voluntary health insurance -- has come from philanthropic foundations which qualify under Section 501(c)(3) of the Internal Revenue Code, contributions to which are deductible from the donor's taxable income. Foundations constitute practically the only source of what might be called "social venture capital". Without it, continued progress in voluntary health insurance, such as the Administration is seeking to facilitate through its proposals for a Federal Reinsurance Fund, would be severely curtailed -- indeed, in several important areas, completely blocked. One of these areas is dental care, in which Group Health Dental Insurance, Inc., represents the first, and only, attempt.

The Internal Revenue Service has rendered an oral opinion that, if allowed to stand, would totally close out this source of financing. We raised the question when a large foundation informed us that the only reason they could not grant funds to Group Health Dental Insurance, Inc. was the problem of contributing to other than a 501(c)(3) organization.

As we understand it, this is merely a matter of interpretation of the Internal Revenue Code as it now stands. I took the problem to Senator Ives not only because it involves a New York organization, but principally because of his long-standing interest in the development of voluntary health insurance, in which this seems clearly to be a question of basic policy. It would be strange indeed to have the Administration asking the Congress to enact new legislation in support of extending the
scope of voluntary health insurance and at the same time so administering existing law as to restrict severely the possibility of developing new forms of voluntary health insurance coverage.

I am at your disposal to come to Washington any time at your convenience. I would only add that Group Health Dental Insurance, Inc. is now facing an acute financial emergency; in fact, the Insurance Department has put us on notice that operations will have to be suspended if substantial additional funds are not in hand by the end of the current quarter. I should therefore deeply appreciate as early a hearing as you find it possible to give me.

Yours very sincerely,

Winslow Carlton
Chairman
Board of Directors

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